

UNITED ENERGY CORP /NV/
Form 10-Q
February 14, 2002

Class	Outstanding as of January 31, 2002
Common Stock, \$.01 par value	16,080,270 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED ENERGY CORPORATION AND SUBSIDIARIES INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS:

Consolidated Balance Sheets as of December 31, 2001 (Unaudited) and March 31, 2001 (Revised).....	
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Consolidated Statements of Operations for the Three and Nine Months
Ended December 31, 2001 (Unaudited) and 2000 (Unaudited) (Revised).....

Consolidated Statements of Cash Flows for the Nine Months Ended
December 31, 2001 (Unaudited) and 2000 (Unaudited) (Revised).....

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....

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UNITED ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2001 (Unaudited) AND MARCH 31, 2001 (Revised)

December 31,
2001
(Unaudited)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	163,722
Accounts receivable, net of allowance for doubtful accounts of \$4,651 and \$71,656, respectively		421,160
Inventory		173,535
Prepaid expenses		7,234

Total current assets		765,651

PROPERTY AND EQUIPMENT, net of accumulated depreciation and

amortization of \$20,128 and \$17,320, respectively		18,172
---	--	--------

OTHER ASSETS:

Goodwill, net of accumulated amortization of \$16,261 and \$11,935, respectively		70,262
Patent, net of accumulated amortization of \$27,498 and \$19,545, respectively.....		131,558
Other assets.....		1,385

Total assets	\$	987,028
		=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

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CURRENT LIABILITIES:

Accounts payable and accrued expenses.....	\$	425,445
Accounts payable to shareholders.....		--
Related party loans payable.....		73,141
Short-term bank loan and revolving line of credit		125,000

Total current liabilities		623,586

STOCKHOLDERS' EQUITY (DEFICIT):

Common stock; 100,000,000 shares authorized of \$0.01 par value, 15,830,270 shares issued and outstanding as of December 31 and		160,802
March 31, 2000, respectively		4,577,052
Additional paid-in capital		(25,000)
Stock subscription receivable		(4,349,412)
Accumulated deficit		-----
Total stockholders' equity		363,442

Total liabilities and stockholders' equity.....	\$	987,028
		=====

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

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UNITED ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2001(Unaudited) AND 2000 (Unaudited) (Revised)

	For the Three Months Ended December 31, -----		For the Nin Ended Decem
	2001	2000	2001
	-----	-----	-----
	(Unaudited)	(Unaudited) (Revised)	(Unaudited)
REVENUES, net.....	\$ 450,055	\$ 1,281,608	\$ 1,132,342
COST OF GOODS SOLD.....	235,602	894,717	586,519
	-----	-----	-----
Gross profit.....	214,453	386,891	545,823
	-----	-----	-----
OPERATING EXPENSES:			
General and administrative.....	323,593	261,955	909,421
Executive services contributed by management	62,500	62,500	187,500

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Depreciation and amortization.....	5,936	4,385	14,649
	-----	-----	-----
Total operating expenses.....	392,029	328,840	1,111,570
	-----	-----	-----
Income (loss) from operations...	(177,576)	58,051	(565,747)
	-----	-----	-----
OTHER (EXPENSE) INCOME, net:			
Interest income.....	281	--	1,300
Interest expense.....	(1,519)	(3,945)	(4,547)
	-----	-----	-----
Total other expense, net.....	(1,238)	(3,945)	(3,247)
	-----	-----	-----
Net income (loss).....	\$ (178,814)	\$ 54,106	\$ (568,994)
	=====	=====	=====
BASIC AND DILUTED INCOME (LOSS)			
PER SHARE.....	\$ (0.01)	\$ 0.00	\$ (0.04)
	=====	=====	=====
WEIGHTED AVERAGE NUMBER			
OF SHARES OUTSTANDING, basic			
and diluted.....	16,080,270	15,830,270	16,001,179
	=====	=====	=====

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

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UNITED ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED

DECEMBER 31, 2001 (Unaudited) AND 2000 (Unaudited) (Revised)

	For the Ni Ended Dece 2001 ----- (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss).....	\$ (568,994)
Adjustments to reconcile net income to net cash used in operating activities-	
Depreciation and amortization	14,649
Executive services contributed by management.....	187,500
Changes in operating assets and liabilities-	
Decrease (Increase) in accounts receivable, net	549,273
(Increase) Decrease in inventory.....	(51,782)
Increase in prepaid expenses	(7,234)

