

UNITED ENERGY CORP /NV/
Form SB-2
April 24, 2006

As filed with the Securities and Exchange Commission on April 24, 2006

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

FORM SB-2

**REGISTRATION STATEMENT
UNDER THE
SECURITIES ACT OF 1933**

UNITED ENERGY CORP.

(Exact Name of Small Business Issuer in its Charter)

Nevada

1389

22-3342379

(State or Other Jurisdiction of Incorporation
or Organization)

(Primary Standard Industrial
Classification Code Number)

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

600 Meadowlands Parkway #20
Secaucus, New Jersey 07094
(800) 327-3456

(Address and Telephone Number Principal Executive Offices and Principal Place of Business)

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United Energy Corp.
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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Number of Units/Shares to be registered (1) (2)	Proposed maximum offering price per unit (3)	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, par value \$.01 per share	9,354,000	\$1.87	\$17,491,980	\$1,872

- (1) Pursuant to Rule 416 promulgated under the Securities Act of 1933, as amended, the shares of common stock offered hereby also include an indeterminate number of additional shares of common stock as may from time to time become issuable by reason of stock splits, stock dividends, recapitalizations or other similar transactions.
- (2) Includes 5,104,000 shares of common stock issuable upon the exercise of warrants.
- (3) Estimated based on average of the bid and asked prices of our common stock as reported over-the-counter on the OTC Electronic Bulletin Board of the National Association of Securities Dealers, Inc. on April 21, 2006 pursuant to Rule 457(c) promulgated under the Securities Act of 1933.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and the selling stockholders are not soliciting offers to buy these securities, in any state where the offer or sale of these securities is not permitted.

PROSPECTUS

SUBJECT TO COMPLETION, DATED APRIL 24, 2006

9,354,000 shares of Common Stock

UNITED ENERGY CORP.

This prospectus relates to the resale by selling stockholders of (i) 100,000 shares of our common stock issuable upon the exercise of warrants in connection with a consulting agreement dated May 17, 2004 (ii) 4,250,000 shares of our common stock and (iii) 5,004,000 shares of our common stock issuable upon the exercise of our outstanding Series C Warrants.

We will not receive any proceeds in this offering from the resale of the shares of common stock held by the selling stockholders. We may receive proceeds in this offering from the issuance of our shares of common stock issuable upon exercise of the outstanding Series C Warrants in the event that Series C Warrant holders exercise such warrants and pay the applicable cash exercise price in connection with such exercise.

Pursuant to certain registration rights agreements entered into by and among us and the selling stockholders, we have agreed to pay all expenses of the company and all reasonable expenses of the selling stockholders (excluding discounts, commissions, fees of underwriters, selling brokers, dealer managers or similar securities industry professionals), in each case incurred in connection with the registration of the shares of common stock covered by this prospectus.

Our common stock is quoted on the OTC Bulletin Board under the symbol `UNRG.OB`. On April 21, 2006, the average of the high ask and low bid prices, respectively, of our common stock as reported on the OTC Bulletin Board was \$1.87 per share.

Investing in our common stock involves a high degree of risk. Please carefully consider the Risk Factors beginning on page 2 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2006.

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SUMMARY

You should read the following summary together with the more detailed information contained elsewhere in this prospectus, including the section entitled **Risk Factors**, regarding our company and the common stock being registered and sold in this offering. Unless the context otherwise requires, we, our, us and similar phrases and the Company refer to United Energy Corp., a Nevada corporation.

THE COMPANY

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

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

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

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

Through our wholly owned subsidiary, Green Globe Industries, Inc., we provide the U.S. military with a variety of environmentally friendly, non-hazardous, biodegradable solvents and cleaners under our trade name Qualchem. Green Globe is a qualified supplier for the U.S. military and has sales contracts currently in place.

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

CORPORATE INFORMATION

Our principal executive office is located at 600 Meadowlands Parkway, #20, Secaucus, New Jersey 07094, and our telephone number is (201) 842-0288. We also maintain a regional sales office in Houston, Texas, to service our oil industry customers. Our website is located at www.unitedenergycorp.net. Information on our website is not part of this prospectus.

THE OFFERING

Common stock offered by the selling stockholders:

Number of shares of common stock 4,250,000 shares

Number of shares that may be issued upon exercise of warrants 5,104,000 shares

Total shares offered 9,354,000 shares

Common stock to be outstanding after this offering (1) 31,005,882 shares

Risk Factors See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of common stock.

Use of Proceeds We do not own any of the shares being offered hereby; therefore, we will not receive any cash proceeds from the sale of the shares.

