

Edgar Filing: United Health Products, Inc. - Form 10-Q

United Health Products, Inc.  
Form 10-Q  
August 22, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended June 30, 2011

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  
(State or other jurisdiction of incorporation or organization)

84-1517723  
(I.R.S. Employer Identification No.)

120 Wall Street, Suite 2401  
New York, NY  
(Address of Company's principal executive offices)

10005  
(Zip Code)

(646) 961-4459  
(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 Company: (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 Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark 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. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Shares, \$.001 par value per share - 80,840,394.as of August 18, 2011

UNITED HEALTH PRODUCTS, INC. AND SUBSIDIARY  
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UNITED HEALTH PRODUCTS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 30, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ -	\$ 2,381
Prepaid and other current assets	59,908	38,017
Total current assets	59,908	40,398
Intangibles – net	304,850	350,000
<b>TOTAL ASSETS</b>	<b>\$ 364,758</b>	<b>\$ 390,398</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY/ (DEFICIENCY)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 451,895	\$ 342,597
Due to related party	175,781	175,781
Notes payable – related party	283,526	146,335
Other current liabilities	117,275	110,999
Total current liabilities	1,028,477	775,712
Liability for unissued shares – related party	133,800	118,800
<b>STOCKHOLDERS' (DEFICIENCY)</b>		
Common stock, par value \$.001 per share; 150,000,000 shares 80,840,394 and 80,428,215		
issued and outstanding	80,840	80,428
Additional paid-in capital	4,461,166	3,943,270
Accumulated deficit	(5,339,525)	(4,527,812)
Total stockholders' (deficiency)	(797,519)	(504,114)
<b>TOTAL LIABILITIES AND STOCKHOLDER'S (DEFICIENCY)</b>	<b>\$ 364,758</b>	<b>\$ 390,398</b>

See notes to condensed consolidated financial statements

UNITED HEALTH PRODUCTS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues - net	\$	\$-	\$	\$35,461
Expenses				
Cost of sales				16,119
Amortization of intangibles	25,000	25,000	50,000	50,000
General and administration	212,567	1,173,362	739,173	1,273,124
Total expenses	237,567	1,198,362	789,173	1,339,243
Loss from operations	(237,567 )	(1,198,362 )	(789,173 )	(1,303,782 )
Other expenses/(income)				
Interest- net - principally related party	10,525	4,617	22,540	7,205
Finance costs	-	38,782		49,387
Net loss	\$(248,092 )	\$(1,241,761 )	\$(811,713 )	\$(1,360,374 )
Loss per share - basic and diluted	\$(0.00 )	\$(0.02 )	\$(0.01 )	\$(0.02 )
Weighted average shares outstanding	80,738,196	66,539,327	80,501,631	66,469,734

See notes to condensed consolidated financial statements

UNITED HEALTH PRODUCTS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' (DEFICIENCY)

	Common Stock Shares	Common Stock Amount	Additional Paid - in Capital	Deficit	Total Stockholders' (Deficiency)
Balance - December 31, 2010	80,428,215	\$ 80,428	\$ 3,943,270	\$(4,527,812 )	\$ (504,114)
Shares cancelled in connection with settlement	(2,000,000)	(2,000)	2,000		-
Issuance of common shares in connection with:					
Conversion of outstanding indebtedness to related party	862,179	862	42,246		43,108
Services	1,550,000	1,550	91,450		93,000
Issuance of stock options			382,200		382,200
Net loss for period	-	-	-	(811,713)	(811,713)
Balance – June 30, 2011	80,840,394	\$ 80,840	\$ 4,461,166	\$(5,339,525)	\$ (797,519)

