

United Health Products, Inc.
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 2013

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 814-00717

UNITED HEALTH PRODUCTS, INC.
(Exact name of Company as specified in its charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

84-1517723
(I.R.S. Employer Identification No.)

1400 Old Country Road, Suite 302
Westbury, NY
(Address of Company's principal executive
offices)

11021
(Zip Code)

(516) 487-1431
(Company's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the 12 preceding months (or such shorter period that the registrant was required to submit and post such file). Yes ☐ No ☐

Indicate by checkmark 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

Edgar Filing: United Health Products, Inc. - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated Filer	☐
Accelerated Filer	☐	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 filing date of this Form 10-Q, the registrant had a total of 101,106,580 shares of Common Stock outstanding.

UNITED HEALTH PRODUCTS, INC.

FORM 10-Q QUARTERLY REPORT

TABLE OF CONTENTS

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)
	Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012 (audited)
	3
	Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2013 and September 30, 2012 (unaudited)
	4
	Condensed Consolidated Statement of Stockholder's Deficiency for the Nine Months Ended September 30, 2013
	5
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and September 30, 2012 (unaudited)
	6
	Notes to Condensed Financial Statements (unaudited)
	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	14
Item 3.	Quantitative and Qualitative Disclosures
	18
Item 4.	Controls and Procedures
	18
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings
	20
Item 2.	Changes in Securities
	20
Item 3.	Defaults Upon Senior Securities
	20
Item 4.	Mine Safety Disclosures
	20
Item 5.	Other Information
	20
Item 6.	Exhibits and Reports on Form 8-K
	21
SIGNATURES	
	22

PART I – FINANCIAL INFORMATION

UNITED HEALTH PRODUCTS, INC
Consolidated Balance Sheets

	September 30, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,909	\$ 32
Inventory	42,382	-
Total current assets	44,291	32
Other Assets		
Intangible Assets, Net	75,000	150,000
TOTAL ASSETS	\$ 119,291	\$ 150,032
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 284,970	\$ 770,695
Liability for unissued shares	145,543	496,723
Notes payable - related parties	490,477	448,099
Other current liabilities	173,057	123,905
Total current liabilities	1,094,047	1,839,422
Commitments and Contingencies		
Stockholders' Deficiency		
Common Stock - \$.001 par value, 150,000,000 Shares Authorized, 101,106,580 and 84,644,133 Shares Issued and Outstanding at September 30, 2013 and December 31, 2012, respectively	101,107	84,644
Additional Paid-In Capital	6,103,607	4,623,553
Less: Subscription Receivable	(33,858)	-
Accumulated Deficit	(7,145,612)	(6,397,587)
Total Stockholders' Deficiency	(974,756)	(1,689,390)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 119,291	\$ 150,032

See notes to consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Consolidated Statements of Operations

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$ 1,620	\$ -	\$ 3,060	\$ -
Operating Costs and Expenses				
Amortization of Intangibles	25,000	25,000	75,000	75,000
Selling, general and administrative expenses	806,197	15,005	883,601	51,967
Total Operating Expenses	831,197	40,005	958,601	126,967
Loss from Operations	(829,577)	(40,005)	(955,541)	(126,967)
Other income (expenses)				
Other Income	259,041	-	259,041	-
Interest Expense, Net	(17,174)	(16,171)	(51,525)	(55,115)
Total other income (expense)	241,867	(16,171)	207,516	(55,115)
Net loss	\$ (587,710)	\$ (56,176)	\$ (748,025)	\$ (182,082)
Net Loss per common share:				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding	98,824,433	83,644,133	91,972,235	83,165,940

See notes to consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Consolidated Statements of Stockholders' Deficiency
For the Nine Months Ended September 30, 2013

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit	Total
Balance at January 1, 2013	84,644,133	\$84,644	\$4,623,553	\$ -	\$ (6,397,587)	\$(1,689,390)
Issuance of Common Stock in connection with conversion of indebtedness to related party	11,706,007	11,706	339,474		-	351,180
Forfeiture of shares	(2,090,000)	(2,090)	2,090		-	-
Issuance of Common Stock in connection with Services	6,000,000	6,000	738,000		-	744,000
Issuance of Common Stock in connection with Subscription Receivable	846,440	847	33,011	(33,858)		-
Capital Contributed			367,479			367,479
Net Loss	-	-	-	-	(748,025)	(748,025)
Balance at September 30, 2013	101,106,580	\$101,107	\$6,103,607	\$(33,858)	\$ (7,145,612)	\$(974,756)

