

UNITED ENERGY CORP /NV/
Form 10-Q
February 14, 2011

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 December 31, 2010

or

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

For the transition period from _____ to _____

Commission File No. 000-30841

UNITED ENERGY CORP.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

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

600 Meadowlands Parkway #20, Secaucus, N.J. 07094
(Address of principal executive offices)

(800) 327-3456
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)
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 February 14, 2011, 31,504,449 shares of common stock, par value \$.01 per share, were outstanding.

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Item 1. Financial Statements

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | December 31, 2010 (Unaudited) | March 31, 2010 |
|---|-------------------------------------|--------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$66,890 | \$311,506 |
| Accounts receivable, net of allowance for doubtful accounts of \$72,719 and \$77,211, respectively | 86,271 | 190,915 |
| Inventory | 93,840 | 80,870 |
| Prepaid expenses and other current assets | 35,233 | 62,827 |
| Loan receivable, net of reserve of \$25,000 | 25,000 | 25,000 |
| Total current assets | 307,234 | 671,118 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of \$472,303 and \$492,121 respectively | | |
| | 63,320 | 79,050 |
| OTHER ASSETS: | | |
| Goodwill, net | 15,499 | 15,499 |
| Patents, net of accumulated amortization of \$309,367 and \$280,306, respectively | 292,263 | 317,318 |
| Loans receivable | 38,519 | 35,793 |
| Deposits | 14,185 | 1,385 |
| Total assets | \$731,020 | \$1,120,163 |

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | December 31, 2010 (Unaudited) | March 31, 2010 |
|---|-------------------------------------|-------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$248,158 | \$234,948 |
| Accrued expenses | 283,817 | 362,925 |
| Convertible term note | 30,000 | 30,000 |
| Due to related parties | 463,883 | 453,781 |
| Total current liabilities | 1,025,858 | 1,081,654 |
| STOCKHOLDERS' EQUITY (DEFICIT): | | |
| Preferred Stock: 100,000 shares authorized; Series A Convertible Preferred Stock: \$8,000 stated value, 3 shares issued and outstanding as of December 31, 2010 and March 31, 2010 | 24,000 | 24,000 |
| Common stock: \$0.01 par value 100,000,000 shares authorized; 31,504,449 shares issued and outstanding as of December 31, 2010 and March 31, 2010 | 315,045 | 315,045 |
| Additional paid-in capital | 23,307,774 | 23,245,536 |
| Accumulated deficit | (23,941,657) | (23,546,072) |
| Total stockholders' equity (deficit) | (294,838) | 38,509 |
| Total liabilities and stockholders' equity (deficit) | \$731,020 | \$1,120,163 |

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Three Months Ended December 31, | | For the Nine Months Ended December 31, | |
|--|--|---------------------|---|---------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | 2010 (Unaudited) | 2009 (Unaudited) |
| REVENUES, net | \$109,953 | \$437,075 | \$992,779 | \$1,444,281 |
| COST OF GOODS SOLD | 60,624 | 153,228 | 398,003 | 538,787 |
| Gross profit | 49,329 | 283,847 | 594,776 | 905,494 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 235,487 | 762,183 | 813,562 | 1,903,821 |
| Research and development | 35,541 | 58,665 | 106,510 | 174,304 |
| Gain on sale of asset | - | - | (8,000) | - |
| Depreciation and amortization | 11,620 | 11,971 | 34,784 | 36,483 |
| Total operating expenses | 282,648 | 832,819 | 946,856 | 2,114,608 |
| Loss from operations | (233,319) | (548,972) | (352,080) | (1,209,114) |
| OTHER INCOME (EXPENSE), net: | | | | |
| Interest income | - | 6 | 7 | 20 |
| Interest expense | (13,377) | (14,528) | (42,432) | (33,951) |
| Total other income (expense), net | (13,377) | (14,522) | (42,425) | (33,931) |
| Net loss | (246,696) | (563,494) | (394,505) | (1,243,045) |
| PREFERRED DIVIDENDS | (360) | (360) | (1,080) | (1,080) |
| Net loss applicable to common shareholders | \$(247,056) | \$(563,854) | \$(395,585) | \$(1,244,125) |
| BASIC AND DILUTED LOSS PER SHARE: | \$(0.01) | \$(0.02) | \$(0.01) | \$(0.04) |
| BASIC AND DILUTED WEIGHTED AVERAGE | | | | |
| NUMBER OF SHARES OUTSTANDING: | 31,504,449 | 31,328,587 | 31,504,449 | 31,279,746 |