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Decrease in other assets	200
Decrease in accounts payable and accrued expenses	(211,309)

Net cash (used in) provided by operating activities	(87,697)

CASH FLOWS FROM INVESTING ACTIVITIES:	
Payments for patent	(13,408)

Net cash used in investing activities	(13,408)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds on line of credit	125,000
Payments on bank loan	--
Proceeds from loans payable to related party	43,132

Net cash provided by financing activities	168,132

Net increase in cash and cash equivalents	67,027
CASH AND CASH EQUIVALENTS, beginning of period.....	96,695

CASH AND CASH EQUIVALENTS, end of period.....	\$ 163,722
	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the period-	
Interest.....	\$ 4,512
	=====
Income taxes.....	\$ 720
	=====

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

UNITED ENERGY CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) DECEMBER 31, 2001

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and

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notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company's financial position at December 31, 2001 and March 31, 2001 and the results of its operations for the three months and the nine months ended December 31, 2001 and 2000 and cash flows for the nine months ended December 31, 2001 and 2000. All such adjustments are of normal recurring nature. Interim financial statements are prepared on a basis consistent with the Company's annual financial statements. Results of operations for the three-month and for the nine-month periods ended December 31, 2001 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 (Revised) 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 Annual Report statement on Form 10-K, as amended.

2. NET LOSS PER SHARE OF COMMON STOCK

The Company computes net loss per share of common stock in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). Under the provisions of SFAS No. 128, basic net loss per share ("Basic EPS") is computed by dividing net loss by the weighted average number of shares of common stock outstanding. Diluted net loss per share is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for potentially dilutive securities.

3. STOCK OPTION PLAN

On August 22, 2001, the Company's shareholders approved the 2001 Equity Incentive Plan (the "2001 Plan"). Under the 2001 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 will be no less than the market price of the Company's common stock on the date of grant.

The Company's current arrangement for compensating its non-employee directors is that each such person is to receive options for 10,000 shares of the Company's common stock for each year or portion thereof during which he or she serves as a director. Director options vest immediately and expire ten years from the date of grant. At its meeting held on December 18, 2001, each of Messrs: Babcock, Pampanini, Rappaport and Spencer were granted options to acquire 10,000 shares of the Company's common stock at a price of \$.70 per share, the closing price of the common stock on the date of grant.

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4. 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.

5. 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 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.

6. 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 and nine months ended December 31, 2001 and 2000 (Revised):

The Company's total revenues, net income (loss) and identifiable assets by segment for the three months ended December 31, 2001 are as follows:

	Graphic Arts	Specialty Chemicals	Corporate	To
	-----	-----	-----	-----
Revenues	\$ 396,311	\$ 53,744	\$ --	\$
	=====	=====	=====	=====
Gross profit	\$ 192,009	\$ 22,444	\$ --	\$
General and administrative	68,795	58,366	196,432	
Contributed Management Services	--	--	62,500	
Depreciation and amortization -	--	2,882	3,054	
Interest expense	1,519	--	(281)	
	-----	-----	-----	-----
Net income/(loss)	\$ 121,695	\$ (38,804)	\$ (261,705)	\$
	=====	=====	=====	=====
Cash	\$ --	--	\$ 163,722	\$
Accounts receivable, net	402,963	18,197	--	
Inventory	65,160	108,375	--	

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Prepaid Expenses	--	7,034	200
Fixed assets, net	--	--	18,172
Goodwill, net	--	70,262	--
Patent, net	--	131,558	--
Other assets	--	--	1,385

Total assets	\$ 468,123	\$ 335,426	\$ 183,479	\$
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UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)--(Continued)

The Company's total revenues and net income (loss) by segment for the nine months ended December 31, 2001 (Revised), are as follows:

	Graphic Arts	Specialty Chemicals	Corporate	Total
Revenues	\$ 915,833	\$ 216,509	\$ --	\$ 1,132,342
Gross profit	\$ 418,565	\$ 127,258	\$ --	\$ 545,823
General and administrative	174,144	222,977	512,300	909,421
Contributed management services	--	--	187,500	187,500
Depreciation and amortization	--	11,433	3,216	14,649
Interest expense	4,547	--	(1,300)	3,247
Net income/(loss)	\$ 239,874	\$ (107,152)	\$ (701,716)	\$ (568,994)

