

United Health Products, Inc.  
Form 10-Q  
November 22, 2010

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 September 30, 2010

☐ 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) 808-3095  
(Company's telephone number, including area code)

United EcoEnergy Corp.  
(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 ☐  
Non-accelerated filer ☐  
reporting company)

(Do not check if a smaller

Accelerated filer ☐  
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 - 78,278,215 as of November 19, 2010

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

	September 30, 2010 (unaudited)	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 28,030	\$ 8,018
Accounts receivable		3,550
Prepaid and other current assets	40,653	
Total current assets	68,683	11,568
Investments in affiliates	180,000	180,000
Intangibles - net	375,000	450,000
<b>TOTAL ASSETS</b>	<b>\$ 623,683</b>	<b>\$ 641,568</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY/ (DEFICIENCY)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 299,961	\$ 210,002
Due to related party	175,781	175,781
Notes payable – related party	97,193	87,558
Other current liabilities	33,433	33,732
Total current liabilities	606,368	507,073
Liability for unissued shares – related party	343,800	60,000
Convertible debenture		25,000
<b>STOCKHOLDERS' EQUITY/DEFICIENCY</b>		
Common stock, par value \$.001 per share; 150,000,000 shares 78,178,215 and 66,224,418 issued and outstanding	78,178	66,224
Additional paid-in capital	3,650,420	1,615,481
Accumulated deficit	(4,055,083)	(1,632,210)
Total stockholders' equity/(deficiency)	(326,485)	49,495
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY/(DEFICIENCY)</b>	<b>\$ 623,683</b>	<b>\$ 641,568</b>

See notes to condensed consolidated financial statements



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

	Three Months Ended September 30, 20102009 (unaudited)		Nine Months Ended September 30, 20102009 (unaudited)	
Revenues - net	\$ 33,610		\$ 69,071	
Expenses				
Cost of sales	40,329		56,448	
Amortization of intangibles	25,000		75,000	
General and administration	\$ 1,026,329	\$ 129,891	2,299,453	\$ 391,070
Total expenses	1091,658	129,891	2,430,901	391,070
Loss from operations	(1,058,048)	(129,891)	(2,361,830)	(391,070)
Other expenses/(income)				
Finance costs			49,387	
Loss on impairment of investment				296,910
Interest- net - principally related party	4,451	(21,236)	11,656	(22,377)
Net loss	\$ (1,062,499)	\$ (108,655)	\$ (2,422,873)	\$ (665,603)
Loss per share - basic and diluted	\$ (0.02)	\$ (0.00)	\$ (0.04)	\$ (0.02)
Weighted average shares outstanding	69,844,178	46,124,415	68,058,812	39,000,369

See notes to condensed consolidated financial statements

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

	Common Stock Shares	Amount	Additional Paid - in Capital	Deficit	Total Stockholders 'Equity/ (Deficiency)
Balance - December 31, 2009	66,224,418	\$ 66,224	\$ 1,615,481	\$ (1,632,210)	\$ 49,495
Issuance of common shares in connection with:					
Conversion of outstanding indebtedness to related party	738,044	738	109,969		110,707
Issuance of note payable and stock in prior year	150,000	150	59,850		60,000
Consulting services	8,500,000	8,500	976,500		985,000
Board service	550,000	550	81,950		82,500
Private placement – net	1,884,112	1,884	265,717		267,601
Convertible debt conversion	131,641	132	35,278		35,410
Issuance of stock options			505,675		505,675
Net loss for period	-	-	-	(2,422,873)	(2,422,873)
Balance – September 30, 2010	78,178,215	\$ 78,178	\$ 3,650,420	\$ (4,055,083)	\$ (326,485)

