UNITED ENERGY CORP /NV/
Form 10QSB
August 12, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB
(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

[ ] 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	22-3342
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Ide
600 MEADOWLANDS PARKWAY #20, SECAUCUS, N.J.	07094
(Address of principal executive offices)	(Zip Co

(800) 327-3456
(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. |X| Yes | | No

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

Class	Outstanding as of August

Common Stock, $.01 par value	22,255,270 shares

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UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2004 AND MARCH 31, 2004

	JUNE 30, 2004 (UNAUDITED)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 990,103
Accounts receivable, net of allowance for doubtful accounts of $33,531 and $45,736, respectively	201,438
Inventory, net of allowance of $16,290 and $16,290, respectively	244,007
Note receivable, net of reserve of $31,350 and $31,350, respectively	53,650
Prepaid expenses and other current assets	132,737
Total current assets	1,621,935
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of $235,293 and $225,543, respectively	214,346
OTHER ASSETS:	
Goodwill, net	17,509
Patents, net of accumulated amortization of $73,315 and $67,032, respectively	303,896
Loans receivable	1,262
Deposits	1,385
Deferred financing costs, net of accumulated amortization of $28,075 and $2,000, respectively	284,818
Total assets	$ 2,445,151

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2004 AND MARCH 31, 2004

	JUNE 30, 2004 (UNAUDITED)
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 214,619
Accrued expenses	88,090
Convertible term note payable	524,997
Due to related parties	244,141
Total current liabilities	1,071,847
LONG TERM LIABILITIES:	
Convertible term note payable	968,607
Total liabilities	2,040,454
STOCKHOLDERS' EQUITY:	
Common stock: $0.01 par value 100,000,000 shares authorized; 22,255,270 and 22,180,270 shares issued and outstanding as of June 30, 2004 and March 31, 2004, respectively	222,552
Additional paid-in capital	11,321,256
Accumulated deficit	(11,139,111)
Total stockholders' equity	404,697
Total liabilities and stockholders' equity	$ 2,445,151

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

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UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2004 AND 2003

	FOR THE THREE ENDED JUN 2004 (UNAUDIT	
REVENUES, net	$ 268,637	$
COST OF GOODS SOLD	104,609	
Gross profit	164,028	
OPERATING EXPENSES:		
Selling, general and administrative	668,316	
Oil well operating and maintenance cost-net	-	
Depreciation, amortization and depletion	28,037	
Total operating expenses	696,353	
Loss from operations	(532,325)	
OTHER INCOME (EXPENSE), net:		
Interest income	5,698	
Interest expense	(69,392)	
Total other income (expense), net	(63,694)	
Net loss	$ (596,019)	$
BASIC AND DILUTED LOSS PER SHARE:		
Total basic and diluted loss per share	$ (0.03)	$
WEIGHTED AVERAGE NUMBER OF SHARES, OUTSTANDING, basic and diluted	22,216,534	22

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2004 (UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulate Deficit

BALANCE, April 1, 2004	$22,180,270	$ 221,802	$ 11,143,266	$ (10,543,092
Options issued for conversion of balance due to former employee	--	--	75,000	--
Common stock issued in consideration for services	75,000	750	54,750	--
Warrants granted in consideration for services	--	--	48,240	--
Net loss	--	--	--	(596,019
BALANCE, June 30, 2004	$22,255,270	$ 222,552	$ 11,321,256	$ (11,139,111

The accompanying notes are an integral part of this consolidated statement.

