

UNITED ENERGY CORP /NV/  
Form PRE 14A  
July 08, 2005  
**SCHEDULE 14A**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant  **&#84**  
Filed by a Party other than the Registrant  **&#163**

Check the appropriate box:

**&#84** Preliminary Proxy Statement  
 **&#163** Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))  
 **&#163** Definitive Proxy Statement  
 **&#163** Definitive Additional Materials  
 **&#163** Soliciting Material Pursuant to Section 240. 14a-12

**UNITED ENERGY CORP.**

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(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (check the appropriate box):

**&#84** No fee required.  
 **&#163** Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- 1) Title of each class of securities to which transaction applies:  
\_\_\_\_\_
- 2) Aggregate number of securities to which transaction applies:  
\_\_\_\_\_
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):  
\_\_\_\_\_
- 4) Proposed maximum aggregate value of transaction:  
\_\_\_\_\_
- 5) Total fee paid:  
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&#163 Fee paid previously with preliminary materials.

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- 1) Amount previously paid: \_\_\_\_\_
  - 2) Form, Schedule or Registration Statement No.: \_\_\_\_\_
  - 3) Filing Party: \_\_\_\_\_
  - 4) Date Filed: \_\_\_\_\_
-

**UNITED ENERGY CORP.**

**600 MEADOWLANDS PARKWAY #20**

**SECAUCUS, NEW JERSEY 07094**

Dear Fellow Stockholders:

July \_\_, 2005

You are cordially invited to attend a special meeting of the stockholders of United Energy Corp. The meeting will be held at the offices of Greenbaum, Rowe, Smith & Davis LLP, located at 99 Wood Avenue South, Woodbridge, New Jersey 08830, on \_\_\_\_\_, 2005, at 10:00 a.m., EST, for the following purposes:

1. To approve an amendment to our articles of incorporation providing authorization for the issuance of preferred stock.
2. To transact such business as may properly come before the meeting or any adjournments or postponements thereof.

Our board of directors recommends that stockholders vote in favor of the amendment to our articles of incorporation. Moreover, the board has fixed the close of business on June 9, 2005, as the record date for determination of stockholders entitled to notice of and to vote at the special meeting and all adjournments thereof. A list of these stockholders will be open to examination by any stockholder at the meeting and for five days prior thereto during normal business hours at our registered office: 915 Lyons Avenue, Elko, Nevada 89801.

**You are invited to attend the meeting in person. Even if you expect to attend, it is important that you sign, date and return the attached proxy promptly in the reply envelope provided, which requires no postage if mailed in the United States. It is important that your shares be represented at the meeting to assure the presence of a quorum. If you sign and send in a proxy, you may revoke it by executing a new proxy with a later date, by written notice of revocation to the secretary of the company at any time before it is voted, or by attendance at the meeting and voting in person.**

If you have any questions about the proposals or voting your shares, please call the Secretary of the Company at (800) 327-3456.

Sincerely,

RONALD WILEN

Chairman of the Board

**UNITED ENERGY CORP.**  
**600 Meadowlands Parkway, #20**  
**Secaucus, New Jersey 07094**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**  
**To be held on \_\_\_\_\_, 2005**

To the Stockholders of United Energy Corp.:

A special meeting of the stockholders of United Energy Corp. will be held at the offices of Greenbaum, Rowe, Smith & Davis LLP located at 99 Wood Avenue South, Woodbridge, New Jersey 08830, on \_\_\_\_\_, 2005 at 10:00 a.m., EST, to act on the following matters, which are more fully described in the accompanying Proxy Statement:

1. To approve an amendment to our articles of incorporation to authorize the issuance of preferred stock.
2. To authorize the transaction of such other business as may properly come before the meeting or any adjournments or postponements thereof.

The board of directors has fixed the close of business on June 9, 2005, as the record date for determination of the stockholders entitled to notice of, and to vote at, the meeting. Accordingly, only holders of record of our common stock at the close of business on that date will be entitled to notice of and to vote at the special meeting or any adjournment or postponement thereof. A complete list of the stockholders entitled to vote at the special meeting will be open to the examination of stockholders for any purpose germane to the special meeting at the meeting and during ordinary business hours for a period of 5 days prior to the special meeting at our registered office, located at 915 Lyons Avenue, Elko, Nevada 89801.

**ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE SPECIAL MEETING. TO ENSURE YOUR REPRESENTATION AT THE MEETING, HOWEVER, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE. A POSTAGE-PREPAID ENVELOPE IS ENCLOSED FOR THAT PURPOSE. YOUR PROXY MAY BE REVOKED BY YOU AT ANY TIME PRIOR TO THE VOTE AT THE SPECIAL MEETING BY FOLLOWING THE PROCEDURES SET FORTH IN THE ACCOMPANYING PROXY STATEMENT.**

By Order of the Board of Directors

Secaucus, New Jersey  
\_\_\_\_\_, 2005

RONALD WILEN  
Chairman of the Board

**UNITED ENERGY CORP.**

600 Meadowlands Parkway #20

Secaucus, New Jersey 07094

**Proxy Statement**

First sent to shareholders on July \_\_\_\_, 2005

**ABOUT THE SOLICITATION**

This Proxy Statement is furnished in connection with our solicitation of proxies to be voted at a special meeting of the stockholders.

**You must complete and return the enclosed proxy in order to vote for or against the proposals. Our board of directors recommends a vote for the proposals.**

Whether or not you are able to attend the special meeting, your vote by proxy is very important. Stockholders are encouraged to mark, sign and date the enclosed proxy and mail it promptly in the enclosed return envelope.

Proxies are being solicited by and on behalf of our board of directors. We will bear all expenses of this solicitation, including the cost of preparing and mailing this Proxy Statement. In addition to solicitation by use of the mails, proxies may be solicited by our directors, officers and employees personally, by telephone or otherwise. Such persons will not receive any fees or other compensation for such solicitation, but may be reimbursed for out-of-pocket expenses in connection with such solicitation. Arrangements will also be made with custodians, nominees and fiduciaries for forwarding of proxy solicitation materials to beneficial owners of our common stock held of record by such persons, and we may reimburse such custodians, nominees and fiduciaries for reasonable expenses incurred in connection therewith.

In this Proxy Statement, we use the terms United Energy, we, us and our to refer to United Energy Corp., a Nevada corporation.

**Record Date; Stockholders Entitled to Vote**

The record date for purposes of determining which stockholders are eligible to vote at the special meeting is June 9, 2005. On the record date there were 23,652,517 shares of our common stock outstanding, and there were 450 shareholders of record. We believe that there are approximately [NUMBER] beneficial owners of our common stock.

**Date, Time and Place of Special Meeting**

The special meeting will be held on \_\_\_\_\_, 2005 at 10:00 a.m. Eastern Standard Time, at the offices of Greenbaum, Rowe, Smith & Davis LLP, located at 99 Wood Avenue South, Woodbridge, New Jersey 08830.

**Purpose of Special Meeting**

The purpose of the special meeting is to consider and vote on a proposal to amend our articles of incorporation to authorize the issuance of preferred stock. This amendment is sought in connection with the securities purchase agreement we entered into on March 18, 2005 with two private unaffiliated investors, Joseph J. Grano, Jr., and Sherleigh Associates, Inc. Profit Sharing Plan. The terms of the purchase agreement are more fully described on our report on Form 8-K filed with the Securities and Exchange Commission on March 23, 2005, which should be read in conjunction herewith.

**Quorum; Voting Rights; Effect of Abstentions and Non-Votes**

The presence of the holders of a majority of our outstanding shares of common stock entitled to vote at the special meeting, present in person or represented by proxy, is necessary to constitute a quorum. Abstentions are counted as present and entitled to vote for purposes of determining a

quorum.

The affirmative vote of a majority of shares present in person or represented by proxy at the meeting and entitled to vote is required to approve the amendment to our articles of incorporation. Abstentions and broker non-votes are not counted as votes for or against this proposal, but are counted in determining the number of shares present or represented at the meeting.

If your broker holds your shares in its name, the broker is permitted to vote your shares at the meeting, even if it does not receive voting instructions from you. However, if you wish to provide instructions to your broker, please follow the procedures set forth by your broker.

#### **Revocation of Proxies**

A stockholder who has executed and returned a proxy may revoke it at any time before it is voted by executing and returning a proxy bearing a later date, by giving written notice of revocation to the Secretary of the Company, or by attending the special meeting and voting in person.