See notes to condensed consolidated financial statements



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

	Nine Months Ended September 30,	
	2010	2009
<b>Cash Flows Used in Operating Activities</b>		
Net Loss	\$(2,422,873)	\$(665,603 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	78,735	21,368
Finance costs	45,652	
Accrued interest – principally related party	12,565	
Non-cash compensation	1,691,976	
Impairment reserves		270,000
Beneficial conversion feature		17,094
Changes in operating assets and liabilities:		
Accounts receivable	3,550	
Prepaid and other current assets	(40,653 )	
Accounts payables and accrued expenses	89,959	116,193
<b>Net Cash Used in Operating Activities</b>	<b>(541,089 )</b>	<b>(195,948 )</b>
<b>Cash Flow Used in Investing Activities</b>		
Investment and advances to affiliates		(209,968 )
<b>Net Cash Used in Investing Activities</b>		<b>(209,968 )</b>
<b>Cash Flows Provided By Financing Activities</b>		
Loans from related party	68,500	84,500
Loan repayment – related party		(50,000 )
Private placement – common stock	492,601	346,400
Private placement – convertible debt		25,000
<b>Net Cash Provided by Financing Activities</b>	<b>561,101</b>	<b>405,900</b>
<b>Net Increase in Cash</b>	<b>20,012</b>	<b>(16 )</b>
<b>Cash at beginning of period</b>	<b>8,018</b>	<b>383</b>
<b>Cash at end of period</b>	<b>\$28,030</b>	<b>\$367</b>
<b>Supplemental Disclosures</b>		
<b>Non-cash investing and financing activities</b>		
Common stock issued to redeem indebtedness to related party (including related loss)	\$110,706	

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 which 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 intellectual property rights and created Epic, which will become the Company’s operating platform company in this industry. The Company 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 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 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 which 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. 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, the Company is not able, at this time, to make a determination as to the continuing impact of this notice. (See Note 7.) 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 10 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, 2009 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, 2009 filed with the Securities and Exchange Commission on Form 10-K on April 16, 2010.

## 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 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 (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, 2009, the Company has approximately \$1.6 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 (options and warrants to acquire 4,475,000 and 1,413,878 shares of common stock, respectively) are anti-dilutive.

## Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial statements upon adoption.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition ) ("ASU 2009-13"). ASU 2009-13 requires entities to allocate revenue in

an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect adoption of ASU 2009-13 to have a material impact on the Company's results of operations or financial condition.

In April 2010, the FASB issue ASU 2010-17, Revenue Recognition – Milestone Method (“ASU 2010-17”). ASU 2010-17 provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. The following criteria must be met for a milestone to be considered substantive. The consideration earned by achieving the milestone should:

1. Be commensurate with either the level of effort required to achieve the milestone or the enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor’s performance to achieve the milestone.
2. Related solely to past performance.
3. Be reasonable relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement.

Accordingly, an arrangement may contain both substantive and nonsubstantive milestones. ASU 2010-17 is 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 Company does not expect that implementation of ASU 2010-17 will have a material impact on the Company’s future results of operations.

#### Note 3. Related Party Transactions

During the nine months ended September 30, 2010, the Company borrowed \$68,500 from LeadDog Capital LP (“LDC”) through issuances of notes payable for 12 to 14 month periods from the date of the borrowings with interest payable at 16% per year. LDC 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 9.9% of the number of shares of common stock outstanding.

In May 2010, the Company and LDC agreed to the conversion of indebtedness to LDC consisting of principal of \$59,500 and interest of \$14,300 into 738,044 shares of common stock. As a result of the settlement of this indebtedness, the Company recorded a loss of \$36,900 during the nine months ended September 30, 2010.

In August 2010, LDC and the Company agreed to extend the terms for loans with principal outstanding of \$36,487 until July 1, 2011.

#### Note 4. Issuances of Common Stock

In April 2010, the Board of Directors awarded compensation in the form of options and shares of common stock to Board members for past services as well as for current Board service. The Company issued FSR, Inc. 1,250,000 shares of common stock for services rendered and to be rendered by the Company’s Chief Executive Officer and recorded a non-cash charge of \$187,500 for the nine months ended September 30, 2010 as the shares were fully vested. All other Board members were awarded options – see Note 5.

In April 2010, the Company’s principal operating subsidiary entered into agreements with 2 consultants. One consultant was engaged to provide technical expertise in connection with preparing and executing FDA approvals as well as providing assistance in distribution and sales of product extensions. The second consultant was engaged to provide consulting and advisory services and assistance to the Company including compliance with regulatory and reporting requirements for the Company and its products, and assistance in marketing, selling and distributing the



Company's products in certain countries in the Far East. Compensation for the two consultants includes the issuance of 800,000 shares of the Company's common stock for which the Company recorded a non-cash charge of \$110,000 for the nine month ended September 30, 2010 as the shares were fully vested.

