UNITED ENERGY CORP /NV/
Form 10KSB
June 28, 2007

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

# FORM 10-KSB

(Mark one)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended March 31, 2007**

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

For the transition period from___________ to ___________

**Commission file number: 000-30841**

# UNITED ENERGY CORP.
(Name of small business issuer in its charter)

| | |
|---|---|
| **Nevada** | **22-3342379** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **600 Meadowlands Parkway, #20 Secaucus, New Jersey** | **07094** |
| (Address of principal executive offices) | (Zip Code) |

**(201)-842-0288**
(Issuer s telephone number, including area code)

Securities registered Under Section 12(b) of the Act

| Title of each class | Name of each exchange on which registered |
|---|---|
| **None** | **None** |

Securities registered Under Section 12(g) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|

| | |
|---|---|
| Common Stock, par value $.01 per share | Over-the-Counter (OTC) Bulletin Board |

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x

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

Check if there is no disclosure of delinquent filers in response to item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act. Yes o No x

The issuer s total consolidated revenues for the fiscal year ended March 31, 2007 were $811,893.

The aggregate market value of the common equity held by non-affiliates of the registrant was $12,136,590 as of June 19, 2007.

The number of shares outstanding of the registrant s common equity as of June 19, 2007 was 31,030,115 shares.

**UNITED ENERGY CORP.**

**2007 FORM 10-KSB ANNUAL REPORT**

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# PART I

## ITEM 1. DESCRIPTION OF BUSINESS

### 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.

We have developed a system referred to as our S2 system, to work with our environmentally friendly paraffin dispersants products. This 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. Our patent on the S2 system expired in January 2007; however, we have filed a patent application with respect to certain improvements, modifications and enhancements to the S2 system.

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 entered into a non-exclusive distribution agreement with Champion Technologies Inc. and a non-exclusive Master Purchase Agreement with Petrobras America Inc. for the sale and distribution of our K-Line of patented specialty chemical solutions. The agreements do not provide for any minimum amounts to be purchased. We are also currently negotiating potential working arrangements with several other companies, however, there can be no assurance that any of these arrangements entered into or, if entered into, (as well as the agreements with Champion Technologies and Petrobras America Inc.) will be successful.

We provide specialty chemical products to our customers and generated revenues of $811,893 for the fiscal year ended March 31, 2007 and $385,374 for the fiscal year ended March 31, 2006.

### Organizational History

We were originally incorporated in Nevada in 1971 as Aztec Silver Mining Co. We engaged in the manufacturing and distribution of printing equipment from 1995 through 1998. During that period, we began to develop specialty chemical products for use in the printing industry. In March 1998, we discontinued our printing equipment operations and changed our business focus to the development of specialty chemical products.

### Business Operations and Principal Products

Our principal products include our K-Line of Chemical Products for the oil industry and our Green Globe Chemical Products which consist of a variety of solvents, paint strippers and cleaners.

#### K-Line of Chemical Products

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 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, Russia, Venezuela, Argentina, Canada, China, the European Union, Hong Kong, Malaysia and Mexico. We have ten additional country patent applications pending in most of the major oil-producing countries around the world.

KX-100 is a patent pending formula where contact time is limited for removal of a plug of paraffin or asphaltene. It is fast acting and an effective dispersant that can be used in temperatures as low as 25F. It can be used in nearly any application.

SR-3 Scale and Rust Remover is a fast acting corrosion inhibited product developed to remove both calcium carbonate and calcium sulfate salt deposits. SR-3 is a broad spectrum, water soluble scale remover designed to rapidly alleviate hard and soft deposits and to restore full flow capacity. The product is also designed to remove rust while adding protection against further rusting by providing a phosphatized surface on ferrous metals.)

HPD-1 PLUS is specifically formulated to offer prompt and effective remediation of tough clogging problems with upper medium to high molecular weight paraffin. Performs multi-functional characteristics to impart wettability, penetration, dispersion, and an exceptional solvency for paraffin rich heavy sludge with the proper treatment dosage and application.

GSA Gun & Bore Cleaner is a patent pending formula which is a safer and more effective bore and chamber cleaner. It can be used on everything from small handguns to 16 guns. Currently, GSA Gun & Bore Cleaner is being marketed and distributed by TopDuck Products LLC under their trademark Gunzilla BC-10 .

**Green Globe Chemical Products**

Leak Detection Compound Type I and II is a gas leak detection compound that is compatible with oxygen. Is intended for use in detecting leaks in both high and low-pressure oxygen systems in aircraft and other related oxygen systems

Corrosion Inhibitor is an additive intended for use with anti-freeze in water at a concentration of 3% to retard corrosion.

Corrosion Removing Compound Type I, II and III are corrosion removing and metal conditioning compounds, which when diluted with water, will remove rust from ferrous metal surfaces.

Ethylene Glycol/Water Coolant is a mixture of Ethylene Glycol and distilled water to provide a coolant mixture for use in radar domes used by the Military.

Qualkleen 1000 Wipes is a state-of-the-art active Matrix Liquid Crystal Display (AMLCD) and instrument glass cleaner. Qualkleen 1000 was developed for the Military to replace hazardous products such as IPA, Acetone, and Methanol in the cleaning of the high efficiency anti-reflective coating on the AMLCD glass being used in the new high tech multi-function displays for aircraft instrumentation.

NPX Powder Coating is an effective reusable paint stripper. NPX is a powerful blend of chemicals which will out perform all other aluminum safe strippers in the powder coat industry. Safe method of stripping metals, including magnesium, zinc, high strength steel and titanium. Does not contain any methylene chloride, phenol, chromates or caustics.

Green Globe products are sold under the 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.

**Aqueous Coating**

We have developed a patent pending aqueous coating with excellent oil, grease and water repellency for hot/cold food packaging such as cups, plates, cartons, wrappers and corrugated boxes which is biodegradable, decomposable, and recyclable.

**Additional Technologies**

We have developed certain modifications, improvements and enhancements to the S2 system including an apparatus for introducing a vapor-containing stream into underground geological formations, pumps, conduits or tanks which represents an advance over previous techniques. The technique allows vapor-containing steam to bypass the well and be released to the atmosphere. We have filed a patent application with respect to the modifications, improvements and enhancements to the S2 system.

**Manufacturing and Sales**

All of the raw materials necessary for the manufacture of our products are generally available from multiple sources. Although we have negotiated favorable arrangements with some of our current suppliers, (which include Pride Solvents and Chemical Co. of NJ Inc., Hy-Test Packaging Corp, Air Products and Chemicals and Arista Industries Inc), we would have to repeat the process if one or more of our current suppliers were no longer to be able to supply these raw materials to us. We do not own any special manufacturing facilities. Our chemical products are generally manufactured by contract blenders at a number of different locations. This method of manufacturing has reduced the need for us to invest in facilities and to hire the employees to staff them. Chemical blenders are relatively easy to replace and are bound by confidentiality agreements, where appropriate, which obligate them not to disclose or use our proprietary information.

We are not responsible for any environmental expenditure with respect to the manufacturing of our products. First, the chemical products that we use are generally environmentally friendly products in that they are low in toxicity and rank high in biodegradability. Further, any environmental issues involved in manufacturing are the responsibility of the blending facilities, provided they receive adequate and accurate information from us as to the components of the chemicals involved, however, there can be no assurance that we will not be liable as we are subject to various foreign, federal, state and local law and regulations relating to the protection of the environment.

In the fiscal year ending March 31, 2007, Petrobras America Inc. purchased our KX-100 oil cleaning products, which accounted for approximately 45.7% of our total customer sales. In the fiscal year ended March 31, 2006, Howard Energy and Champion Technologies purchased our KH-30 and KX-100 oil cleaning products, which accounted for approximately 23.5% of our total customer sales.

Except for these current and former customers, no other single entity has accounted for more than 10% of our sales during any of the fiscal years ended March 31, 2007 and 2006.

All of our products are sold in U.S. dollars and, therefore, we have had no foreign currency fluctuation risk.

Our current operations do not require a substantial investment in inventory other than minimum commitments to our distributors. However, we anticipate that any growth in our business will require us to maintain higher levels of inventory.

As of March 31, 2007, the Company s backlog included $82,502 of specialty 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.

**Marketing and Distribution**

We have engaged the services of independent contractors to market our K-Line of Chemical Products. These contractors work under various non-exclusive commission and distribution agreements and have substantial contacts among oil well owners and major oil companies in the United States, Mexico, South America, Africa, Europe and the Middle East. These contractors earn a commission based upon the sales value of the products that they sell. These independent contractors use our marketing materials, brochures and website to interest clients and to describe the attributes of our products.

Although we have not achieved the volume of sales we had anticipated for the oil dispersant products, there have been significant barriers to entry in this market. Most of these potential customers require substantial testing of our product to prove its efficacy at cleaning wells, tanks and flow lines. In many cases, additional laboratory testing is required to prove that our chemical products are compatible with refinery systems and will not interfere with certain chemical processes and safety requirements of the potential clients. This process of testing has taken a great deal longer than was originally anticipated. We believe that we have made significant inroads and currently expect a higher volume of sales in the next fiscal year ending March 31, 2008, although there can be no assurance that sales will increase in fiscal 2008.

**Research and Development**

Our K-Line of Chemical Products for the oil industry and Uniproof proofing paper are developed and ready for market. All of these products are the result of research and development expenditures paid in the amounts of $232,517 and $193,032 for the fiscal years ended March 31, 2007 and 2006 respectively. We have had available the services of one research chemist and one analytical chemist, as well as one petroleum engineer, to lead in the development of our products. A significant amount of market adaptation has taken place in the field involving the development of application procedures for products. We do not anticipate having to make significant research and development expenditures on existing products in the future. However, we do expect to continue to develop new products to complement our existing product lines.

**Competition**

We compete directly or indirectly with other producers of specialty chemical products with similar uses, most of which are more established companies and have greater resources than we have. Generally, we attempt to compete by offering what we hope to be lower prices and better service. However, our KH-30, KX-100, KX-91 and KH-30S products for the oil industry are often more expensive, and with these products we attempt to compete by emphasizing product effectiveness and environmental safety.

**Proprietary Technologies**

With respect to our formulations, which are proprietary, we have patented our KH-30 oil well cleaner in the United States, Russia, Venezuela, Argentina, Canada, China, the European Union, Hong Kong, Malaysia and Mexico. We have ten additional country patent applications pending in most of the major oil-producing countries around the world. We also have patents pending with respect to our Aqueous Coating, GSA Gun & Bore Cleaner, and KX-100 products as well as with respect to certain improvements, modifications and enhancements to our S2 system.

We believe our KH-30 patent and our patent applications with respect to Aqueous Coating, GSA Gun & Bore Cleaner, KX-100 and certain improvements, modifications and enhancements to our S2 System are 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 or our other products that we have applied for patent protection.

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.

**Employees**

As of March 31, 2007 we employed thirteen people on a full-time basis and had available the services of four other individuals under consulting or product/production cooperation arrangements. The latter arrangement is meant to include a situation where a chemist, engineer or significant marketing person is engaged by an organization under contract with us to manufacture or market one or more of our products.

None of our employees are represented by a union. We consider our relations with our employees to be good.

**Available Information**

We file annual, quarterly and current reports, information statements and other information with the Securities and Exchange Commission (the SEC ). The public may read and copy any materials we file with the

SEC at the SEC s Public Reference Room at Station Place, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

**Subsequent Events.**

On May 17, 2007, we entered into an amended and restated non-exclusive distribution agreement with Champion Technologies Inc. for the sale and distribution of our K-Line of patented specialty chemical solutions. The agreement is for a term of three (3) years and grants Champion Technologies Inc. certain rights to blend, dilute and utilize our products to manufacture and sell different products. The agreement amends the former agreement with Champion Technologies Inc. dated March 6, 2006.

**ITEM 2. DESCRIPTION OF PROPERTY**

We lease 9,600 square feet of office space at 600 Meadowlands Parkway, #20, Secaucus, New Jersey 07094. Under the terms of the lease, which runs through June 2007, the monthly rent is $9,600. In addition, we leased office space of approximately 1,350 square feet in Midland, Texas as a regional sales office at a rate of $759 per month. This lease ran through September 2005 and has not been renewed.

We use independent non-affiliated contract chemical blending and manufacturing facilities in various locations around the United States for the manufacture of our products. We contract the production of our products to independent manufacturers and blenders and our products are therefore produced at the manufacturing facilities of those entities. We do not own any manufacturing facilities.

**ITEM 3. LEGAL PROCEEDINGS**

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 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.