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JUNE 30, 2004 AND 2003

	2004	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(596,019)	$
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, amortization and depletion	77,585	
Stock granted in consideration for services	55,500	
Warrants granted in consideration for services	48,240	
Options granted in consideration for services	-	
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable, net	192,503	
(Increase) decrease in inventory, net	(67,520)	
Decrease in note receivable, net	10,000	
Increase in prepaid expenses	(52,441)	
Decrease (increase) in deposits	75,000	
(Decrease) increase in accounts payable and accrued expenses	(277,504)	
Net cash used in operating activities	(534,656)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for loans receivable-net	276	
Proceeds from the sale of oil well leases	15,000	
Payments for acquisition of property and equipment	(7,787)	
Payments for patents	(755)	

Net cash provided by (used in) investing activities	6,734	
Net decrease in cash and cash equivalents	(527,922)	
CASH AND CASH EQUIVALENTS, beginning of period	1,518,025	
CASH AND CASH EQUIVALENTS, end of period	$ 990,103	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period		
Interest	$ 14,011	$
Income taxes	$ 1,110	$
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of balance due to former employee into options	$ 75,000	$

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

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UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004 (UNAUDITED)

1. BASIS OF PRESENTATION AND GOING CONCERN

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-QSB of Regulation S-B. 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, 2004 (unaudited) and the results of its operations for the three months ended June 30, 2004 and 2003 (unaudited) and cash flows for the three months ended June 30, 2004 and 2003(unaudited). All such adjustments are of a normal and recurring nature. Interim financial statements are prepared on a basis consistent with the Company's annual financial statements. Results of operations for the three months ended June 30, 2004 are not necessarily indicative of the operating results that may be expected for the year ending March 31, 2005.

The consolidated balance sheet as of March 31, 2004 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, as amended.

Going Concern - During the past two fiscal years ended March 31, 2004 and 2003, the Company has recorded aggregate losses from operations of $5,398,098 and has incurred total negative cash flow from operations of $4,911,943 for the same two-year period. During the three months ended June 30, 2004 the Company experienced a net loss from operations of $596,019 and negative cash flow from operating activities of $534,656. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Liquidity - The Company's continued existence is dependent upon several factors, including increased sales volume, collection of existing receivables and the ability to achieve profitability from the sale of the Company's product lines. In order to increase its cash flow, the Company is continuing its efforts to stimulate sales and cut back expenses not directly supporting its sales and marketing efforts.

UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

2. 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, 2004 and 2003.

The Company's total revenues and net loss by segment for the three months period ended June 30, 2004 and identifiable assets as of June 30, 2004 are as follows:

	Graphic Arts	Specialty Chemicals	Corporate
Revenues	$ 70,699	$ 197,938	$ --
Gross profit	$ 31,801	$ 132,227	$ --
General and administrative	23,110	361,660	283,546
Depreciation, amortization and depletion	--	25,982	2,055
Interest income	--	--	5,698

Interest expense	--	--	69,392
Net income (loss)	$ 8,691	$ (255,415)	$(349,295)
Cash and cash equivalents	$ --	$ --	$ 990,103
Accounts receivable, net	73,464	127,974	--
Inventory, net	107,070	136,937	--
Note receivable, net	53,650	--	--
Prepaid expenses	--	45,700	87,037
Property and equipment, net	--	184,580	29,766
Goodwill, net	--	17,509	--
Patents, net	--	303,896	--
Loans receivable, net	--	--	1,262
Deferred note costs	--	--	284,818
Deposits	--	--	1,385
Total assets	$ 234,184	$ 816,596	$ 1,394,371
Capital Expenditures	$ --	$ 7,787	$ --

UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

The Company's total revenues and net income (loss) by segment for the three months period ended June 30, 2003 and identifiable assets as of June 30, 2003 are as follows:

	Graphic Arts	Specialty Chemicals	Corporate
Revenues	$ 483,547	$ 145,194	$ --
Gross profit	$ 243,554	$ 59,265	$ --
General and administrative	45,233	286,693	341,678
Oil well operating and maintenance cost-net	--	57,995	--
Depreciation and amortization	--	32,895	4,388
Interest income	--	--	4,631
Interest expense	--	--	893
Net income (loss)	$ 198,321	$ (318,318)	$(342,328
Cash and cash equivalents	$ --	$ --	$1,404,763
Accounts receivable, net	674,717	115,097	--
Inventory, net	26,162	172,526	--
Loans receivable, net	91,661	--	--