See notes to consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30,

	2013	2012
Cash Flows from Operating Activities:		
Net Loss	\$ (748,025)	\$ (182,082)
Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities:		
Depreciation and Amortization	75,000	75,000
Interest accrued	51,125	55,115
Issuance of Stock Based Compensation	744,000	-
Changes in assets and liabilities:		
Accounts Receivable	-	-
Inventory	-	-
Accounts Payable and Accrued Expenses	(160,623)	49,840
Net Cash Used In Operating Activities	(38,123)	(2,127)
Cash Flows Used In Investing Activities		
Increase in intangibles	-	-
Net cash used in Investing Activities	-	-
Cash Flows from Financing Activities:		
Proceeds from private placement - common stock	-	-
Proceeds from Notes Payable	40,000	-
Proceeds from Related Parties	0	1,987
Net Cash Provided By Financing Activities	40,000	1,987
(Decrease) Increase in Cash and Cash Equivalents	1,877	(140)
Cash and Cash Equivalents - Beginning of period	32	226
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 1,909	\$ 86
Schedule of Non-Cash Financing Activities:		
Issuance of Common Stock in connection with Conversion of Convertible Notes and Related Interest	\$ 351,180	\$ 57,475
Issuance of Common Stock in connection with Services	744,000	-
Capital Contributed, Inventory	42,382	-
Capital Contributed, Officer's Salary Forgiven	325,100	-

See notes to consolidated financial statements.

UNITED HEALTH PRODUCTS, INC. AND SUBSIDIARY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Organization and Basis of Preparation

United Health Products, Inc. (formerly United EcoEnergy Corp.) (“United” or the “Company”) is a product development and solutions company focusing its growth initiatives on the expanding wound-care industry and disposable medical supplies markets. Epic Wound Care, Inc. (“Epic”), the Company’s principal operating subsidiary, produces an innovative gauze product that absorbs exudate (fluids which have been discharged from blood vessels) by forming a gel-like substance upon contact. The Board of Directors of the Company has approved a resolution to fold the operations of Epic into those of the Company. As of the filing date of this Form 10-Q, this has not occurred.

United was a closed-end management investment company that in February 2006 elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, (the “1940 Act”). The Company was originally formed in February 1997 as MNS Eagle Equity Group III, Inc.; however, it conducted no operations until electing to be a BDC through which it provided capital and other assistance to start-up and micro-cap companies. During this time, United acquired and established its initial interest in the medical, pharmaceutical and healthcare industry by acquiring certain intellectual property rights and creating Epic, which will become the Company’s operating platform company in this industry. The Company also completed two minority equity investments in companies that we now believe will not be strategic to our healthcare strategy.

In February 2010, our Board of Directors and the holders of a majority of our outstanding shares of common stock authorized management to withdraw the election to be regulated as a BDC. This decision was in part prompted by the actuality that the majority of the Company’s resources were allocated to managing the operating activities of its holdings and, in addition, management found that the Company may not have been in compliance with certain BDC provisions of the 1940 Act. On July 7, 2010, the Company filed an Information Statement with the SEC providing notice of shareholder action in lieu of a Meeting of Shareholders, taken pursuant to the written consent of certain shareholders, referred to as the consenting shareholders. Specifically, the consenting shareholders approved the withdrawal of the Company’s election to be a BDC. This action became effective on August 17, 2010 when the Company filed the applicable Notice concerning the withdrawal with the Securities and Exchange Commission. Further, in recognition of the change in its operations, the Company changed its name to United Health Products, Inc., effective as of September 30, 2010.

As a result of the decision to withdraw the Company’s election to be treated as a BDC and become an operating company, the fundamental nature of the Company’s business changed from that of investing in a portfolio of securities with the goal of achieving gains on appreciation and dividend income, to that of being actively engaged in the ownership and management of a holding company with the goal of generating income from the operations of those businesses. The decision to withdraw the Company’s election as a BDC under the 1940 Act necessitated a significant change in the Company’s method of accounting. The Company formerly utilized the BDC financial statement presentation and that accounting utilized the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost. As an operating company, the Company was required to adopt the financial statement presentation and accounting for securities held, which provides for either fair value or historical cost methods of accounting, depending on the classification of the investment and the Company’s intent with respect to the period of time it intends to hold the investment. This change in the Company’s method of accounting could impact the market value of its investments in privately held companies by eliminating the Company’s ability to report an increase in value of its holdings as the increase occurs. As an operating company, the Company, effective December 31, 2009, consolidated its financial statements with its controlled subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business. The Company since its formation has not generated any significant revenues. The Company has not as yet attained a level of operations that allows it to meet its current overhead and may not attain profitable operations within its first few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. The Company is dependent upon obtaining additional financing adequate to fund its operations.

While the Company has funded its initial operations with private placements and secured loans from a related party, there can be no assurance that adequate financing will continue to be available to the Company and, if available, on terms that are favorable to the Company. The Company's ability to continue as a going concern is also dependent on many events outside of its direct control, including, among other things, improvement in the economic climate. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 8 of Regulation S-X, as appropriate. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements for the interim period, have been included.

Operating results for the interim periods presented are not necessarily indicative of the results to be expected for a full year.