#### **Persons Making this Solicitation**

This solicitation is made by the Company. We will pay the expenses of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees, in person or by telephone, electronic transmission and facsimile transmission.

#### **Accountants**

Representatives of Imowitz, Koenig & Co., LLP, our principal accountants for the current year and for the most recently completed fiscal year are expected to be present at the special meeting and will have the opportunity to make a statement if they so desire. In addition, the representatives will be available to respond to appropriate questions.

#### **Stockholder Account Maintenance**

Our transfer agent is Interstate Transfer Co., 6084 South 900 East, Suite 101, Salt Lake City, Utah 84121. All communications concerning accounts of stockholders of record, including address changes, name changes, inquiries as to requirements to transfer shares of common stock and similar issues can be handled by calling (801) 281-9746.

#### **No Dissenters Rights**

Stockholders have no statutory appraisal or dissenters rights with respect to the amendment to our articles of incorporation or our undertaking of any of the transactions described in this Proxy Statement.

#### **Questions and Requests for Assistance**

Questions and requests for assistance or for additional copies of this Proxy Statement may be directed to the President of the Company at (800) 327-3456.

**Delivery of Documents to Stockholders Sharing an Address**

Only one Proxy Statement may be delivered to two or more stockholders who share an address, unless we have previously received contrary instructions from those stockholders. If

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you share an address with another stockholder and would like to obtain an additional copy (which we will promptly send to you at no cost), would like to request that in the future you always receive multiple copies, or if you currently receive multiple copies and would like to request that you only receive one copy per address, please call or write to our Corporate Secretary as follows: (800) 327-3456, United Energy Corp., 600 Meadowlands Pkwy, #20, Secaucus, NJ 07094.

## **DESCRIPTION OF COMMON STOCK**

We are authorized to issue 100 million shares of common stock, par value \$0.01 per share. As of June 9, 2005, there were 23,652,517 shares of common stock issued and outstanding.

### **Common Stock**

Each share of common stock has one vote on all matters presented to the stockholders, except that at elections of directors each stockholder is entitled to as many votes as equals the number of shares of his or her stock multiplied by the number of directors to be elected. In director elections, a stockholder may cast all such votes for a single director or distribute his or her votes among the director nominees as he or she sees fit.

The holders of common stock are entitled to receive dividends when, as and if declared by the board of directors out of funds legally available therefore. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining available for distribution to them after payment of liabilities and after provision for claims against us. Holders of shares of common stock, as such, have no conversion, preemptive or other subscription rights, and there are no redemption provisions applicable to the common stock. All of the outstanding shares of common stock are fully paid and nonassessable.

## **PROPOSAL**

### **APPROVAL OF AMENDMENT**

### **TO OUR**

### **ARTICLES OF INCORPORATION**

On March 16, 2005, our board of directors unanimously adopted a resolution declaring, among other things, it advisable to amend our articles of incorporation to authorize the issuance of preferred stock. Under Nevada law, our stockholders must approve the proposed amendment to Article Fourth of our articles of incorporation. The proposed amendment permits the issuance of up to 100,000 shares of preferred stock in one or more series, each with such rights, preferences and privileges (including dividends or interest rate, conversion prices, voting rights, redemption price and maturity date) as may be established from time to time by our Board of Directors without any further action or authorization by our stockholders.

If approved, the amendment to our articles of incorporation will become effective at the close of business on the date the amendment is accepted for filing by the Secretary of State of the State of





Nevada, which is expected to occur shortly after the approval of this proposal.

The certificate of amendment to our articles of incorporation is attached to this Proxy Statement as **Appendix A**. The statements made in this Proxy Statement with respect to the amendment should be read in conjunction with and are qualified in their entirety by reference to, **Appendix A**.

### **Transaction Description**

On March 18, 2005, we entered into a securities purchase agreement with two private unaffiliated investors, Joseph J. Grano, Jr., and Sherleigh Associates, Inc. Profit Sharing Plan, with respect to the sale of shares of our common stock and warrants and certain rights to acquire preferred stock of the Company. The agreement provides for two types of units, designated as Series A and Series B, and for several closings.