Prepaid expenses	--	--	107,650
Property and equipment, net	--	341,941	45,984
Goodwill, net	--	68,819	--
Patents, net	--	262,319	--
Loan receivable	--	--	1,376
Other assets	--	--	76,385
Total assets	$ 792,540	$ 960,702	$1,636,158
Capital Expenditures	$ --	$ 119,616	$ 1,890

GEOGRAPHICAL INFORMATION	REVENUE	
	2004	2003
U.S.	$ 127,649	$ 628,741
Non U.S.	140,988	--
Total revenue	$ 268,637	$ 628,741

3. SALE OF OIL WELL LEASES

In April 2004, the company sold their oil well leases located in Laramie County, Wyoming for $15,000 and a 4.5% royalty on all future oil sales from these wells. The Company recognized no gain or loss on the sale of the oil well leases. In May 2004, the State of Wyoming returned the $75,000 deposit made by the Company at the time the oil leases were purchased.

UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

4. RELATED-PARTY TRANSACTIONS

The Company had an amount due to Robert Seaman, a major shareholder and former director of the Company. Amounts due to the related party as of June 30, 2004 and 2003 are $244,141. These amounts are unsecured, non-interest bearing and due upon demand.

Martin Rappaport, a major shareholder and director of the Company, owns the property from which United Energy leases the 9,600 square foot facility it occupies in Secaucus, New Jersey. The Company pays approximately $108,000 per year under the lease, excluding real estate taxes. The Company believes that the lease is at fair market value with leases for similar facilities.

5. STOCK-BASED COMPENSATION

At June 30, 2004, the Company has stock based compensation plans. As permitted by SFAS No.123, Accounting for Stock Based Compensation, the Company accounts for stock-based compensation arrangements with employees in accordance with provisions of Account Principles Board (APB) Opinion No. 25, Accounting for

Stock Issued to Employees. Compensations expense for stock options issued to employees is based on the difference on the date of grant, between the fair value of the Company's stock and the exercise price of the option. There was no stock-based employee compensation charged to expense for the three months ended June 30, 2004 and 2003. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No.123 and Emerging Issues Task Force (EITF) Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Stock based compensation for non-employees was $67,100 and $9,700 for the quarters ended June 30, 2004 and 2003.

The following table illustrated the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to all stock-based compensation:

	For the Quarter Ended June 30, 2004	2003
Net Loss as reported	$(596,019)	$(462,325)
Deduct:		
Total stock based employee compensation Expense determined under fair value based method for all awards	(45,954)	(23,250)
Pro forma loss	$(641,973)	$(485,575)
Basic and diluted loss per common share		
As reported	$(0.03)	$(0.02)
Pro forma	$(0.03)	$(0.02)

UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

6. COMMITMENTS AND CONTINGENCIES

Sales Commission Claim

In July 2002, an action was commenced against us in the Court of Common Pleas of South Carolina, Pickens County, brought by Quantum International Technology, LLC and Richard J. Barrett. Plaintiffs allege that they were retained as a sales representative of ours and in that capacity made sales of our products to the United States government and to commercial entities. Plaintiffs further allege that we failed to pay to plaintiffs agreed commissions at the rate of 20% of gross sales of our products made by plaintiffs. The complaint seeks an accounting, compensatory damages in the amount of all unpaid commissions plus interest thereon, punitive damages in an amount treble the compensatory damages, plus legal fees and costs. Plaintiffs maintain that they are entitled to receive an aggregate of approximately $350,000 in compensatory and punitive damages, interest and costs. In June 2003, the action was transferred from the court in Pickens County to a Master in Equity sitting in Greenville, South Carolina and was removed from the trial docket. The action, if tried, will be tried without a jury. No trial date has yet been scheduled. We believe, based on the advice of counsel, we have meritorious defenses to the claims asserted in the action and intend to vigorously defend the case. The outcome of this matter cannot be determined at this time.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS

The matters discussed in this Form 10-QSB 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-QSB and the other filings with the Securities and Exchange Commission made by the Company from time to time. The discussion of the Company's 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 the Company's operations. Accordingly, actual results could differ materially from those projected in the forward-looking statements as a results of a number of factors, including those identified herein. This item should be read in conjunction with the financial statements and other items contained elsewhere in the report.

