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UNITED ENERGY CORP /NV/  
Form 10-Q  
August 14, 2001

1

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-30841

UNITED ENERGY CORP.

(Exact name of registrant as specified in its charter)

NEVADA

22-3342379

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

600 Meadowlands Parkway, Secaucus, N.J.

07094

(Address of principal executive offices)

(Zip Code)

(201) 842-0288

(Registrant's telephone number, including area code)

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

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

UNITED ENERGY CORP.

Class	Outstanding as of August 14, 2001
Common Stock, \$.01 par value	16,080,270 shares

2

INDEX

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PART I.	FINANCIAL INFORMATION	
Item 1.	Consolidated Financial Statements (Unaudited)	
	Consolidated balance sheets June 30, 2001 (unaudited) and March 31, 2001.....	3
	Consolidated statements of operations for the three months ended June 30, 2001 (unaudited) and 2000 (unaudited).....	4
	Consolidated statements of cash flows for the three months ended June 30, 2001 (unaudited) and 2000 (unaudited).....	5
	Notes to consolidated financial statements June 30, 2001.....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....	12
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings.....	12
Item 2.	Changes in Securities and Use of Proceeds.....	12
Item 3.	Defaults upon Senior Securities.....	12
Item 4.	Submission of Matters to a Vote of Security Holders.....	12
Item 5.	Other Information.....	12
Item 6.	Exhibits and Reports on Form 8-K.....	12
	Signatures.....	13

2

3  
 UNITED ENERGY CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 JUNE 30, 2001 (Unaudited)  
 AND MARCH 31, 2001

June 30,  
 2001  
 -----  
 (Unaudited)

ASSETS

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CURRENT ASSETS:

Cash and cash equivalents	\$ 75,689
Accounts receivable, net of allowance for doubtful accounts of \$41,465 and \$71,656, respectively	1,057,602
Inventory	103,169
Prepaid expenses	38,150
	-----
Total current assets	1,274,610

PROPERTY AND EQUIPMENT, net of accumulated depreciation and  
amortization of \$20,335 and \$19,848, respectively

6,647

OTHER ASSETS:

Goodwill, net of accumulated amortization of \$12,930 and \$11,935, respectively	73,593
Patent, net of accumulated amortization of \$22,197 and \$19,545, respectively	136,859
Other assets	1,385
	-----
Total assets	\$ 1,493,094 =====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 557,958
Accounts payable to shareholders	--
Related party loans payable	30,009
Short-term bank loan and revolving line of credit	100,000
	-----
Total current liabilities	687,967 -----

STOCKHOLDERS' EQUITY (DEFICIT):

Common stock; 100,000,000 shares authorized of \$0.01 par value, 16,080,270 and 15,830,270 shares issued and outstanding as of June 30 and March 31, 2001, respectively	160,802
Additional paid-in capital	2,662,592
Stock subscription receivable	(25,000)
Accumulated deficit	(1,993,267)
	-----
Total stockholders' equity	805,127 -----
Total liabilities and stockholders' equity	\$ 1,493,094 =====

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

UNITED ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED  
JUNE 30, 2001 (Unaudited) AND 2000 (Unaudited)

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	For the Three Months Ended June 30,	
	2001	2000
	-----	-----
	(Unaudited)	
REVENUES, net	\$ 589,692	\$ 836,332
COST OF GOODS SOLD	329,277	546,330
	-----	-----
Gross profit	260,415	290,002
	-----	-----
OPERATING EXPENSES:		
General and administrative	195,303	303,344
Depreciation and amortization	4,134	4,385
	-----	-----
Total operating expenses	199,437	307,729
	-----	-----
Income from operations	60,978	(17,727)
	-----	-----
OTHER (EXPENSE) INCOME, net:		
Interest income	582	--
Interest expense	(1,369)	(934)
	-----	-----
Total other expense, net	(787)	(934)
	-----	-----
Net income	\$ 60,191	\$ (18,661)
	=====	=====
BASIC AND DILUTED INCOME PER SHARE	\$ 0.00	\$ 0.00
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, basic and diluted	15,841,259	15,830,270
	=====	=====

