

**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, 2007

COMMISSION FILE NUMBER: 1-10104

UNITED CAPITAL CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

04-2294493

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

9 Park Place, Great Neck, NY

(Address of principal executive offices)

11021

(Zip Code)

516-466-6464

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer

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

The registrant had 8,300,543 shares of common stock, \$.10 par value, outstanding as of August 13, 2007.

UNITED CAPITAL CORP. AND SUBSIDIARIES

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UNITED CAPITAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

| | June 30, 2007 | December 31, 2006 |
|---|--------------------------|------------------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 76,114 | \$ 76,688 |
| Marketable securities | 49,249 | 62,917 |
| Notes and accounts receivable, net | 18,670 | 8,833 |
| Inventories | 5,152 | 4,894 |
| Prepaid expenses and other current assets | 1,751 | 1,659 |
| Deferred income taxes | 164 | 583 |
| Current assets of discontinued operations | — | 13 |
| Total current assets | 151,100 | 155,587 |
| Property, plant and equipment, net | 6,551 | 6,250 |
| Real property held for rental, net | 64,030 | 49,183 |
| Investment in joint venture | 6,415 | 6,711 |
| Noncurrent notes receivable | 509 | 1,694 |
| Other assets | 3,690 | 2,976 |
| Noncurrent assets of discontinued operations | 82 | 1,199 |
| Total assets | \$ 232,377 | \$ 223,600 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 684 | \$ 471 |
| Accounts payable and accrued liabilities | 10,775 | 9,598 |
| Income taxes payable | 2,424 | 5,253 |
| Current liabilities of discontinued operations | — | 66 |
| Total current liabilities | 13,883 | 15,388 |
| Long-term debt | 13,539 | 11,669 |
| Other long-term liabilities | 15,373 | 14,277 |
| Deferred income taxes | 4,738 | 2,793 |
| Total liabilities | 47,533 | 44,127 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, \$.10 par value, authorized 17,500 shares; issued and outstanding 8,300 and 8,278 shares, respectively | 830 | 828 |
| Retained earnings | 181,145 | 176,520 |
| Accumulated other comprehensive income, net of tax | 2,869 | 2,125 |
| Total stockholders' equity | 184,844 | 179,473 |
| Total liabilities and stockholders' equity | \$ 232,377 | \$ 223,600 |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

UNITED CAPITAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|---|---------------------------|-----------------|-------------------------|-----------------|
| | <u>June 30,</u> | | <u>June 30,</u> | |
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Revenues: | | | | |
| Net sales | \$ 9,659 | \$ 9,643 | \$ 19,587 | \$ 18,940 |
| Revenues from real estate operations | <u>8,037</u> | <u>7,486</u> | <u>14,954</u> | <u>14,149</u> |
| Total revenues | <u>17,696</u> | <u>17,129</u> | <u>34,541</u> | <u>33,089</u> |
| Costs and expenses: | | | | |
| Cost of sales | 7,335 | 7,250 | 14,755 | 14,243 |
| Real estate operations: | | | | |
| Mortgage interest expense | 200 | 200 | 395 | 402 |
| Depreciation expense | 741 | 583 | 1,453 | 1,113 |
| Other operating expenses | 3,582 | 3,033 | 6,771 | 6,169 |
| General and administrative expenses | 1,570 | 1,916 | 3,189 | 4,161 |
| Selling expenses | <u>842</u> | <u>883</u> | <u>1,751</u> | <u>1,948</u> |
| Total costs and expenses | <u>14,270</u> | <u>13,865</u> | <u>28,314</u> | <u>28,036</u> |
| Operating income | <u>3,426</u> | <u>3,264</u> | <u>6,227</u> | <u>5,053</u> |
| Other income (expense): | | | | |
| Interest and dividend income | 1,780 | 1,441 | 3,588 | 2,781 |
| Other income and expense, net | <u>773</u> | <u>(487)</u> | <u>6,484</u> | <u>(323)</u> |
| Total other income | <u>2,553</u> | <u>954</u> | <u>10,072</u> | <u>2,458</u> |
| Income from continuing operations before income taxes | 5,979 | 4,218 | 16,299 | 7,511 |
| Provision for income taxes | <u>2,248</u> | <u>1,475</u> | <u>5,918</u> | <u>2,675</u> |
| Income from continuing operations | <u>3,731</u> | <u>2,743</u> | <u>10,381</u> | <u>4,836</u> |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations, net of tax provision (benefit) of \$3, (\$6), (\$3) and (\$9), respectively | 4 | (7) | (5) | (12) |
| Net gain on disposal of discontinued operations, net of tax provision of \$69, \$311, \$701 and \$311, respectively | <u>105</u> | <u>465</u> | <u>1,052</u> | <u>465</u> |
| Income from discontinued operations | <u>109</u> | <u>458</u> | <u>1,047</u> | <u>453</u> |
| Net income | <u>\$ 3,840</u> | <u>\$ 3,201</u> | <u>\$ 11,428</u> | <u>\$ 5,289</u> |
| Basic earnings per share: | | | | |
| Income from continuing operations | \$.45 | \$.33 | \$ 1.25 | \$.58 |
| Income from discontinued operations | <u>.01</u> | <u>.06</u> | <u>.13</u> | <u>.06</u> |
| Net income per share | <u>\$.46</u> | <u>\$.39</u> | <u>\$ 1.38</u> | <u>\$.64</u> |
| Diluted earnings per share: | | | | |
| Income from continuing operations | \$.36 | \$.27 | \$ 1.00 | \$.48 |
| Income from discontinued operations | <u>.01</u> | <u>.05</u> | <u>.10</u> | <u>.04</u> |
| Net income per share assuming dilution | <u>\$.37</u> | <u>\$.32</u> | <u>\$ 1.10</u> | <u>\$.52</u> |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