OVERVIEW

We develop and distribute environmentally friendly specialty chemical products with applications in several industries and markets. Our current line of products includes:

- KH-30 paraffin dispersant for the oil industry and related products KH-30S and KX-91;

- Uniproof specialty-coated proofing paper for the printing industry; and

- following additional testing, "Slick Barrier" underwater protective coatings for use in marine applications.

Through our wholly-owned subsidiary, Green Globe Industries, Inc., we provide the U.S. military with a variety of environmentally friendly, non-hazardous, biodegradable solvents 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.

We have developed and patented a system referred to as our "S2 system," to work with our environmentally-friendly paraffin dispersants products. This patented technology produces high volumes of steam and heat at variable pressures and temperatures to completely dissolve most deposits of paraffin and asphaltene within oil wells, pipelines or storage tanks. The S2 system apparatus is portable, compact and easy to use. We are further developing the process to enhance and support sales of KH-30 and its related products for the oil industry and for other potential applications.

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 KH-30 product line to the worldwide marketplace for refinery, tank and pipeline cleaning services. We are currently negotiating potential working arrangements with several companies, including Altena Cleaning B.V., one of Europe's leading refinery cleaning organizations, and Petroleos de Venezuela S.A., the state-owned oil company, and have set up small sales offices in The Netherlands and Venezuela to assist with proposed joint projects.

Business Operations and Principal Products

KH-30, KH-30S AND KX-91 CHEMICALS

KH-30 is a mixture of modified oils, dispersants and oil-based surfactants designed to control paraffin and asphaltene deposits in oil wells. When applied in accordance with our recommended procedures, KH-30 has resulted in substantial production increases of between two and five times in paraffin-affected oil and gas wells by allowing for a faster penetration of paraffin and asphaltene deposits. KH-30 disperses and suspends paraffin and asphaltene in a free-flowing state and prevents solids from sticking to each other or to oil well equipment. KH-30 is patented in the United States, Australia, Russia, Nigeria, Venezuela, Vietnam and the OAPI (the Africa Intellectual Property Organization, which includes the countries of Burkina-Faso, Benin, Central African Republic, Congo, Ivory Coast, Cameroon, Gabon, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, Chad and Togo). We have 12 additional country patent applications pending in most of the major oil-producing countries around the world (including the European Union and Canada).

Although we believe that the application of KH-30 on a continuous basis will result in higher production and lower lease operating costs in oil wells, the introduction of KH-30 into the oil and gas producing industry has been difficult. Many entrenched players such as the "hot oilers" and the major oil service companies who benefit from high mark-ups on their proprietary products have no incentive to promote the use of KH-30. Moreover, oil production engineers are reluctant to risk damage to a well from a product that does not have the endorsement and backing of a major enterprise. Consequently, the pace of introduction of KH-30 has been much slower than we initially anticipated. We believe that this situation has begun to change as a result of our marketing efforts with several oil service companies and well owners beginning to use our products after successful trials.

To increase sales of our KH-30 product we are currently expanding our marketing efforts by producing a marketing brochure and supplemental sales material. We have also developed two products, KH-30S and KX-91, as extensions of our original KH-30. We expect to continue developing additional applications for our KH-30 product.