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

4

5

UNITED ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED  
JUNE 30, 2001 (Unaudited) AND 2000 (Unaudited)

For the Three Months Ended June 30,	
2001	2000
-----	-----
(Unaudited)	

4

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CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 60,191	\$ (18,66
Adjustments to reconcile net income to net cash used in operating activities-		
Depreciation and amortization	4,134	4,38
Changes in operating assets and liabilities-		
(Increase) decrease in accounts receivable, net	(87,169)	172,17
Decrease (increase) in inventory	18,584	(209,88
Increase in prepaid expenses	(38,150)	(25
Decrease in other assets	200	20
Decrease in accounts payable and accrued expenses	(78,796)	(84,02
	-----	-----
Net cash used in operating activities	(121,006)	(136,06
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on line of credit	100,000	160,00
Payments on bank loan	--	(1,73
	-----	-----
Net cash provided by financing activities	100,000	158,26
	-----	-----
Net increase (decrease)in cash and cash equivalents	(21,006)	22,19
CASH AND CASH EQUIVALENTS, beginning of period	96,695	46,00
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 75,689	\$ 68,20
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period-		
Interest	\$ 1,449	\$ 17
	=====	=====
Income taxes	\$ 720	\$ 72
Conversion of Accounts payable to shareholders to common stock	-----	-----
	\$350,000	-
	=====	=====

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

6

5

UNITED ENERGY CORP.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim

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financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company's financial position at June 30, 2001 (unaudited) and March 31, 2001 and the results of its operations for the three months ended June 30, 2001 (unaudited) and 2000 (unaudited) and cash flows for the three months ended June 30, 2001 and 2000. 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 ended June 30, 2000 are not necessarily indicative of the operating results that may be expected for the year ending March 31, 2002.

The consolidated balance sheet as of March 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 28, 2001.

6

7

### 2. STOCK OPTION PLAN

On May 3, 1999, the Board of Directors approved the 1999 Comprehensive Stock Option Plan (the "1999 Plan"). Under the 1999 Plan, the Company is authorized to grant stock options, the exercise of which would allow up to an aggregate of 2,000,000 shares of the Company's common stock to be acquired by the holders of said awards. The awards can take the form of Incentive Stock Options ("ISOs") or Nonstatutory Stock Options ("NSOs"). ISOs and NSOs are to be granted in terms not to exceed ten years. The exercise price of the ISOs and NSOs will be no less than the market price of the Company's common stock on the date of grant. Adoption of the 1999 Plan is pending shareholder approval.

The Company has no options outstanding.

### 3. EXCLUSIVE DISTRIBUTION AGREEMENT

On September 22, 2000 the Company and Alameda Company entered into an exclusive Distribution agreement (the "Agreement"), whereby Alameda will purchase from the Company various products from the graphic arts division (meeting certain minimum purchase requirements) at guaranteed fixed prices through December 31, 2002 and distribute these products exclusively throughout the USA, Canada, Puerto Rico, Mexico, Central America, South America and the Caribbean.

No products were shipped and no revenue was recognized under the Alameda Agreement prior to October 2000.

### 4. CREDIT LINE AGREEMENT

In June 2000, the Company obtained a \$1,000,000 line of credit from Fleet Bank. Borrowings under the credit line bear interest at prime. Interest is payable monthly. Amounts outstanding under the line of credit are subject to repayment on demand and are secured by accounts receivable, inventory, furniture and fixtures, machinery and equipment and a pledge of 750,000 shares of the Company's common stock held in escrow. The line is also secured by the personal

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guarantee of a shareholder of the Company.

The line of credit is subject to certain covenants, including financial covenants to which the Company must adhere on a quarterly or annual basis. Borrowings under the line of credit must be reduced to zero for a period of 30 consecutive days in any twelve-month period.