The Series A Units each consist of 100,000 shares of our common stock and a Series A Warrant to purchase 50,000 shares of our common stock at \$1.00 per share, subject to adjustment. The purchase price for each Series A Unit is \$80,000.00. The securities purchase agreement provides for the sale of up to 20 Series A Units. The Series B Units, however, each consist of 10 shares of a new class of preferred stock that will be convertible into 80,000 shares of our common stock in the aggregate, subject to adjustment, and a Series B Warrant to purchase 40,000 shares of our common stock at \$1.50 per share. The purchase price for each Series B Unit is \$80,000. The securities purchase agreement provides for the sale of up to 42 Series B Units.

Our articles of incorporation do not currently authorize the issuance of preferred stock. Therefore, we are seeking your approval to amend our articles of incorporation to provide such authorization. If we fail to obtain stockholder approval with 75 days after March 18, 2005, then the exercise price of the Series A Warrants will be reduced by \$0.01 for each day of delay, but not below \$0.05 per share.

An initial closing for 8 Series A Units was held on March 18, 2005, at which we issued 800,000 shares of common stock and Series A Warrants to purchase 400,000 shares of common stock for an aggregate purchase price of \$640,000. The proceeds of this sale will be used for working capital and for general corporate purposes as will the proceeds of any future sales of Units.

Subsequent closings under the securities purchase agreement are contingent upon our receipt of purchase orders from our customers, at the rate of one Unit for each \$100,000 of such orders. The 12 remaining Series A Units are to be purchased first, followed by the Series B Units. The obligation of the investors to purchase units expires on March 17, 2006.

### **Effect of Amendment**

In addition to allowing the successful consummation of the transactions contemplated by

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the securities purchase agreement described above, the approval of this amendment to our articles of incorporation will provide us with the flexibility to issue preferred stock for a variety of purposes without further action by the holders of our common stock, unless required by law. These purposes could include, among other things, the sale of stock to obtain additional funding, the purchase of property, the acquisition of or merger with or into other companies and for other bona fide corporate purposes.

We have not offered the preferred stock authorized by the Certificate of Amendment to the public and do not anticipate doing so in the future. Therefore, your ownership interest could be diluted by the issuance of additional shares of preferred stock, convertible into common stock. In addition, the preferred shares authorized in connection with the securities purchase agreement have rights and preferences in liquidation superior to yours. Therefore, preferred stockholders will receive a return on and of their investment in our preferred stock prior to your receipt of any return at all on your common stock.

The text of the proposed amendment to our articles of incorporation is attached to this Proxy Statement as **Appendix A**. The statements made in this Proxy Statement with respect to the proposed amendment should be read in conjunction with, and are qualified in this entirety by reference to, **Appendix A**.

The affirmative vote of holders of at least a majority of the shares of our common stock represented at the special meeting, provided a quorum is present, is required to approve this proposal. An abstention or a failure to vote on this proposal is not an affirmative vote and therefore will have the same effect as a negative vote on this proposal at the meeting.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE AMENDMENT TO OUR ARTICLES OF INCORPORATION AUTHORIZING THE ISSUANCE OF PREFERRED STOCK.**

#### **DESCRIPTION OF PREFERRED STOCK**

The preferred stock that is a component of the Series B Units offered to the private investors pursuant to the securities purchase agreement has been designated our Series A Convertible Preferred Stock. The certificate of designation of the Series A Convertible Preferred Stock is attached to this Proxy Statement as **Appendix B**. Other than the 420 shares to be designated as Series A Convertible Preferred Stock, our Board has no current plans to authorize additional series of preferred stock or to issue any such shares. The statements in this Proxy Statement with respect to the Series A preferred stock should be read in conjunction with, and are qualified in their entirety by reference to, **Appendix B**.

#### **Dividend Rights**

The Series A Convertible Preferred Stock, par value \$0.01 per share, entitles holders to receive dividends at a rate of 6.0% of the stated value (\$8,000.00) annually, payable twice yearly, on June 30 and December 30. Dividends on the preferred stock are cumulative and accrue daily from the date of issuance. Accrued but unpaid dividends accrue additional dividends, compounded annually, at the rate of 6.0% per annum.