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2010 (UNAUDITED)

| | Common Stock Shares | Common Stock Amount | Preferred Stock | Additional Paid-In Capital | Accumulated Deficit | Total |
|--|------------------------|------------------------|--------------------|----------------------------------|------------------------|-------------|
| BALANCE, April 1, 2010 | 31,504,449 | \$315,045 | \$24,000 | \$23,245,536 | \$(23,546,072) | \$38,509 |
| Compensation expense associated with options | - | - | - | 1,068 | - | 1,068 |
| Compensation expense associated with warrants | - | - | - | 61,170 | - | 61,170 |
| Dividends accrued on preferred shares | - | - | - | - | (1,080) | (1,080) |
| Net loss | - | - | - | - | (394,505) | (394,505) |
| BALANCE, December 31, 2010 | 31,504,449 | \$315,045 | \$24,000 | \$23,307,774 | \$(23,941,657) | \$(294,838) |

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 (Unaudited) | 2009 |
|--|---------------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss from continuing operations | \$(394,505) | \$(1,243,045) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 44,791 | 51,492 |
| Allowance for doubtful accounts | (4,492) | 18,680 |
| Gain on sale of asset | (8,000) | - |
| Compensation expense associated with warrants | 61,170 | 975,411 |
| Compensation expense associated with options | 1,068 | 1,068 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 109,136 | 12,887 |
| Inventory | (12,970) | 60,417 |
| Prepaid expenses and other current assets | 26,730 | 47,620 |
| Deposits | (12,800) | - |
| Accounts payable and accrued expenses | (65,898) | 117,490 |
| Net cash (used in) provided by operating activities | (255,770) | 42,020 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Employee loans | (1,863) | (16,100) |
| Proceeds from sale of asset | 8,000 | - |
| Payments for acquisition of property and equipment | - | (985) |
| Payments for patents | (4,006) | (3,699) |
| Cash provided by (used in) investing activities | 2,131 | (20,784) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from related party payable | 10,103 | 303,781 |
| Preferred stock dividend | (1,080) | (1,080) |
| Net cash provided by financing activities | 9,023 | 302,701 |
| Net (decrease) increase in cash and cash equivalents | (244,616) | 323,937 |
| CASH AND CASH EQUIVALENTS, beginning of period | 311,506 | 56,372 |
| CASH AND CASH EQUIVALENTS, end of period | \$66,890 | \$380,309 |

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 (Unaudited) | 2009 |
|---|---------------------|----------|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period | | |
| Interest | \$1,300 | \$1,160 |
| Income taxes | \$2,412 | \$2,080 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Conversion of note payable into common stock | \$ - | \$35,000 |

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

UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 (Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

Interim Financial Statements

The accompanying unaudited consolidated financial statements of United Energy Corp. (“we”, “United Energy” or the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes 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, 2010 (unaudited) and the results of its operations for the three and nine months ended December 31, 2010 and 2009 (unaudited) and cash flows for the nine months ended December 31, 2010 and 2009 (unaudited). All such adjustments are of a normal and recurring nature. Interim financial statements are prepared on a basis consistent with the Company's annual financial statements. Results of operations for the three and nine months ended December 31, 2010 and 2009 are not necessarily indicative of the operating results that may be expected for the year ending March 31, 2011.

The consolidated balance sheet as of March 31, 2010 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 for the fiscal year ended March 31, 2010.

Going Concern – The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. However, the Company has year-end losses from operations and has an accumulated deficit of \$23,941,657 as of December 31, 2010. During the nine months ended December 31, 2010 the Company experienced a net loss from operations of \$352,080 and a negative cash flow from operations of \$255,770. These matters raise substantial doubt about the Company's ability to continue as a going concern. Our consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

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

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

2. NET LOSS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock that could increase the number of shares outstanding and lower the earnings per share of the Company's common stock. This calculation is not done for periods in a loss position as this would be antidilutive. As of December 31, 2010, there were stock options and warrants that would have been included in the computation of diluted earnings per share that could potentially dilute basic earnings per share in the future, however, the Company is in a loss position and the result of the computation would be antidilutive.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

In August 2010, the FASB issued Accounting Standard Updates No. 2010-21 (ASU No. 2010-21) “Accounting for Technical Amendments to Various SEC Rules and Schedules” and No. 2010-22 (ASU No. 2010-22) “Accounting for Various Topics – Technical Corrections to SEC Paragraphs”. ASU No 2010-21 amends various SEC paragraphs pursuant to the issuance of Release no. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies. ASU No. 2010-22 amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics. Both ASU No. 2010-21 and ASU No. 2010-22 are effective upon issuance. The amendments in ASU No. 2010-21 and No. 2010-22 will not have a material impact on the Company’s financial statements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, management has not determined whether implementation of such proposed standards would be material to the Company’s consolidated financial statements.