OTC Bulletin Board UNRG.OB

(1) The number of shares of common stock to be outstanding after the offering is based on our shares outstanding as of March 31, 2006.

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On May 17, 2004, we entered into a consulting agreement with C.C.R.I. Corporation for certain investor relations and development services. As consideration for these services, we issued warrants to purchase 100,000 shares of our common stock with an exercise price of \$2.00 per share. The underlying shares of common stock issuable upon exercise of the warrants are included in this prospectus.

On March 18, 2005, we entered into a securities purchase agreement with two private investors with respect to the sale of shares of our common stock, a new Series A Convertible Preferred Stock (the Preferred Stock) and warrants. The agreement provides for two types of units, designated as 20 Series A units and 42 Series B units, and for several closings. Each Series A unit consisted of 100,000 shares of our common stock and warrants to purchase 50,000 shares of common stock. Each Series B unit consisted of ten shares of Preferred Stock and warrants to purchase 40,000 shares of common stock. Each share of Preferred Stock is convertible into 80,000 shares of common stock at a conversion price of \$1.00 per share, and the warrants are exercisable at an exercise price of \$1.00 per share.

Subsequently, on January 26, 2006, we entered into the First Amendment to Securities Purchase Agreement dated as of March 18, 2005. Pursuant to the amendment, the investors agreed to purchase the remaining Series A Units for \$580,000, with the closing scheduled to occur on or before February 1, 2006. The investors waived a condition to such a closing in the original agreement related to the required amount of purchase orders we needed to obtain. The agreement was scheduled to expire on its first anniversary, March 18, 2006. The amendment changed that date to the earlier of March 18, 2008 or thirty (30) days after notice of termination from the holder of a majority of the shares issued under the agreement.

On March 9, 2006, we entered into the Second Amendment to Securities Purchase Agreement dated as of March 18, 2005. 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 our common stock (the Series B Warrant), for an aggregate purchase price of \$24,000. In addition, the investors have agreed to waive all existing defaults under the purchase agreement, including our failure to timely file a Certificate of Designations for the Preferred Stock and to timely issue common stock certificates and warrants.

We and the investors also agreed to terminate all further obligations of the investors to purchase and our 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, we agreed to issue to one of the investors warrants to purchase 5,004,000 shares of our common stock at an exercise price of \$1.00 (the Series C Warrant). 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 we issue shares of common stock at a price less than the conversion price or the exercise price 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. The 5,004,000 shares of our common stock that may be issued upon exercise of the Series C Warrants are covered by this prospectus.

On March 24, 2006, we entered into Securities Purchase Agreements with the purchasers named therein (the Purchasers) and a First Amendment to Securities Purchase Agreement and Registration Rights Agreement pursuant to which we raised \$5,100,000 in gross cash proceeds from the sale to the Purchasers in a private placement of 4,250,000 shares of our common stock at a price of \$1.20 per share. The 4,250,000 shares of our common stock sold in the March 2006 offering are covered by this prospectus.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following material risks, together with the other information contained in this prospectus, 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 AN CURRENT ACCUMULATED DEFICIT OF APPROXIMATELY \$15.3 MILLION AS OF DECEMBER 31, 2005 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 December 31, 2005, we had an accumulated deficit of \$15,296,387. 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 KH-30 oil and gas well cleaning products. We incurred net losses of \$1,854,876 and \$2,569,098 in the fiscal years ended March 31, 2005 and 2004, respectively and a net loss of \$2,898,419 in the nine months ended December 31, 2005. Our future profitability depends in large part on our ability to market and support our KH-30 oil and gas well cleaners. 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, MAKING OUR PROSPECTS LESS CERTAIN.

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Our business plan is focused largely on marketing efforts for KH-30. Although we believe that the application of KH-30 oil and gas well cleaning products on a continuous basis will result in higher production and lower power lease operating costs, the introduction of KH-30 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 KH-30. 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 KH-30 has been much slower than we initially anticipated. If we and our KH-30 marketing partners are unable to successfully achieve market acceptance for KH-30, our future results of operations and financial condition will be adversely affected, making our prospects less certain.

IF WE ARE UNABLE TO IMPROVE SALES OF UNIPROOF, WE MAY NOT BE ABLE TO GENERATE SUBSTANTIAL REVENUES OR ACHIEVE PROFITABILITY, WHICH WOULD SERIOUSLY IMPAIR OUR ABILITY TO MARKET KH-30.