#### **Terms of Conversion**

The preferred shares are convertible, in whole or in part, into fully paid and non assessable shares of our common stock, subject to certain limitations, at any time or times following issuance thereof. The number of shares of common stock issuable upon conversion of each preferred share is determined by dividing the conversion amount, which equals the stated value, by the conversion price, which equals \$1.00 (subject to adjustment). Generally, in the event that we issue common stock (or are deemed to have issued common stock) for a per share price less than the conversion price, the conversion price is adjusted downward to an amount equal to such lower price. In addition, the conversion price is adjusted for any subdivision of our common stock whether by stock split, stock dividend, recapitalization or otherwise. In the event

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that we issue or sell options or convertible securities that are convertible into or exchangeable or exercisable for our common stock at a variable price, the holders of the preferred stock have the right, but not the obligation, to substitute the variable price for the conversion price upon conversion of preferred stock.

### **Purchase Rights**

If we, at any time, grant or sell any options, convertible securities or rights to purchase stock, warrants or securities to the holders of our common stock, then the holders of our preferred shares will be entitled to acquire, on the same terms and conditions, the amount of stock, warrants or securities that the preferred stockholder would have acquired had the preferred stockholder converted his or her preferred stock into common stock.

### **Liquidation Preference**

In the event of a voluntary or an involuntary liquidation, dissolution or winding up of the Company, the preferred stockholders are entitled to receive, in cash from the assets of the Company, an amount equal to the sum of the stated value plus any accrued but unpaid dividends. Such payments will be paid to the preferred stockholders prior to the payment of any amounts to the common stockholders or to any other class of stockholders who are junior to the preferred stockholders.

### **Voting Rights**

Preferred stockholders have no voting rights, except as required by law, and except as specifically provided in the certificate of designations.

### **Participation**

The preferred stockholders are entitled to participate in any distributions or dividends that are paid to common stockholders to the same extent as if the preferred stockholder had converted his or her preferred stock into common stock.

### **Redemption**

We cannot redeem any preferred stock without the prior written consent of the holders of two-thirds or more of the outstanding preferred stock until all of the preferred stock has been converted into common stock and all accrued dividends have been paid.

### **Reorganization, Reclassification, Consolidation, Merger or Sale**

Prior to the consummation of any sale of all or substantially all of our assets, any recapitalization, reorganization, reclassification, consolidation, merger, or other transaction that entitles our common stockholders to receive securities or assets in exchange for his or her common stock, we are required to secure from the purchaser a written agreement (reasonably

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satisfactory to the holders of at least two-thirds of the outstanding preferred stock), for the exchange of the outstanding preferred stock for securities of the purchaser of a type that is substantially similar in form and substance to our preferred stock.

## SECURITY OWNERSHIP OF CERTAIN

### BENEFICIAL OWNERS AND MANAGEMENT

#### Beneficial Ownership Information

The following table sets forth information regarding the number of shares of our common stock beneficially owned on June 9, 2005, by each of our directors, each of our executive officers, 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.

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership(1)</b>	<b>Percent of Class(1)</b>
Ronald Wilen	4,087,000(2)	17.2%
Brian King	500,000(3)	2.1%
James McKeever, CPA	3,000	*
Louis Bernstein	--	*
Andrea Pampanini	52,500(4)	*
Martin Rappaport	3,020,100(5)	12.5%
Sanford M. Kimmel(6)	--	*
All current executive officers and directors as a group (5 persons)	7,652,600	30.8%
UNRG Investments LLC 3960 Howard Hughes Parkway, 5th Floor Las Vegas, NV 89109	1,500,000(7)	6.3%
LSR Capital UNRG, LLC 50 Charles Lindbergh Blvd., Suite 500 Uniondale, NY 11553	1,500,000(7)	6.3%

Robert L. Seaman 515 Madison Ave. New York, NY 10022	1,866,359(8)	7.9%
Laurus Master Fund, Ltd. c/o Ironshore Corporate Services Ltd. P.O. Box 1234 G.T. Queensgate House, South Church Street Grand Cayman, Cayman Islands	1,742,200(9)	7.3%
Joseph J. Grano, Jr. 375 Park Avenue, Suite 2008 New York, NY 10152	2,466,667(10)	10.1%

