United Health Products, Inc.
Form 10-Q
May 20, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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: 814-00717

UNITED HEALTH PRODUCTS, INC.
(Exact name of Company as specified in its charter)

Nevada	84-1517723
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1400 Old Country Road, Suite 302 Westbury, NY (Address of Company's principal executive offices)	11021 (Zip Code)

(516) 487-1431
(Company's telephone number, including area code)

_____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the 12 preceding months (or such shorter period that the registrant was required to submit and post such file). Yes o No o

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or

a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	o	Accelerated Filer	o
Accelerated Filer	o	Smaller Reporting Company	x

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 number of shares outstanding of the Registrant’s Common Stock, as of the filing date of this Form 10-Q was 102,647,640 after giving effect to the cancellation of 2,090,000 shares that Dr. Forman has agreed to cancel.

UNITED HEALTH PRODUCTS, INC.

FORM 10-Q QUARTERLY REPORT

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PART I – FINANCIAL INFORMATION

UNITED HEALTH PRODUCTS, INC
Condensed Consolidated Balance Sheets

	(Unaudited) March 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and Cash Equivalents	$10,828	1,855
Accounts Receivable	8,158	0
Prepaid expenses	12,394	0
Inventory	12,308	33,651
Total current assets	43,688	35,506
Other Assets		
Intangible Assets, Net	25,000	50,000
TOTAL ASSETS	$68,688	$85,506
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities		
Accounts payable and accrued expenses	$303,741	285,457
Liability for unissued shares	145,543	160,543
Notes payable - related parties	698,186	625,224
Other current liabilities	139,157	136,106
Total current liabilities	1,286,627	1,207,330
Commitments and Contingencies		
Stockholders' Deficiency		
Common Stock - $.001 par value, 150,000,000 Shares Authorized, 102,647,640 and 102,260,140 Shares Issued and Outstanding at March 31, 2014 and December 31, 2013, respectively	102,648	102,260
Additional Paid-In Capital	6,369,728	6,299,869
Accumulated Deficit	(7,690,315)	(7,523,953)
Total Stockholders' Deficiency	(1,217,939)	(1,121,824)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$68,688	$85,506

See notes to consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended March 31,	
	2014	2013
Revenues - see "Backlog under "Item 2"	$146,773	$-
Cost of goods sold	43,187	-
Gross profit	103,586	-
Operating Costs and Expenses		
Amortization of Intangibles	(25,000)	(25,000)
Selling, general and administrative expenses	(227,773)	(15,053)
Total Operating Expenses	(252,773)	(40,053)
Loss from Operations	(149,187)	(40,053)
Other expenses		
Interest Expense, Net	(17,175)	(17,175)
Total expenses	(17,175)	(17,175)
Net Loss	$(166,362)	$(57,228)
Net Loss per common share:		
Basic and diluted	$(0.00)	$(0.00)
Weighted average number of shares outstanding	102,518,473	84,644,133

See notes to consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Condensed Consolidated Statements of Stockholders' Deficiency
For the Three Months Ended March 31, 2014
(Unaudited)

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at January 1, 2014	102,260,140	$102,260	$6,299,869	$ (7,523,953)	$(1,121,824)
Issuance of Common Stock in connection with services	200,000	200	33,800		34,000
Stock options granted in connection with services	-	-	21,247		21,247
Issuance of Common Stock in connection with settlement of note payable	187,500	188	14,812		15,000
Net Income				(166,362)	(166,362)
Balance at March 31, 2014	102,647,640	$102,648	$6,369,728	$ (7,690,315)	$(1,217,939)

See notes to consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31, 2014	2013
Cash Flows from Operating Activities:		
Net Loss	$(166,362)	$(57,228)
Adjustments to Reconcile Net loss to Net Cash Used In Operating Activities:		
Depreciation and Amortization	25,000	25,000
Interest accrued	17,175	17,175
Issuance of stock	34,000	-
Stock options expensed	8,853	-
Changes in assets and liabilities:		
Accounts Receivable	(8,158)	-
Inventory	21,343	-
Accounts Payable and Accrued Expenses	18,284	15,021
Net Cash Used In Operating Activities	(49,865)	(32)
Cash Flows from Financing Activities:		
Proceeds from Related Parties	58,838	-
Increase (Decrease) in Cash and Cash Equivalents	8,973	(32)
Cash and Cash Equivalents - Beginning of period	1,855	32
CASH AND CASH EQUIVALENTS - END OF PERIOD	$10,828	$-
Schedule of Non-Cash Financing Activities:		
Issuance of Common Stock to settle debt	$15,000	$-

See notes to consolidated financial statements.