In March 2007, we commenced an action against Applied Force and Samuel Miller III in the Superior Court of New Jersey, Law Division - Bergen County for the recovery of two of our vehicles and certain additional claims. The defendants, Applied Force and Samuel Miller III, have filed a counterclaim for recovery of alleged storage fees in the amount of $126,784 and certain alleged service fees in the amount of $1,275. The action is currently in the discovery process. No trial date has yet been scheduled. We believe that we have meritorious claims and defenses to the counterclaims. We intend to vigorously pursue our claims and defend the counterclaims. The outcome of this matter cannot be determined at this time.

No other legal proceedings are currently pending or threatened against us.

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

No matters were submitted to a vote of security holders during the fourth quarter of our fiscal year ended March 31, 2007.

## PART II

### ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As of June 19, 2007, there were approximately 463 record holders of our common stock and there were 31,030,115 shares of our common stock outstanding. We have not previously declared or paid any dividends on our common stock and do not anticipate declaring any dividends in the foreseeable future.

The following table shows the high and low bid prices of our common stock as quoted on the OTC Bulletin Board by quarter during each of our last two fiscal years ended March 31, 2007 and 2006 and for each quarter after March 31, 2007. These quotes reflect inter-dealer prices, without retail markup, markdown or commissions and may not represent actual transactions. The information below was obtained from those organizations, for the respective periods.

| Fiscal Year ended March 31 | Quarter | High | Low |
|---|---|---|---|
| 2006 | First Quarter (April-June 2005) | $ 1.81 | $ 1.06 |
| | Second Quarter (July-September 2005) | 2.85 | 1.33 |
| | Third Quarter (October-December 2005) | 2.70 | 1.47 |
| | Fourth Quarter (January-March 2006) | 2.20 | 1.41 |
| 2007 | First Quarter (April-June 2006) | $ 2.08 | $ 1.27 |
| | Second Quarter (July-September 2006) | 1.40 | .64 |
| | Third Quarter (October-December 2006) | 1.02 | .53 |
| | Fourth Quarter (January-March 2007) | .77 | .39 |
| 2008 | First Quarter (through June 19) | $ .77 | $ .42 |

The high and low bid prices for shares of our common stock on June 19, 2007 were $.55 and $.54 per share, respectively, based upon bids that represent prices quoted by broker-dealers on the OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

**Dividend Policy**

While there are no restrictions on the payment of dividends, we have not declared or paid any cash or other dividends on shares of our common stock in the last two years, and we presently have no intention of paying any cash dividends in the foreseeable future. Our current policy is to retain earnings, if any, to finance the expansion of our business. The future payment of dividends will depend on the results of operations, financial condition, capital expenditure plans and other factors that we deem relevant and will be at the sole discretion of our board of directors.

**Equity Compensation Plan Information**

The following table provides information regarding the status of our existing equity compensation plans at March 31, 2007.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding option, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the second column) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 3,502,500 | $ 1.17 | 185,000 |
| Equity compensation plans not approved by security holders | 4,375,000 | $ 1.88 | |
| Total | 7,877,500 | | 185,000 |

**ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

You should read the following description of our financial condition and results of operations in conjunction with the financial statements and accompanying notes included in this Annual Report beginning on page F-1.

**Overview**

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

o 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.

We have developed a system referred to as our S2 system, to work with our environmentally friendly paraffin dispersants products. This 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. Our patent on the S2 system expired in January 2007; however, we have filed a patent application with respect to certain improvements, modifications and enhancements to the S2 System.

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 entered into a non-exclusive distribution agreement with Champion Technologies Inc. and a non-exclusive Master Purchase Agreement with Petrobras America Inc. for the sale and distribution of our K-Line of Chemical Products. The agreements do not provide for any minimum amounts to be purchased. We are also currently negotiating potential working arrangements with several other companies however, there can be no assurance that any of these arrangements entered into or, if entered into, (as well as the agreements with Champion Technologies and Petrobras America Inc.) will be successful.

We provide our K-Line of Chemical Products to our customers and generated revenues of $811,893 for the fiscal year ended March 31, 2007 and $385,374 for the fiscal year ended March 31, 2006.

**Critical Accounting Policies and Estimates**

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

On an ongoing basis, we evaluate our estimates, including those related to product returns, bad debts, inventories, valuation of options and warrants, intangible assets, long-lived assets and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

**Revenue Recognition**

Our primary source of revenue is from sales of our products. We recognize revenue upon shipment and transfer of title.

**Allowance for Doubtful Accounts**

We monitor our accounts and note receivable balances on a monthly basis to ensure they are collectible. On a quarterly basis, we use our historical experience to determine our accounts receivable reserve. Our allowance for doubtful accounts is an estimate based on specifically identified accounts, as well as general reserves. We evaluate specific accounts where we have information that the customer may have an inability to meet its financial obligations. In these cases, management uses its judgment, based upon the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are re-evaluated and adjusted as additional information is received that impacts the amount reserved. We also establish a general reserve for all customers based upon a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change, our estimate of the recoverability of amounts due to us could be reduced or increased by a significant amount. A change in estimated recoverability would be accounted for in the period in which the facts that give rise to the change become known.

**Discontinued Operations**

During the fiscal year ended March 31, 2007, the Company discontinued the sale of its Uniproof proofing paper. Certain amounts in the accompanying March 31, 2006 consolidated financial statements have been reclassified to conform to the current classification of the graphic arts segment.

**Results of Discontinued Operations**

The financial position and results of these operations are presented as assets and liabilities of discontinued operations in the consolidated balance sheets and discontinued operations in the consolidated statement of operations, for all periods presented in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), *Accounting for the impairment or disposal of Long-Lived Assets.*

*Sales.* Sales decreased to $1,310 for the year ended March 31, 2007 from $106,861 for the year ended March 31, 2006. The $105,551 or 99% decrease in sales was due to no orders received from our primary customer, because the use of proofing paper is being phased out due to the paper industry switching to a digital technology.

*Cost of Goods Sold.* Cost of goods sold decreased to $1,058 or 81% of sales, for the year ended March 31, 2007 from $61,900, or 58% of sales, for the year ended March 31, 2006. The decrease in cost of goods sold was due to no orders received from our primary customer, because the use of proofing paper is being phased out due to the paper industry switching to a digital technology.

*Gross Profit.* Gross profit decreased to $252 or 19% of sales, for the year ended March 31, 2007 from $44,961, or 42% of sales, for the year ended March 31, 2006. The decrease was due to no orders received from our primary customer, because the use of proofing paper is being phased out due to the paper industry switching to a digital technology.

**Results of Operations**

**Comparison of Fiscal Year Ended March 31, 2007 to Fiscal Year Ended March 31, 2006**

*Sales.* Sales increased to $811,893 for the year ended March 31, 2007 from $385,374 for the year ended March 31, 2006. The $426,519 or 111%, increase was due to higher levels of Specialty Chemicals, which include KH-30 and KX-100, and our Green Globe / Qualchem product line. The increase was primarily related to a 135% increase in sales of our K-Line of oil field dispersant products reflecting a higher level of orders and a 32% increase in the level of U.S. Military sales during the year. Our three largest customers accounted for 64% of revenues for the year ended March 31, 2007 compared with 42% for the comparable period in 2006.

*Cost of Goods Sold.* Cost of goods sold increased to $363,208 or 45% of sales, for the year ended March 31, 2007 from $239,742, or 62% of sales, for the year ended March 31, 2006. The increase in cost of goods sold was due to the increased sales of K-Line of Chemical Products compared to the prior year. The decrease in cost of goods sold as a percentage of sales is due to an increase in the level of sales of our K-Line of Chemical Products during the year which have a higher gross profit percentage.

*Gross Profit.* Gross profit increased to $448,685 or 55% of sales, for the year ended March 31, 2007 from $145,632, or 38% of sales, for the year ended March 31, 2006. The increase in gross profit was due to an increase in sales of our K-Line of Chemical Products.

*Selling, General and Administrative Expenses. Selling, g*eneral and administrative expenses decreased to $2,811,970 or 346% of sales, for the year ended March 31, 2007 from $3,584,653, or 930% of sales, for the year ended March 31, 2006. The decrease in selling, general and administrative expenses are primarily related to a decrease in salaries due to the exercise of options in the prior year offset partially by an increase in payroll and the recording of stock-based compensation costs, a decrease in professional fees, lower marketing expenses, and lower travel and entertainment expenses, partially offset by an increase in bad debts.

*Depreciation, Amortization and Depletion*. Depreciation, amortization and depletion increased to $76,434 for the year ended March 31, 2007 from $70,061 for the year ended March 31, 2006 reflecting a slight increase in fixed assets purchases.

*Interest Income*. Interest income increased to $169,653 for the year ended March 31, 2007 from $15,510 for the year ended March 31, 2006. The increase was due to the increased cash level in connection with the private placement completed in March 2006.

*Interest Expense.* Interest expense decreased to $2,725 for the year ended March 31, 2007 compared with $577,589 for the year ended March 31, 2006. The decrease was due to the convertible term note being converted into shares of common stock in August 2005.

*Net Loss.* For the year ended March 31, 2007, we incurred a net loss of $2,272,539, or $0.07 per share, as compared to a net loss of $4,026,200 for the year ended March 31, 2006, or $0.16 per share. The average number of shares of common stock used in calculating earnings per share increased 5,698,590 shares to 31,029,327 from 25,330,737 shares as a result of 2,000,000 shares issued for the conversion of the note payable, 312,500 shares issued in connection with the exercise of stock options and 5,450,000 shares issued in connection with the private placement.

**Liquidity and Capital Resources**

Since 1995, operations have been financed primarily through loans, equity contributions from directors and executive officers and from third parties supplemented by funds generated by our business. As of March 31, 2007, we had $2,863,906 in cash and cash equivalents.

*Net Cash Used in Continuing Operations.* During the fiscal year ended March 31, 2007, net cash used in continuing operations was $2,111,438 compared with $1,727,244 for the fiscal year ended March 31, 2006.

*Net Cash Used in Investing Activities*. During the fiscal year ended March 31, 2007, net cash used in investing activities decreased to $54,594 compared with $108,407 for the year ended March 31, 2006. The decrease was primarily a result of a decreased level of expenditures for the purchase of fixed assets to support operations and capitalized legal fees required to file patent applications for our KH-30, KX-91 and S2 system.

*Net Cash (Used in) Provided by Financing Activities.* During the fiscal year ended March 31, 2007, net cash used in financing activities of $187,651 resulting from the payment of related party loans of $200,000 and preferred stock dividends of $1,526, which was partially offset by the proceeds from the exercise of stock options of $13,875. This compares to cash provided financing activities of $6,457,577 for the year ended March 31, 2006 resulting from $6,060,000 of proceeds from the issuance of common stock, proceeds from related parties of $200,000, proceeds from the issuance of preferred stock of $24,000, proceeds from the exercise of stock options of $345,000, and the receipt of stock subscription receivable of $13,333, which was partially offset by the payment of a related party payable of $133,600 and the payment of private placement costs of $51,156.

The Company currently anticipates that its available cash in hand and cash resources from expected revenues will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months.

Our continued existence is dependent upon several factors, including increased sales volumes, collection of existing receivables and the ability to achieve profitability from the sale 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.

**Concentration of Credit Risk**

Sales to one of our customers, Petrobras America Inc. accounted for approximately 46% and 0% of our sales for the fiscal years ending March 31, 2007 and 2006.

**Contractual Obligations**

Below is a table which presents our contractual obligation commitments at March 31, 2007:

| **Contractual Obligation** | **Total** | **Less than 1 Year** | **1-3 Years** | **3-5 Years** | **After 5 Years** |
|---|---|---|---|---|---|
| Short-term debt Obligations(1) | $ 244,141 | $ 244,141 | $ | $ | $ |
| Operating leases | 420,071 | 130,427 | 258,444 | 31,200 | |
| Total contractual cash obligations | $ 664,212 | $ 374,568 | $ 258,444 | $ 31,200 | $ |

(1) Short-term debt obligations include an amount due to Robert Seaman, a shareholder and former director of the Company. The amount due as of March 31, 2006 and 2005 is $244,141. This amount is unsecured, non-interest bearing and due upon demand. The Chairman of the Board and Secretary, Ron Wilen and the President and Chief Executive Officer, Brian King, each loaned the Company $100,000. The loans were both unsecured, non-interest bearing and due upon demand. Each of these loans was repaid in full in April, 2006.

**Reporting by Segments**

We are a specialty chemicals company because of our determination in fiscal 1998 to close our printing equipment division and focus on our K-Line of chemical and Green Globe products. However, in the past a portion of our revenues has been related to the printing and the graphic arts industry and we have reported each as two segments through fiscal year ended March 31, 2006. During the current fiscal year, the Company classified the graphic arts segment as discontinued operations.