\* 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, and (ii) stock options to purchase 100,000 shares at an exercise price of \$1.80 per share, which are currently exercisable.
- (3) Represents stock options to purchase 1,250,000 shares at an exercise price of \$1.00 per share. Of the 1,250,000 shares covered by the stock options, 500,000 shares are currently exercisable and 750,000 shares shall vest and become exercisable on September 7, 2005.
- (4) Includes stock options to purchase 10,000 shares at an exercise price of \$.70 per share and 10,000 shares at an exercise price of \$1.80 per share, which are currently exercisable.
- (5) Includes (i) stock options to purchase 10,000 shares at an exercise price of \$.70 per share and 10,000 shares at an exercise price of \$1.80 per share, which are currently exercisable, but are subject to reduction, on a proportional basis, if Mr. Rappaport voluntarily resigns as a director prior to November 2004; and (ii) stock options to purchase 50,000 shares at an exercise price of \$1.11 per share and warrants to purchase 750,000 shares of common stock at an exercise price of \$2.00 per share, which are currently exercisable.
- (6) Mr. Kimmel resigned as our Chief Financial Officer in December 2003.
- (7) Includes 1,000,000 shares of common stock and warrants to purchase 500,000 shares of common stock.
- (8) Includes (i) 1,366,359 shares held by Mr. Seaman; (ii) 100,000 shares held by the law firm Seaman & Wehle, of which Mr. Seaman is a member; and (iii) options to purchase 400,000 shares at an exercise price of \$1.11 per share, all of which are currently exercisable.
- (9) Represents 1,142,200 shares that may be acquired immediately upon conversion of an outstanding secured convertible term note at a conversion price of \$0.80 per share and 600,000 shares that may be purchased immediately upon exercise of an outstanding common stock purchase warrant at an average exercise price of \$1.50 per share. The convertible note and warrant contain provisions that restrict Laurus from beneficially owning in excess of 4.9% of our outstanding shares of common stock. Laurus Capital Management, LLC, a Delaware limited liability company, may be deemed a control person of the shares owned by Laurus Master Fund, Ltd. David Grin and Eugene Grin are the principals of Laurus Capital Management, LLC. The address for Messrs. Grin is 825 Third Avenue, 14th Floor, New York, New York 10022.
- (10) Includes 1,266,667 shares of common stock, warrants to purchase 500,000 shares of common stock and warrants to acquire 700,000 shares of common stock.



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

The Securities Exchange Act of 1934 requires our directors and executive officers and persons who own more than 10% of a registered class of our equity securities to file reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission. To our knowledge, all filing requirements by our officers and directors were complied with during the current fiscal year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS 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 Proxy Statement beginning on page F-1.

**Overview**

We are primarily a specialty chemicals company because of our determination in fiscal 1998 to close our printing equipment division and focus on our KH-30 oil well cleaner and related products. However, a significant portion of our revenues has been related to the printing and the graphic arts industry. We believe that in the future our chemical sales will increase and that our reliance on the graphic arts segment of the company will decrease. During the past two fiscal years, we have derived additional revenues by acting as a graphic arts products distributor.

We do devote almost all of our time and effort into selling, promoting and developing our chemical products and we are continuing to increase our marketing efforts to develop new products as extensions of our original KH-30 product. We do believe that in the future our sales will increase. We also believe that our reliance on the graphic arts segment of the company will decrease.

On March 18, 2005, we closed on the sale of eight Series A Units, which included 800,000 shares of Common Stock and Series A Warrants to purchase 400,000 shares for an aggregate purchase price of \$640,000.

**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, 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 be unable 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.

### **Results of Operations**

Comparison of Fiscal Year Ended March 31, 2005 to Fiscal Year Ended March 31, 2004.

*Sales.* Sales increased to \$1,850,954 for the year ended March 31, 2005 from \$972,051 for the year ended March 31, 2004. The \$878,903 or 90%, increase in sales was due to higher sales of Specialty Chemicals and Uniproof proofing paper. Sales for our specialty chemical products including KH-30 and KX-91, and our Green Globe / Qualchem product line increased by 168%. The increase was primarily related to a 199% increase in sales of our KH-30 family of oil field dispersant products reflecting a higher level of orders. This was partially offset by a 61% decline in the level of U.S. Military sales during the year. We believe that last fiscal year the U.S. Government stocked up on orders and then cut its orders during the 2005 fiscal year due to other military priorities. Our three largest customers accounted for 72% of revenues for the year ended March 31, 2005 compared with 56% for the comparable period in 2004. Uniproof proofing paper sales increased by 14% due to higher level of orders from our primary customer.