See notes to condensed consolidated financial statements

UNITED HEALTH PRODUCTS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended	
	June 30,	
	2011	2010
<b>Cash Flows (Used in) Operating Activities</b>		
Net loss	\$(811,713 )	\$(1,360,374)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Amortization	50,000	53,735
Accrued interest payable - related party	15,280	44,198
Accrued interest payable	6,276	
Finance cost	-	8,659
Noncash compensation	468,950	921,975
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	-	(39,040 )
Prepaid and other current assets	(641 )	-
Accounts payables and accrued expenses	109,298	148,190
<b>Net Cash Used in Operating Activities</b>	<b>(162,550 )</b>	<b>(222,657 )</b>
<b>Cash Flows Used In Investing Activities</b>		
Increase in intangibles	(4,850 )	-
<b>Net Cash Used in Investing Activities</b>	<b>(4,850 )</b>	<b>-</b>
<b>Cash Flows Provided By (Used In) Financing Activities</b>		
Loans from related party	165,019	68,500
Private placement - common stock	-	267,500
<b>Net Cash Provided by Financing Activities</b>	<b>165,019</b>	<b>336,000</b>
Net (Decrease)/ Increase in Cash	(2,381 )	113,343
Cash at Beginning of Period	2,381	8,018
Cash at End of Period	\$ -	\$ 121,361
<b>Non-cash investing and financing activities:</b>		
<b>Issuance of common stock in connection with:</b>		
Redemption of indebtedness - related party (including related loss)	\$43,108	\$ 110,706
<b>Common stock cancelled in connection with settlement (at par value)</b>		
	\$2,000	

See notes to condensed consolidated financial statements

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

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. Epic Wound Care, Inc. (“Epic”), the Company’s principal operating subsidiary, produces an innovative gauze product that absorbs exudate (fluids which have been discharged from blood vessels) by forming a gel-like substance upon contact.

United was a closed-end management investment company that in February 2006 elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, (the “1940 Act”). The Company was originally formed in February 1997 as MNS Eagle Equity Group III, Inc.; however, it conducted no operations until electing to be a BDC through which it provided capital and other assistance to start-up and micro-cap companies. During this time, United acquired and established its initial interest in the medical, pharmaceutical and healthcare industry by acquiring certain intellectual property rights and creating Epic, which became the Company’s operating platform company in this industry. The Company also completed two minority equity investments in companies that are no longer strategic to our healthcare strategy.

In February 2010, our Board of Directors and the holders of a majority of our outstanding shares of common stock authorized management to withdraw the election to be regulated as a BDC. This decision was in part prompted by the actuality that the majority of the Company’s resources were allocated to managing the operating activities of its holdings and, in addition, management found that the Company may not have been in compliance with certain BDC provisions of the 1940 Act. On July 7, 2010, the Company filed an Information Statement with the SEC providing notice of shareholder action in lieu of a Meeting of Shareholders, taken pursuant to the written consent of certain shareholders, referred to as the consenting shareholders. Specifically, the consenting shareholders approved the withdrawal of the Company’s election to be a BDC. This action became effective on August 17, 2010 when the Company filed the applicable Notice concerning the withdrawal with the Securities and Exchange Commission. Further, in recognition of the change in its operations, the Company changed its name to United Health Products, Inc., effective as of September 30, 2010.

As a result of the decision to withdraw the Company’s election to be treated as a BDC and become an operating company, the fundamental nature of the Company’s business changed from that of investing in a portfolio of securities with the goal of achieving gains on appreciation and dividend income, to that of being actively engaged in the ownership and management of a holding company with the goal of generating income from the operations of those businesses. The decision to withdraw the Company’s election as a BDC under the 1940 Act necessitated a significant change in the Company’s method of accounting. The Company formerly utilized the BDC financial statement presentation and that accounting utilized the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost. As an operating company, the Company was required to adopt the financial statement presentation and accounting for securities held, which provides for either fair value or historical cost methods of accounting, depending on the classification of the investment and the Company’s intent with respect to the period of time it intends to hold the investment. This change in the Company’s method of accounting could impact the market value of its investments in privately held companies by eliminating the Company’s ability to report an increase in the value of its holdings as the increase occurs. As an operating company, the Company, effective December 31, 2009, consolidated its financial statements with its controlled subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.



The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business. The Company since its formation has not generated any significant revenues. The Company has not as yet attained a level of operations that allows it to meet its current overhead and may not attain profitable operations within its first few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. The Company is dependent upon obtaining additional financing adequate to fund its operations.

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, 2010 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, 2010 filed with the Securities and Exchange Commission on Form 10-K on April 15, 2011.

## Note 2. Significant Accounting Policies

### Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Epic Wound Care, Inc. 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.

### Concentration of Credit Risk

The Company may place its cash with various financial institutions and, at times, cash held in depository accounts at such institutions may exceed the Federal Deposit Insurance Corporation insured limit.