We devote almost all of our time and effort into selling, promoting and developing our K-Line of chemical products and we are continuing to increase our marketing efforts to develop new products as extensions of our original KH-30 product. We believe that in the future our sales will increase.

**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.

**Inflation**

We do not believe that inflation in the cost of our raw materials has had in the past or will have in the future any significant negative impact on our operations. However, no assurance can be given that we will be able to offset such inflationary cost increases in the future.

**Recently Issued Accounting Standards**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Measurements ( SFAS 157 ), which clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants. Further, the standard establishes a framework for measuring fair value in generally accepted accounting principles and expands certain disclosures about fair value investments. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year misstatements when Quantifying Misstatements in Current Year Financial Statements ( SAB 108 ). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year s financial statements are materially misstated. SAB 108 is effective for fiscal years ending November 16, 2006. The Company has determined that the provisions of SAB 108 do not have a material impact on its consolidated financial position, results of operations and cash flows.

**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 rate and foreign currency exchange rates.

**Foreign Currency Exchange Rates**

Although our business is international in scope, to date our product sales have been all U.S. dollar-denominated. As we expand, we may be affected by exchange rate fluctuations in foreign currencies relative to the U.S. dollar. We do not currently use derivative financial instruments to hedge our exposure to changes in foreign currency exchange rates.

**SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS**

This Annual Report contains forward-looking statements. These forward-looking statements are based largely on our expectations and are subject to a number of risks and uncertainties, many of which are beyond our control. Actual results could differ materially from these forward-looking statements as a result of, among other factors, risks related to the large amount of our outstanding term loan; history of net losses and accumulated deficits; reliance on third parties to market, sell and distribute our products; future capital requirements; competition and technical advances; dependence on the oil services market for pipe and well cleaners; ability to protect our patents and proprietary rights; reliance on a small number of customers for a significant percentage of our revenues; and other risks. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this Annual Report will in fact occur.

**RISK FACTORS**

An investment in our common stock involves a high degree of risk. You should carefully consider the following material risks, before you decide to buy our common stock. If any of the following risks actually occur, our business, results of operations and financial condition would likely suffer. In these circumstances, the market price of our common stock could decline and you may lose all or part of your investment.

*WE HAD A CURRENT ACCUMULATED DEFICIT OF $18,698,233 AS OF MARCH 31, 2007 AND IF WE CONTINUE TO INCUR OPERATING LOSSES, WE MAY BE UNABLE TO SUPPORT OUR BUSINESS PLAN, WHICH WILL HAVE A DETRIMENTAL EFFECT ON OUR STOCK.*

We have incurred losses in each of our last three fiscal years. As of March 31, 2007, we had an accumulated deficit of $18,698,233. If we continue to incur operating losses and fail to become a profitable company, we may be unable to support our business plan, namely to market our Specialty Chemical Products for the oil and gas industry including our K-Line, and the Green Globe Chemical Products. We incurred net losses of $2,272,539 and $4,026,200 in the fiscal years ended March 31, 2007 and 2006, respectively. Our future profitability depends in large part on our ability to market and support our Specialty Chemical Products which we derive the majority of our revenues. We cannot assure you that we will achieve or sustain significant sales or profitability in the future. This would have a detrimental effect on the long-term capital appreciation of our stock.

*THERE ARE SIGNIFICANT OBSTACLES TO ENTERING THE OIL AND GAS PRODUCING INDUSTRY THAT HAVE CONTRIBUTED TO THE SLOW PACE AT WHICH OUR KH-30 PRODUCTS ARE BEING INTRODUCED TO THE MARKET.*

Our business plan is focused largely on marketing efforts for Specialty Chemical Products for the oil and gas industry including our K-Line of chemical products. Although we believe that the application of our Specialty Chemical Products for the oil and gas industry on a continuous basis will result in higher production and lower power lease operating costs, the introduction of our K-Line of chemical products included within our Specialty Chemical Products into the oil and gas producing industry has been extremely difficult. Many entrenched players such as the hot oilers and the major oil service companies that benefit from high markups on their proprietary products have no incentive to promote the use of our chemical products. Moreover, oil production engineers are extremely reluctant to risk damage to a well from a product that does not have the endorsement of a major enterprise. Consequently, the pace of introduction of our Specialty Chemical Products including our K-Line of has been much slower than we initially anticipated. If we and our Specialty Chemical Products marketing partners are unable to successfully achieve market acceptance our products, our future results of operations and financial condition will be adversely affected.

*BECAUSE WE HAVE DISCONTINUED UNIPROOF, WE MAY NOT BE ABLE TO GENERATE SUBSTANTIAL REVENUES OR ACHIEVE PROFITABILITY.*

Our sales to date have been substantially dependent on sales of our Uniproof proofing paper. Sales of Uniproof accounted for approximately 0.0% and 21.5% of revenues for the fiscal years ended March 31, 2007 and 2006, respectively. The decline in the level of proofing paper sales is due to the paper industry switching to a digital technology. We don t expect future sales of this product, and have discontinued these operations. If we fail to develop significant revenue from other products in its stead, our business plan and financial condition will be severely affected.

*THE SUCCESS OF OUR SPECIALTY CHEMICAL PRODUCTS WILL BE HIGHLY DEPENDENT UPON THE LEVEL OF ACTIVITY AND EXPENDITURES IN THE OIL AND NATURAL GAS INDUSTRIES AND A DECREASE IN THE LEVELS THEREOF WOULD, IN ALL LIKELIHOOD, ADVERSELY IMPACT SALES OF OUR SPECIALTY CHEMICAL PRODUCTS INCLUDING OUR K-LINE.*

We anticipate that demand for our oil and gas cleaning product will depend on the levels of activity and expenditures in the industry, which are directly affected by trends in oil and natural gas prices. We anticipate that demand for our K-Line of chemical sales will be particularly sensitive to the level of development, production and exploration activity of, and corresponding capital spending by, oil and natural gas companies. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty, political stability and a variety of other factors that are beyond our control. Any prolonged reduction in oil and natural gas prices will depress the level of exploration, and development and production activity. Lower levels of activity are expected to result in a corresponding decline in the demand for our oil and gas well products, which could have an adverse impact on our prospects, results of operations and financial condition. Factors affecting the prices of oil and natural gas include:

- worldwide political, military and economic conditions, including the ability of OPEC (the Organization of Petroleum Exporting Countries) to set and maintain production levels and prices for oil and gas;
- overall levels of global economic growth and activity;
- global weather conditions;
- the level of production by non-OPEC countries;
- the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves; and
- actual and perceived changes in the supply of and demand for oil and natural gas.

*WE MAY NOT BE ABLE TO GENERATE SUBSTANTIAL REVENUES FROM OUR GREEN GLOBE CHEMICAL PRODUCTS.*

Our sales to date have been substantially dependent on sales of specialty chemical products including our K-Line of chemical products. Sales of Green Globe chemical products accounted for approximately 15% of revenues for the fiscal year ended March 31, 2007. The U.S. military represented approximately 60% of such revenues from the sales of our Green Globe Chemical Products for the fiscal year ended March 31, 2007. If we fail to develop significant revenue from Green Globe Chemical Products or the U.S. military ceases or decreases its use of our Green Globe Chemical Products, our business plan and financial condition will be affected.

*IF OUR STRATEGIC PARTNERS DO NOT EFFECTIVELY MARKET OUR PRODUCTS, WE WILL NOT GENERATE SIGNIFICANT SALES OR PROFITS AND WE DO NOT CURRENTLY HAVE THE INTERNAL RESOURCES TO MARKET OUR PRODUCTS DIRECTLY.*

We utilize third parties to assist in marketing, selling and distributing our products. We believe that the establishment of a network of third party strategic partners, particularly abroad, with extensive and specific knowledge of the various applications in the oil and gas industry and printing market is important for us to succeed in these sectors. We cannot assure you that our current or future strategic partners will purchase our products at sufficient levels or provide us with adequate support. If one or more of our partners underperforms or if any of our strategic relationships are terminated or otherwise disrupted, our operating performance, results of operations and financial condition will be adversely affected.

*WE DEPEND ON A SMALL NUMBER OF CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR REVENUES, BUT WE HAVE NO LONG TERM CONTRACTS OR BINDING PURCHASE COMMITMENTS FROM THESE CUSTOMERS.*

We currently have a limited number of recurring customers for our products, none of whom have entered into long-term contracts or binding purchase commitments with us. A portion of our revenue was earned in connection with sales of Uniproof proofing papers to the Alameda Company of Anaheim, California. During the fiscal years ended March 31, 2007 and 2006, sales attributable to Alameda represented approximately 0.0% and 21.5%, respectively, of our total revenues. As a direct result of digital technological advances utilized by the paper industry, chiefly digital technology we don t expect any future revenues from Alameda. Our three largest customers accounted for 64% and 42% of our revenues for the fiscal years ended March 31, 2007 and 2006, respectively.

*WE RELY ON THIRD PARTIES FOR THE RAW MATERIALS NECESSARY TO MAKE OUR PRODUCTS, LEAVING US POTENTIALLY VULNERABLE TO SUBSTANTIAL COST INCREASES AND DELAYS.*

All of the raw materials necessary for the manufacture of our products are generally available from multiple sources, although we have negotiated favorable arrangements with our current suppliers. If one or more of our current suppliers were no longer able to supply the raw materials that we need, we would be required to negotiate arrangements with alternate suppliers, which would likely include some cost or delay and could be substantial. In addition, no assurance can be given that any alternative arrangements that we secure would be on terms as favorable as our current arrangements.

*WE DEPEND ON INDEPENDENT MANUFACTURERS OF OUR PRODUCTS; ANY PROLONGED INTERRUPTION IN THEIR BUSINESS COULD CAUSE US TO LOSE OUR CUSTOMERS.*

We do not own any manufacturing facilities. Our chemical products are generally manufactured by contract blenders at a number of different facilities. Chemical blenders are relatively easy to replace. While we believe these facilities have the capacity to meet our current production needs and also meet applicable environmental regulations, we cannot be certain that these facilities will continue to meet our needs or continue to comply with environmental laws. In addition, these facilities are subject to certain risks of damage, including fire, which would disrupt production of our products. To the extent we are forced to find alternate facilities, it would likely involve delays in manufacturing and potentially significant costs.

The chemical blender and independent coater that manufactures our products are bound by confidentiality agreements that obligate them not to disclose or use our proprietary information. A breach of one or more of these agreements could have a detrimental effect on our business and prospects.

*ENVIRONMENTAL PROBLEMS AND LIABILITIES COULD ARISE AND BE COSTLY FOR US TO CLEAN UP.*

We are subject to various foreign, federal, state and local laws and regulations relating to the protection of the environment, including the Industrial Site Recovery Act, a New Jersey statute requiring clearance by the state prior to the sale of any industrial facility. These laws provide for retroactive strict liability for damages to natural resources or threats to public health and safety, rendering a party liable without regard to its negligence or fault. Sanctions for noncompliance may include revocation of permits, corrective action orders, and administrative or civil penalties or even criminal prosecution. We have not, to date, incurred any serious liabilities under environmental regulations and believe that we are in substantial compliance therewith. Nevertheless, we cannot be certain that we will not encounter environmental problems or incur environmental liabilities in the future that could adversely affect our business.

*BECAUSE WE ARE SMALLER AND HAVE FEWER FINANCIAL AND MARKETING RESOURCES THAN MANY OF OUR COMPETITORS, WE MAY NOT BE ABLE TO SUCCESSFULLY COMPETE IN THE EXTREMELY COMPETITIVE CHEMICAL INDUSTRIES.*

We compete directly or indirectly with other producers of specialty chemical products, most of which are or have aligned themselves with more established companies, have greater brand recognition and greater financial and marketing resources. Generally, we attempt to compete by offering what we hope to be lower prices and better service. However, the prices for our Specialty Chemical Products including our K-Line and Green Globe Chemical

Products are higher than competing products; therefore, we attempt to compete by emphasizing product effectiveness and environmental safety.

We also believe that our efforts to patent the KH-30, oil well cleaner, included within our Specialty Chemical Products in the principal oil producing countries worldwide will improve our competitive position in this market. However, we are aware that other companies may try to imitate our products or invalidate our patents. In the past we have vigorously enforced our trade secrets and other intellectual property, and intend to continue to do so in the future. We recognize that we may incur significant costs to defend our intellectual property and that intellectual property rights provide less than complete protection.