*Cost of Goods Sold.* Cost of goods sold increased to \$759,064 or 41% of sales, for the year ended March 31, 2005 from \$516,647, or 53% of sales, for the year ended March 31, 2004. The increase in cost of goods sold was due to the increased sales of KH-30 products compared to the prior year and an increase in the volume of Uniproof proofing paper sales compared to the prior

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fiscal year.

*Selling, General and Administrative Expenses.* General and administrative expenses decreased to \$2,581,033 or 139% of sales, for the year ended March 31, 2005 from \$2,674,968, or 275% of sales, for the year ended March 31, 2004. The slight decrease in selling, general and administrative expenses are primarily related to lower salaries and benefits due to the departure of certain executives, lower travel and entertainment expenses, bad debts, laboratory expenses and insurance partially offset by an increase in professional fees.

*Oil Well Operating and Maintenance Cost Net.* In April 2004, we sold the oil well leases located in Laramie County, Wyoming, for \$15,000 and a 4.5% royalty on all future oil sales from these wells. The Company recognized no gain or loss on the sale of the oil well leases.

*Impairment Loss.* During the year ended March 31, 2005, we tested our goodwill by estimating its fair value using a discounted cash flow analysis. As a result, we recorded a goodwill impairment charge of \$2,010 related to the Green Globe segment. During the year ended March 31, 2004, we recorded a \$51,310 impairment charge related to the Green Globe segment. We also recorded a \$70,467 impairment loss related to the oil leases held by United Energy Oil Corp.

*Depreciation, Amortization and Depletion.* Depreciation, amortization and depletion decreased to \$84,401 for the year ended March 31, 2005 from \$127,177 for the year ended March 31, 2004 reflecting additions to fixed assets and capitalized legal costs related to patent filings, offset by the sale of the oil leases. Depletion expenses were not material.

*Interest Expense.* Interest expense increased to \$287,118 for the year ended March 31, 2005 compared with \$6,683 for the year ended March 31, 2004. The increase was due to interest on the \$1,750,000 convertible term note issued March 2004.

*Net Loss.* For the year ended March 31, 2005, we incurred a net loss of \$1,854,876, or \$0.08 per share, as compared to a net loss of \$2,569,098 for the year ended March 31, 2004, or \$0.12 per share. The average number of shares of common stock used in calculating earnings per share increased to 22,365,901 from 22,180,270 shares.

## **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, 2005, we had \$365,610 in cash and cash equivalents.

*Net Cash Used in Operating Activities.* During the fiscal year ended March 31, 2005, net cash used in operating activities was \$1,887,981 compared with \$1,913,167 for the fiscal year ended March 31, 2004.



*Net Cash Used in Investing Activities.* During the fiscal year ended March 31, 2005, net cash used in investing activities decreased to \$24,701 compared with \$280,000 for the year ended March 31, 2004. The decrease was primarily a result of a reduced 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, as well as \$15,000 in proceeds from the sale of the oil wells.

*Net Cash Provided by Financing Activities.* Net cash generated from financing activities decreased to \$760,267 resulting from \$626,667 of proceeds from our private placement in March 2005, as discussed below and a loan from the Chairman of the Board of \$133,600. This compares to cash provided from financing activities of \$1,590,250 for the year ended March 31, 2004 resulting from the net proceeds from sale of a secured convertible term note on March 24, 2004 in the amount of \$1,750,000, which was partially offset by \$159,750 of financing costs.

On March 18, 2005, we entered into a securities purchase agreement with two private investors with the respect to the sale of shares of our common stock and warrants. The agreement provides for two types of units, designated as Series A and Series B.

The Series A Units each consist of 100,000 shares of our common stock and a Series A Warrant to purchase 50,000 shares of our 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 securities purchase agreement provides for the sale of up to twenty (20) Series A Units.

On March 18, 2005, the contract date, the company issued 8 Series A Units or 800,000 shares of its common stock for a purchase price of \$640,000.