The condensed consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim condensed financial statements should be read in conjunction with the Company's audited financial statements and notes for the year ended December 31, 2012 filed with the Securities and Exchange Commission on Form 10-K in June 2013.

Note 2. Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Epic Wound Care, Inc. as of the dates and for the fiscal years indicated. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets, as well as in the healthcare industry, and any other parameters used in determining these estimates, could cause actual results to differ.

Income Taxes

The Company accounts for income taxes using a method that requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities which is commonly known as the asset and liability method. In assessing the ability to realize deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company evaluates its tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. The Company does not have a liability for any unrecognized tax benefits. Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

The Company files income tax returns in the United States Federal jurisdiction and New York. With few exceptions, the Company is no longer subject to United States federal, state and local income tax examinations by tax authorities for years prior to 2006. The Company adopted the provisions of FASB ASC 740, Income Taxes, relating to unrecognized tax benefits on January 1, 2009. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

As of December 31, 2012, the Company has approximately \$5.7 million of net operating loss carry-forwards available to affect future taxable income and has established a valuation allowance equal to the tax benefit of the net operating loss carry forwards and temporary differences as realization of the asset is not assured.

Revenue Recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, product has been delivered or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue is recognized net of estimated sales returns and allowances.

Revenues are attributable to the sale of medical products through distributor agreements. The principal terms of the agreements provide that the distributor orders be accompanied by partial payment in advance, which at least equals 50% of total manufactured cost, as defined, for orders for distributor inventory and, in addition, an agreed portion of the distributor's gross profit on special orders. The balance of the manufactured cost is due from the distributor at the time of shipment. The Company is also entitled to an agreed percentage of the distributor's profit on receipt by the distributor. The Company defers all amounts received in advance of shipment and recognizes as revenue the aggregate of amounts invoiced in advance and an estimate of the Company's portion of distributor's profit at the time of shipment.

Per Share Information

Basic earnings per share are calculated using the weighted average number of common shares outstanding for the period presented. Diluted loss per share is the same as basic loss per share, as the effect of potentially dilutive securities (2,150,000 options and 1,698,378 warrants at September 30, 2013) is anti-dilutive.

Note 3. Acquisition of Intellectual Property Rights

In June 2009, the Company acquired the intellectual property rights of Epic Wound Care, LLC, through a wholly-owned subsidiary, Epic Wound Care, Inc. ("Epic"). The intellectual property includes the right to manufacture and distribute innovative gauze to serve the wound care market. The acquisition cost for the rights was 30 million shares of Company's common stock, of which 20 million shares were escrowed with the voting rights controlled by the Company pending attainment of certain performance targets over 18 months from the closing date of the transaction. The Company valued the rights acquired at \$500,000 based upon the Company's expectation for commercialization of the rights less costs to effectuate applicable approvals.

On March 8, 2011, the Company and Epic entered into a global settlement and release agreement (the “Settlement Agreement”) with various parties to resolve disputes regarding the Agreement and Plan of Acquisition, dated May 19, 2009, entered into by the Company in connection with its acquisition of the business and assets of Epic Wound Care, LLC (the “Acquisition Agreement”). The parties had differences of opinion concerning the satisfaction of certain milestones and conditions in the Acquisition Agreement in connection with the release of the escrowed shares mentioned above. The settlement provided for the release of 20 million escrowed shares to the sellers of the business and assets and the contribution of 2 million shares of the Company’s common stock to the capital of the Company (which were cancelled) to facilitate the settlement by certain non-controlling shareholders who provided investment advice to the Company on a regular periodic basis, including investment advice related to the Acquisition Agreement. As a condition to the settlement, the Board of the Directors of the Company waived certain milestones and conditions regarding the release of the escrowed shares as set forth in the Acquisition Agreement and the parties to the Settlement Agreement agreed to mutual releases and to resolve and settle any and all claims, controversies, disputes and causes of action, whether asserted or unasserted, known or unknown, real or potential, or whether in law, equity or otherwise, relating to, arising out of, or in any way concerning the Acquisition Agreement and the escrowed shares, without any admission of fault, liability or wrongdoing on the part of or on behalf of any party.

During the period prior to the settlement, although the common shares escrowed were legally issued and outstanding, for purposes of calculating earnings per share the Company considered these shares as contingent and did not include them in the calculation.

The Company is amortizing the intangibles acquired over a five year period and, accordingly recorded an amortization charge of \$75,000 in both periods 2013 and 2012.

Note 4. Related Party Transactions

The Company’s transactions with LeadDog Capital LP were as follows:

Balance at beginning of period	\$ 448,099
New borrowings at 16% interest rate	-0-
Interest accrued	42,378
Redemption of indebtedness by the issuance of 0 shares of common stock	-0-
Balance at end of period	\$ 490,477

At September 30, 2013, notes and interest payable to related party includes unpaid interest of \$138,826. The notes were payable within one year of the origination date of the notes or under extensions through December 2012. In 2011, the Board authorized the issuance of 1,000,000 restricted shares to LeadDog Capital Markets LLC as a consultant to the Company. These notes are currently past due; however, no demand has been made for payment by LeadDog. LeadDog has advised the Company that a discrepancy exists as to the amount of monies owed to them. The Company will seek to resolve this discrepancy.