4. CONVERTIBLE DEBT

On November 6, 2009, the Company issued a convertible term note in the amount of \$30,000, which accrues interest at 7% per year. Principal and interest is payable on the maturity date of April 30, 2010. The holder of this term note has the option to convert all or a portion of the note (including principal and interest) into shares of common stock at any time at a conversion price of \$0.09 per share. The conversion price is subject to adjustment for stock splits, stock dividends and similar events.

5. USE OF ESTIMATES

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

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

6. INVENTORY

Inventory consists of the following:

| | December 31, 2010 | March 31, 2010 |
|-------------------|-------------------------|-------------------|
| Blended chemicals | \$22,301 | \$29,734 |
| Raw materials | 71,539 | 51,136 |
| Total inventory | \$93,840- | \$80,870 |

7. FAIR VALUE MEASUREMENTS

Fair value of certain of the Company's financial instruments including cash and cash equivalents, inventory, account payable, accrued expenses, notes payables, and other accrued liabilities approximate cost because of their short maturities. The Company measures and reports fair value in accordance with ASC 820, "Fair Value Measurements and Disclosure" defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value investments.

Fair value, as defined in ASC 820, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset should reflect its highest and best use by market participants, principal (or most advantageous) markets, and an in-use or an in-exchange valuation premise. The fair value of a liability should reflect the risk of nonperformance, which includes, among other things, the Company's credit risk.

Valuation techniques are generally classified into three categories: the market approach; the income approach; and the cost approach. The selection and application of one or more of the techniques may require significant judgment and are primarily dependent upon the characteristics of the asset or liability, and the quality and availability of inputs. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also provides fair value hierarchy for inputs and resulting measurement as follows:

Level 1

Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2

Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3

Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair values.

Fair value measurements are required to be disclosed by the Level within the fair value hierarchy in which the fair value measurements in their entirety fall. Fair value measurements using significant unobservable inputs (in Level 3 measurements) are subject to expanded disclosure requirements including a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following: (i) total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings, and a description of where those gains or losses included in earnings are reported in the statement of income.

As of December 31, 2010, the Company does not possess any long-term monetary or nonmonetary financial instruments whose fair value is measured on a recurring basis. The Company possesses financial instruments of a short-term nature, such as cash, prepaid expenses, accounts receivable, loans receivable, accounts payable, accrued expenses and convertible notes, whose fair value can be approximated due to their short term maturity.

8. EMPLOYEE BENEFITS PLAN

Stock Option Plans

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

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

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

Fair Value of Stock Options

For disclosure purposes under FASB guidance now codified as ASC Topic 505, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions:

| | 2010 | 2009 |
|--------------------------|-------|-------|
| Expected life (in years) | 10 | 10 |
| Risk-free interest rate | 4.54% | 4.54% |
| Volatility | 199.9 | 175.3 |
| Dividend yield | 0% | 0% |

Utilizing these assumptions, the weighted average fair value of options granted with an exercise price equal to their fair market value at the date of the grant is \$1.06 for the nine months ended December 31, 2010.

Summary Stock Option Activity

The following table summarizes stock option information with respect to all stock options for the quarter ended December 31, 2010:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|--|---------------------|--|---|---------------------------------|
| Options outstanding April 1, 2010 | 3,287,500 | \$1.05 | 4.67 | |
| Granted | -- | | | |
| Expired | (60,000) | | | |
| Options outstanding December 31, 2010 | 3,227,500 | \$1.06 | 3.91 | |
| Vested and expected to vest—end of quarter | 3,227,500 | \$1.06 | 3.91 | \$ -- |
| Exercisable—end of quarter | 3,165,000 | \$1.08 | 3.86 | \$ -- |

Pursuant to the terms of an employment agreement with Ronald Wilen, Chief Executive Officer, President, Secretary and Director of the Company dated April 17, 2007, for each of the next five (5) years of the term of the agreement (commencing with April 17, 2008), Mr. Wilen will receive an option to purchase fifty thousand (50,000) shares of common stock of the Company. The exercise price with respect to any option granted pursuant to the employment agreement shall be the fair market value of the common stock underlying such option on the date such option was granted.