### Equity and Cost Method Investments in Affiliated Companies

The Company uses the equity method of accounting for its investments in entities in which it has significant influence; generally, this represents an ownership interest of between 20% and 50%. The Company uses the cost method of accounting for investments in equity securities in which it has a less than a 20% equity interest and virtually no influence over the investee's operations.

Application of the cost method requires the Company to periodically review this investment in order to determine whether to maintain the current carrying value or to write off some or all of the investment. While the Company uses some objective measurements in its review, the review process involves a number of judgments on the part of the Company's management. These judgments include assessments of the likelihood of the investments to obtain additional financing, to achieve future milestones, make sales and to compete effectively in its markets. In making these judgments, the Company must also attempt to anticipate trends in the industries as well as in the general economy. There can be no guarantee that the Company will be accurate in its assessments and judgments. To the extent that the Company is not correct in its conclusion, it may decide to write down all or part of the investment.

### 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.

As of December 31, 2010, the Company has approximately \$4.4 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 or services have been rendered, 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. The Company defers all amounts received in advance of shipment and recognizes as revenue the aggregate of amounts invoiced in advance and an estimate of the Company's portion of distributor's profit at the time of shipment.

#### 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 (13,225,000 options and 22,943 warrants at June 30, 2011) is anti-dilutive.

#### New Accounting Pronouncements

##### Recently Adopted Accounting Pronouncements

In December 2010, The Financial Accounting Standards Board ("FASB") adopted new disclosure guidance for supplementary pro forma information related by a public entity that enters into business combinations that are material on an individual or aggregate basis. The guidance specifies that if the public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. In addition, the guidance expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this did not have a material effect on the Company's operations or financial condition.

During the fiscal second quarter of 2010, the FASB issued an accounting standard update related to revenue recognition under the milestone method. The objective of the accounting standard update is to provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. This guidance was effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial position.

#### Note 3. Acquisition of Intellectual Property Rights

In June 2009, the Company acquired the intellectual property rights of Epic Wound Care, LLC, through a wholly-owned subsidiary, Epic Wound Care, Inc. (“Epic”). The intellectual property includes the right to manufacture and distribute innovative gauze to serve the wound care market. The acquisition cost for the rights was 30 million shares of Company’s common stock, of which 20 million shares were escrowed with the voting rights controlled by the Company pending attainment of certain performance targets over 18 months from the closing date of the transaction. The Company valued the rights acquired at \$500,000 based upon the Company's expectation for commercialization of the rights less costs to effectuate applicable approvals.

On March 8, 2011, the Company and Epic entered into a global settlement and release agreement (the “Settlement Agreement”) with various parties to resolve disputes regarding the Agreement and Plan of Acquisition, dated May 19, 2009, entered into by the Company in connection with its acquisition of the business and assets of Epic Wound Care, LLC (the “Acquisition Agreement”). The parties had differences of opinion concerning the satisfaction of certain milestones and conditions in the Acquisition Agreement in connection with the release of the escrowed shares mentioned above. The settlement provided for the release of 20 million escrowed shares to the sellers of the business and assets and the contribution of 2 million shares of the Company’s common stock to the capital of the Company (which were cancelled) to facilitate the settlement by certain non-controlling shareholders who provided investment advice to the Company on a regular periodic basis, including investment advice related to the Acquisition Agreement. As a condition to the settlement, the Board of the Directors of the Company waived certain milestones and conditions regarding the release of the escrowed shares as set forth in the Acquisition Agreement and the parties to the Settlement Agreement agreed to mutual releases and to resolve and settle any and all claims, controversies, disputes and causes of action, whether asserted or unasserted, known or unknown, real or potential, or whether in law, equity or otherwise, relating to, arising out of, or in any way concerning the Acquisition Agreement and the escrowed shares, without any admission of fault, liability or wrongdoing on the part of or on behalf of any party.

During the period prior to the settlement, although the common shares escrowed were legally issued and outstanding, for purposes of calculating earnings per share the Company considered these shares as contingent and did not include them in the calculation.

The Company is amortizing the intangibles acquired over a five year period and, accordingly recorded an amortization charge of \$25,000 and \$50,000 in both the 2011 and 2010 three and six month periods, respectfully.