LeadDog Capital LP and its affiliates are shareholders and warrant holders; however, the group is restricted from becoming a beneficial owner (as such term is defined under Section 13(d) and Rule 13d-3 of the Securities Exchange Act of 1934, as amended, (the 1934 Act)), of the Company’s common stock which would exceed 9.5% of the number of shares of common stock outstanding.

Note 5. Issuances and Repurchase of Securities

Beplate & Associates (and its transferees), which were owed \$175,781 as of March 31, 2012 plus accrued interest of \$175,399.20, or a total of approximately \$351,180, automatically converted the principal and accrued interest thereon on March 31, 2012 into 11,706,007 shares. These 11,706,007 shares were issued in June 2013.

In July 2013, Dr. Forman voluntarily surrendered his ownership of 2,750,000 options and 2,090,000 shares of Common Stock of the Company. Nevertheless, in the fourth quarter of 2013, it is the Company's and Dr. Forman's intention to enter into an employment agreement where the Company will compensate Dr. Forman with cash and the issuance of a mutually agreed upon number of securities.

As described in Note 6, the Company is obligated to issue an aggregate of 846,440 shares of Common Stock to Messrs. Bibicoff and MacInnis at such time as these shares and the related notes are fully paid.

Note 6. Other Matters and Material Agreements

On April 29, 2010, the Company's subsidiary, Epic, submitted a Section 510(k) premarket notification of intent to market its hemostatic gauze as a Class III device to the U.S. Food and Drug Administration ("FDA"). While hemostatic gauze is a Class I device and did not require any premarket notice to the FDA in order for the Company to market these products, the Company's notification identified substantially equivalent products in order to broaden the claims that the Company could make about its capabilities. On August 3, 2010, the FDA sent Epic a notice that the application was insufficient to allow the FDA to make the determination.

In August 2012, the Company's manufacturing agent in China of its gauze products which is registered and branded in the United States under the trademark HemoStyp™, received 510(k) approval from the U.S. Food and Drug Administration ("FDA") to be sold as a Class I device. The Company has the ability to represent to distributors and customers that its gauze products meet all FDA requirements as a Class I device. This approval now allows us to expand our potential customer base and pursue accounts that requested a current 510(k) FDA approval, including the prescription based medical arena, retail, hospital, EMS, military, state and national governmental agencies and veterinary markets.

Epic entered into a corporate sponsorship agreement with American Diabetes Association (the "ADA") on July 29, 2010 that was to become effective on November 1, 2010. This agreement enables Epic to act as a sponsor of the ADA's programs and utilizes the ADA's trademarks and logos in association with Epic's products, as approved by the ADA. The agreement has a three-year term expiring October 31, 2013, subject to a mutual option to renew. The annual cost of the agreement is \$400,000. The Company and the ADA have informally agreed to defer the implementation date of this agreement due to the matter discussed in the paragraph above and until the Company obtains additional financing.

In May 2013, the Company entered into an agreement with Bibicoff plus MacInnis, Inc. to provide stockholder financial community and investor relations and to serve as a consultant to the Company's Board of Directors. The agreement became effective May 1, 2013 and terminates on October 30, 2014. If the agreement is not terminated by September 1, 2014, the agreement will convert to a month-to-month basis after October 2014 until cancelled with 60 days prior written notice. Fees payable to Bibicoff are \$8,000 per month for the first four months, increasing to \$11,000 per month for the next four months and increasing to \$13,000 per month thereafter. The agreement with Bibicoff also requires the payment of certain fees to Bibicoff in connection with financing transactions. In connection with said agreement, Mr. Bibicoff subscribed to purchase 507,864 shares of Common Stock at \$.04 per share at a subscription price of \$20,314.56. Mr. MacInnis subscribed to purchase 338,576 shares at \$.04 per share at a subscription price of \$13,543.04. In each case the subscription price is payable pursuant to promissory notes payable with interest at 1.5% quarterly and due February 21, 2016.

In the third quarter of 2013, the Company entered into distribution agreements for Australia and the military, and equestrian dental markets.

In August 2013, the Company entered into a consulting agreement with Douglas Beplate. Pursuant to said agreement, the Company retained Mr. Beplate for the exclusive purpose of developing and marketing its hemostatic gauze products. A signing bonus of 6,000,000 shares of Common Stock was agreed upon and was issued pursuant to the Company's 2013 Employee Benefit and Consulting Services Compensation Plan. These 6,000,000 shares were issued after the Plan was filed with the Securities and Exchange Commission on Form S-8. In the event sales of the Company's hemostatic gauze products exceed \$10 million, the Company is required to pay Mr. Beplate a cash commission of 1/2 of 1% on all sales achieved by the Company.