*WE MAY NOT BE ABLE TO RETAIN OUR EXECUTIVE OFFICERS WHO WE NEED TO SUCCEED, AND ADDITIONAL QUALIFIED PERSONNEL ARE EXTREMELY DIFFICULT TO ATTRACT.*

Our performance depends, to a significant extent, upon the efforts and abilities of our executive officers. We do not have employment agreements with certain of our executive officers and do not maintain any key man insurance on their lives for our benefit. The loss of the services of our executive officers could have a serious and adverse effect on our business, financial condition and results of operations. Our success will also depend upon our ability to recruit and retain additional qualified senior management personnel. Competition is intense for highly skilled personnel in our industry and, accordingly, no assurance can be given that we will be able to hire or retain sufficient personnel.

*OUR MANAGEMENT OWNS A SUBSTANTIAL AMOUNT OF OUR STOCK AND IS CAPABLE OF INFLUENCING OUR BUSINESS AND AFFAIRS.*

Our directors and executive officers beneficially own approximately 34.7% of our outstanding common stock. As such, they will be able to significantly influence the election of the members of our board of directors and the outcome of corporate actions that require shareholder approval, such as mergers and acquisitions. This level of ownership, together with particular provisions of our articles of incorporation, bylaws and Nevada law, may have a significant effect in delaying, deferring or preventing any change in control and may adversely affect the voting and other rights of our other shareholders.

*IF WE CANNOT PROTECT OUR PROPRIETARY RIGHTS AND TRADE SECRETS OR IF WE WERE FOUND TO BE INFRINGING ON THE PROPRIETARY RIGHTS OF OTHERS, OUR BUSINESS WOULD BE SUBSTANTIALLY HARMED.*

Our success depends in large part on our ability to protect the proprietary nature of our products, preserve our trade secrets and operate without infringing the proprietary rights of third parties. If other companies obtain and copy our technology or claim that we are making unauthorized use of their proprietary technology, we may become involved in lengthy and costly disputes. If we are found to be infringing on the proprietary rights of others, we could be required to seek licenses to use the necessary technology. We cannot assure you that we could obtain these licenses on acceptable terms, if at all. In addition, the laws of some foreign countries may not provide adequate protection for our proprietary technology.

To protect our intellectual property, we seek patents and enter into confidentiality agreements with our employees, manufacturers and marketing and distribution partners. We cannot assure you that our patent applications will result in the successful issuance of patents or that any issued patents will provide significant protection for our technology and products. In addition, we cannot assure you that other companies will not independently develop competing technologies that are not covered by our patents. There is also no assurance that confidentiality agreements will provide adequate protection of our trade secrets, know-how or other proprietary information. Any unauthorized disclosure and use of our proprietary technology, whether in breach of an agreement or not, could have an adverse effect on our business, prospects, results of operations and financial condition.

*THE PUBLIC MARKET FOR OUR COMMON STOCK HAS BEEN CHARACTERIZED BY A LOW VOLUME OF TRADING AND OUR STOCKHOLDERS MAY NOT BE ABLE TO RESELL THEIR SHARES AT OR ABOVE THE PRICE AT WHICH THEY PURCHASED THEIR SHARES, IF AT ALL.*

Historically, the volume of trading in our common stock has been low. A more active public market for our common stock may not develop or, even if it does in fact develop, may not be sustainable. The market price of our common stock may fluctuate significantly in response to factors, some of which are beyond our control. These factors include:

product liability claims and other litigation;

the announcement of new products or product enhancements by us or our competitors;

developments concerning intellectual property rights and regulatory approvals;

quarterly variations in our competitors results of operations;

developments in our industry; and

general market conditions and other factors, including factors unrelated to our own operating performance.

Recently, the stock market in general has experienced extreme price and volume fluctuations. In particular, market prices of securities of specialty chemical products companies have experienced fluctuations that are often unrelated to or disproportionate from the operating results of these companies. Continued market fluctuations could result in extreme volatility in the price of shares of our common stock, which could cause a decline in the value of our shares. Price volatility may be worse if the trading volume of our common stock is low.

*OUR COMMON STOCK IS CONSIDERED A PENNY STOCK AND MAY BE DIFFICULT TO SELL WHEN DESIRED.*

The SEC has adopted regulations that define a penny stock , generally, to be an equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to specific exemptions. The market price of our common stock has been less than $5.00 per share. This designation requires any broker or dealer selling our securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of stockholders to sell their shares. In addition, since our common stock is currently quoted on the OTC Bulletin Board, stockholders may find it difficult to obtain accurate quotations of our common stock, may experience a lack of buyers to purchase our shares or a lack of market makers to support the stock price.

*A SIGNIFICANT NUMBER OF OUR SHARES ARE ELIGIBLE FOR SALE AND THEIR SALE OR POTENTIAL SALE WILL PROBABLY DEPRESS THE MARKET PRICE OF OUR STOCK.*

Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock. As additional shares become available for resale in the public market pursuant to this registration statement, the supply of our common stock will increase, which could decrease its price. Some or all of the shares of our common stock may also be offered from time to time in the open market without registration pursuant to Rule 144, and these sales could have a depressive effect on the market for our common stock. In general, a person who has held restricted shares for a period of one year may, upon the filing of a notification on Form 144 with the SEC, sell common stock in an amount equal to the greater of 1% of the outstanding shares or the average weekly number of shares sold in the prior one week period. These sales may be repeated once during each 3 month period. In addition, any person that is not an affiliate of ours may sell all of his, hers or its restricted shares after the shares have been held for 2 years or more pursuant to Rule 144(k).

*WE DO NOT ANTICIPATE PAYING DIVIDENDS ON OUR COMMON STOCK IN THE FORESEEABLE FUTURE; THEREFORE, YOU SHOULD NOT BUY THIS STOCK IF YOU WISH TO RECEIVE CASH DIVIDENDS.*

We currently intend to retain our future earnings in order to support operations and finance expansion; therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

**ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The response to this item is submitted as a separate section of this Report beginning on page F-1.

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 8A. CONTROLS AND PROCEDURES**

**Evaluation of the Company s Disclosure Controls**

Within 90 days prior to the date of this report, 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 pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended. 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.

Management has not identified any change in our internal control over financial reporting that occurred during the fourth quarter of the fiscal year ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

**8B. OTHER INFORMATION**

None

## PART III

### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The following table shows the positions held by our board of directors and executive officers and their ages as of June 19, 2007.

| Name | Age | Position |
|---|---|---|
| Ronald Wilen | 68 | Chairman of the Board, Secretary and Director |
| Brian King | 54 | President and Chief Executive Officer |
| James McKeever, CPA | 41 | Interim Chief Financial Officer |
| Louis Bernstein | 57 | Director |
| Andrea Pampanini | 67 | Director |
| Martin Rappaport | 70 | Director |

The principal occupations for the past five years (and, in some instances, for prior years) of each of our executive officers and directors are as follows:

**Ronald Wilen.** Mr. Wilen has served as a member of our board since October 1995 and Secretary since May 2006. Mr. Wilen served as our Chief Executive Officer from October 1995 to September 2004, our President from October 1995 to August 2001 and has been our Chairman of the Board since August 2001.

**Brian King.** Mr. King was appointed as the company s President and Chief Executive Officer in September 2004. Prior to joining United Energy he was employed by Concord Camera Corp., a publicly traded company, from 1996 through 2004. During his tenure with Concord, Mr. King held several senior level officer positions including Chief Operating Officer and Senior Executive Vice President. Mr. King holds a BS from the University of Maryland and an MBA from Long Island University.

**James McKeever, CPA.** Mr. McKeever has been our Interim Chief Financial Officer since January 2004. He also continues to be a partner in the accounting firm of Abrams & McKeever CPA s, which he joined in January 2000. Mr. McKeever has more than 17 years experience in public accounting and financial reporting, and is a member of the New Jersey Society of Certified Public Accountants.

**Louis Bernstein.** Mr. Bernstein has served as a member of our board since September 2003. Mr. Bernstein served as an Assistant General Counsel of Pfizer Inc., one of the world s largest pharmaceutical companies, where he was employed as in-house counsel from December 1975 until his retirement from Pfizer Inc. effective August 8, 2006. From August 22 through November 9, 2006, Mr. Bernstein was President and interim CEO of Xethanol Corporation, where he was a member of the board of directors from June 2005 through November 2006.

**Andrea Pampanini.** Mr. Pampanini has served as a member of our board since December 2001. Mr. Pampanini is an organizational advisor with extensive restructuring, marketing and strategic planning experience serving, among other industries, the chemical, petroleum, pharmaceutical, basic metals, electrical equipment, power generation and heavy industrial goods sectors. In 1989, Mr. Pampanini founded Turnaround Associates Inc., a consulting firm specializing in the financial and operational organization of medium to large-sized companies. Since 1998, Mr. Pampanini has been a member of Leadership Strategies LLC, a group of professionals specializing in strategic planning and personal leadership coaching. Mr. Pampanini has devoted a major portion of his career to the Middle East, including serving as Executive Vice President of Development Resources Corporation from 1971 to 1977, during which time he supervised the final phases of the Dez hydroelectric power and irrigation project in Iran.

**Martin Rappaport.** Mr. Rappaport has served as a member of our board since June 2001. Mr. Rappaport is self-employed. For more than 30 years, he has developed and managed commercial and residential real estate (including owning the building where our office is located). Mr. Rappaport is an active supporter and contributor to Blythedale Children s Hospital in Valhalla, New York.

Directors are elected annually and serve until the next annual meeting of the Company s stockholders, and until their successors have been elected and have qualified. Officers are appointed to their positions, and continue in such positions, at the discretion of the directors.

**Committees of the Board**

The Board of Directors is the acting Audit Committee. Our Board of Directors has determined that there is no person on our Board of Directors who qualifies as an audit committee financial expert as that term is defined by applicable Securities and Exchange Commission rules. The Board of Directors believes that obtaining the services of an audit committee financial expert is not economically rational at this time in light of the costs associated with identifying and retaining an individual who would qualify as an audit committee financial expert.

**Director Compensation**

Each non-employee director and Ron Wilen receives options for 10,000 shares of our common stock in lieu of an annual retainer and meeting fees. Other than the 10,000 options granted there are no special fees, contracts entered into, or payments made in consideration of any director s service as a director.

**Indebtedness of Executive Officers and Directors**

No executive officer, director or any member of these individuals immediate families or any corporation or organization with whom any of these individuals is an affiliate is or has been indebted to us since the beginning of our last fiscal year.

**Family Relationships**

There are no family relationships among our executive officers and directors.

**Legal Proceedings**

During the past five years, none of our executive officers, directors, promoters or control persons has been involved in a legal proceeding material to an evaluation of the ability or integrity of such person.

**Compliance with Section 16(a) of the Securities Exchange Act of 1934**

Section 16(a) of the Securities Act of 1934, as amended, requires our directors and executive officers, and persons who own more than 10% our outstanding common stock, to file with the SEC, initial reports of ownership and reports of changes in ownership of our equity securities. These persons are required by SEC regulations to furnish us with copies of all the reports they file.

To our knowledge, based solely on a review of the copies of the reports furnished to us and written or oral representations that no other reports were required for those persons during the fiscal year ended March 31, 2007, we believe that all of our officers, directors and greater than 10% beneficial owners complied with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended.

**Code of Ethics**

We have adopted a Code of Business Conduct and Ethics (the Code ) that applies to all of our employees (including executive officers) and directors. The Code is available on our website at www.unitedenergycorp.net under the heading Investor Information . We intend to satisfy the disclosure requirement regarding any waiver of a provision of the Code applicable to any executive officer or director, by posting such information on such website.

**ITEM 10. EXECUTIVE COMPENSATION**

The following Summary Compensation Table sets forth, for the years indicated, all cash compensation paid, distributed or accrued for services, including salary and bonus amounts, rendered in all capacities by our Chief Executive Officer and all other executive officers who received or are entitled to receive remuneration in excess of $100,000 during the stated periods.

**Summary Compensation Table**

| | | Annual Compensation | | | Long-term Compensation | | | |
|---|---|---|---|---|---|---|---|---|
| **Name and Principal Position** | **Fiscal year** | **Salary** | **Bonus** | **Other Annual Compensation** | **Restricted Stock Award(s)** | **Securities Underlying Options/SARs** | **LTIP Payouts** | **All other Compensation** |
| | | **($)** | **($)** | **(1)** | | **(#)** | **($)** | |
| Ronald Wilen | 2007 | 200,000 | | 8,901(2) | | 10,000 | | |
| Chairman | 2006 | 207,693 | | 17,039(2) | | 10,000 | | |
| Brian King | 2007 | 200,000 | | 17,067(3) | | 250,000 | | |
| President and Chief Executive Officer | 2006 | 178,154 | | 14,424(3) | | 500,000 | | |

(1) We pay for medical insurance for all employees. Included in the table is the amount of the premiums paid by us dependent on the coverage provided.