Note 4. Related Party Transactions

The Company's transactions with LeadDog Capital LP for the six months ended June 30, 2011 was as follows:

Balance at beginning of period	\$ 146,335
New borrowings at 16% interest rate	165,019
Interest accrued	15,280
Redemption of indebtedness by the issuance of 862,179 shares of common stock	(43,108)
Balance at end of period	\$ 283,526

At June 30, 2011, notes and interest payable to related party includes unpaid interest of \$20,681. The notes are payable within one year of the origination date of the notes or under extensions through July 2011.

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.

Note 5. Issuances of Common Stock

In June 2011, the Board of Directors awarded compensation in the form of options to purchase 1,500,000 shares of common stock to three newly appointed Board members. As of the time of issuance, the Company recorded non-cash compensation charge of \$55,950. The options, exercisable at \$.05 per share, have a term of 5 years. The fair value of option grants were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Expected volatility	100%
Expected dividends	0%
Expected term	5 years
Risk-free rate	1.6%

In February 2011, the Board of Directors awarded compensation in the form of options to purchase 6,900,000 shares of common stock to Board members for past services as well as for current Board service. In addition, the Board awarded a consultant additional compensation in the form of options to purchase 350,000 shares of common stock. As of the time of issuance, the Company recorded non-cash compensation charges of \$326,250. The options, exercisable at \$.06 per share, have a term of 5 years. The fair value of option grants were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Expected volatility	100%
Expected dividends	0%
Expected term	5 years

Risk-free rate

2.21%

In February 2011, the Board also authorized the issuance of 1 million shares to LeadDog Capital Markets LLC and 300,000 shares to another consultant for providing financial expertise to the Company. In accordance with a consulting arrangement entered into in March 2011 for marketing services, the Company issued 250,000 shares and is additionally obligated to issue 250,000 shares of common stock in September 2011. As a result of entering into the contract, the Company recorded non-cash compensation expense of \$2,750 and \$82,500 during the three and six months ended June 30, 2011.

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In February and March 2011, the Company redeemed \$43,108 of indebtedness including interest to LeadDog Capital LP for 862,179 shares of common stock. The fair value of the common stock approximated the carry amount of the indebtedness at the time of the offer to convert.

#### Note 6: 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 7. Other Matters

On April 29, 2010, the Company's subsidiary, Epic, submitted a Section 510(k) premarket notification of intent to market its hemostatic gauze as a Class III device to the U.S. Food and Drug Administration ("FDA"). While hemostatic gauze is a Class I device and did not require any premarket notice to the FDA in order for the Company to market these products, the Company's notification identified substantially equivalent products in order to broaden the claims that the Company could make about its capabilities. On August 3, 2010, the FDA sent Epic a notice that the application was insufficient to allow the FDA to make the determination. Based upon the opinion of special FDA counsel, the Company believes its hemostatic gauze is a Class I surgical device and was exempt from the premarket notification procedures which allows sales of this product. The Company is not able, at this time, to make a determination as to the continuing impact of this notice. The Company is continuing to develop a retail marketing strategy that complies with the Class I designation to be implemented no later than the fourth quarter of 2011. In addition in May 2011, the Company received a thirty-day notice from its wholesale distributor terminating the distribution agreement based upon claimed material breach of the Company's representations and warranties. The Company has not responded pending evaluation of its new strategies for distribution of the product.

Epic entered into a corporate sponsorship agreement with American Diabetes Association (the "ADA") on July 29, 2010 that was to become effective on November 1, 2010. This agreement enables Epic to act as a sponsor of the ADA's programs and utilizes the ADA's trademarks and logos in association with Epic's products, as approved by the ADA. The agreement has a three-year term expiring October 31, 2013, subject to a mutual option to renew. The annual cost of the agreement is \$400,000. The Company and the ADA have informally agreed to defer the implementation date of this agreement due to the matters discussed in the paragraph above.

#### Note 8. Subsequent Events.



During the period July 1, 2011 through August 18, 2011, the Company borrowed an aggregate of \$36,200 from LeadDog Capital LP with interest payable at 16% per year and due dates six months after issuance.

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, filed with SEC April 15, 2011.