Our success to date has been substantially dependent on sales of our Uniproof proofing paper. Sales of Uniproof accounted for approximately 30% and 46% of revenues for the fiscal years ended March 31, 2005 and 2004, respectively, and approximately 27% of revenues for the nine months ended December 31, 2005. Our business plan is to use the cash flow from these sales to support worldwide marketing efforts for our KH-30 oil and gas well cleaning products and, to a lesser extent, to promote our other specialty chemicals. The decline in the United States economy severely impacted the level of proofing paper sales. The depressed economy resulted in a drop in the number of advertising pages in publications, one of the main markets in which Uniproof is used. If we are unable to generate significant revenue from this product, or 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 KH-30 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 KH-30.

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 KH-30 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.

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 significant portion of our revenue is earned in connection with sales of Uniproof proofing papers to the Alameda Company of Anaheim, California. During the fiscal years ended March 31, 2005 and 2004 and the nine months ended December 31, 2005, sales attributable to Alameda represented approximately 30%, 46% and 27%, respectively, of our total revenues. Revenue from Alameda is expected to continue to decline as a percentage of our total revenues. A decision by Alameda to discontinue its relationship with us could result in a significant loss of revenue to us. Indeed, our three largest customers accounted for 72% and 53% of our revenues for the year ended March 31, 2005 and for the nine months ended December 31, 2005, 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. The photosensitive coating for our Uniproof product is applied by one independent coater. 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, that 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 SPECIALTY CHEMICAL AND PRINTING 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 KH-30 and related line of cleaners 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 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.

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For our Uniproof product, our principal competitor is E.I. duPont de Nemours & Co., which controls in excess of 95% of the domestic proofing paper market (estimated at \$80 million to \$100 million per year). DuPont has a longer operating history, significantly larger customer base, greater brand recognition and greater financial, marketing and other resources.

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 keyman 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 25.0% 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, knowhow 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.

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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.

FORWARD LOOKING INFORMATION

All statements included in this prospectus, other than statements of historical facts, that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward looking statements. Such statements are typically characterized by terminology such as believe, anticipate, should, intend, plan, will, expect, estimate, project, positioned, strategies, expressions. These statements are based on assumptions and assessments made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors that our management believes to be appropriate. These forward looking statements are subject to a number of risks and uncertainties, including those risks described in this prospectus under **Risk Factors**, as well as other factors that our management has not yet identified. Any such forward looking statements are not guarantees of future performance and actual results, developments and business decisions may differ from those contemplated by such forward looking statements. We disclaim any duty to update any forward looking statements.

USE OF PROCEEDS

We do not own any of the shares offered hereby. The selling stockholders will receive all of the proceeds from the sale of shares covered by this prospectus. We will receive none of the proceeds from the sale of the shares by the selling stockholders. If all of the Series C Warrants are exercised in full, we will receive \$5,004,000, which will be used for working capital and for general corporate purposes. If all of the warrants issued to C.C.R.I Corporation are exercised in full, we will receive \$200,000, which will be used for working capital and for general corporate purposes.

SELLING SECURITY HOLDERS

We are registering a total of 9,354,000 shares of our common stock, pursuant to the requirements of (i) a Consulting Agreement that we entered into with C.C.R.I. Corporation on May 17, 2004, (ii) a Second Amendment to Securities Purchase Agreement and Registration Rights Agreement that we entered into with certain of the selling stockholders on March 9, 2006 and (iii) Securities Purchase Agreements, Registration Rights Agreement and a First Amendment to Securities Purchase Agreement and Registration Rights Agreement that we entered into with certain of the selling stockholders on March 24, 2006. None of the selling stockholders listed below has ever held any position or office with us.

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On May 17, 2004, we entered into a consulting agreement with C.C.R.I. Corporation for certain investor relations and development services. As consideration for these services, we issued warrants to purchase 100,000 shares of our common stock with an exercise price of \$2.00 per share. The underlying shares of common stock issuable upon exercise of the warrants are included in this prospectus.

On March 18, 2005, we entered into a securities purchase agreement with two private investors with respect to the sale of shares of our common stock, a new Preferred Stock and warrants. The agreement provides for two types of units, designated as 20 Series A units and 42 Series B units, and for several closings. Each Series A unit consisted of 100,000 shares of our common stock and warrants to purchase 50,000 shares of common stock. Each Series B unit consisted of ten shares of Preferred Stock and warrants to purchase 40,000 shares of common stock. Each share of Preferred Stock is convertible into 80,000 shares of common stock at a conversion price of \$1.00 per share, and the warrants are exercisable at an exercise price of \$1.00 per share.