In August 2013, the Company entered into an agreement with Melwood Partners. Pursuant to said agreement, the Company agreed to remove the restrictive legend on 250,000 shares owned by Melwood Partners and Melwood

Edgar Filing: United Health Products, Inc. - Form 10-Q

Partners agreed to cancel all cash and stock compensation owed to it by the Company. The Company agreed to enter into a new marketing agreement with Melwood Partners within 45 days on terms to be mutually agreed upon, however no said agreement has been entered into as of the filing date of this Form 10-Q.

During the third quarter of 2013, \$42,382 of inventory was given to the Company as a capital contribution. Also during the third quarter of 2013, an officer of the Company forgave \$325,100 of salary that was owed to him, which was also recorded as a capital contribution.

Note 7. Promissory Notes

In October 2010, in connection with the issuance of a note due in November 2010, with a face value of \$75,000, the Company also issued 250,000 shares of common stock. The discount attributable to the issuance of common stock (\$20,100) was expensed over the period the debt was to be outstanding. The allocation was based upon the relative fair values of the securities issued in the transaction. Included in notes payable was an additional approximate \$36,000 in principal and accrued interest thereon payable to three persons. Interest accrues at the rate of 9% per annum. As of September 30, 2013, the Company has not paid the aforementioned past due indebtedness totaling \$173,056.

As described in Note 5 above, Beplate & Associates (and its transferees), which were owed \$175,781 as of March 31, 2012 plus accrued interest of \$175,399.20, or a total of approximately \$351,180, automatically converted the principal and accrued interest thereon on March 31, 2012 into 11,706,007 shares. These 11,706,007 shares were issued in June 2013.

The Company issued a \$15,000 promissory note to MayerMeinberg for services rendered. This note is payable solely in shares of Common Stock and will automatically convert on December 31, 2013 into 150,000 shares of restricted Common Stock of the Company.

Note 8. Board Resignations

On December 10, 2012, the Company entered into a Resignation Agreement with Jan E. Chason. Pursuant to said agreement, Mr. Chason agreed to release the Company from all monies owed to him, except for \$50,000 which shall be paid to him without interest or deduction therefrom on December 11, 2013. Mr. Chason, who owned 1,000,000 shares of Common Stock at the time of his execution of said agreement, received an additional 500,000 shares of restricted Common Stock for a total of 1,500,000 shares, subject to a 9-month lockup through September 11, 2013. As part of the consideration for this transaction, Mr. Chason also agreed to cancel any outstanding warrants or options owned by him.

On December 11, 2012, Mr. Wiechnik resigned from the Board of Directors and agreed to cancel any outstanding options or warrants in exchange for the issuance of 500,000 shares of restricted Common Stock, subject to a 9-month lock-up through September 11, 2013. Mr. Wiechnik also agreed to cancel any outstanding consulting fees, director compensation and/or expenses owed to him as of the execution date of said agreement.

Note 9. Stock Option Plan

On August 8, 2013, the Board of Directors approved the 2013 Employee Benefit and Consulting Services Compensation Plan which has 15,000,000 shares that may be issued under said Plan. The Plan provides for the direct issuance of shares of common stock under the Plan and for the grant of non-statutory stock options on terms established by the Board of Directors or committee thereof. While the Plan does not require stockholder approval to be implemented, in the event stockholder approval is obtained on or before August 8, 2014, then incentive stock options could be granted under the Plan. In September 2013, the Company issued 6,000,000 shares of stock under said Plan to Douglas Beplate pursuant to his consulting contract described in Note 6.

Note 10. Subsequent Events

The Company's Management has evaluated subsequent events following the quarter ended September 30, 2013 and there are none except as described herein.

On October 1, 2013, the Company entered into an Operating Agreement with Hemo Manufacturing LLC. Hemo Manufacturing is to act as the exclusive supplier of manufactured products for the Company's products. Pursuant to said agreement, 2,000,000 restricted shares of the Company's Common Stock are required to be issued upon execution of the agreement; Under certain conditions, an additional 2,000,000 shares of the Company's Common Stock would be issued in the event the Company is bought out by a third party. The Company anticipates booking all sales directly to customers and making payment for goods directly to Hemo Manufacturing. The managing member of Hemo Manufacturing will retain 100% of the profits earned by Hemo Manufacturing unless the Company is sold to a third party. In the event of such a sale, the managing member of Hemo Manufacturing and the Company would have equal share in the gross profits. While the managing member of Hemo Manufacturing LLC owns 51% of this entity and the Company owns 49% of this entity, in practicality these ownership percentages only relate to control of the entity and not to our profits and losses of being split.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes appearing elsewhere in this quarterly report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under 'Risk Factors' in our annual report on Form 10-K for the fiscal year ended December 31, 2012, filed with SEC in June 2013.