Options outstanding at December 31, 2010 have an exercise price ranging between \$0.09 to \$2.05.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on December 31, 2010 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had vested option holders exercised their options on December 31, 2010. This amount changes based upon changes in the fair market value of the Company's stock. As of December 31, 2010, \$1,777 of the total unrecognized compensation costs related to stock options is expected to be recognized over a period of one year and three months.

9. SUBSEQUENT EVENTS

On January 21, 2011, the Company entered into an agreement with Ronald Wilen, a director, the President and Chief Executive Officer, and Hilltop Holding Company, L.P. ("Hilltop"), a limited partnership of which Jack Silver, a director, is the managing partner. Pursuant to the agreement, Mr. Wilen and Hilltop agreed to extend the maturity date of \$151,016.67 and \$301,866.67 of secured convertible notes held by Mr. Wilen and Hilltop, respectively. The maturity date was extended from January 31, 2011 to December 20, 2011. In consideration for the agreement to extend the maturity dates, Mr. Wilen and Hilltop were issued warrants to purchase up to 1,984,939 and 3,959,894 shares of common stock, respectively, at an exercise price of \$.11 per share.

On or about January 3, 2011, Hilltop loaned the Company an additional \$100,000. Pursuant to the agreement, the Company issued Hilltop a secured convertible note for the \$100,000 loan and warrants to purchase up to 1,111,111 shares of common stock at an exercise price of \$.11 per share. The agreement also provides that Hilltop may purchase, at its option, up to \$100,000 of additional secured convertible notes and pro rata portion of 1,111,111 warrants at any time prior to June 30, 2011. The secured convertible note is convertible into Common Stock at a conversion price of \$.09 per share, bears interest at 12% per annum, is due December 20, 2011 and is secured by substantially all the assets of the Company on a pari passu basis with the previously issued secured convertible notes.

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

CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS

The matters discussed in this Form 10-Q contain certain forward-looking statements and involve risks and uncertainties (including changing market conditions, competitive and regulatory matters, etc.) detailed in the disclosure contained in this Form 10-Q and the other filings with the Securities and Exchange Commission made by us from time to time. The discussion of our liquidity, capital resources and results of operations, including forward-looking statements pertaining to such matters, does not take into account the effects of any changes to our operations. Accordingly, actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those identified herein and those discussed under the heading "Risk Factors" in the Company's 10-K for the fiscal year ended March 31, 2010. This item should be read in conjunction with the financial statements and other items contained elsewhere in the report. Unless the context otherwise requires, "we", "our", "us", the "Company" and similar phrases refer to United Energy Corp.

Overview

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

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

A key component of our business strategy is to pursue collaborative joint working and marketing arrangements with established international oil and oil service companies. We intend to enter into these relationships to more rapidly and economically introduce our K-Line of Chemical Products to the worldwide marketplace for refinery, tank and pipeline cleaning services.

We have currently established dealerships in Mexico, Columbia, Brazil, Malta, Malaysia, Russia, China, Trinidad and Venezuela. The testing of our products has begun in these countries and we hope to have positive results soon.

We provide our K-Line of Chemical Products and our Green Globe Products to our customers and generated revenues of \$992,779 for the nine-month period ended December 31, 2010 and \$1,444,281 for the nine-month period ended December 31, 2009.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2010 Compared to the Three Months Ended December 30, 2009

Revenues. Revenues for the three months ended December 31, 2010 were \$109,953, a \$327,122, or 75% decrease from revenues of \$437,075 in the comparable three months of 2009. The decrease in revenues was due to lower levels of our K-Line of Chemical Products and military sales during the three months ended December 31, 2010. Revenues from our K-Line of Chemical Products decreased by \$304,349 to \$83,237 or 79% compared to \$387,586 in the comparable three months ended December 31, 2009, and revenues from our Green Globe/Qualchem military sales decreased by \$22,773 to \$26,716 or 46% compared to \$49,489 in the comparable three months ended December 31, 2009.