KX-91 is a patent-pending chemical blend specifically developed for the rapid removal of paraffin and asphaltene deposits from oil wells. It has been effective for the removal of heavy deposits due to its wetting ability, dispersability and solvency. KX-91 works to rapidly dissolve deposits at low concentrations with limited contact time and can perform in extreme (-400F to 2300F) temperature ranges. It also has low emulsifying tendencies with brine water. In laboratory tests, KX-91 has been effective at low concentrations to enhance the flow of very heavy crude oil (low API gravity).

KH-30S is a proprietary chemical composition, specifically developed as a drag reducer to reduce flow impairment caused by paraffin and asphaltene depositions and high viscosity crude oil. KH-30S lowers the viscosity of very heavy crude oil (low API gravity) with flow enhancement in pipelines and oil wells at low concentrations. It provides an inhibitive thin barrier film on various metal surfaces and exhibits good compatibility with most commonly used materials of construction.

UNIPROOF PROOFING PAPER

We have developed 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. We developed this formulation over several years of testing. The formulation is technically in the public domain as being within the scope of an expired patent of duPont. However, the exact formulation utilized by us, to the best of our knowledge, has not been duplicated by other companies and we protect it as a trade secret.

SLICK BARRIER

Slick Barrier is an underwater protective coating which prevents the adherence of barnacles to boat hulls. The product is environmentally friendly and biodegradable, which we believe to be particularly appealing in fresh water marine applications. The product is currently being tested on pleasure boats throughout the United States and Europe. A patent application for "Slick Barrier" was filed in 2003, and we are applying for trademark protection both nationally and internationally. We expect to release this product in 2005, although no specific date has been set.

GREENGLOBE INDUSTRIES

In November 1998, we acquired all of the outstanding shares of Green Globe in exchange for 30,000 shares of our common stock. Green Globe is operated as a separate subsidiary and sells its products under the tradename Qualchem.(TM) The acquisition of Green Globe has given us access to the chemistry and product lines of Green Globe which include environmentally friendly paint strippers and cleaners, many of which have been qualified for use by the U.S. military. Of particular note in the Green Globe line was the development of dual package cleaning and drying "wipes" which produce a clear, non-reflective coating on glasses, computer screens and instrument panels. The wipes were developed, and have received U.S. military approval, for the cleaning of the instrument panels of combat aircraft.

PROPRIETARY TECHNOLOGIES

With respect to our formulations which are proprietary, we have patented our KH-30 oil well cleaner patented in the United States, Australia, Russia, Nigeria, Venezuela, Vietnam and OAPI. We also have 12 additional country patent applications pending in most of the major oil-producing countries around the world (including the European Union and Canada). We believe our patent is strong and will help our competitive position. However, we are aware that others may try to imitate our product or invalidate our patents. We have in the past vigorously enforced our trade secrets such as the one relating to our Uniproof proofing paper, and intend to continue to do so in the future. However, we recognize that intellectual property rights provide less than complete protection. We believe that no other company is currently producing a product similar to KH-30.

In addition to applying for patent protection on our KH-30 product, we have also registered "KH-30" as a trademark. Trademark protection has also been obtained for the "Uniproof" name for our proofing paper. We anticipate applying for both patent and trademark protection for our other products in those jurisdictions where we deem such protection to be beneficial.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2003

Revenues. Revenues for the three months ended June 30, 2004 were $268,637, a $360,104 or 57% decrease from revenues of $628,741 in the comparable three months of 2003. The decrease in revenues was primarily due to a $412,848 decrease of our Uniproof proofing paper due to lower level of orders from our primary customer. Specialty Chemicals, which includes sales of our KH-30 products and Green Globe/Qualchem military sales, increased by $52,744 to $197,938, or 36% compared to $145,194 in the comparable three months in the previous year. This increase was due primarily to an increase in sales of our KH-30 products partially offset by a decrease in Green Globe/Qualchem military sales.