7

8

5. SEGMENT INFORMATION

Under the provision of SFAS No.131 the Company's activities fall within two operating segments: Graphic Arts and Specialty Chemicals. The following tables set forth the Company's industry segment information for the three months ended June 30, 2001 and 2000:

The Company's total revenues, net loss and identifiable assets by segment for the three months ended June 30, 2001 (unaudited), are as follows:

	Graphic Arts	Specialty Chemicals	Corporate	To
	-----	-----	-----	-----
Revenues	\$ 516,558	\$ 73,134	\$ --	\$ 5
	=====	=====	=====	=====
Gross profit	\$ 225,408	\$ 35,007	\$ --	\$ 2
General and administrative	53,658	36,510	105,135	1
Depreciation and amortization	--	4,053	81	
Interest expense/net	1,369	--	(582)	
	-----	-----	-----	-----
Net income/(loss)	\$ 170,381	\$ (5,556)	\$ (104,634)	\$
	=====	=====	=====	=====
Cash	\$ --	--	\$ 75,689	\$
Accounts receivable, net	1,033,307	24,295	--	1,0
Inventory	57,067	46,102	--	1
Prepaid Expenses	--	37,950	200	
Fixed assets, net	--	--	6,647	
Goodwill, net	--	73,593	--	
Patent, net	--	136,859	--	1
Other assets	--	--	1,385	
	-----	-----	-----	-----
Total assets	\$1,090,374	\$ 318,799	\$ 83,921	\$1,4
	=====	=====	=====	=====

8

9

UNITED ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2001 AND 2000 (Unaudited)  
 AND MARCH 31, 2001

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The Company's total revenues and net income by segment for the three months ended June 30, 2000 (unaudited) are as follows:

	Graphic Arts -----	Specialty Chemicals -----	Corporate -----	Total -----
Revenues	\$ 802,517 =====	\$ 33,815 =====	\$ -- =====	\$ 836,3 =====
Gross profit	\$ 281,504	\$ 8,498	\$ --	\$ 290,0
General and administrative	98,106	32,711	172,527	303,3
Depreciation and amortization	--	3,868	517	4,3
Interest expense/ net	934	--	--	9
	-----	-----	-----	-----
Net income/(loss)	\$ 182,464 =====	\$ (28,081) =====	\$ (173,044) =====	\$ (18,6 =====

6. NEW ACCOUNTING PRONOUNCEMENT

In July 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS No. 142 effective April 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS No. 142 that are effective April 1, 2002 will have on its results of operations and financial position.

9

10

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

Overview

United Energy considers its primary focus to be the development, manufacture and sale of environmentally safe specialty chemical products. The Company considers its leading product in terms of future earnings potential to be its KH-30(R) oil and gas well cleaning product.

KH-30(R) is an environmentally-safe, non-petroleum based product that is non-toxic and will biodegrade. KH-30(R) has a period of operational effectiveness in an oil or gas well that usually lasts between 60-90 days before retreatment is required. Moreover, the use of KH-30(R) in the well has additional beneficial effects "downstream" resulting in cleaner flow lines and holding tanks. KH-30(R) has also been tested to be refinery compatible in that



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it contains no materials that are harmful to the refining process. This product has yet to achieve any significant market penetration.

One of United Energy's specialty chemical products is a photo-sensitive coating that is applied to paper to produce what is known in the printing industry as proofing paper or "blue line" paper. The Company developed this formulation over several years of testing. The Company's patent attorneys have informed the Company that the formulation is technically within the public domain as being within the scope of an expired duPont patent. However, the exact formulation utilized by the Company has not been able to be duplicated by others and is protected by the Company as a trade secret. The product is marketed under the trade name UNIPROOF(R).

The Company's business plan is to use UNIPROOF(R) proofing paper sales to provide the cash flow to support world wide marketing efforts for its KH-30(R) oil well cleaner and, to a lesser extent, the other specialty chemical products developed by the Company.

In order to provide working capital to build UNIPROOF(R) sales, in June 2000 the Company entered into a \$1,000,000 Line of Credit Agreement with Fleet Bank, N.A.

### RESULTS OF OPERATIONS THREE MONTHS ENDED JUNE 30, 2001 AND 2000

**REVENUES.** Revenues for the first three months of fiscal 2002 were \$589,692, a \$246,640, or 29% decrease, from revenues of \$836,332 in the first three months of fiscal 2001. The decrease in revenues was primarily due to a temporary decline in UNIPROOF(R) sales as the Alameda Company adjusts its marketing program to accommodate the purchase and sale requirements under their contract with us.