The Company's total revenues and net income (loss) by segment for the three months ended December 31, 2000 (Revised), are as follows:

	Graphic Arts	Specialty Chemicals	Corporate	Total
Revenues	\$1,224,826	\$ 56,782	\$ --	\$ 1,281,608
Gross profit	\$ 362,723	24,168	\$ --	\$ 386,891
General and administrative	49,619	97,368	114,968	261,955

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Contributed management services	--	--	62,500	62,500
Depreciation and amortization	--	4,020	365	4,385
Interest expense (income)	3,945	--	--	3,945
	-----	-----	-----	-----
Net income/ (loss)	\$ 309,159	\$ (77,220)	\$ (177,833)	\$ 54,106
	=====	=====	=====	=====

The Company's total revenues and net income by segment for the nine months ended December 31, 2000, are as follows:

	Graphic Arts	Specialty Chemicals	Corporate	Total
	-----	-----	-----	-----
Revenues	\$ 2,671,401	\$ 183,302	\$ --	\$ 2,854,703
	=====	=====	=====	=====
Gross profit	\$ 816,018	\$ 72,742	\$ --	\$ 888,760
General and administrative	178,897	158,931	385,524	723,352
Contributed management services	--	--	187,500	187,500
Depreciation and amortization	--	11,908	1,247	13,155
Interest expense (income)	8,875	--	--	8,875
	-----	-----	-----	-----
Net income/ (loss)	\$ 628,246	\$ (98,097)	\$ (574,271)	\$ (44,122)
	=====	=====	=====	=====

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

7. REVISION OF CONSOLIDATED FINANCIAL STATEMENTS

Subsequent to the issuance of its March 31, 2001 financial statements, the Company recorded compensation for the executives' services that were contributed by management in the amount of \$250,000 for each fiscal year (or \$62,500 for each fiscal quarter) commencing in 1996. Previously, no compensation expense was reflected, as none was paid. Generally Accepted Accounting Principles require that the fair value of these services be reflected as an expense with the offset reflected in additional paid-in-capital. Such expense has now been reflected retroactively to 1996.

Accordingly, the March 31, 2001 Consolidated Balance Sheet has been revised for the above. The Company also recorded additional non-cash compensation expense for stock given to outside consultants during fiscal 1999 and 2000 amounting to \$103,750 and \$48,210, respectively. The Company recorded a \$325,000 gain for the fair value of the cancellation of 400,000 shares of the Company's stock returned to the Company in connection with the settlement of claims arising from the discontinuance of the equipment division in fiscal year 1998 and recorded \$75,000 in expense relating to fiscal year 1996 for the issuance of 50,000 shares in connection with the SciTech acquisition. The amounts have been

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included in the accumulated deficit balance on the Consolidated Balance Sheets. None of the above impacted working capital or total stockholders' equity.

Accordingly, the Consolidated Statement of Operations for the three and nine months ended December 31, 2000 has been revised to reflect the \$62,500 of executive services contributed by management in each quarter.

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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. 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 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 introduced its UNIPROOF(R) proofing paper in June of 1999. By March of 2000, sales of the product had increased to more than \$200,000 per month and amounted to a total of \$2,921,345 during the fiscal year ended March 31, 2001. UNIPROOF(R) sales totaled \$396,311 for the quarter ended December 31, 2001 and \$915,833 for the nine months ended December 31, 2001, a significant decline from year previous nine months sales of \$2,671,401. Sales of UNIPROOF(R) for the corresponding quarter of the previous fiscal year, which totaled \$1,224,826 included a one-time inventory sale to the Alameda company in the amount of \$798,100.

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 which are described in its Form 10-K, as amended, for the fiscal year ended March 31, 2001.

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., the material terms of which are described below under "Liquidity and Capital Resources."

On September 22, 2000 the Company entered into an agreement with the Alameda Company of Anaheim California which grants them exclusive distribution

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rights in the Western Hemisphere (North, South and Central America and the Caribbean) for UNIPROOF(R) proofing paper. As part of the arrangement Alameda bought all existing UNIPROOF(R) inventory for \$798,100. The Company turned over to Alameda all existing customers within the above territory. Sales of UNIPROOF(R) for the third quarter of the previous fiscal year included the one-time inventory sale to the Alameda company in the amount of \$798,100. Excluding this amount in the 2000 quarter, UNIPROOF(R) sales totaled \$426,726, compared with \$396,311 in the corresponding quarter of the current year.