## OVERVIEW

United Health Products, Inc. is a product development and solutions company focusing its growth initiatives on the expanding wound-care industry and disposable medical supplies markets. Epic Wound Care, Inc. ("Epic"), our principal operating subsidiary produces an innovative gauze product that absorbs exudate (fluids which have been discharged from blood vessels) by forming a gel-like substance upon contact.

United was a closed-end management investment company, which in February 2006, elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, (the "1940 Act"). Originally, we were formed in February 1997 as MNS Eagle Equity Group III, Inc.; however, we conducted no operations until electing to be a BDC through which we provided capital and other assistance to start-up and micro-cap companies. During this time, we acquired and established our initial interest in the medical, pharmaceutical and healthcare industry by acquiring certain intellectual property rights and creating Epic, which will become our operating platform company in this industry. We also completed two minority equity investments in companies that we now believe will not be strategic to our healthcare strategy.

In February 2010, our Board of Directors and the holders of a majority of our outstanding shares of common stock authorized management to withdraw the election to be regulated as a BDC. This decision was in part prompted by the actuality that the majority of our resources were allocated to managing the operating activities of our holdings and, in addition, management found that the Company may not have been in compliance with certain BDC provisions of the 1940 Act. In addition, we received communications from the Securities and Exchange Commission in which the Commission alleged that the Company was not in compliance with some of the Rules and Regulations governing BDC's. On July 7, 2010, the Company filed an Information Statement with the SEC providing notice of shareholder action in lieu of a Meeting of Shareholders, taken pursuant to the written consent of certain shareholders, referred to as the consenting shareholders. Specifically, the consenting shareholders approved the withdrawal of the Company's election to be a BDC. This action became effective on August 17, 2010 when we filed the applicable Notice concerning the withdrawal with the Securities and Exchange Commission. Further, in recognition of the change in its operations we changed our name to United Health Products, Inc., effective as of September 30, 2010.

As a result of the decision to withdraw our election to be treated as a BDC and become an operating company, the fundamental nature of our business changed from that of investing in a portfolio of securities with the goal of achieving gains on appreciation and dividend income, to that of being actively engaged in the ownership and management of a holding company with the goal of generating income from the operations of those businesses. The decision to withdraw our election as a BDC under the 1940 Act necessitated a significant change in our method of accounting. We formerly utilized the BDC financial statement presentation and that accounting utilized the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost. As an operating company, we were required to adopt the financial statement presentation and accounting for securities held which provides for either fair value or historical cost methods of accounting, depending on the classification of the investment and our intent with respect to the period

of time it intends to hold the investment. This change in our method of accounting could impact the market value of our investments in privately held companies by eliminating our ability to report an increase in the value of its holdings as the increase occurs. As an operating company, the Company, effective December 31, 2009, consolidated its financial statements with its controlled subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.

The preparation of our financial statements 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. 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 could differ materially from these estimates under different assumptions or conditions.

#### Business Plan

We develop, manufacture and market products and technologies in the healthcare sector. Our principal operating subsidiary is Epic, which produces hemostatic gauze, a collagen-like natural substance created from chemically treated cellulose that is designed to address severe bleeding in wound care applications. We are focused on identifying additional emerging healthcare products and technologies, principally hemostatic, for strategic partnership or acquisition.

However, we have very limited funds and we may not be able to execute our current business plan and fund business operations long enough to achieve profitability. Our ultimate success may depend upon our ability to raise additional capital. There can be no assurance that additional funds will be available when needed from any source or, if available, will be available on terms that are acceptable to us.

#### Current Economic Environment

The U.S. economy is currently in a recession, which could be long-term. Consumer confidence continued to deteriorate and unemployment figures continued to increase during 2010. However, in recent months, certain economic indicators have shown modest improvements. The generally deteriorating economic situation, together with the limited availability of debt and equity capital, including through bank financing, will likely have a disproportionate impact on the micro-cap companies. As a result, we may not be able to execute our business plan as a result of inability to raise sufficient capital and/or be able to develop a customer base for our planned products.

#### Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. Since our formation, we have not generated any significant revenues. We have not as yet attained a level of operations that allows us to meet our current overhead and may not attain profitable operations within its first few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. In August 2010, the FDA found that the Company's application for the designation of the Epic product as a Class III device was insufficient, which resulted in the temporary halt to sales by our distributor. While the Company can sell its device as a Class I device, the Company is not able, at this time, to make a determination as to the continuing impact of this notice. (See Note 7.)