OVERVIEW

United Health Products, Inc. is a product development and solutions company focusing its growth initiatives on the expanding wound-care industry and disposable medical supplies markets. Epic Wound Care, Inc. (Epic"), our principal operating subsidiary produces an innovative gauze product that absorbs exudate (fluids which have been discharged from blood vessels) by forming a gel-like substance upon contact.

United was a closed-end management investment company, which in February 2006, elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, (the "1940 Act). Originally, we were formed in February 1997 as MNS Eagle Equity Group III, Inc.; however, we conducted no operations until electing to be a BDC through which we provided capital and other assistance to start-up and micro-cap companies. During this time, we acquired and established our initial interest in the medical, pharmaceutical and healthcare industry by acquiring certain intellectual property rights and creating Epic, which will become our operating platform company in this industry. We also completed two minority equity investments in companies that we now believe will not be strategic to our healthcare strategy.

In February 2010, our Board of Directors and the holders of a majority of our outstanding shares of common stock authorized management to withdraw the election to be regulated as a BDC. This decision was in part prompted by the actuality that the majority of our resources were allocated to managing the operating activities of our holdings and, in addition, management found that the Company may not have been in compliance with certain BDC provisions of the 1940 Act. In addition, we received communications from the Securities and Exchange Commission in which the Commission alleged that the Company was not in compliance with some of the Rules and Regulations governing BDC's. On July 7, 2010, the Company filed an Information Statement with the SEC providing notice of shareholder action in lieu of a Meeting of Shareholders, taken pursuant to the written consent of certain shareholders, referred to as the consenting shareholders. Specifically, the consenting shareholders approved the withdrawal of the Company's election to be a BDC. This action became effective on August 17, 2010 when we filed the applicable Notice concerning the withdrawal with the Securities and Exchange Commission. Further, in recognition of the change in its operations we changed our name to United Health Products, Inc., effective as of September 30, 2010.

As a result of the decision to withdraw our election to be treated as a BDC and become an operating company, the fundamental nature of our business changed from that of investing in a portfolio of securities with the goal of achieving gains on appreciation and dividend income, to that of being actively engaged in the ownership and management of a holding company with the goal of generating income from the operations of those businesses. The decision to withdraw our election as a BDC under the 1940 Act necessitated a significant change in our method of accounting. We formerly utilized the BDC financial statement presentation and that accounting utilized the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost. As an operating company, we were required to adopt the financial statement presentation and accounting for securities held which provides for either fair value or historical cost methods of accounting, depending on the classification of the investment and our intent with respect to the period of time it intends to hold the investment. This change in our method of accounting could impact the market value of

our investments in privately held companies by eliminating our ability to report an increase in the value of its holdings as the increase occurs. As an operating company, the Company, effective December 31, 2009, consolidated its financial statements with its controlled subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our 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 could differ materially from these estimates under different assumptions or conditions.

Business Plan

We develop, manufacture and market products and technologies in the healthcare sector. Our principal operating subsidiary is Epic, which produces hemostatic gauze, a collagen-like natural substance created from chemically treated cellulose that is designed to address severe bleeding in wound care applications. We are focused on identifying additional emerging healthcare products and technologies, principally hemostatic, for strategic partnership or acquisition.

However, we have very limited funds and we may not be able to execute our current business plan and fund business operations long enough to achieve profitability. Our ultimate success may depend upon our ability to raise additional capital. There can be no assurance that additional funds will be available when needed from any source or, if available, will be available on terms that are acceptable to us.

Current Economic Environment

The U.S. economy is currently in a recession. The generally economic situation, together with the limited availability of debt and equity capital, including through bank financing, will likely have a disproportionate impact on the Company. As a result, we may not be able to execute our business plan as a result of inability to raise sufficient capital and/or be able to develop a customer base for our hemostatic gauze products.

Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. Since our formation, we have not generated any significant revenues. We have not as yet attained a level of operations that allows us to meet our current overhead and may not attain profitable operations within its first few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. In August 2010, the FDA found that the Company's application for the designation of the Epic product as a Class III device was insufficient, which resulted in the temporary halt to sales by our distributor. In August 2012, our Chinese manufacturing agent received 510(k) approval from the FDA for our hemostatic gauze products to be sold as a Class I product.

We are dependent upon obtaining additional financing adequate to fund our operations. While we funded our initial operations with private placements and secured loans from a related party, there can be no assurance that adequate financing will continue to be available to us and, if available, on terms that are favorable to us. The report of our auditors on our financial statements for the year ended December 31, 2012 includes a reference to going concern risks. Our ability to continue as a going concern is also dependent on many events outside of our direct control, including, among other things, improvement in the economic climate. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

Results of Operations

Prior to December 31, 2009, the Company made considerable efforts to carry out its business plan as a Business Development Company. These efforts included both business development and financing activities. Subsequent to 2009, our efforts were directed towards developing the infrastructure to pursue sales for our Epic products and obtaining appropriate government approvals related to these products. Epic's principal distributor during the 2010 period continued to develop its customer base for the Epic gauze product designed for the wound care market. However, as a result of the FDA notice received in August 2010, the Company's distributor halted sales of Epic's products, which hemostatic gauze products could not be sold as a Class III device.