During May 2010, the Company began a private placement of its common stock at \$.15 per share pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended, open to "accredited investors" as that term is defined in Rule 501 of Regulation D. The maximum to be raised is \$1.5 million. As of September 30, 2010 the Company had received fully paid subscriptions for 3,284,112 shares, of which 1.4 million shares were not issued as of September 30, 2010. The offering ended October 31, 2010. In connection, with this offering the Company is to issue a finder 100,000 shares of common stock, which is included in the liability for unissued shares.

As of June 15, 2010, the Company entered into a letter of engagement with an investor relations firm to develop and implement a financial communications program designed to increase investor awareness of the Company in the investment community. Pursuant to the agreement the Company will issue up to 1,320,000 shares of our common stock in two installments of 660,000 shares, the first on signing of the agreement and the second on the six month anniversary of the agreement provided that the agreement has not been terminated. The Company recorded a charge of \$118,800 based upon the fair value of the shares issuable. The Company terminated the agreement in November 2010 and has not issued any shares as of November 19, 2010.

The Company borrowed \$25,000 in June 2009 under terms which provided that the borrower could convert the indebtedness including unpaid interest at \$.25 per share through the due date in October 2009. The debt holder had a pro-rata interest in the security interest the Company has in connection with the Company's loan to one of its investees. In January 2010, the Company and the lender agreed to the conversion of the note into 131,641 shares of the Company's common stock. The shares were recorded at fair value which resulted in noncash charge for the nine months ended September 30, 2010 of \$8,750.

In August 2010 the Company awarded two of the Company's officers and two other consultants 7 million shares of common stock, in aggregate, for services rendered to the Company. The Company recorded a non-cash charge of \$1.1 million for the three and nine months ended September 30, 2010 as the shares were fully vested.

#### Note 5. Stock Options

In April 2010, the Company granted options to purchase an aggregate of 4,475,000 shares of common stock at a \$0.15 per share to directors and consultants, including options for 2,850,000 common shares for past services and the balance as compensation for current service as Board members. As of the time of issuance, the Company recorded non-cash compensation charges of \$506,000, as all grants were immediately vested. The options have a term of 5 years.

The fair value of option grants were estimated on the date of grant in April 2010 using the Black-Scholes option-pricing model with the following assumptions :

Expected volatility	100 %
Expected dividends	0 %
Expected term	5years
Risk-free rate	2.62 %

#### 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.

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.

## Recurring Fair Value Measurements

In accordance with accounting principles generally accepted in the United States, certain assets and liabilities are required to be recorded at fair value on a recurring basis. For our Company, the only assets and liabilities that are adjusted to fair value on a recurring basis are derivative instruments which the Company values using Level 2 inputs. (see Note 5).

## Note 7. Other Matters

On April 29, 2010, the Company's subsidiary, Epic Wound Care, Inc. ("Epic"), submitted a Section 510(k) premarket notification of intent to market the "ActCel" Hemostatic Gauze as a Class III device to the U.S. Food and Drug Administration ("FDA"). Such notification identifies substantially equivalent products to be a legally marketed predicate device. On August 3, 2010, the FDA sent Epic a notice that the application was insufficient to allow the FDA to make the determination. Epic is preparing a new application; however, based upon opinion of its special FDA counsel, it believes its Hemostatic Gauze is a Class I surgical device is exempt from the premarket notification procedures which allows sales of this product to continue. The Company is not able, at this time, to make a determination as to the continuing impact of this notice.

Epic entered into a corporate sponsorship agreement with American Diabetes Association (the "ADA") on July 29, 2010 that will 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.

In connection with the acquisition of the technology and other assets related to our Epic products, the Company escrowed 20 million shares pending the achievement of certain specified performance criteria. The first deadline for achieving either the specified criteria for gross revenues or the market price for the Company's common stock was July 15, 2010. Since the performance criteria was not timely met, 10 million of the escrowed shares are to be returned to the Company's treasury and cancelled; however, the Company and the sellers agreed to an extension and are in further discussions. The remaining escrowed shares are distributable after December 31, 2010, if the specific criteria for gross revenues for their release are met by that date.

## Note 8. Subsequent Events

In November 2010, the Company agreed to issue 500,000 shares of its common stock in connection with the engagement of a consultant to perform strategic market planning, business development and financing.

On October 4, 2010, the Company borrowed \$75,000 payable November 18, 2010 with interest at 14% per annum. In connection with the loan the Company is required to issue 250,000 shares of common stock to the lender. The Company did not repay the loan as of November 19, 2010.