Cost of Goods Sold. Cost of goods sold decreased $221,313 or 68% to $104,609 or 39% of sales, for the three months ended June 30, 2004 from $325,922 or 52% of sales, for the three months ended June 30, 2003. The decrease in cost of goods sold and lower percentage of sales was primarily due to an increase in specialty chemical sales, which have higher margins, which were partially offset by lower sales levels of Uniproof proofing paper.

Gross Profit. Gross profit for the three months ended June 30, 2004, decreased by $138,791 or 46% to $164,028 or 61% of sales compared with $302,819 or 48% of sales in the prior year. The decrease in gross profit reflects the lower level of sales of Uniproof paper. The increase in gross profit percentage reflects the higher volume of specialty chemical sales, which have better margins.

OPERATING COSTS AND EXPENSES

General and Administrative Expenses. General and administrative expenses decreased $5,288 or 0.8% to $668,316 or 249% of revenues for the three months ended June 30, 2004 compared with $673,604 or 107% of the revenues for the three months ended June 30, 2003. The decrease in general and administrative expenses is primarily related to lower salaries and benefits due to the departure of certain executives, lower travel and entertainment expenses partially offset by an increase in professional fees and marketing.

Depreciation, Amortization and Depletion. Depreciation, amortization and depletion decreased to $28,037 from $37,283 reflecting additions to fixed assets and capitalized legal costs related to patent filings, offset by the sale of oil leases.

Oil Well Operating and Maintenance Cost - net. During the three months ended June 30, 2003, the Company's wells produced oil which generated $21,204 in revenues and incurred operating costs and maintenance and repair costs of $79,199. In April 2004, we sold the oil well leases located in Laramie County, Wyoming for $15,000 and a 4.5% royalty on all future oil sales from these wells.

Interest Expense, Net of Interest Income. The Company had net interest expense of $63,694 for the three months ended June 30, 2004 compared with net interest income of $3,738 in the corresponding period in 2003. The decrease was primarily due to the payment and amortization of interest on the $1,750,000 convertible term note payable.

Net Loss. The three months ended June 30, 2004, resulted in a net loss of $(596,019) or $(0.03) per share as compared to a net loss of $(462,325) or $(0.02) per share for the three months ended June 30, 2003. The increase in the loss in the quarter ended June 30, 2004 was the result of a lower level of sales as a result of a decreased level of Uniproof paper sales, which was partially offset by higher specialty chemical sales and by higher gross profit margins. The average number of shares of common stock used in calculating earnings per share increased 36,264 shares to 22,216,534 as a result of the 75,000 issued for consulting services on May 17, 2004.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2004, the Company had $990,103 in cash and cash equivalents, as compared to $1,518,025 at March 31, 2004.

The $527,922 decrease in cash and cash equivalents was due to net cash used in operating activities of $534,656 and net cash provided by investing activities of $6,734. Cash provided by investing activities consisted of proceeds from the sale of the oil well leases of $15,000 and repayment of loans of $276, which was partially offset by $755 related to patent applications for KH-30 and the purchase of production equipment of $7,787.

As of June 30 2004, the Company's backlog included $265,499 of paper sales and $139,000 of chemical sales. Backlog represents products that the Company's customers have committed to purchase. The Company's backlog is subject to fluctuations and is not necessarily indicative of future sales.

During the past two fiscal years ended March 31, 2004 and 2003, the Company has recorded aggregate losses from operations of $5,398,098 and has incurred total negative cash flow from operations of $4,911,943 for the same two-year period. During the three months ended June 30, 2004, the Company experienced a net loss from operations of $596,019 and negative cash flow from operating activities of $534,656. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company's continued existence is dependent upon several factors, including increased sales volume, collection of existing receivables and the ability to achieve profitability from the sale of the Company's product lines. In order to increase our cash flow, the Company is continuing its efforts to stimulate sales and cut back expenses not directly supporting its sales and marketing efforts.