(2) During the fiscal years ended March 31, 2007 and 2006, we paid for the leases on two automobiles used by Mr. Wilen under monthly lease payments. We also paid for medical insurance for Mr. Wilen at a rate of $320.02 per month.

(3) We also paid for Mr. King s medical insurance at a rate of $1,362.09 per month.

**Options/SAR Grants in Last Fiscal Year**

| Name | Number of Securities Underlying Options/ SARs Granted (#) | Percent of Total Options/SARs Granted to Employees in Fiscal Year | Exercise or Base Price ($/Sh) | Expiration |
|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) |
| Ronald Wilen Chairman | 10,000 | 3% | 1.00 | |
| Brian King President and CEO | 250,000 | 74% | $ 2.05 | |

**Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year End Option/SAR Values**

| Name | Shares Acquired on Exercise (#) | Value Realized ($) | Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End Exercisable/ Unexercisable (#) | Value of Unexercised In-The-Money Options/SARs at Fiscal Year End Exercisable/ Unexercisable ($) |
|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) |
| Ronald Wilen Chairman | | | 560,000/0 | |
| Brian King President and CEO | | | 1,250,000/0 | |

**Stock Option Plan**

In August 2001, our stockholders approved the 2001 Equity Incentive 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 our board s discretion. Under the 2001 Equity Incentive Plan, 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 date of the grant to up to five years.

An amendment and restatement of the 2001 Equity Incentive Plan increasing the number of shares issuable under the plan to a total of 4,000,000 was approved by the Board of Directors on May 29, 2002 and was approved by our 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, non-employee director stock options shall be exercisable in full twelve months after the date of grant unless determined otherwise by the compensation committee.

There were stock options to purchase 185,000 shares of our common stock available for future grant as of March 31, 2007 under the 2001 Equity Incentive Plan.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**Beneficial Ownership Information**

The following table sets forth information regarding the number of shares of our common stock beneficially owned on June 19, 2007, by each of our directors, each of our executive officers named in the Summary Compensation Table above, all of our executive officers and directors as a group, and by any person or group, as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, known to us to own beneficially more than 5% of the outstanding shares of our common stock. Except as otherwise set forth below, the address of each of the persons listed below is c/o United Energy Corp., 600 Meadowlands Parkway, #20, Secaucus, New Jersey 07094.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership(1) | Percent of Class (1) |
|---|---|---|
| Ronald Wilen | 4,147,000(2) | 13.1% |
| Brian King | 1,270,000(3) | 3.9% |
| James McKeever, CPA | 3,000 | * |
| Louis Bernstein | 40,000(4) | * |
| Andrea Pampanini | 92,500(5) | * |
| Martin Rappaport | 3,030,000(6) | 9.5% |
| All current executive officers and directors as a group (6 persons) | 8,582,500 | 25.4% |
| 5% or Greater Stockholders: | | |
| Jack Silver<br>SIAR Capital LLC<br>660 Madison Avenue<br>New York, NY 10021 | 3,121,088(7) | 10.1% |
| Joseph J. Grano, Jr.<br>c/o Centurion Holdings LLC<br>1185 Avenue of the Americas, Suite 2250<br>New York, NY 10036 | 2,508,665(8) | 7.9% |

* Less than 1% of outstanding shares.

(1) Unless otherwise indicated in these footnotes, each stockholder has sole voting and investment power with respect to the shares beneficially owned. All share amounts reflect beneficial ownership determined pursuant to Rule 13d-3 under the Exchange Act. All information with respect to beneficial ownership has been furnished by the respective director, executive officer or stockholder, as the case may be.

(2) Includes (i) stock options to purchase 400,000 shares at an exercise price of $1.11 per share, (ii) stock options to purchase 100,000 shares at an exercise price of $1.80 per share, (iii) stock options to purchase 50,000 shares at an exercise price of $1.00 per share, and (iv) stock options to purchase 10,000 shares at an exercise price of $1.60 per share, which are currently exercisable.

(3) Includes stock options to purchase 500,000 shares at an exercise price of $1.00 per share, options to purchase 500,000 shares at an exercise price of $1.06 and options to purchase 250,000 shares at an exercise price of $2.06 per share, which are currently exercisable.

(4) Includes (i) stock options to purchase 10,000 shares at an exercise price of $1.55 per share, (ii) stock options to purchase 20,000 shares at an exercise price of $1.00 per share, and (iii) stock options to purchase 10,000 shares at an exercise price of $1.60 per share, which are currently exercisable.

(5) Includes (i) stock options to purchase 10,000 shares at an exercise price of $0.70 per share, (ii) stock options to purchase 10,000 shares at an exercise price of $1.30 per share, (iii) stock options to purchase 10,000 shares at an exercise price of $1.18 per share, (iv) stock options to purchase 30,000 shares at an exercise price of $1.00 per share and (v) stock options to purchase 10,000 shares at an exercise price of $1.60 per share, which are currently exercisable.

(6) Includes (i) stock options to purchase 10,000 shares at an exercise price of $0.70 per share, (ii) stock options to purchase 10,000 shares at an exercise price of $1.30 per share, (iii) stock options to purchase 10,000 shares at an exercise price of $1.18 per share, (iv) stock options to purchase 30,000 shares at an exercise price of $1.00 per share, (v) stock options to purchase 10,000 shares at an exercise price of $1.60 per share and (vi) warrants to purchase 750,000 shares of common stock at an exercise price of $2.00 per share, which are currently exercisable.

(7) Includes (i) 2,313,333 shares held by Sherleigh Associates Profit Sharing Plan ( Sherleigh ), a trust of which Mr. Silver is the trustee, (ii) 133,300 shares of common stock held by Romy Silver, Mr. Silver s daughter, (iii) 133,200 shares of common stock held by Leigh Silver, Mr. Silver s son, (iv) 24,000 shares of common stock issuable upon conversion of Series A Convertible Preferred Stock, which prohibits conversion thereof to the extent following the conversion, the holder or its affiliates would beneficially own more than 9.9% of the total number of issued and outstanding common stock of the Company and (v) 517,255 shares of common stock issuable to Sherleigh upon exercise of warrants which warrants prohibit exercise thereof to the extent following the exercise the holder or its affiliates would beneficially own more than 10.1% of the total number of issued and outstanding common stock of the Company. The foregoing does not include 5,165,412 shares of common stock issuable to Sherleigh upon exercise of Series C Warrants which warrants prohibit exercise thereof to the extent following the exercise the holder or its affiliates would beneficially own more than 10.1% of the total number of issued and outstanding common stock of the Company.

(8) Includes 1,875,332 shares of common stock, warrants to purchase 633,333 shares of common stock.

**Equity Compensation Plan Information**

The following table provides information regarding the status of our existing equity compensation plans at March 31, 2007.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding option, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 3,502,500 | $ 1.17 | 185,000 |
| Equity compensation plans not approved by security holders | 4,375,000 | $ 1.88 | |
| Total | 7,877,500 | | 185,000 |

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We have an amount due to Robert Seaman, a shareholder and former director of the Company. The amount due as of December 31, 2007 and 2006 is $244,141. This amount is unsecured, non-interest bearing and due upon demand.

Martin Rappaport, one of our directors, owns the building in which we lease our principal executive offices in Secaucus, New Jersey. We pay $115,200 per year under the lease, excluding real estate taxes. We believe that this transaction was advantageous to us and was on terms no less favorable to us than could have been obtained from unaffiliated third parties.

During January and February 2005, the Chairman of the Board, Ron Wilen, loaned the Company $133,600. The loan was unsecured, non-interest bearing and due upon demand. The loan was repaid in April 2005.

During August 2005, the Chairman of the Board, Ron Wilen and the President and Chief Executive Officer, Brian King, each loaned the Company $100,000. The loans are both unsecured, non-interest bearing and due upon demand. Each of these loans was repaid in full in April, 2006.

**ITEM 13. EXHIBITS**

| Exhibit Number | Description of Document |
|---|---|
| 3.1 | Articles of Incorporation of United Energy Corp. (1) |
| 3.2 | Amendment to the Articles of Incorporation. (2) |
| 3.3 | By-Laws of United Energy Corp. (1) |
| 4.1 | Articles of Incorporation: Articles Fourth, Fifth and Seventh. (1) |
| 4.2 | By-Laws: Article I: Sections: Six, Seven, Eight, Nine, Ten; Article II: Section Nine: Article IV: Section Two. (1) |
| 4.3 | New Article V of the Bylaws. (14) |
| 4.4 | Form of Stock Certificate of United Energy Corp.(1) |
| 4.5 | Secured Convertible Term Note dated March 24, 2004.(4) |
| 5.1 | Opinion of Katten Muchin Rosenman LLP(15) |
| 10.1 | Distribution Agreement and Option Agreement with International Research and Development, dated August 25, 1999. (1) |
| 10.2 | 2001 Equity Incentive Plan, as amended on May 29, 2002. (5) |
| 10.3 | Securities Purchase Agreement, dated March 24, 2004, between United Energy Corp. and Laurus Master Fund, Ltd. (4) |
| 10.4 | Secured Convertible Term Note dated March 24, 2004. (4) |
| 10.5 | Security Agreement, dated March 24, 2004, between United Energy Corp. and Laurus Master Fund, Ltd. (4) |
| 10.6 | Registration Rights Agreement, dated March 24, 2004, between United Energy Corp. and Laurus Master Fund, Ltd. (4) |
| 10.7 | Common Stock Purchase Warrant, dated March 24, 2004. (4) |
| 10.8 | Amendment and Waiver, dated February 28, 2005, between United Energy Corp. and Laurus Master Fund, Ltd. (7) |

| | |
|---|---|
| 10.9 | Securities Purchase Agreement, dated March 18, 2005, between United Energy Corp. and the Purchasers set forth on the signature page thereto. (8) |
| 10.10 | March 2005 Series A Purchase Warrant. (8) |
| 10.11 | March 2005 Series B Purchase Warrant. (8) |
| 10.12 | Registration Rights Agreement, dated March 18, 2004, between United Energy Corp. and the persons identified as Purchasers pursuant to that certain Securities Purchase Agreement. (8) |
| 10.13 | 2005 Series B Secured Convertible Note. (8) |
| 10.14 | Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock. (8) |
| 10.15 | Consulting Services Agreement, dated April 27, 2005, between United Energy Corp. and Ben Barnes. (9) |
| 10.16 | Warrant Certificate, dated April 27, 2005. (9) |
| 10.17 | 2002 Common Stock and Warrant Purchase Agreement. (10) |
| 10.18 | 2002 Common Stock Purchase Warrant. (10) |
| 10.19 | Common Stock Purchase Warrant, dated February 28, 2005. (7) |
| 10.20 | Amendment to Articles of Incorporation of United Energy Corp. (11) |
| 10.21 | United Energy Corp. 2001 Equity Incentive Plan, Amended and Restated Effective May 29, 2002. (12) |
| 10.22 | Form of Incentive Stock Option Agreement. (12) |
| 10.23 | Form of Stock Option Agreement. (12) |
| 10.24 | First Amendment to Securities Purchase Agreement, dated January 26, 2006, by and among United Energy Corp., Sherleigh Associates, Inc. Profit Sharing Plan and Joseph J. Grano, Jr. (13) |
| 10.25 | Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock pursuant to NRS 78.1955. (14) |
| 10.26 | Second Amendment to Securities Purchase Agreement, dated as of March 9, 2006. (14) |
| 10.27 | Registration Rights Agreement, dated as of March 9, 2006. (14) |
| 10.28 | Form of Series C Warrant. (14) |
| 10.29 | Form of Securities Purchase Agreement dated as of March 24, 2006. (15) |
| 10.30 | Form of Registration Rights Agreement dated as of March 24, 2006. (15) |
| 10.31 | Form of First Amendment to Securities Purchase Agreement and Registration Rights Agreement dated as of March 24, 2006. (15) |
| 10.32 | Form of Warrant between United Energy Corp. and Connie Kristan. (16) |
| 10.33 | Form of Warrant between United Energy Corp. and Joseph Grano. (16) |
| 14.1 | Code of Ethics. (16) |
| 16.1 | Letter re Change in Certifying Accountant. (3) |
| 21.1 | Subsidiaries of Small Business Issuer (16) |

| | |
|---|---|
| 31.1 | Chief Executive Officer s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Interim Chief Financial Officer s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32.1 | Chief Executive Officer s and Interim Chief Financial Officer s Certificate, pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. * |
| * | Filed herewith |
| (1) | Incorporated by reference from the exhibits filed with the Form 10 on June 20, 2000. |
| (2) | Incorporated by reference from the exhibits filed with the Form 10-Q for the period ended September 30, 2001. |
| (3) | Incorporated by reference from the exhibits filed with the Form 8-K filed on June 3, 2002. |
| (4) | Incorporated by reference from the exhibits filed with the Form 8-K filed on March 30, 2004. |
| (5) | Incorporated by reference from the exhibits filed with the Schedule 14A for the year ended March 31, 2003. |
| (6) | Incorporated by reference from the exhibits filed with the Registration Statement on Form SB-2 (No. 333 115484). |
| (7) | Incorporated by reference from the exhibits filed with the Form 8-K filed on April 12, 2005. |
| (8) | Incorporated by reference from the exhibits filed with the Form 8-K filed on March 23, 2005. |
| (9) | Incorporated by reference from the exhibits filed with the Form 8-K filed on June 3, 2005. |
| (10) | Incorporated by reference from the exhibits filed with the Form S-3 filed on September 13, 2005. |
| (11) | Incorporated by reference from the exhibits filed with the Definitive Schedule 14A filed on July 18, 2005 |
| (12) | Incorporated by reference from the exhibits filed with the Form S-8 filed on September 29, 2005. |
| (13) | Incorporated by reference from the exhibits filed with the Form 8-K filed on January 27, 2006. |
| (14) | Incorporated by reference from the exhibits filed with the Form 8-K filed on March 9, 2006. |
| (15) | Incorporated by reference from the exhibits filed with the Form SB-2 filed on April 24, 2006. |
| (16) | Incorporated by reference from the exhibits filed with the Form 10-KSB filed on May 29, 2006. |