We are dependent upon obtaining additional financing adequate to fund our operations. While we funded our 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 us and, if available, on terms that are favorable to us. The report of our auditors on our financial statements for the year ended December 31, 2010 includes a reference to going concern risks. Our ability to continue as a going concern is also dependent on many events outside of our 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 these uncertainties.

#### Results of Operations

##### Three Months ended June 30, 2011 versus Three Months ended June 30, 2010

Since the Company terminated its BDC status, our efforts have been directed towards developing the infrastructure to pursue sales for our Epic products and obtaining appropriate government approvals related to these products. Epic's principal distributor during the 2010 period continued to develop its customer base for the Epic gauze product designed for the wound care market. However, as a result of the FDA notice received in August 2010, the Company's distributor temporarily halted sales of Epic's product. In May 2011, the distributor gave notice that it was terminating the Distribution Agreement. The Company is taking remedial actions, as necessary, to reactivate sales of our products and is evaluating an appropriate strategy in view of the notice received from our distributor.

During both the 2011 and 2010 three month periods there was no operating cash flow as there was no sales of our hemostatic gauze product. During the three months ended June 30, 2011, the Company incurred general and

administrative expenses of \$213,000 versus \$1.2 million in the prior year. The 2011 and 2010 periods included non-cash charges of \$69,000 and \$922,000, respectively, related to fair value accounting for compensation through the use of stock and options and both periods included a non-cash charge of \$25,000 for amortization of the intellectual property rights related to the Epic technology. The principal operating expenditures in both periods was compensation of the officers and other consultants including professional fees to counsels and accountants.

The net loss of \$248,000 in the three month period ended June 30, 2011 decreased \$1.0 million from the prior year period principally as a result of the decrease in the non-cash compensation charges described above.

Six Months ended June 30, 2011 versus Six Months ended June 30, 2010

Since the Company terminated its BDC status, our efforts have been directed towards developing the infrastructure to pursue sales for our Epic products and obtaining appropriate government approvals related to these products. Epic's principal distributor during the 2010 period continued to develop its customer base for the Epic gauze product designed for the wound care market. However, as a result of the FDA notice received in August 2010, the Company's distributor temporarily halted sales of Epic's product. In May 2011, the distributor gave notice that it was terminating the Distribution Agreement. The Company is taking remedial actions, as necessary, to reactivate sales of our products and is evaluating an appropriate strategy in view of the notice received from our distributor.

The source of operating cash flow in 2010 was the limited sales of our hemostatic gauze product and as a result of the matters discussed above there were no sales in 2011. The operating margins of the limited sales in 2010, in the opinion of management, are not indicative of future results. During the six months ended June 30, 2011, the Company incurred general and administrative expenses of \$739,000 versus \$1.3 million in the prior year. The 2011 and 2010 periods included non-cash charges of \$469,000 and \$922,000, respectively, related to fair value accounting for compensation through the use of stock and options and in both periods non-cash charge of \$50,000 for amortization of the intellectual property rights related to the Epic technology. The principal operating expenditures in both periods was compensation of the officers and other consultants including professional fees to counsels and accountants.

The net loss of \$812,000 in the six month period ended June 30, 2011 decreased \$549,000 from the prior year period principally as a result of the decrease in non-cash compensation charges described above.

#### Financial Condition, Liquidity and Capital Resources

As of June 30, 2011, the Company had a negative working capital of \$969,000 and stockholders' deficiency of \$798,000. Since inception, we generated net cash proceeds of \$2.0 million from equity placements and borrowed \$657,000 principally from related parties. The Company has not as yet attained a level of operations which allows it to meet its current overhead and may not attain profitable operations within the next few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. In August 2010, the FDA found that the Company's application for the designation of the Epic product as a Class III device was insufficient, which resulted in the temporary halt to sales by our distributor. In May 2011, the Company was notified by its distributor that it was terminating the distribution agreement. While the Company, can sell its device as a Class I, the Company is not able, at this time, to make a determination as to the continuing impact of both of these notices. (See Note 7.) The report of our auditors on our 2010 financial statements includes a reference to going concern risks. While the Company has funded its initial operations with private placements, and secured loans from related parties, 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. Our ability to continue as a going concern is also dependent on many events outside of our direct control, including, among other things, our ability to achieve our business goals and objectives, as well as improvement in the economic climate.