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 16, 2010.

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., 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 intellectual property rights and created 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 the 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 in noncompliance 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 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 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 which 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, 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, 2009 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.

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.

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 which 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, 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, 2009 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 September 30, 2010 versus three months ended September 30, 2009

Prior to December 31, 2009, the Company made considerable efforts to carry out its business plan as a Business Development Company. These efforts included both business development and financing activities. Subsequent to 2009, our efforts were 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 quarter 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 temporary halted sales of the Epic product. The Company and the distributor are taking remedial actions, as necessary, to reactivate sales of our products.

During the three months ended September 30, 2010 the Company incurred general and administrative expenses of \$1.0 million versus \$130,000 in the prior year period. The principal expenses incurred were related to expanding the distribution base for Epic as well as restructuring the Company to end its BDC status. The 2010 period included non-cash charges of \$770,000 related to stock compensation and amortization of the intellectual property rights related to the Epic technology. The non-cash compensation charges relate fair value accounting for compensation through the use of stock and options. The prior year period general and administrative costs were related to identifying and negotiating transactions with potential portfolio acquisitions.



Nine months ended September 30, 2010 versus nine months ended September 30, 2009

Prior to December 31, 2009, the Company made considerable efforts to carry out its business plan as a Business Development Company. These efforts included both business development and financing activities. Subsequent to 2009 our efforts were 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 temporary halted sales of the Epic product. The Company and the distributor are taking remedial actions, as necessary, to reactivate sales of our products.

During the nine months ended September 30, 2010 the Company incurred general and administrative expenses of \$2.3 million versus \$391,000 in the prior year period. The principal expenses incurred were related to expanding the distribution base for Epic as well as restructuring the Company to end its BDC status. The 2010 period included non-cash charges of \$1.8 million related to stock compensation and amortization of the intellectual property rights related to the Epic technology. The non-cash compensation charges relate fair value accounting for compensation through the use of stock and options. The prior year period general and administrative costs were related to identifying and negotiating transactions with potential portfolio acquisitions.

Other expenses in the 2010 period include a charge of \$49,000 related to issuance of common stock to settle obligations principally due to a related party. In the 2009 period the Company recorded impairment losses on its investments of \$297,000 which was included in other expenses.

#### Financial Condition, Liquidity and Capital Resources

As of September 30, 2010, the Company had a negative working capital of \$538,000 and stockholders' deficiency of \$326,000. Since inception, we generated net cash proceeds of \$1.5 million from equity placements and borrowed \$297,000 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. 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 this notice. (See Note 7.) The report of our auditors on our 2009 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 September 30, 2010 and December 31, 2009 was \$28,000 and \$8,000, respectively.

Operating cash flows: We continue the initial sales process for our gauze product which began late in 2009 with limited sales to our sales distributor. We had no operating sources of cash in the 2009 period.

Net cash used in operating activities for the nine months ended September 30, 2010 was \$541,000 as compared to \$196,000 in the prior year. The increase in the cash used in operating activities was principally the result of the

activity to create new business plan to operate a medical products company rather than be a passive investor.

Investing cash flows: In the 2009 period as a BDC the Company made its initial investments in affiliates. There were none in the 2010 period.

Financing cash flows: Net cash generated from financing of \$561,000 and \$406,000 in 2010 and 2009, respectively. During both periods the Company was able to secure capital from investors through sales of equity of \$493,000 (2010) and \$346,000 (2009) and through debt issuances (principally to a related party) of \$69,000 (2010) and \$60,000 (2009).

#### Off-Balance Sheet Arrangements

As of September 30, 2010, 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.

### 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.

### Federal Income Taxes

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.

### 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 September 30, 2010, 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 September 30, 2010, 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 September 30, 2010 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, 2009, 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

During May 2010, the Company began a private placement of its common stock at \$.15 per share. This offering is exempt from registration pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended, open to "accredited investors" as that term is defined in Rule 501 of Regulation D. The maximum to be raised is \$1.5 million. As of September 30, 2010 the Company had received fully paid subscriptions for 3,284,112 shares. The offering ended October 31, 2010.

### 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 November 19, 2010.

United Health Products, Inc.

By: /s/ Kelly T. Hickel  
Kelly T. Hickel  
Chief Executive Officer

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