The contract with Alameda covers the years 2001 and 2002 and is renewable annually thereafter provided they meet certain minimum product purchase levels. To maintain exclusivity for 2001 and 2002 they must purchase a total of 13,394,641 sq. ft. (\$3,348,660) in 2001 and 16,073,568 sq. ft. (\$4,018,392) in 2002. Future minimums and prices are to be agreed upon. For more information, please see our agreement with Alameda which is included as an exhibit to our report on Form 10-Q for the period ended September 30, 2000 filed on December 20, 2000.

The decline in the level of the U.S. economy during calendar year 2001 severely impacted the level of proofing paper sales in the United States, particularly during the period from June through September. This decline resulted in large part from a drop in the number of advertising pages in publications, one of the main markets in which the Company's proofing paper is used.

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As a result of this decline in proofing paper demand generally, The Alameda Company was unable to meet its agreed upon purchase levels under its contract with the Company, and may, therefore, cease to be the Company's exclusive distributor in certain territories. The Company is currently considering its options with respect to the Alameda Company and may seek to add other distributors.

Subsequent to the issuance of its March 31, 2001 financial statements, the Company revised its financial statements to reflect the value of contributed executive services and for other adjustments. See Note 7 above of Notes to Consolidated Financial Statements for a more complete description of such revisions.

RESULTS OF OPERATIONS THREE MONTHS ENDED DECEMBER 31, 2001 AND 2000

Revenues. Revenues for the third quarter of fiscal 2002 were \$450,055, a \$831,553 or 65% decrease from revenues of \$1,281,608 in the third quarter of fiscal 2001. The decrease in revenues was primarily due to a decrease in UNIPROOF(R) sales. Sales in the year earlier period were unusually high due to by the one-time sale of \$798,100 of UNIPROOF(R) inventory to the Alameda Company.

Cost of Goods Sold. Cost of goods sold decreased to \$235,602, or 52% of revenues, for the quarter ended December 31, 2001 from \$894,717, or 70% of revenues, for the quarter ended December 31, 2000. The decrease was primarily due to lower production of UNIPROOF(R) proofing paper. The higher percentage in the 2000 quarter was due to a discount given to Alameda on the inventory purchase.

Gross Profit. Gross profit for the December 31 quarter of fiscal year 2002 was \$214,453, a \$172,438 or 45% decrease from \$386,891 in the corresponding

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period of fiscal 2001. This decrease was primarily attributable to decreased UNIPROOF(R) sales. Gross profit as a percentage of sales was 48% in the fiscal 2002 quarter compared with 30% in the fiscal 2001 period, due to the discount on the one-time inventory sale to the Alameda Company in the fiscal 2001 period.

Operating Costs and Expenses

General and Administrative Expenses. General and administrative expenses increased to \$323,593, or 72% of revenues for the quarter ended December 31, 2001 from \$261,955, or 20% of revenues for the quarter ended December 31, 2000. The percentage increase in the fiscal 2002 period was largely the result of significantly lower revenues in that period, while the increase in dollar terms was primarily due to continuing high professional fees associated with the preparation and filing of materials with the Securities and Exchange Commission to become a 1934 Act reporting entity.

Executive Services Contributed by Management. Senior Executives of the Company contributed \$62,500 of services in the quarters ended December 31, 2001 and 2000 which was recorded as an expense.

Interest Expense, Net of Interest Income. The Company had net interest expense of \$1,238 for the quarter ended December 31, 2001 compared with interest expense of \$3,945 in the corresponding 2000 period. The decrease was the result of lower borrowings at lower interest rates under the credit line obtained in June 2000 which were offset by funds on deposit.

Net Income (Loss). For the quarter ended December 31, 2001, our net loss was \$178,814 as compared to income of \$54,106 or 4% of revenues for the quarter ended December 31, 2000.