UNITED CAPITAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

| | Six Months Ended June 30, | |
|---|--------------------------------------|-----------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 11,428 | \$ 5,289 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 1,687 | 1,336 |
| Non-cash stock-based compensation | — | 807 |
| Contribution to pension plan | (700) | — |
| Net (gain) loss on sale of available-for-sale securities | (654) | 782 |
| Income from equity investment | (95) | (139) |
| Net gain from condemnation award | (5,665) | — |
| Gain on disposal of discontinued operations, net of tax | (1,052) | (465) |
| Net realized and unrealized gain on derivative instruments | (163) | (62) |
| Other, net | 89 | 134 |
| Changes in assets and liabilities: | | |
| Notes and accounts receivable, net | (10,025) | 176 |
| Inventories | (258) | (414) |
| Prepaid expenses and other current assets | (92) | (362) |
| Deferred income taxes | 1,964 | (227) |
| Other assets | (151) | (239) |
| Accounts payable and accrued liabilities | 1,217 | 701 |
| Income taxes payable | (2,403) | (288) |
| Other long-term liabilities | (31) | (27) |
| Net cash (used in) provided by operating activities of continuing operations | (4,904) | 7,002 |
| Operating activities of discontinued operations | (38) | 6 |
| Net cash (used in) provided by operating activities | (4,942) | 7,008 |
| Cash flows from investing activities: | | |
| Purchase of available-for-sale securities | (12,927) | (22,251) |
| Proceeds from sale of available-for-sale securities | 28,427 | 9,004 |
| Proceeds from sale of real estate assets | 2,855 | 1,701 |
| Net proceeds from condemnation award | 5,665 | — |
| Proceeds from sale of derivative instruments | 156 | 67 |
| Purchase/issuance of notes receivable | — | (873) |
| Principal payments on notes receivable | 1,373 | 1,395 |
| Acquisition of property, plant and equipment | (111) | (670) |
| Acquisition of/additions to real estate assets | (14,428) | (9,989) |
| Distributions from joint venture | 391 | 390 |
| Net cash provided by (used in) investing activities of continuing operations | 11,401 | (21,226) |
| Investing activities of discontinued operations | — | (15) |
| Net cash provided by (used in) investing activities | 11,401 | (21,241) |

Continued

UNITED CAPITAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited)

| | Six Months Ended | |
|--|-------------------------|-----------------|
| | June 30, | |
| | 2007 | 2006 |
| Cash flows from financing activities: | | |
| Principal payments on mortgage obligations | (232) | (428) |
| Purchase and retirement of common stock | (15,681) | (13,626) |
| Proceeds from exercise of stock options | 4,936 | 753 |
| Tax benefit from exercise of employee stock options | <u>3,944</u> | <u>568</u> |
| Net cash used in financing activities | <u>(7,033)</u> | <u>(12,733)</u> |
| Net decrease in cash and cash equivalents | (574) | (26,966) |
| Cash and cash equivalents, beginning of period | <u>76,688</u> | <u>99,628</u> |
| Cash and cash equivalents, end of period | <u>\$76,114</u> | <u>\$72,662</u> |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | <u>\$ 388</u> | <u>\$ 404</u> |
| Taxes | <u>\$ 2,285</u> | <u>\$ 2,596</u> |
| | | |
| Non-cash operating, investing and financing activities: | | |
| Mortgage obligation assumed in connection with acquisition of hotel property (see Note 7) | <u>\$ 2,315</u> | <u>\$ —</u> |
| Accounts payable and accrued liabilities incurred for unsettled available-for-sale securities and acquisition of/additions to real estate assets | <u>\$ —</u> | <u>\$ 3,048</u> |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

UNITED CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented have been recorded. These financial statements have been prepared in conformity with the accounting principles, and methods of applying those accounting principles, as reflected in the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006 and should be read in conjunction therewith. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

2. Stockholders’ Equity

Previous purchases of the Company’s common stock have reduced the Company’s additional paid-in-capital to zero and have also reduced retained earnings by amounts in excess of par value. Any future purchases in excess of par value will also reduce retained earnings.