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

**Audit Fees**

The aggregate fees billed or expected to billed by Imowitz, Koenig & Co., LLP ( Imowitz ) for professional services rendered for the audit of our annual financial statements for the fiscal year ended March 31, 2007 and 2006 and for the reviews of the interim financial statements included in our Quarterly Reports on Form 10-QSB for the fiscal years were approximately $70,000 and $81,885, respectively.

**Audit-Related Fees**

Fees of $3,473 were paid to Imowitz for audit-related services for the fiscal year ended March 31, 2007. No fees were paid to Imowitz for the fiscal year ended March 31, 2006.

**Tax Fees**

No fees were billed by Imowitz for tax services rendered for the fiscal years ended March 31, 2007 and 2006.

**All Other Fees**

Imowitz did not render any other services, other than the services described above under Audit Fees, Audit-Related Fees and Tax Fees for the fiscal year ended March 31, 2007 or for the fiscal year ended March 31, 2006.

**Audit Committee**

Our board of directors has established a policy requiring it s pre-approval of all audit services and permissible non-audit services provided by the independent auditors, along with the associated fees for those services. The policy requires the specific pre-approval of all permitted services. When considering the pre-approval of non-audit services, our board considers whether the provision of such non-audit service is consistent with the auditor s independence and the Securities and Exchange Commission rules regarding auditor independence. Additionally, our board considers whether the independent auditors are best positioned and qualified to provide the most effective and efficient service, based on factors such as the independent auditors familiarity with our business, personnel, systems or risk profile and whether provision of the service by the independent auditors would enhance our ability to manage or control risk or improve audit quality or would otherwise be beneficial to us.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

UNITED ENERGY CORP.

Date: June 28, 2007

By: /s/ Brian King

Brian King
Chief Executive Officer

By: /s/ James McKeever

James McKeever
Interim Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | |
|---|---|---|
| /s/ Brian King<br>Brian King | Chief Executive Officer and President (principal executive officer) | June 28, 2007 |
| /s/ James McKeever<br>James McKeever | Interim Chief Financial Officer (principal financial and accounting officer) | June 28, 2007 |
| /s/ Louis Bernstein<br>Louis Bernstein | Director | June 28, 2007 |
| Andrea Pampanini | Director | |
| /s/ Martin Rappaport<br>Martin Rappaport | Director | June 28, 2007 |
| /s/ Ronald Wilen<br>Ronald Wilen | Chairman of the Board of Directors and Secretary | June 28, 2007 |

**UNITED ENERGY CORP. AND SUBSIDIARIES**

**FORM 10-KSB**

**ITEM 7**

**INDEX OF FINANCIAL STATEMENTS AND SCHEDULES**

The following financial statements of United Energy Corp. and its subsidiaries required to be included in Item 7 are listed below:

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of United Energy Corp.:

We have audited the accompanying consolidated balance sheets of United Energy Corp. (a Nevada corporation) and subsidiaries as of March 31, 2007 and March 31, 2006 and the related consolidated statements of income, cash flows and stockholders equity for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor have we been engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purposes of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Energy Corp. and subsidiaries as of March 31, 2007 and March 31, 2006 and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ IMOWITZ, KOENIG & CO., LLP
New York, New York
June 28, 2007

**UNITED ENERGY CORP. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**MARCH 31, 2007 AND 2006**

| | March 31, 2007 | March 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 2,863,906 | $ 5,194,748 |
| Accounts receivable, net of allowance for doubtful accounts of $5,879 and $5,018, respectively | 64,466 | 91,557 |
| Inventory, net of allowance of $0 and $16,290, respectively | 138,798 | 99,337 |
| Prepaid expenses and other current assets | 128,216 | 84,657 |
| Assets of discontinued operations | 4,507 | 27,096 |
| Total current assets | 3,199,893 | 5,497,395 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation | 88,081 | 146,994 |
| OTHER ASSETS: | | |
| Goodwill, net | 15,499 | 15,499 |
| Patents, net of accumulated amortization of $150,861 and $119,794, respectively | 345,889 | 327,572 |
| Loans receivable | 1,864 | 364 |
| Deposits | 1,385 | 1,385 |
| Total assets | $ 3,652,611 | $ 5,989,209 |

The accompanying notes are an integral part of these consolidated statements

**UNITED ENERGY CORP. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**MARCH 31, 2007 AND 2006**

| | March 31, 2007 | March 31, 2006 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 133,135 | $ 279,303 |
| Accrued expenses | 99,226 | 134,286 |
| Due to related parties | 244,141 | 444,141 |
| Total current liabilities | 476,502 | 857,730 |
| STOCKHOLDERS EQUITY: | | |
| Series A Convertible Preferred Stock: $8,000 stated value, 420 shares authorized; 3 shares issued and outstanding as of March 31 2007 and March 31, 2006 | 24,000 | 24,000 |
| Common stock: $0.01 par value 100,000,000 authorized; 31,030,115 and 31,017,615 shares issued and outstanding as of March 31, 2007 and March 31, 2006 | 310,301 | 310,176 |
| Additional paid-in capital | 21,540,041 | 21,221,471 |
| Accumulated deficit | (18,698,233) | (16,424,168) |
| Total stockholders equity | 3,176,109 | 5,131,479 |
| Total liabilities and stockholders equity | $ 3,652,611 | $ 5,989,209 |

The accompanying notes are an integral part of these consolidated statements

**UNITED ENERGY CORP. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**FOR THE YEARS ENDED MARCH 31, 2007 AND 2006**

| | 2007 | 2006 |
|---|---|---|
| REVENUES, net | $ 811,893 | $ 385,374 |
| COST OF GOODS SOLD | 363,208 | 239,742 |
| Gross profit | 448,685 | 145,632 |
| OPERATING EXPENSES: | | |
| Selling, general and administrative | 2,811,970 | 3,584,653 |
| Depreciation and amortization | 76,434 | 70,061 |
| Total operating expenses | 2,888,404 | 3,654,714 |
| Loss from operations | (2,439,719) | (3,509,082) |
| OTHER INCOME (EXPENSE), net: | | |
| Interest income | 169,653 | 15,510 |
| Interest expense | (2,725) | (577,589) |
| Total other expense, net | 166,928 | (562,079) |
| Net loss from continuing operations | (2,272,791) | (4,071,161) |
| DISCONTINUED OPERATIONS: | | |
| Income from discontinued operations | 252 | 44,961 |
| Net loss | (2,272,539) | (4,026,200) |
| Preferred dividends | (1,526) | |
| Net loss applicable to common shareholders | $ (2,274,065) | $ (4,026,200) |
| BASIC AND DILUTED LOSS PER SHARE: | | |
| Loss from continuing operations | $ (0.07) | $ (0.16) |
| Income from discontinued operations | 0.00 | 0.00 |
| Total basic and diluted loss per share | $ (0.07) | $ (0.16) |
| WEIGHTED AVERAGE NUMBER OF SHARES, OUTSTANDING, basic and diluted | 31,029,327 | 25,330,737 |

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

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**UNITED ENERGY CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**
**FOR THE YEARS ENDED MARCH 31, 2007 AND 2006**

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Preferred Stock | Additional Paid-In Capital | Accumulated Deficit | Stock subscription receivable | Total |
| BALANCE, April 1, 2005 | 23,267,000 | 232,670 | | 12,308,845 | (12,397,968) | (13,333) | 130,214 |
| Common stock issued in convertion of note payable | 2,000,000 | 20,000 | | 1,580,000 | | | 1,600,000 |
| Common stock issued in consideration for interest | 615 | 6 | | 486 | | | 492 |
| Proceeds from stock subscription receivable | | | | | | 13,333 | 13,333 |
| Warrants granted in consideration for consulting services | | | | 129,720 | | | 129,720 |
| Compensation expense associated with options | | | | 906,076 | | | 906,076 |
| Exercise of stock options | 300,000 | 3,000 | | 342,000 | | | 345,000 |
| Common stock issued for private placement | 5,450,000 | 54,500 | | 6,005,500 | | | 6,060,000 |
| Private placement costs | | | | (51,156) | | | (51,156) |
| Preferred stock issued | | | 24,000 | | | | 24,000 |
| Net loss | | | | | (4,026,200) | | (4,026,200) |
| BALANCE, March 31, 2006 | 31,017,615 | 310,176 | 24,000 | 21,221,471 | (16,424,168) | | 5,131,479 |
| Exercise of stock options | 12,500 | 125 | | 13,750 | | | 13,875 |
| Compensation expense associated with options | | | | 304,820 | | | 304,820 |
| Dividends paid and accrued on On preferred shares | | | | | (1,526) | | (1,526) |
| Net loss | | | | | (2,272,539) | | (2,272,539) |
| BALANCE, March 31, 2007 | 31,030,115 | $ 310,301 | $ 24,000 | $ 21,540,041 | $ (18,698,233) | $ | $ 3,176,109 |

The accompanying notes are an integral part of this consolidated statements

**UNITED ENERGY CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED MARCH 31, 2007 AND 2006**

| | 2007 | 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| CASH FLOWS FROM CONTINUING OPERATIONS: | | |
| Net loss from continuing operations | $ (2,272,791) | $ (4,071,161) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 93,690 | 645,795 |
| Warrants granted in consideration for services | | 129,720 |
| Compensation expense associated with options | 304,820 | 906,076 |
| Stock granted in consideration for interest expense | | 492 |
| Changes in operating assets and liabilities | | |
| Decrease in accounts receivable, net | 27,091 | 550,830 |
| (Increase) decrease in inventory, net | (39,461) | 16,543 |
| (Increase) decrease in prepaid expenses and other current assets | (43,559) | 35,917 |
| (Decrease) increase in accounts payable and accrued expenses | (181,228) | 58,544 |
| Net cash used in continuing operations | (2,111,438) | (1,727,244) |
| CASH FLOWS FROM DISCONTINUED OPERATIONS: | | |
| Net income from discontinuing operations | 252 | 44,961 |
| (Increase) decrease in accounts receivable, net | (31) | 140,617 |
| Decrease in inventory, net | 7,620 | 12,460 |
| Decrease in note receivable, net | 15,000 | 9,174 |
| Net cash provided by discontinuing operations | 22,841 | 207,212 |
| Net cash used in operating activities | (2,088,597) | (1,520,032) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Employee loans | (1,500) | (227) |
| Payments for acquisition of property and equipment | (3,710) | (48,903) |
| Payments for patent | (49,384) | (59,277) |
| Net cash used in investing activities | (54,594) | (108,407) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from related party | | 200,000 |
| Payments of related party payable | (200,000) | (133,600) |
| Proceeds from issuance of preferred stock | | 24,000 |
| Proceeds from the exercise of stock options | 13,875 | 345,000 |
| Proceeds from issuance of common stock | | 6,060,000 |
| Payments of private placement costs | | (51,156) |
| Proceeds from stock subscription receivable | | 13,333 |
| Preferred stock dividend | (1,526) | |
| Net cash (used in) provided by financing activities | (187,651) | 6,457,577 |
| Net (decrease) increase in cash and cash equivalents | (2,330,842) | 4,829,138 |
| CASH AND CASH EQUIVALENTS, beginning of period | 5,194,748 | 365,610 |
| CASH AND CASH EQUIVALENTS, end of period | $ 2,863,906 | $ 5,194,748 |

**UNITED ENERGY CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED MARCH 31, 2007 AND 2006**

| | 2007 | 2006 |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period | | |
| Interest | $ 2,725 | $ 2,451 |
| Income taxes | $ 1,235 | $ 1,434 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Conversion of note payable into common stock | $ | $ 1,600,000 |

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

**UNITED ENERGY CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2007 AND 2006**

## 1. DESCRIPTION OF BUSINESS AND BUSINESS PLAN

United Energy Corp. ( United Energy or the Company ) considers its primary business focus to be the development, manufacture and sale of environmentally friendly specialty chemical products with applications in several industries and markets. Our current line of products include 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.