NINE MONTHS ENDED DECEMBER 31, 2001 AND 2000

Revenues. Revenues for the first nine months of fiscal 2002 were \$1,132,342, a \$1,722,361 or 60% decrease from revenues of \$2,854,703 in the first nine months of fiscal 2001. The decrease in revenues was primarily due to the decrease in UNIPROOF(R) sales. Fiscal 2001 nine month sales were also unusually high due to the one-time sale of \$798,100 of inventory to the Alameda Company.

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Cost of Goods Sold. Cost of goods sold decreased to \$586,519 or 52% of sales, for the nine months ended December 31, 2001 from \$1,965,943 or 69% of sales, for the nine months ended December 31, 2000. The decrease in cost was primarily due to lower production and sales of UNIPROOF(R) proofing paper. The higher percentage in the 2000 period was due to the discounted price given to Alameda on the inventory purchase.

Gross Profit. Gross profit for the first nine months of fiscal year 2002 was \$545,823, a \$342,937 or 39% decrease from \$888,760 in the corresponding period of fiscal 2001. This decrease was primarily attributable to decreased UNIPROOF(R) sales, offset by the lower cost of goods sold.

Operating Costs and Expenses

General and Administrative Expenses. General and administrative expenses increased to \$909,421, or 80% of revenues for the nine months ended December 31, 2001 from \$723,352, or 25% of revenues for the nine months ended December 31, 2000. The nine month 2000 figure included a \$53,396 net addition to the

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allowance for doubtful accounts receivable, and the 2001 amount included approximately \$50,000 in expenses related to the holding of an annual meeting of shareholders which did not occur in the 2000 period. Both the 2000 and 2001 periods included continuing high professional fees related to filings with the U.S. Securities and Exchange Commission.

Executive Services Contributed by Management. Senior Executives of the Company contributed \$187,500 of services in the nine months ended December 31, 2001 and 2000 which were recorded as an expense.

Interest Expense, Net of Interest Income. The Company had net interest expense of \$3,247 for the nine months ended December 31, 2001 compared with interest expense of \$8,875 in the corresponding 2000 period. The change was due to lower borrowings under the Company's credit line.

Net Loss. For the nine months ended December 31, 2001, our net loss totaled \$568,994 as compared to a net loss of \$44,122 for the nine months ended December 31, 2000. The increased loss is primarily the result of the lower volume of UNIPROOF(R) sales and higher General and Administrative expenses.

Liquidity and Capital Resources.

Historically, the Company has financed its operations through equity contributions from principals and from third parties supplemented by funds generated from its business. As of March 31, 2001, we had \$96,695 in cash, accounts receivable of \$970,433 and inventories of \$121,753. As of December 31, 2001 we had \$163,722 in cash, accounts receivable of \$421,160 and inventory of \$173,535. The high receivables and low inventory figures at March 31, 2001 reflect the shipments to the Alameda Company just before fiscal year end.

Cash (Used in) Provided by Operating Activities. Net cash used in operating activities was \$87,697 for the nine month period ended December 31, 2001 compared to net cash provided by operating activities of \$73,477 in the year earlier period, a net decrease of \$161,174. The substantial decline in net cash provided by operating activities was due almost entirely to the significant decline in UNIPROOF(R) sales in the 2001 period as compared to the same period in 2000.

Cash Provided by Financing Activities. Net cash provided by financing activities increased to \$168,132 for the nine month period ended December 31, 2001 from \$155,733 for the period ended December 31, 2000, a net increase of \$12,399.

Inventories at March 31, 2001 were \$121,753, and increased to \$173,535 at December 31, 2001, an increase of \$51,782.

Accounts receivable decreased from \$970,433 on March 31, 2001 to \$421,160 on December 31, 2001. This \$549,273 or 57% decrease was primarily the result of the lower volume of UNIPROOF(R) sales.

Capital expenditures were negligible during the nine months ended December 31, 2001 and during the corresponding period of 2000. United Energy has no material commitments for future capital expenditures. However, our need for working capital will grow if we achieve higher levels of sales. As a result, 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

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equal to the prime rate. As of December 31, 2001, \$125,000 was outstanding under the credit line, compared to zero on March 31, 2001.

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 foreseeable future capital needs.

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.

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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 December 31, 2001.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. None.

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

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934,

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the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED ENERGY CORPORATION

Dated: February 14, 2002

By: \s\ ROBERT SEAMAN

Robert L. Seaman,
Executive Vice President and
Principal Financial Officer