#### Cash Flows

The Company's cash on hand at June 30, 2011 and December 31, 2010 was none and \$2,000, respectively.

Operating cash flows: The sales process for our gauze product, which began late in 2009 with limited sales to our sales distributor, was halted in August 2010 as we develop a new marketing strategy and further study the necessity of making application for FDA clearance.

Net cash used in operating activities for the six months ended June 30, 2011 was \$163,000 as compared to \$223,000 in the prior year period. The decrease in the cash used in operating activities was principally the result of a reduction in the use of outside counsel to assist in the termination of our BDC status.

Investing cash flows: In 2011, the Company paid \$5,000 to protect its intellectual property rights. There was no investing cash activity in the prior year period.

Financing cash flows: Net cash generated from financing of approximated \$165,000 and \$336,000 in 2011 and 2010, respectively. The cash generated in both periods represent borrowings from LeadDog Capital LP of \$165,000 and \$68,500 in 2011 and 2010, respectively and proceeds from a private placement of \$268,000 in 2010.

Off-Balance Sheet Arrangements

As of June 30, 2011, we have no off-balance sheet arrangements.

Related Parties

Information concerning related party transactions is included in the financial statements and related notes, appearing elsewhere in this quarterly report on Form 10-Q.

## Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

The Company recognizes revenues when persuasive evidence of an arrangement exists, product has been delivered or services have been rendered, 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. The Company defers all amounts received in advance of shipment and recognizes as revenue the aggregate of amounts invoiced in advance and an estimate of the Company's portion of distributor's profit at the time of shipment.

The Company has recorded as intangibles amounts representing the rights we have obtained to technology, know-how, trademarks and etc. based upon an appraisal of the rights obtained. In the opinion of management there has been no diminution in their value.

We used the Black-Scholes option pricing model to determine the fair value of stock options in connection with stock based compensation charges as well as certain finance cost charges when we issued warrants in connection with the issuance of indebtedness. The determination of the fair value of stock-based payment awards or warrants on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

Due to our limited history as a public company, we have estimated expected volatility based on the historical volatility of certain companies as determined by management. The risk-free rate for the expected term of each option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on our intent not to issue a dividend as a dividend policy. Due to our limited operating history, management estimated the term to equal the contractual term.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because our stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models may not necessarily provide a reliable single measure of the fair value of its employee stock options.



Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company is in the process of implementing disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports are recorded, processed, summarized, and reported within the time periods specified in rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our Chief Executive Officer to allow timely decisions regarding required disclosure.

As of June 30, 2011, the Chief Executive Officer and Chief Financial Officer carried out an assessment of the effectiveness of the design and operation of our disclosure controls and procedure and concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2011, because of the material weakness described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified during management's assessment was the lack of sufficient resources with SEC, generally accepted accounting principles (GAAP) and tax accounting expertise. This control deficiency did not result in adjustments to the Company's interim financial statements. However, this control deficiency could result in a material misstatement of significant accounts or disclosures that would result in a material misstatement to the Company's interim or annual financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Chief Executive Officer and Chief Financial Officer performed additional accounting and financial analyses and other post-closing procedures including detailed validation work with regard to balance sheet account balances, additional analysis on income statement amounts and managerial review of all significant account balances and disclosures in the Quarterly Report on Form 10-Q, to ensure that the Company's Quarterly Report and the financial statements forming part thereof are in accordance with accounting principles generally accepted in the United States of America. Accordingly, management believes that the financial statements included in this Quarterly Report fairly present, in all material respects, the Company's financial condition, results of operations, and cash flows for the periods presented.

Changes in Internal Control over Financial Reporting

During the three months ended June 30, 2011 there were no changes in our system of internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any material pending legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 22, 2011.

United Health Products, Inc.

By: /s/ Dr. Phillip Forman  
Dr. Phillip Forman  
Chief Executive Officer

By: /s/ Jan E. Chason  
Jan E. Chason  
Chief Financial Officer