UNITED HEALTH PRODUCTS, INC. AND SUBSIDIARY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Organization and Basis of Preparation

United Health Products, Inc. (formerly United EcoEnergy Corp.) ("United" or the "Company") is a product development and solutions company focusing its growth initiatives on the expanding wound-care industry and disposable medical supplies markets. The Company produces an innovative gauze product that absorbs exudate (fluids which have been discharged from blood vessels) by forming a gel-like substance upon contact. Epic Wound Care, Inc. ("Epic"), the Company's principal operating subsidiary, was dissolved by the State of Florida on September 23, 2011 and, accordingly, all operations are now directly in the Company.

While the Company has funded its initial operations with private placements and secured loans from a related party, there can be no assurance that adequate financing will continue to be available to the Company and, if available, on terms that are favorable to the Company. The Company's ability to continue as a going concern is also dependent on many events outside of its direct control, including, among other things, improvement in the economic climate. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 8 of Regulation S-X, as appropriate. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements for the interim period, have been included.

Operating results for the interim periods presented are not necessarily indicative of the results to be expected for a full year.

The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim condensed financial statements should be read in conjunction with the Company's audited financial statements and notes for the period ended December 31, 2013 filed with the Securities and Exchange Commission on Form 10-K in April 2014.

Note 2. Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its former wholly owned subsidiary, Epic Wound Care, Inc. (which was dissolved by the State of Florida on September 23, 2011), as of the dates and for the fiscal years indicated. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets, as well as in the healthcare industry, and any other parameters used in determining these estimates, could cause actual results to differ.

Income Taxes

The Company accounts for income taxes using a method that requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities which is commonly known as the asset and liability method. In assessing the ability to realize deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company evaluates its tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are ''more-likely-than-not'' of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. The Company does not have a liability for any unrecognized tax benefits. Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof, with due consideration given to the fact that tax periods are open to examination by tax authorities. Management believes the Company is no longer subject to income examinations for years prior to 2010.

As of December 31, 2013, the Company has approximately $6.1 million of net operating loss carry-forwards available to affect future taxable income and has established a valuation allowance equal to the tax benefit of the net operating loss carry forwards and temporary differences as realization of the asset is not assured.

Revenue Recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, product has been delivered, the price is fixed or determinable and collectability is reasonably assured. Revenue is recognized net of estimated sales returns and allowances.

Revenues are attributable to the sale of medical products through distributor agreements. The principal terms of the agreements provide that the distributor orders be accompanied by partial payment in advance, which at least equals 50% of total manufactured cost, as defined, for orders for distributor inventory and, in addition, an agreed portion of the distributor's gross profit on special orders. The balance of the manufactured cost is due from the distributor at the time of shipment. The Company is also entitled to an agreed percentage of the distributor's profit on receipt by the distributor.

Per Share Information

Basic earnings per share are calculated using the weighted average number of common shares outstanding for the period presented. Diluted loss per share is the same as basic loss per share, as the effect of potentially dilutive securities (2,450,000 options and 1,698,378 warrants at March 2014), is anti-dilutive.

New Accounting Pronouncements
Recently Adopted Accounting Pronouncements

The Company has determined that there have been no other recently adopted or issued accounting standards that had or will have a material impact on its Consolidated Financial Statements.