Subsequently, on January 26, 2006, we entered into the First Amendment to Securities Purchase Agreement dated as of March 18, 2005. Pursuant to the amendment, the investors agreed to purchase the remaining Series A Units for \$580,000, with the closing scheduled to occur on or before February 1, 2006. The investors waived a condition to such a closing in the original agreement related to the required amount of purchase orders we needed to obtain. The agreement was scheduled to expire on its first anniversary, March 18, 2006. The amendment changed that date to the earlier of March 18, 2008 or thirty (30) days after notice of termination from the holder of a majority of the shares issued under the agreement.

On March 9, 2006, we entered into the Second Amendment to Securities Purchase Agreement dated as of March 18, 2005. 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 Series B Warrants to purchase 12,000 shares of our common stock, for an aggregate purchase price of \$24,000. In addition, the investors have agreed to waive all existing defaults under the purchase agreement, including our failure to timely file a Certificate of Designations for the Preferred Stock and to timely issue common stock certificates and warrants.

We and the investors also agreed to terminate all further obligations of the investors to purchase and our 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, we agreed to issue to one of the investors Series C Warrants to purchase 5,004,000 shares of our common stock at an exercise price of \$1.00. 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 we issue shares of common stock at a price less than the conversion price or the exercise price 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.

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

The following table sets forth information regarding the shares being registered hereunder, as of March 31, 2006, with respect to the shares owned by the selling stockholders. The number of shares of common stock offered for resale by this prospectus by the selling stockholders was determined by the terms of our agreements with such selling stockholders.

Name of Selling Stockholder	Shares of Common Stock Owned Prior to the Offering (1)	Number of Shares to be Offered for Sale (2)	Number of Shares of Common Stock Owned after Offering (2)	Percentage of Class after Offering
Sherleigh Associates Inc. Profit Sharing Plan	8,286,500(3)	5,004,000	3,282,500	8.9%
Ursuline Co.	100,000	100,000	0	
Atlas Allocation Fund L.P.	833,333	833,333	0	
Bedford Oak Partners, LP	200,000	200,000	0	
Edward Newman	62,500	62,500	0	
Knoll Capital Fund II Master Fund, Ltd	312,500	312,500	0	

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Europa International, Inc.	312,500	312,500	0	
Glen Tobias	100,000	100,000	0	
James G. Irvine	83,333	83,333	0	
Jan Arnett	150,000	150,000	0	
Kerry Propper	83,333	83,333	0	
Kleopatra Georgiades	100,000	100,000	0	
Michelle Jaigobind	41,667	41,667	0	
Christopher Fiore	41,667	41,667	0	
Paul G. LaRosa	20,833	20,833	0	
MJR Holdings Inc.	83,333	83,333	0	
Silverman Sclar Shin & Byrne PLLC Pension Plan	75,000(4)	25,000	50,000	*
Richard D. Propper	83,333	83,333	0	
London Family Trust	400,000	400,000	0	
Heller Capital Investments, LLC	425,000	425,000	0	
St. Cloud Capital Partners, LP	166,667	166,667	0	
Stifel, Nicolaus Custodian for Jonathan Berg Roth IRA Account 14992590	41,667	41,667	0	
MDZNK Partners	41,667	41,667	0	
Terry Fields	25,000	25,000	0	
Stanley Grossman	100,000	100,000	0	
LSJ Holdings	19,864	19,864	0	
Paul Jolliffe	28,102	28,102	0	
James K. Price	56,206	56,206	0	
John Price	19,864	19,864	0	
Reinaldo Pascual	19,864	19,864	0	
J. Thomas Presby	19,864	19,864	0	

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Sir Anthony Jolliffe	28,079	28,079	0
DW Investments, LLC	56,206	56,206	0
OilWorks Partners	168,618	168,618	0
C.C.R.I. Corporation	100,000(5)	100,000	0
* Less than 1%			

(1) Except as otherwise indicated, the number of shares beneficially owned is determined under rules promulgated by the SEC assuming that the warrants and other convertible securities held by the selling stockholders do not contain any limitations on conversion or exercise, and the information is not necessarily indicative of beneficial ownership for any other purpose. Each selling stockholder has sole voting power and investment power with respect to all shares of common stock listed as owned by that selling stockholder.

(2) We do not know when or in what amounts the selling stockholders will offer shares for sale, if at all. The selling stockholders may sell any or all of the shares included in and offered by this prospectus and any shares that may be sold pursuant to Rule 144 under the Securities Act. Because the selling stockholders may offer all or some of the shares pursuant to this offering, we cannot estimate the number of the shares that will be held by the selling stockholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares included in and covered by this prospectus will be held by the selling stockholders, but the shares they own that are not covered by this prospectus will be retained.

(3) Represents (a) 2,313,333 shares of common stock held by Sherleigh Associates Inc. Profit Sharing Plan (Sherleigh), a trust of which Jack Silver is the trustee;