The Company currently anticipates that its available cash in hand and cash resources from expected revenues will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months.

Our continued existence is dependent upon several factors, including increased sales volumes, collection of existing receivables and the ability to achieve profitability from the sale 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation**

The consolidated financial statements include the accounts of United Energy and its wholly-owned subsidiary Green Globe and currently inactive subsidiaries, Nor-Graphic Industries and United Energy Oil. All intercompany transactions and accounts have been eliminated in consolidation.

**Use of Estimates**

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires United Energy 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, United Energy evaluates its estimates, including those related to option and warrant values, bad debts, inventories, intangible assets, contingencies and litigation. United Energy 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.

**Revenue Recognition**

The Company s primary source of revenue is from the sales of its products. The Company recognizes revenue upon shipment and transfer of title.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of three months or less.

**Inventories**

Inventories consist predominately of finished goods. Inventories are valued at the lower of cost (first-in, first-out method) or market.

**Allowance for Doubtful Accounts**

The Company monitors its accounts and note receivable balances on a monthly basis to ensure they are collectible. On a quarterly basis, the Company uses its historical experience to determine its accounts receivable reserve. The Company s allowance for doubtful accounts is an estimate based on specifically identified accounts as well as general reserves. The Company evaluates specific accounts where it has information that the customer may have an inability to meet its financial obligations. In these cases, management uses its judgment, based upon the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. The Company also establishes a general reserve based upon a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change, the Company s estimate of the recoverability of amounts due the Company could be reduced or increased by a material amount. Such a change in estimated recoverability would be accounted for in the period in which the facts that give rise to the change become known.

**Property and Equipment**

Property and equipment are stated at cost. Depreciation has been calculated over the estimated useful lives of the assets ranging from 3 to 15 years. Leasehold improvements are amortized over the lives of the respective leases, which are shorter than the useful life. The cost of maintenance and repairs is expensed as incurred. Depreciation and amortization expense for the years ended March 31, 2007 and 2006 was $62,622 and $67,496, respectively.

Property and equipment consists of the following at March 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Furniture and fixtures | $ 79,046 | $ 78,309 |
| Machinery and equipment | 336,396 | 333,423 |
| Vehicles | 82,139 | 82,139 |
| Leasehold improvements | 26,203 | 26,203 |
| | 523,784 | 520,074 |
| Less- Accumulated depreciation and amortization | (435,703) | (373,080) |
| Property and equipment, net | $ 88,081 | $ 146,994 |

**Goodwill**

The Company capitalized goodwill related to the acquisition of Green Globe in September of 1998. Goodwill represents cost in excess of fair value on the net assets acquired. Goodwill was amortized over a 15 year period using a straight line amortization method until the adoption of SFAS No. 142 Goodwill and Other Intangible Assets, on April 1, 2002. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life).

As required by SFAS 142, the Company completed its transitional impairment testing of intangible assets. Under SFAS 142, the goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. The impairment testing is performed in two steps: (i) the Company determines impairment by comparing fair value of a reporting unit with its carrying value, and (ii) if there is an impairment the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill.

As of March 31, 2007 the Company completed its annual impairment testing of goodwill. The Company estimated the fair value of its goodwill by using discounted cash flow analysis. As a result of the impairment tests, the Company did not record a goodwill impairment charge related to the Green Globe segment, during the years ended March 31, 2007 and 2006.

Goodwill consists of the following at March 31, 2007 and 2006:

| 2007 | 2006 |
|---|---|

| | | |
|---|---|---|
| Goodwill | $ 86,523 | $ 86,523 |
| Less: Impairment loss | 53,320 | 53,320 |
| Less: Accumulated amortization | 17,704 | 17,704 |
| Goodwill, net | $ 15,499 | $ 15,499 |

**Research & Development**

Our products are the result of research and development expenditures. The Company s policy is to expense any research and development costs as they are incurred. The Company incurred research and development costs of $232,517 and $193,032 for the fiscal years ended March 31, 2007 and 2006, respectively.

**Patents**

The Company capitalizes legal costs incurred to obtain patents. Amortization begins when the patent is approved using the straight-line basis over the estimated useful life of 15 years.

**Accounting for Long-Lived Assets**

The Company s long-lived assets include property and equipment and patents.

In accordance with SFAS 144, long-lived assets other than goodwill are reviewed on a periodic basis for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**Income Taxes**

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and the income tax bases of assets and liabilities and for net operating loss carry forwards existing at the balance sheet date using enacted tax rates in effect for the years in which the taxes are expected to be paid or recovered. A valuation allowance is established when it is considered more likely than not that such assets will not be realizable. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in the period in which the tax change occurs.

**Stock-Based Compensation**

Effective January 1, 2006, the Company adopted the fair value recognition provision of Statement of Financial Standards ( SFAS ) No. 123 (revised 2004), *Shared-based Payments,* ( SFAS 123(R) ) using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock based compensation expense for the fourth quarter of fiscal year 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provision of SFAS No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ). Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R).

At March 31, 2007, the Company has stock based compensation plans, which are described more fully in Note 10. As permitted by SFAS No.123, Accounting for Stock Based Compensation, the Company accounted 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 through December 31, 2005. On January 1, 2006, the Company adopted SFAS No. 123(R) which requires public entities to record noncash compensation expense related to payment for employee services by an equity award, such as stock options. Compensation 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. As a result of adopting SFAS 123(R), net loss for the year ended March 31, 2006 was higher by $428,798 than if the Company had not adopted SFAS 123(R). The impact on both basic and diluted loss per share for the year ended March 31, 2006 was $0.02 per share. The Company accounted 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 until the adoption of SFAS 123(R). 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 $113,966 and $219,998 for the years ended March 31, 2007 and 2006, respectively.

The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 up through the adoption of SFAS No. 123(R) to all stock-based compensation:

| | | For the Year ended March 31, 2006 |
|---|---|---|
| Net loss as reported | $ | (4,026,200) |
| Add: | | |
| Stock based compensation expenses included in reported net loss prior to adoption of SFAS No. 123(R) | | 516,720 |
| Deduct: | | |
| Total stock based employee compensation expense determined under fair value based method for all awards prior to adoption of SFAS No. 123(R) | | (612,071) |
| Pro forma | $ | (4,121,551) |
| Basic and diluted loss per common share | | |
| As reported | $ | (0.16) |
| Pro forma | $ | (0.16) |

**Recently Issued Accounting Standards**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Measurements ( SFAS 157 ), which clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants. Further, the standard establishes a framework for measuring fair value in generally accepted accounting principles and expands certain disclosures about fair value investments. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year misstatements when Quantifying Misstatements in Current Year Financial Statements ( SAB 108 ). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year s financial statements are materially misstated. SAB 108 is effective for fiscal years ending November 16, 2006. The Company has determined that the provisions of SAB 108 do not have a material impact on its consolidated financial position, results of operations and cash flows.

**Per Share Data**

SFAS No. 128 establishes standards for computing and presenting earnings per share ( EPS ). The standard requires the presentation of basic EPS and diluted EPS. Basic EPS is calculated by dividing income/loss available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is calculated by dividing income/loss available to common shareholders by the weighted average number of common shares outstanding adjusted to reflect potentially dilutive securities. Diluted loss per share for the years ended March 31, 2007 and 2006 does not include 14,517,500, and 14,950,000 stock options, warrants and convertible preferred stock since the inclusion would have been antidilutive.

**Concentrations of Risk**

*Cash and Cash Equivalents*

The Company maintains cash balances at financial institutions insured up to $100,000 by the Federal Deposit Insurance Corporation. Balances exceeded these insured amounts during the year.

*Accounts and Notes Receivable*

The Company had three customers that accounted for 72% and 77% of the total accounts receivable at March 31, 2007 and 2006 respectively. One company accounted for 38% and 13%, the second accounted for 17% and 8%, and the last accounted for 17% and 56% at March 31, 2007 and 2006 respectively. Credit losses, if any, have been provided for in the consolidated financial statements and are based on management s expectations.

*Significant Customers*

The Company s revenues from major customers, as a percentage of revenues, for the years ended March 31, 2007 and 2006, are as follows:

| | 2007 | 2006 |
|---|---|---|
| Customer A | 2% | 14% |
| Customer B | 46% | 0% |
| Customer C | 8% | 10% |

*Vendors*

The Company purchased supplies from major venders for the years ended March 31, 2007 and 2006 as follows:

| | 2007 | 2006 |
|---|---|---|
| Vendor A | 0% | 13% |
| Vendor B | 40% | 20% |
| Vendor C | 26% | 13% |

**Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, note and loan receivable, inventory, accounts payable and accrued expenses approximate their fair values due to the short-term maturity of these instruments.

**Reclassification**

Certain amounts from the prior year consolidated financial statement have been reclassified to conform to current year presentation with no effect to net loss.

## 3. INVENTORY

Inventory consists of the following as of March 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Blended chemicals | $ 93,814 | $ 68,255 |
| Raw materials | 44,984 | 31,082 |
| Total inventory | $ 138,798 | $ 99,337 |

## 4. DISCONTINUED OPERATIONS

During the fiscal year ended March 31, 2007, the Company discontinued the sale of its Uniproof proofing paper as a result the graphic arts segment became discontinued operations.

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The financial position and results of operations described above are presented as assets and liabilities of discontinued operations in the consolidated balance sheets and discontinued operations in the consolidated statement of operations, respectively for all periods presented in accordance with SFAS No. 144.

A summary of the results of discontinued operations for the fiscal year ended March 31, 2007 and 2006 is as follows:

| | 2007 | 2006 |
|---|---|---|
| Revenues | $ 1,310 | $ 106,861 |
| Cost of goods sold | 1,058 | 61,900 |
| Gross profit | $ 252 | $ 44,961 |

A summary of assets and liabilities of discontinued operations as of March 31, 2007 and 2006 is as follows:

| | 2007 | 2006 |
|---|---|---|
| Accounts receivable | $ 31 | $ |
| Inventory | | 7,620 |
| Note receivable | 4,476 | 19,476 |
| Assets of discontinued operations | $ 4,507 | $ 27,096 |

**5. RELATED PARTY TRANSACTIONS**

The Company had an amount due to Robert Seaman, a shareholder and former director of the Company. The amount due as of March 31, 2007 and 2006 is $244,141. This amount is 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 $115,200 per year under the lease, excluding real estate taxes.

During January and February 2005, the Company s Chairman of the Board, Ron Wilen, loaned the Company $133,600. The loan was unsecured, non interest bearing and due upon demand. This loan was repaid in April 2005.

During August 2005, the Chairman of the Board, Ron Wilen and the Chief Executive Officer, Brian King, each loaned the Company $100,000. The loans were both unsecured, non-interest bearing and due upon demand. These loans were repaid in April 2006.

**6. CONVERTIBLE DEBT**

On March 24, 2004, the Company issued a secured convertible term note (the Term Note ) in the amount of $1,750,000, which had a term of three years and accrued interest at the greater of the prime rate of interest, which was 5.75% per year at March 31, 2005 (as published in the Wall Street Journal), or 4% per year. Interest was payable monthly in arrears commencing on May 1, 2004, and on the first day of each consecutive calendar month after that date. Monthly amortization payments commenced on October 1, 2004, at the rate of $58,333.

The holder of the Term Note had the option to convert all or a portion of the note (including principal, interest and penalties) into shares of common stock at any time, subject to specified limitations, at a fixed conversion price of $1.00 per share. The conversion price was subject to adjustment for stock splits, stock dividends and similar events. On March 18, 2005, in connection with the financing discussed in Note 8, the fixed conversion price was adjusted to $0.80. The Company s obligations under the Term Note was secured by a first priority security interest in the Company s assets. As of March 31, 2005, the holder of the Term Note converted $150,000 in principal into 150,000 shares of common stock. In addition, the holder of the Term Note received $12,497 of interest paid in shares of the Company s common stock. During the fiscal year ended March 31, 2006, the holder of the Term Note converted $1,600,000 in principal and $492 of interest into 2,000,615 shares of common stock and the note is no longer outstanding.