Cost of Goods Sold. Cost of goods sold decreased \$92,604, or 61% to \$60,624 or 56% of revenues, for the three months ended December 31, 2010 from \$153,228 or 35% of revenues, for the three months ended December 31, 2009. The decrease in cost of goods sold and the increase in cost of goods sold as a percentage of revenue was due to the lower sales level in the period compared to the comparable period in 2009. Cost of goods sold from our K-Line of Chemical Products decreased by \$87,940 to \$43,172 or 67% compared to \$131,112 in the comparable three months ended December 31, 2009, and cost of goods sold by our Green Globe/Qualchem military sales decreased by \$4,664 to \$17,452 or 21% compared to \$22,116 in the comparable three months ended December 31, 2009.

Gross Profit. Gross profit for the three months ended December 31, 2010, decreased by \$234,518, or 83% to \$49,329 or 44% of sales compared with \$283,847 or 65% of sales in the prior period. The decrease in gross profit and gross profit percentage reflects the lower levels of high volume sales that normally result in a higher profit margin.

Operating Costs and Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased \$526,696 to \$235,487 or 214% of sales for the three months ended December 31, 2010 compared with \$762,183 or 174% of sales for the three months ended December 31, 2009. The decrease in selling, general and administrative expenses was primarily related to a decrease in financing costs associated with the issuance of warrants and in marketing expenses, insurance expenses, professional fees, salaries, employee benefits and travel and entertainment.

Research and Development. Research and development expenses decreased \$23,124 to \$35,541 or 32% of sales for the three months ended December 31, 2010 compared with \$58,665 or 13% of sales for the three months ended December 31, 2009. The decrease in research and development expenses was related to a decrease in lab supplies and salaries.

Depreciation and Amortization. Depreciation and amortization remained relatively constant for the three months ended December 31, 2010 as compared with December 31, 2009.

Interest Income. Interest income remained relatively constant for the three months ended December 31, 2010 as compared with December 31, 2009.

Interest Expense. Interest expense remained relatively constant for the three months ended December 31, 2010 as compared with December 31, 2009.

Net Loss. The three months ended December 31, 2010 resulted in a net loss of \$246,696 or \$0.01 per share as compared to a net loss of \$563,494 or \$0.02 per share for the three months ended December 31, 2009. The average number of shares of common stock used in calculating earnings per share increased 175,862 shares to 31,504,449 as a result of 298,472 shares issued in connection with the conversion of the convertible note.

Nine Months Ended December 31, 2010 Compared to the Nine Months Ended December 31, 2009

Revenues. Revenues for the nine-month period ended December 31, 2010 were \$992,779, a \$451,502 or 31% decrease from revenues of \$1,444,281 in the comparable nine-month period ended December 31, 2009. The decrease in revenues was due to lower levels our K-Line of Chemical Products and military sales during the nine months ended December 31, 2010. Revenues from our K-Line of Chemical Products decreased by \$349,506 to \$905,638 or 28% compared to \$1,255,144 in the comparable nine months ended December 31, 2009, and revenues from our Green Globe/Qualchem military sales decreased by \$101,996 to \$87,141 or 54% compared to \$189,137 in the comparable nine months ended December 31, 2009.

Cost of Goods Sold. Cost of goods sold decreased \$140,784, or 27% to \$398,003 or 40% of revenues, for the nine-month period ended December 31, 2010 from \$538,787 or 34% of revenues, for the nine-month period ended December 31, 2009. The decrease in cost of goods sold and the increase in cost of goods sold as a percentage of revenue was due to the lower sales level in the period compared to the comparable period in 2009. Cost of goods sold from our K-Line of Chemical Products decreased by \$103,753 to \$352,562 or 23% compared to \$456,315 in the comparable nine months ended December 31, 2009, and cost of goods sold from our Green Globe/Qualchem military sales decreased by \$37,031 to \$45,441 or 45% compared to \$82,472 in the comparable nine months ended December 31, 2009.

Gross Profit. Gross profit for the nine months ended December 31, 2010, decreased by \$310,718, or 35% to \$594,776 or 60% of revenues compared with \$905,494 or 63% of revenues in the prior period. The decrease in gross profit and gross profit percentage reflects the lower levels of sales.

Operating Costs and Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased \$1,090,259 to \$813,562 or 82% of revenues for the nine months ended December 31, 2010 compared with \$1,903,821 or 132% of revenues for the nine months ended December 31, 2009. The decrease in selling, general and administrative expenses was primarily related to a decrease in financing costs associated with the issuance of warrants and in marketing expenses, insurance expenses, professional fees, salaries, employee benefits and travel and entertainment.