The Series B Units each consist of ten (10) shares of a new class of preferred stock that will be converted into 80,000 shares of our common stock in the aggregate, subject to adjustment, and a Series B Warrant to purchase 40,000 shares of our 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 purchase agreement provides for the sale of up to forty-two (42) Series B Units.

During the past two fiscal years ended March 31, 2005 and 2004, we have recorded aggregate losses from operations of \$4,423,974 and have incurred total negative cash flows from operations of \$3,801,148 for the same two-year period. The report of the independent registered public accounting firm with respect to our financial statements included in this Proxy Statement includes a going concern qualification, indicating that our recurring losses and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Our continued existence is dependent upon several factors, including 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.

### Contractual Obligations

Below is a table that presents our contractual obligations and commitments at March 31, 2005:

Contractual Obligation	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Convertible Note	\$ 1,600,000	\$ 583,330	\$ 1,016,670	\$	\$
Operating leases	305,432	137,028	165,922	2,482	
<hr/>					
Total contractual					
Cash obligations	\$ 1,905,432	\$ 720,358	\$ 1,182,592	\$ 2,482	\$
<hr/>					

### Reporting by Segments

We are primarily a specialty chemicals company because of our determination in fiscal 1998 to close our printing equipment division and focus on our KH-30 oil well cleaner and related products. However, a significant portion of our revenues has been related to the printing and the graphic arts industry. We believe that in the future our chemical sales will increase and that our reliance on the graphic arts segment of the company will decrease. During the past two fiscal years, we have derived additional revenues by acting as a graphic arts products distributor.

We do devote almost all of our time and effort into selling, promoting and developing our chemical products and we are continuing to increase our marketing efforts to develop new products as extensions of our original KH-30 product. We do believe that in the future our sales will increase. We also believe that our reliance on the graphic arts segment of the company will decrease.

The following table shows the proportion of total revenues by segment in each of the last two fiscal years:

<u>Fiscal Year</u>	<u>Graphic Arts</u>	<u>Specialty Chemicals</u>
2004	\$ 486,075	\$ 485,976
2005	\$ 549,462	\$ 1,301,492

### 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.

### **Recently Issued Accounting Standards**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123 (Revised 2004), Share-Based Payment ( SFAS No. 123R ). This revised accounting standard eliminates the ability to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25 and requires instead that such transactions be accounted for using a fair-value-based method. SFAS No. 123R requires public entities to record noncash compensation expense related to payment for employee services by an equity award, such as stock options, in their financial statements over the requisite service period. SFAS No. 123R is effective as of the beginning of the first interim or annual period that begins after December 15, 2005 for small business issuers. The Company does not plan to adopt SFAS No. 123R prior to its fourth-quarter of fiscal 2006. The Company expects that the adoption of SFAS No. 123R will have a negative impact on the Company's consolidated results of operations. The Company has historically provided pro forma disclosures pursuant to SFAS No. 123 and SFAS No. 148 as if the fair value method of accounting for stock options had been applied, assuming use of the Black-Scholes option-pricing model. Although not currently anticipated, other assumptions may be utilized when SFAS No. 123R is adopted.

### **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.

### **Interest Rates**

At March 31, 2005, the Company had a loan that had a variable interest rate. The loan, which had an outstanding balance of \$1,600,000 at March 31, 2005, was obtained in March 2004 and has a three-year term. The loan accrues interest at the greater of the prime rate of interest (as published in the Wall Street Journal) or 4% per annum. A one-percentage point increase in the prime rate of interest affecting our term loan would increase our net loss by \$16,000 over the next fiscal year.

### **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 Proxy Statement 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 Proxy Statement will in fact occur.

#### **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The response is submitted as a separate section of this Proxy Statement beginning on page F-1.

#### **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS**

##### **ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

#### **INCORPORATION BY REFERENCE**

The Securities and Exchange Commission allows us to incorporate by reference in this Proxy Statement other information that we file with it, which means that we can disclose important information to you by referring to those documents. This Proxy Statement incorporates important business and financial information about us that is not included in or delivered with this Proxy Statement. The information we file later with the Securities and Exchange Commission will automatically update and supersede this Proxy Statement. We incorporate by reference the documents listed below and any future filings made with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act.

1. Our Annual Report on Form 10-KSB for the year ended March 31, 2005.
2. Our Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004.
3. Our Current Report on Form 8-K dated Ma