During the third quarter of 2013 and 2012, the Company had \$1,620 and \$-0-, respectively, of revenues. During the nine months ended September 30, 2013 and nine months ended September 30, 2012, the Company had \$3,060 and \$-0-, respectively, of revenues.

In August 2012, our Chinese manufacturing agent received 510(k) approval from the FDA to our hemostatic gauze products as a Class I device. Since then, products have been showcased in dental publications and our Chief Executive Officer has been on the Learning Channel to discuss our hemostatic gauze products. We have obtained interest from distributors to sell our hemostatic gauze products to the dental and veterinarian markets. Management believes that operating periods during the last three months of 2013 should begin to see the recommencement of sales.

Total operating expenses for the third quarter of 2013 and 2012 were \$831,197 and \$40,005, respectively. Our third quarter of 2013 and 2012 net loss was \$587,710 and \$56,176, respectively. The additional operating expenses incurred in the third quarter of 2013 as compared to the comparable period of the prior year was due to additional stock compensation.

Total operating expenses for the nine months ended September 30, 2013 and 2012 were \$958,601 and \$126,967, respectively. Our nine months ended September 30, 2013 and 2012 net loss was \$748,025 and \$182,082, respectively. The additional operating expenses incurred in the nine months ended September 30, 2013 as compared to the comparable period of the prior year was due to additional stock based compensation. Management believes that operating periods during the last three months of 2013 should begin to see an increase in sales and operating expenses. No assurances can be given that our operations will be profitable.

Other income for the three months and nine months ended September 30, 2013 was made up of forgiveness of debt in the amount of \$259,041.

Financial Condition, Liquidity and Capital Resources

As of September 30, 2013, the Company had a negative working capital of approximately \$1,050,000 and stockholders' deficiency of approximately \$975,000. Since inception, we generated net cash proceeds of \$2.0 million from equity placements and borrowed \$761,000 principally from related parties. The Company has not as yet attained a level of operations which allows it to meet its current overhead and may not attain profitable operations within the next few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. In August 2010, the FDA found that the Company's application for the designation of the Epic product as a Class III device was insufficient, which resulted in the temporary halt to sales by our distributor. In May 2011, the Company was notified by its distributor that it was terminating the distribution agreement. While the Company, can sell its device as a Class I, the Company was not able, at September 30, 2013, to make a determination as to the continuing impact of both of these notices. (See Note 6.) The report of our auditors on our 2012 financial statements includes a reference to going concern risks. While the Company has funded its initial operations with private placements, and secured loans from related parties, there can be no assurance that adequate financing will continue to be available to

the Company and, if available, on terms that are favorable to the Company. Our ability to continue as a going concern is also dependent on many events outside of our direct control, including, among other things, our ability to achieve our business goals and objectives, as well as improvement in the economic climate.

Secured Indebtedness

As set forth in Note 4 herein, the Company owes \$490,477 of principal and accrued interest thereon to LeadDog Capital L.P. This loan, which is on a fully secured basis, is currently past due; however, no demand has been made for payment by LeadDog. The Company made an inquiry to LeadDog's last known, Managing Member, Chris Messalas as to who is the current managing member of LeadDog Capital LP. The Company was advised by Mr. Messalas that Jan Chason, the former chief financial officer of the Company, is now in charge of liquidating LeadDog Capital LP. Mr. Chason has advised the Company that LeadDog Capital disputes the amount the Company shows as owed to it. The Company intends to seek an extension of the notes and to resolve these discrepancies.

Cash Flows

The Company's cash on hand at September 30, 2013 and December 31, 2012 was \$1,909 and \$32, respectively.

Operating cash flows: The sales process for our gauze product, which began late in 2009 with limited sales to our sales distributor, was halted in August 2010 as we develop a new marketing strategy and further study the necessity of making application for FDA clearance.

Net cash used in operating activities for the nine months ended September 30, 2013 was \$38,123 as compared to \$2,127 in the prior year period. For the nine months ended September 30, 2013, our net loss of \$748,025 was partially offset by depreciation and amortization of \$75,000, interest accrued of \$51,525 and stock based compensation of \$744,000.

Financing cash flows: Net cash generated from financing of approximated \$1,987 and \$40,000 in 2012 and 2013, respectively. The cash generated in both periods represent borrowings from LeadDog Capital LP.

Off-Balance Sheet Arrangements

As of September 30, 2013, we have no off-balance sheet arrangements.

Related Parties

Information concerning related party transactions is included in the financial statements and related notes, appearing elsewhere in this quarterly report on Form 10-Q.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

The Company recognizes revenues when persuasive evidence of an arrangement exists, product has been delivered or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue is recognized net of estimated sales returns and allowances.