Research and Development. Research and development expenses decreased \$67,794 to \$106,510 or 11% of sales for the nine months ended December 31, 2010 compared with \$174,304 or 12% of sales for the nine months ended December 31, 2010. The decrease in research and development expenses was related to a decrease in lab supplies and salaries.

Gain on sale of asset. During the period ended December 31, 2010, the company sold a fully depreciated vehicle for \$8,000.

Depreciation and Amortization. Depreciation and amortization remained relatively constant for the nine months ended December 31, 2010 as compared with December 31, 2009.

Interest Income. Interest income remained relatively constant for the nine months ended December 31, 2010 as compared with December 31, 2009.

Interest Expense. The Company had interest expense of \$43,432 for the nine months ended December 31, 2010 compared with \$33,951 in the corresponding period in 2009. The increase was due to the indebtedness outstanding on the loans by directors and their affiliates.

Net Loss. The nine months ended December 31, 2010 resulted in a net loss of \$394,505 or \$0.01 per share as compared to a net loss of \$1,243,045 or \$0.04 per share for the nine months ended December 31, 2009. The average number of shares of common stock used in calculating earnings per share increased 224,703 shares to 31,504,449 as a result of 298,472 shares issued in connection with the conversion of the convertible note.

Liquidity and Capital Resources

As of December 31, 2010, the Company had \$66,890 in cash and cash equivalents, as compared to \$311,506 at March 31, 2010.

The \$244,616 decrease in cash and cash equivalents was due to net cash used in operations of \$255,770, net cash provided by investing activities of \$2,131 and net cash provided by financing activities of \$9,023. Cash provided by investing activities consisted of proceeds from sale of asset of \$8,000, offset by patent purchases of \$4,006 and employee loans of \$1,863. Cash provided by financing activities consisted of related party loans of \$10,103, offset by preferred stock dividends of \$1,080.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. However, the Company has year-end losses from operations and has an accumulated deficit of \$23,941,657 as of December 31, 2010. During the nine months ended December 31, 2010, the Company experienced a net loss from operations of \$352,080 and a negative cash flow from operations of \$255,770. These matters raise substantial doubt about the Company's ability to continue as a going concern. Our consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

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

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

On or about January 3, 2011, Hilltop loaned the Company an additional \$100,000. Pursuant to the agreement, the Company issued Hilltop a secured convertible note for the \$100,000 loan and warrants to purchase up to 1,111,111 shares of common stock at an exercise price of \$.11 per share. The agreement also provides that Hilltop may purchase, at its option, up to \$100,000 of additional secured convertible notes and pro rata portion of 1,111,111 warrants at any time prior to June 30, 2011.

Concentration of Risk

Sales to our top three customers, accounted for approximately 73% of revenue, or \$725,112, for the nine-month period ending December 31, 2010 and sales to our top four customers, accounted for approximately 78% of our revenue, or \$943,951, for the nine-month period ending December 31, 2009.

Sales to our top customer, for the nine-month period ending December 31, 2010 were \$461,112.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

Not applicable

Item 4. Controls and Procedures.

Evaluation of the Company's Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Principal Accounting Officer (Interim Chief Financial Officer), of the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2010. Based upon that evaluation, the Chief Executive Officer and the Principal Accounting Officer (Interim Chief Financial Officer) concluded that our disclosure controls and procedures are effective, in all material respects, with respect to the recording, processing, summarizing, and reporting, within the time periods specified in the Securities and Exchange Commission's rules and forms, of information required to be disclosed by us in the reports that we file or submit under the Exchange Act. In designing and evaluating our "disclosure controls and procedures" (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended), management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Control Over Financial Reporting

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not applicable.

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

In October 2010, the Company issued warrants to acquire 400,000 shares of Common Stock in the aggregate to two employees of The Company as compensation for their services. The Company did not receive any proceeds from the issuance of the warrants. The warrants were issued pursuant to the exemption from registration provided by Section 4 (2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

10.1 Agreement, dated as of January 21, 2011, among the Company, Ronald Wilen and Hilltop Holding Company, L.P. incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on January 28, 2011.

31.1 Chief Executive Officer's Certificate, pursuant to Rule 13a-14(a)/ 15d-14(a) of the Exchange Act.

31.2 Chief Financial Officer's Certificate, pursuant to Rule 13a-14(a)/ 15d-14(a) of the Exchange Act

32.1 Chief Executive Officer's Certificate, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

32.2 Chief Financial Officer's Certificate, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

SIGNATURES

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

Dated: February 14, 2011

UNITED ENERGY CORP.

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

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