**COST OF GOODS SOLD.** Cost of goods sold decreased to \$329,277 or 56% of sales, for the three months ended June 30, 2001 from \$546,330 or 65% of sales, for the three months ended June 30, 2000. The decrease was primarily due to lower production of UNIPROOF(R) proofing paper as the sales of UNIPROOF(R) paper were temporarily decreased.

**GROSS PROFIT.** Gross profit for the three months ended June 30, 2001 was \$260,415, a \$29,587 or 10% decrease from \$290,002 in the corresponding period of fiscal 2001. This decrease was primarily attributable to decreased UNIPROOF(R) sales.

10

11

### OPERATING COSTS AND EXPENSES

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses decreased to \$195,303, or 33% of revenues for the three months ended June 30, 2001 from \$303,344, or 36% of revenues for the three months ended June 30, 2000.

**INTEREST EXPENSE, NET OF INTEREST INCOME.** The Company had net interest expense of \$787 for the three months ended June 30 of 2001 compared with net interest expense of \$934 in the corresponding 2000 period.

**NET INCOME (LOSS).** The three months ended June 30, 2001 resulted in net income of \$60,191, or 10% of revenues, as compared to a net loss of \$18,661 for the three months ended June 30, 2000. The income in the 2001 period is primarily the result of lower general and administrative expenses.

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LIQUIDITY AND CAPITAL RESOURCES. As of June 30, 2001 we had \$75,689 in cash, accounts receivable of \$1,057,602 and inventory of \$103,169. As of March 31, 2001, we had \$96,695 in cash, accounts receivable of \$970,433 and inventories of \$121,753.

NET CASH USED IN OPERATING ACTIVITIES. Net cash used in operating activities was \$121,006 in the three months ended June 30, 2001, a decrease of \$15,060 from the \$136,066 used in the same period of the prior year.

CASH PROVIDED BY FINANCING ACTIVITIES. Net cash provided by financing activities decreased to \$100,000 for the three months ended June 30, 2001 from \$158,262 for the period ended June 30, 2000, a net decrease of \$58,262.

Inventories at March 31, 2001 were \$121,753 and decreased to \$103,169 at June 30, 2001, a decrease of \$81,584. The lower inventory from prior periods is due to the fact that we now ship most of our UNIPROOF(R) as soon as it is produced.

Capital expenditures were negligible during the three months ended June 30, 2001 and during the corresponding period of 2000. The Company has no material commitments for future capital expenditures.

In June 2000, the Company closed on an agreement for a \$1.0 million revolving credit facility with Fleet Bank, N.A. The credit line, which is collateralized by substantially all of the assets of the Company, accrues interest at a rate equal 2% plus the bank's prime rate. As of June 30, 2001, \$100,000 was outstanding under the credit line. The credit line is further secured by a pledge of 750,000 shares of the Company's common stock held in treasury and by the guarantee of a shareholder of the Company.

United Energy believes that its existing cash and credit facility will be sufficient to enable it to meet its future capital needs for at least the next twelve months.

NEW ACCOUNTING PRONOUNCEMENT. In July 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS No. 142 effective April 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS No. 142 that

11

12

are effective April 1, 2002 will have on its results of operations and financial position.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the opinion of management, there are no material legal proceedings in process against the Company and none are threatened.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On June 27, 2001, the Company issued 250,000 shares of its common stock to an entity with which it had previously agreed to purchase such shares for a total of \$350,000. The proceeds from the sale had been received in fiscal 2000 and were used for general corporate purposes.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES None.

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

No matters were submitted to a vote of the Company's security holders during the quarter ended June 30, 2001.

ITEM 5. OTHER INFORMATION None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. None.

(b) Reports on Form 8-K. None.

13

12

United Energy Corp.  
FORM 10-Q  
June 30, 2001

SIGNATURES

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

UNITED ENERGY CORPORATION

Dated: August 13, 2001

By: \s\ Robert Seaman  
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Robert L. Seaman,  
Executive Vice President and Principal Financial Officer