CONCENTRATION OF RISK

The Company sells its Uniproof proofing paper to three customers. One of these customers constitutes 98% of Graphic Arts sales and 26% of total customer sales for the three months period ended June 30, 2004. The loss of this customer would have adverse financial consequences to the Company. We have provided liberal credit terms to this customer and there is a risk that a certain amount of this receivable balance may prove to be uncollectible.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in our market risk sensitive instruments and positions are the potential losses arising from adverse changes in interest rates.

At March 31, 2004, the Company had a loan that had a variable interest rate. The loan, which had a face amount of $1,750,000 at June 30, 2004, was obtained in March 2004 and has a three-year term. The loan accrues interest at the greater of the prime rate of interest (as published in the Wall Street Journal) or 4% per annum. A one-percentage point increase in the prime rate of interest affecting our loan would increase our net loss by $17,500 over a year.

ITEM 3. CONTROLS AND PROCEDURES.

EVALUATION OF THE COMPANY'S DISCLOSURE CONTROLS

As of the end of the period covered by this report, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures ("disclosure controls"). This evaluation (the "controls evaluation") was done under the supervision and participation of the Company's management, including its chief executive officer (the "CEO") and interim chief financial officer (the "CFO"). Rules adopted by the Securities and Exchange Commission require that in this section of the report the Company present the conclusions of its CEO and CFO about the effectiveness of the Company's disclosure controls based on and as of the date of the controls evaluation.

CEO AND CFO CERTIFICATIONS

Appearing as exhibits 31.1 and 31.2 to this report are "Certifications" of the CEO and CFO. The certifications are required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). This section of this report contains information concerning the controls evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

DISCLOSURE CONTROLS

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed under the Securities Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including, without limitation, the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS

The Company's management, including, without limitation, the CEO and CFO, does not expect that the Company's disclosure controls will prevent all error and fraud. A control system no matter how well conceived and operated can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations of all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

SCOPE OF CONTROLS EVALUATION

The CEO/CFO evaluation of the Company's disclosure controls included a review of the controls' objective and design, the controls' implementation by the Company and the effect of the controls on the information generated for use in this report. In the course of the controls evaluation, management sought to identify data errors, controls problems or acts of fraud and to confirm that appropriate corrective action, including process movements, were being undertaken. This type of evaluation will be done on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in the Company's quarterly reports on Form 10-QSB and annual report on Form 10-KSB. The overall goals of these various review and evaluation activities are to monitor the Company's disclosure controls and to make modifications, as necessary. In this regard, the Company's intent is that the disclosure controls will be maintained as dynamic controls systems that change (including improvements and corrections) as conditions warrant.

CONCLUSIONS

Based upon the controls evaluation, the Company's CEO and CFO have concluded that, as of the end of the period covered by this report, the Company's disclosure controls are effective to provide reasonable assurance that information required to be disclosed in the Company's reports filed under the Securities Exchange Act such as this

report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal controls over financial reporting during the fiscal quarter ended June 30, 2004, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 7, Commitments and Contingencies to the Consolidated Financial Statements.

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable

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

Not Applicable

ITEM 5. OTHER INFORMATION.

Not Applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

31.1 Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350 Sec. 302.

31.2 Written Statement of the Interim Chief Financial Officer Pursuant to 18 U.S.C.ss.1350 Sec. 302.

32.1 Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350 Sec. 906.

32.2 Written Statement of the Interim Chief Financial Officer Pursuant to 18 U.S.C.ss.1350 Sec. 906.

(b) Reports on Form 8-K.

None

UNITED ENERGY CORP.
FORM 10-Q
JUNE 30, 2004

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: August 12, 2004

UNITED ENERGY CORP.

By: /s/ Ronald Wilen

Ronald Wilen,
Chief Executive Officer
(principal executive officer)

By: /s/ James McKeever

James McKeever
Interim Chief Financial Officer
(principal financial and
accounting officer)