Note 3. Related Party Transactions

The Company's transactions with LeadDog Capital LP were as follows:

	Quarter Ended March 31,	
	2014	2013
Balance at beginning of period	$ 504,603	$ 448,099
Interest accrued	14,126	14,126
Balance at end of period	$ 518,729	$ 462,225

At March 31, 2014 and 2013, notes payable – related parties includes unpaid interest of $167,078 and $110,574, respectively. In 2011, the Board authorized the issuance of 1,000,000 shares to LeadDog Capital Markets LLC to extend the maturity dates of the outstanding loans to December 2012. The notes were payable within one year of the origination date of the notes or under extensions through December 2012. These notes were not paid on December 31, 2012 and no demand has been made for payment. LeadDog has advised the Company that a discrepancy exists as to the amount of monies owed to them. In November 2013, the Company commenced a lawsuit against LeadDog Capital LP and its affiliates seeking to cancel the indebtedness and the return of shares of common stock issued to one or more defendants for cancellation of all securities issued to LeadDog Capital LP and its affiliates. See Note 6.

LeadDog Capital LP and its affiliates are shareholders and warrant holders; however, the group is restricted from becoming a beneficial owner (as such term is defined under Section 13(d) and Rule 13d-3 of the Securities Exchange Act of 1934, as amended, (the 1934 Act)), of the Company's common stock which would exceed 9.5% of the number of shares of common stock outstanding.

In addition, an officer of the Company has loaned approximately $180,000 to the Company to cover operating expenses with no repayment terms or interest charge.

Note 4. Issuances of Securities

On January 18, 2014, the Company entered into a consulting agreement with Steven Z. Safran to assist the Company in the areas of corporate networking, sales, marketing and strategic planning. Pursuant to said agreement, the Company issued 200,000 shares of restricted stock and immediately upon executing the agreement granted an option to purchase an additional 300,000 shares of stock at $0.12 per share from an outside investor.

Note 5. Fair Value Measurements

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities. The Company's investment in securities held for sale is fair valued by this method.

Level 2 — Observable inputs other than quoted prices included in Level 1. We value assets and liabilities included in this level using dealer and broker quotations, bid prices, quoted prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Note 6. Litigation

There are no legal proceedings pending or threatened against us, and we are unaware of any governmental authority initiating a proceeding against us, except as described below. On November 8, 2013, United Health Products, Inc. filed a Complaint in the Second Judicial District Court, State of Nevada, County of Washoe, against defendants LeadDog Capital LP, LeadDog Capital Markets LLC, Chris Messalas and Jan Chason, the Company's former Chief Financial Officer. The Company alleges that the defendants engaged in a course of conduct to divert funds from the Company for unauthorized purposes and to fraudulently induce the Company to issue common stock to some or all of the defendants. It is also alleged that as part of the defendants' conduct, the Company's secured lender, LeadDog Capital LP, made a series of loans, evidenced by promissory notes, to the Company from 2010 through 2012 and that, as a result of these loans, LeadDog Capital LP gained undue control over the business affairs of the Company and as a result of this undue control, funds borrowed from LeadDog Capital LP were diverted to other portfolio healthcare companies to which the hedge fund had made loans through the actions of defendants, Jan Chason and Chris Messalas. The relief sought by the Company includes, without limitation, the cancellation of funds owed to LeadDog Capital LP, the return of shares of common stock issued to one or more defendants for cancellation as well as damages.

Note 7. Material Agreements and Other Matters

As discussed in Note 5, the Company entered into an agreement with Steven Z. Safran as a consultant. Pursuant to said agreement, the Company issued 200,000 shares of restricted stock and immediately upon executing the agreement granted an option to purchase an additional 300,000 shares of stock at $0.12 per share from an outside investor. This agreement shall commence January 18, 2014 and shall expire July 17, 2014.

Note 8. Other Current Liabilities

As of March 31, 2014, included in other current liabilities are four outstanding notes to various individuals aggregating approximately $139,000 in principal and accrued interest. Interest accrues at the rate of 9% - 14% per annum.

Note 9. Stock Option Plan

On August 8, 2013, the Board of Directors approved the 2013 Employee Benefit and Consulting Services Compensation Plan which has 15,000,000 shares that may be issued under said Plan. The Plan provides for the direct issuance of shares of common stock under the Plan and for the grant of non-statutory stock options on terms established by the Board of Directors or committee thereof. While the Plan does not require stockholder approval to be implemented, in the event stockholder approval is obtained on or before August 8, 2014, then incentive stock options could be granted under the Plan. In September 2013, the Company issued 6,000,000 shares of stock under said Plan to Douglas Beplate pursuant to his consulting contract described in Note 8.