Revenues are attributable to the sale of medical products through distributor agreements. The principal terms of the agreements provide that the distributor orders be accompanied by partial payment in advance, which at least equals

50% of total manufactured cost, as defined, for orders for distributor inventory and, in addition, an agreed portion of the distributor's gross profit on special orders. The balance of the manufactured cost is due from the distributor at the time of shipment. The Company is also entitled to an agreed percentage of the distributor's profit on receipt by the distributor. The Company defers all amounts received in advance of shipment and recognizes as revenue the aggregate of amounts invoiced in advance and an estimate of the Company's portion of distributor's profit at the time of shipment.

The Company has recorded as intangibles amounts representing the rights we have obtained to technology, know-how, trademarks and etc. based upon an appraisal of the rights obtained. In the opinion of management there has been no diminution in their value.

We used the Black-Scholes option pricing model to determine the fair value of stock options in connection with stock based compensation charges as well as certain finance cost charges when we issued warrants in connection with the issuance of indebtedness. The determination of the fair value of stock-based payment awards or warrants on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

Due to our limited history as a public company, we have estimated expected volatility based on the historical volatility of certain companies as determined by management. The risk-free rate for the expected term of each option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on our intent not to issue a dividend as a dividend policy. Due to our limited operating history, management estimated the term to equal the contractual term.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because our stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models may not necessarily provide a reliable single measure of the fair value of its employee stock options.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

The Company evaluates its tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. The Company does not have a liability for any unrecognized tax benefits. Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company is in the process of implementing disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed in the Company’s Exchange Act reports are recorded, processed, summarized, and reported within the time periods specified in rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our Chief Executive Officer to allow timely decisions regarding required disclosure.

As of September 30, 2013, the Chief Executive Officer and Chief Financial Officer carried out an assessment of the effectiveness of the design and operation of our disclosure controls and procedure and concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2013, because of the material weakness described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified during management's assessment was the lack of sufficient resources with SEC, generally accepted accounting principles (GAAP) and tax accounting expertise. This control deficiency could result in a material misstatement of significant accounts or disclosures that would result in a material misstatement to the Company's interim or annual financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Chief Executive Officer and Chief Financial Officer performed additional accounting and financial analyses and other post-closing procedures including detailed validation work with regard to balance sheet account balances, additional analysis on income statement amounts and managerial review of all significant account balances and disclosures in the Quarterly Report on Form 10-Q, to ensure that the Company's Quarterly Report and the financial statements forming part thereof are in accordance with accounting principles generally accepted in the United States of America. Accordingly, management believes that the financial statements included in this Quarterly Report fairly present, in all material respects, the Company's financial condition, results of operations, and cash flows for the periods presented.

Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2013, there were no changes in our system of internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any material pending legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

For the quarter ended September 30, 2013, there were no sales of unregistered securities, except as described in Note 5 in the Notes to Financial Statements. The 11.7 million shares of restricted Common Stock which are described in Note 5 and were issued upon the conversion of certain indebtedness to 23 non-affiliated persons, were issued pursuant to an exemption under Section 3(a)(9) of the Securities Act of 1933, as amended, inasmuch as no commissions were paid in connection with the exchange of securities.

During the period January 1, 2013 through September 30, 2013, there were no repurchases of the Company’s unregistered securities. See, however, Note 9 under Notes to Consolidated Financial Statements.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

See Note 9 in the Notes to Financial Statements.

Item 6. Exhibits

(a) Exhibits

The following exhibits are filed with this report, or incorporated by reference as noted:

3(i)	Articles of Incorporation of the Company, dated May 11, 2006. (1)
3(ii)	By-laws of the Company. (1)
10.1	Agreement dated May 23, 2013 with Bibicoff and Macinnis (2)
10.2	Consulting Agreement dated August 8, 2013 with Douglas Beplate (2)
21	Subsidiaries of the Registrant
31.1	Certification of Principal Executive Officer and Principal Financial Officer*
32.1	Section 1350 Certificate by Chief Executive Officer and Chief Financial Officer*
99.1	2013 Employee Benefit and Consulting Services Compensation Plan (2)
101.SCH	Document, XBRL Taxonomy Extension (**)
101.CAL	Calculation Linkbase, XBRL Taxonomy Extension Definition (**)
101.DEF	Linkbase, XBRL Taxonomy Extension Labels (**)
101.LAB	Linkbase, XBRL Taxonomy Extension (**)
101.PRE	Presentation Linkbase (**)

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

* Filed herewith.

(1) Incorporated by reference to the Company's Registration Statement filed with the SEC on Form SB-1 on June 22, 2006.

(2) Incorporated by reference to the Form 10-Q for the quarter ended June 30, 2013.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized on November 14, 2013.

United Health Products, Inc.

By: /s/ Dr. Phillip Forman
Dr. Phillip Forman
Principal Executive Officer and
Acting Principal Financial
Officer