**7. COMMITMENTS AND CONTINGENCIES**

**Litigation**

Sales Commission Claim

In July 2002, an action was commenced against the Company in the Court of Common Pleas of South Carolina, Pickens County, brought by Quantum International Technology, LLC and Richard J. Barrett. The plaintiffs allege that they were retained as the sales representatives of the Company and in that capacity made sales of the Company s products to the United States government and to commercial entities. The plaintiffs further allege that we failed to pay to the plaintiffs agreed commissions at the rate of 20% of gross sales of the Company s products made by the 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. The 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. The Company believes that 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.

In March 2007, the Company commenced an action against Applied Force and Samuel Miller III in the Superior Court of New Jersey, Law Division - Bergen County for the recovery of two of the Company s vehicles and certain additional claims. The defendants, Applied Force and Samuel Miller III, have filed a counterclaim for recovery of alleged storage fees in the amount of $126,784 and certain alleged service fees in the amount of $1,275. The action is currently in the discovery process. No trial date has yet been scheduled. The Company believes that we have meritorious claims and defenses to the counterclaims. The Company intends to vigorously pursue our claims and defend the counterclaims. The outcome of this matter cannot be determined at this time.

**Lease Commitments**

The Company leases office facilities, equipment and autos under operating leases expiring on various dates through 2011. Certain leases contain renewal options. The following is a schedule of future minimum lease payments under operating leases having remaining terms in excess of one year as of March 31, 2007

| Year | Operating Leases |
|---|---|
| 2008 | $ 130,427 |
| 2009 | 132,610 |
| 2010 | 125,834 |
| 2011 | 31,200 |
| Total minimum lease payments | $ 420,071 |

Operating lease expense was $128,528 and $136,606 for the years ended March 31, 2007 and 2006, respectively.

**8. STOCKHOLDERS EQUITY**

**Series A and Series B Units**

On March 18, 2005, the Company entered into a securities purchase agreement (the Agreement ) with two private investors to issue shares of the Company s common stock and warrants. The Agreement provides for two types of units, designated as Series A and Series B.

The Series A Units consisted of 100,000 shares of the Company s common stock and a Series A Warrant to purchase 50,000 shares of the Company s common stock at $1.00 per share, subject to adjustment. The Series A Warrants expire five (5) years from the date they are issued. The purchase price for each Series A Unit is $80,000. The Agreement provided for the sale of up to twenty (20) Series A Units.

The Series B Units each consisted of ten (10) shares of a new class of preferred stock that are convertible into 80,000 shares of the Company s common stock in the aggregate, subject to adjustment, and a Series B Warrant to purchase 40,000 shares of the Company s common stock at $1.50 per share. The Series B Warrants expire five (5) years from the date they are issued. The purchase price for each Series B Unit is $80,000. The securities purchased agreement provides for the sale of up to forty-two (42) Series B Units.

On March 18, 2005, the Company issued 8 Series A Units or 800,000 shares of the Company s common stock and Series A Warrants to purchase 400,000 shares of the Company s common stock for a purchase price of $640,000. In connection with the issuance of Series A Units, 37,500 shares of common stock were issued to the investors counsel as reimbursement for their expenses.

On August 25, 2005, the Company entered into an Amendment and Waiver Agreement with the investors providing, among other things, that the investors would waive certain defaults under the securities purchase agreement in exchange for a reduction in the price of the shares issuable upon exercise of the Series B Warrants from $1.50 to $1.00 per share.

During the year ended March 31, 2006, the Company issued the remaining 12 Series A Units or 1,200,000 shares of its common stock for a purchase price of $960,000 as per the securities agreement dated March 18, 2005.

On January 26, 2006, the Company entered into the first amendment to the securities purchase agreement dated March 18, 2005, which extended the term of the agreement from March 18, 2006 to the earlier of March 18, 2008 or thirty days notice of termination from the holder of a majority of the shares issued under the agreement. In addition, the Company agreed to certain restrictions.

On March 9, 2006, the Company entered into the Second Amendment to the Securities Purchase Agreement with the investors. Pursuant to the Second Amendment, one of the investors agreed to purchase three-tenths of one Series B unit, consisting of 3 shares of preferred stock and warrants to purchase 12,000 shares of the Company s common stock (the Series B Warrant ), for an aggregate purchase price of $24,000. The preferred stock pays a dividend at a rate of 6% of the stated value per annum. The dividends are cumulative, the preferred stock has no voting rights and the preferred stock is convertible into 24,000 shares of common stock. In addition, the investors have agreed to waive all existing defaults under the purchase agreement, including the Company s failure to timely file a Certificate of Designations for the preferred stock and to timely issue common stock certificates and warrants. The Company and the investors also agreed to terminate all further obligations of the investors to purchase and the Company s obligation to sell any remaining Series B units. The remaining Series B units would have consisted of 417 shares of preferred stock convertible into an aggregate of 3,336,000 shares of common stock at a conversion price of $1.00 and of warrants to purchase 1,668,000 shares of common stock at an exercise price of $1.00 per share. Instead thereof, the Company agreed to issue to one of the investors warrants to purchase 5,004,000 shares of the Company s common stock at an exercise price of $1.00 (the Series C Warrant ). These warrants have been valued at $6,810,444 and have been recorded as a charge and a credit to additional paid in capital. The Series C Warrant, as well as the preferred stock and the Series B Warrant, are subject to anti-dilution provisions in the event that the Company issues shares of common stock at a price less than the conversion price of the preferred stock or the exercise price of the warrants and contain provisions limiting the holders right to convert or exercise if doing so would cause such holder and its affiliates to beneficially own more than 9.99% of the outstanding common stock.

For so long as the investors hold 1,500,000 shares of common stock equivalents (meaning shares of common stock and other securities convertible to or exercisable for common stock), the majority holder shall have the right to designate a majority of the members of the Company s Board of Directors in the event of any of the following, referred to as triggering events:

(i) if the Company fails to have gross revenue of at least $5,000,000 for the six months ending September 30, 2006; or

(ii) if the Company breaches any of its representations, warranties, agreements, covenants, terms or obligations under the securities purchase agreement or ancillary agreements.

The Company failed to have gross revenues of at least $5,000,000 for the six months ended September 30, 2006 and therefore, the investors have the right to designate a majority of the members of our Board of Directors. To date, the investors have not elected to designate a majority of the members of our Board of Directors and there is no assurance that the investors will not elect to designate a majority of the members of our Board of Directors. If the investors decide to designate a majority of the members of our Board of Directors, such directors will have the authority to exercise control over matters relating to us, including without limitation, (i) discretion over our day to day affairs and our management and (ii) decisions relating or affecting our capital structure, including the issuance of additional capital stock, debt and the declaration of dividends.

**Warrants**

The Company has issued warrants in conjunction with various private placements of its stock and convertible term note in exchange for sevices. All warrants are currently exercisable.

The following table sumarizes warrant information for the years ended March 31, 2007 and 2006.

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding April 1, 2005 | 4,725,000 | $ 1.66 |
| Issued for services rendered | 1,000,000 | $ 1.67 |
| Issued to investor-Series A | 1,000,000 | $ 1.00 |
| Issued to investor-Series B | 12,000 | $ 1.00 |
| Issued to investor-Series C | 5,004,000 | $ 1.00 |
| Outstanding March 31, 2006 | 11,741,000 | $ 1.32 |
| Expired | (750,000) | $ 0.60 |
| Outstanding March 31, 2007 | 10,991,000 | $ 1.41 |

As of March 31, 2007, outstanding common stock warrants are as follows:

| Number of Warrants | Exercise Price | Expiration Date |
|---|---|---|
| 3,000,000 | $ 2.00 | May 14, 2007 |
| 100,000 | $ 1.00 | January 8, 2009 |
| 175,000 | $ 1.50 | March 24, 2009 |
| 100,000 | $ 1.25 | March 24, 2011 |
| 100,000 | $ 1.50 | March 24, 2011 |
| 100,000 | $ 1.75 | March 24, 2011 |
| 50,000 | $ 1.00 | May 17, 2009 |
| 50,000 | $ 2.00 | May 17, 2009 |
| 100,000 | $ 1.25 | February 28, 2012 |
| 100,000 | $ 1.50 | February 28, 2012 |
| 100,000 | $ 1.75 | February 28, 2012 |
| 500,000 | $ 1.34 | April 27, 2015 |
| 500,000 | $ 2.00 | April 27, 2015 |
| 6,016,000 | $ 1.00 | March 24, 2011 |
| 10,991,000 | $ 1.41 | |

**Consulting Agreement**

On April 27, 2005, the Company entered into a consulting agreement for the provision of certain advisory and business development services. As consideration for these services, the Company issued warrants to purchase 1,000,000 shares of the Company s common stock. The first 500,000 shares have an exercise price of $1.34 and the second 500,000 shares have an exercise price of $2.00 per share. The warrants have been valued at $129,720 and have been recorded as a selling, general and administrative expense in the Consolidated Statement of Operations.

**March 2006 Private Placement**

On March 24, 2006, the Company entered into Securities Purchase Agreement and a First Amendment to Securities Purchase Agreement and Registration Rights Agreement pursuant to which the Company raised $5,100,000 in gross cash proceeds from the sale to the purchasers of 4,250,000 shares of common stock at a price of $1.20 per share.

**9. INCOME TAXES**

Deferred income taxes are provided for the temporary difference between the financial reporting basis and tax basis of the Company s assets and liabilities including those assets and liabilities recorded in connection with acquisitions. Deferred tax assets and liabilities result principally from recording certain expenses or income in the financial statements in a different period from recognition for income tax purposes. As of March 31, 2007, the Company had a net operating loss carryforward for tax purposes of approximately $15,050,000, which is available to reduce its future taxable income, and expires at various dates through 2026. $106,000 is expiring in 2015, $820,000 expiring in 2016, $889,000 expiring in 2017, $736,000 expiring in 2018, $100,000 expiring in 2020, $782,000 expiring in 2021, $2,692,000 expiring in 2022, $2,404,000 expiring in 2023, $1,709,000 expiring in 2024, $2,840,000 expiring in 2025 and $1,972,000 expiring in 2026. A full valuation allowance has been established against the deferred tax assets, which are mainly related to the net loss carryforward, due to the uncertainties surrounding the utilization of the carryforward and limitations resulting from a change in control. There are no other significant timing differences.

Utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating loss carryforwards before utilization.

**10. 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 compensation committee.

There were stock options to purchase 185,000 shares of common stock for future grant as of March 31, 2007 under the 2001 equity incentive plan.

*Fair Value of Stock Options*

For disclosure purposes under SFAS No. 123 and SFAS No. 123(R), 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:

| | 2007 | 2006 |
|---|---|---|
| Expected life (in years) | 10 | 10 |
| Risk-free interest rate | 4.54% | 4.54% |
| Volatility | 90.58 | 127.05 |
| 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 $1.17 and $1.11 for the years ended March 31, 2007 and 2006, respectively.

*Summary Stock Option Activity*

The following table summarizes stock option information with respect to all stock options for the years ended March 31, 2007 and 2006:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding March 31, 2005 | 2,945,000 | $ 1.20 | 8.01 | |
| Exercised | (300,000) | | | |
| Granted | 540,000 | $ 1.10 | | |
| Options outstanding March 31, 2006 | 3,185,000 | $ 1.11 | 8.48 | |
| Exercised | (12,500) | | | |
| Granted | 340,000 | $ 1.74 | | |
| Cancelled | (10,000) | $ 1.00 | | |
| Options outstanding March 31, 2007 | 3,502,500 | $ 1.17 | 7.16 | |
| Vested and expected to vest end of year | 3,502,500 | $ 1.17 | 7.16 | $ |
| Exercisable end of year | 3,239,865 | $ 1.18 | 7.05 | $ |

Options outstanding at March 31, 2007 have an exercise price ranging between $0.70 to $2.05.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between United Energy s closing stock price on March 31, 2007 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 March 31, 2007. This amount changes based upon changes in the fair market value of United Energy s stock. As of March 31, 2007, $115,000 of the total unrecognized compensation costs related to stock options is expected to be recognized over the next year.

## 11. SEGMENT REPORTING

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the way that public companies report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS No. 131 defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance.

Geographic Information

| | 2007 | 2006 |
|---|---|---|
| U.S. | $ 682,090 | $ 318,689 |
| Other | 129,803 | 66,685 |
| Totals | $ 811,893 | $ 385,374 |