In the past, the Company has granted options to officers, directors, employees and/or consultants outside of a stock option plan. The following is a summary of changes to the Company's outstanding stock options which were not granted under the aforementioned 2013 Plan:

Options	
Outstanding at January 1, 2014	2,150,000
Granted	-
Outstanding at March 31, 2014	2,150,000

Note 10. Subsequent Events

The Company's Management has evaluated subsequent events through May 16, 2014 and there are none except as described herein.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes appearing elsewhere in this quarterly report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under 'Risk Factors' in our annual report on Form 10-K for the fiscal year ended December 31, 2013, filed with SEC on April 15, 2014.

OVERVIEW

The Company develops, manufactures, and markets a patented hemostatic gauze for the healthcare and wound care sectors. The product HemoStyp™, is derived from regenerated oxidized cellulose, which is all natural, and designed to absorb exudate/drainage from superficial wounds and helps control bleeding. The Company is focused on identifying new markets and applications for its product as well as ramping up sales in its current markets. The Company has received orders from the dental and medical markets and is pursuing multiple markets for HemoStyp™, including the medical, sports, dental, military and veterinary sectors, each of which represents a multi-million dollar market.

Manufacturing and Packaging of our Products

On October 1, 2013, the Company entered into an Operating Agreement with Hemo Manufacturing LLC. Hemo Manufacturing is to act as the exclusive supplier of manufactured products for the Company's products. Hemo Manufacturing is responsible for overseeing quality control of products at our overseas (non-exclusive) manufacturer in China as well as the packaging and labeling of our products for distribution. Pursuant to said agreement, 2,000,000 restricted shares of the Company's Common Stock were issued upon execution of the agreement. Under certain conditions, an additional 2,000,000 shares of the Company's Common Stock would be issued in the event the Company is bought out by a third party. The Company anticipates recording all sales directly to customers and making payment for goods directly to Hemo Manufacturing. The managing member of Hemo Manufacturing will retain 100% of the profits earned by Hemo Manufacturing unless the Company is sold to a third party. In the event of such a sale, the managing member of Hemo Manufacturing and the Company would have equal share in the gross profits. While the managing member of Hemo Manufacturing LLC owns 51% of this entity and the Company owns 49% of this entity, in practicality these ownership percentages only relate to control of the entity and not to our profits and losses of being split.

Primary Strategy

The Company's gauze products are designed for the wound care market and manufactured to our specifications by a manufacturing agent in China. The gauze can be used on any wound where bleeding is present. Upon contact with moisture, the gauze forms a gel-like substance that acts as a hemostatic agent to address bleeding quickly. The hemostatic gauze derived from regenerated oxidized/cellulose, which is all natural and designed to absorb exudate/drainage from superficial wounds and helps to control bleeding. Once bleeding has ceased and coagulation has occurred, the product can be rinsed away with saline solution or lukewarm water. After acquiring the intellectual property rights, in 2009, we have devoted our time to obtaining necessary approvals to enable the hemostatic gauze product to be sold worldwide as well as establishing an international distribution network.

In August 2012, the Company's manufacturing agent in China of its gauze products which is registered and branded in the United States under the trademark HemoStyp™, received 510(k) approval from the U.S. Food and Drug Administration ("FDA") to be sold as a Class I device. The Company has the ability to represent to distributors and customers that its gauze products meet all FDA requirements as a Class I device. This approval now allows us to

expand our potential customer base and pursue accounts that requested a current 510(k) FDA approval, including the prescription based medical arena, retail, hospital, EMS, military, state and national governmental agencies and veterinary markets. Our gauze products can be used to stop nose bleeds and for post dialysis treatment and venipuncture.

The Company’s strategy is to engage distributors to market the Company’s gauze products to the various worldwide markets. In 2013, the Company laid an initial foundation for the distribution of its hemostatic gauze products by entering into agreements with our first three distributors/partners (covering the dental, U.S. military and worldwide equestrian markets and Australasia). In 2014, the Company is seeking to expand on this base and is seeking to enter the international dialysis market. No assurances can be given that the Company will be successful in expanding its distribution market on terms satisfactory to us, if at all.