Repurchases of the Company’s common stock may be made from time to time in the open market at prevailing market prices and may be made in privately negotiated transactions, subject to available resources. Future proceeds from the issuance of common stock in excess of par value will be credited to retained earnings until such time that previously recorded reductions have been recovered. During the six months ended June 30, 2007 and 2006, the Company received proceeds of \$4,936 and \$753 from the exercise of 544 and 97 stock options, respectively. The Company recorded a tax benefit of \$3,994 and \$568 to retained earnings related to the exercise of stock options during the six months ended June 30, 2007 and 2006, respectively.

During the six months ended June 30, 2007 and 2006, the Company purchased and retired 522 and 14 shares of common stock for an aggregate purchase price of \$15,681 and \$303, respectively. In addition, during November 2005, the Board of Directors authorized a “Dutch Auction” self-tender offer for up to 1,000 shares of the Company’s common stock resulting in the January 2006 repurchase and retirement of 544 shares of common stock for an aggregate purchase price of \$13,323 or \$24.50 per share.

3. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share from continuing operations:

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Numerator: | | | | |
| Income from continuing operations | <u>\$ 3,731</u> | <u>\$ 2,743</u> | <u>\$ 10,381</u> | <u>\$ 4,836</u> |
| Denominator: | | | | |
| Basic – weighted-average shares outstanding | 8,285 | 8,288 | 8,282 | 8,321 |
| Dilutive effect of employee stock options | <u>1,966</u> | <u>1,767</u> | <u>2,084</u> | <u>1,837</u> |
| Diluted – weighted-average shares outstanding | <u>10,251</u> | <u>10,055</u> | <u>10,366</u> | <u>10,158</u> |
| Basic earnings per share – continuing operations | <u>\$.45</u> | <u>\$.33</u> | <u>\$ 1.25</u> | <u>\$.58</u> |
| Diluted earnings per share – continuing operations | <u>\$.36</u> | <u>\$.27</u> | <u>\$ 1.00</u> | <u>\$.48</u> |

4. Stock-Based Compensation

The Company has two stock option plans, the Incentive and Non-Qualified Stock Option Plan and the 1988 Joint Incentive and Non-Qualified Stock Option Plan, under which qualified and non-qualified options may be granted to key employees to purchase the Company's common stock at the fair market value on the date of grant. Under both plans, the options typically become exercisable in three equal installments, beginning one year from the date of grant. Stock options generally expire ten years from the date of grant. Currently, there are no options available for grant under these plans.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004) – “Share-Based Payment” (“SFAS No. 123R”) using the modified prospective transition method. SFAS No. 123R requires the Company to measure all employee stock-based compensation awards using a fair value method and record the related expense in the financial statements. The adoption of SFAS No. 123R reduced income from continuing operations before income taxes and net income by \$350 and \$227, respectively, for the three months ended June 30, 2006. For the six months ended June 30, 2006, the adoption of SFAS No. 123R reduced income from continuing operations before income taxes and net income by \$807 and \$518, respectively. All options previously granted were fully vested as of June 30, 2006. Therefore, no compensation costs relating to share-based payments were recognized during the six months ended June 30, 2007.

A summary of the activity of the Company's outstanding stock options for the six months ended June 30, 2007 is as follows:

| | <u>Number of Shares</u> | <u>Weighted- Average Exercise Price</u> | <u>Weighted- Average Remaining Contractual Term</u> | <u>Aggregate Intrinsic Value</u> |
|--|-----------------------------|---|---|--|
| Outstanding at January 1, 2007 | 5,299 | \$ 11.61 | | |
| Exercised | <u>(544)</u> | \$ 9.07 | | |
| Outstanding and exercisable at June 30, 2007 | <u>4,755</u> | \$ 11.90 | 3.5 Years | <u>\$ 80,121</u> |

The aggregate intrinsic value in the table above represents the difference between the Company's closing stock price on June 30, 2007 (\$28.75) and the exercise price of each stock option, multiplied by the number of “in-the-money” options. This amount changes based upon the fair market value of the Company's stock. The total intrinsic value of options exercised during the six months ended June 30, 2007 was \$11,421 based on the market price on the date of exercise.

5. Marketable Securities

The cost, gross unrealized gains, gross unrealized losses and fair market value of available-for-sale marketable securities are as follows:

| | <u>Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Fair Market Value</u> |
|---------------------------|------------------|---------------------------------------|--|----------------------------------|
| June 30, 2007: | | | | |
| Equity securities | \$ 43,242 | \$ 4,994 | \$ (1,771) | \$ 46,465 |
| Bonds | <u>2,786</u> | <u>19</u> | <u>(21)</u> | <u>2,784</u> |
| | <u>\$ 46,028</u> | <u>\$ 5,013</u> | <u>\$ (1,792)</u> | <u>\$ 49,249</u> |
| December 31, 2006: | | | | |
| Equity securities | \$ 57,708 | \$ 4,778 | \$ (2,741) | \$ 59,745 |
| Bonds | <u>3,131</u> | <u>43</u> | <u>(2)</u> | <u>3,172</u> |
| | <u>\$ 60,839</u> | <u>\$ 4,821</u> | <u>\$ (2,743)</u> | <u>\$ 62,917</u> |

Proceeds from the sale of available-for-sale securities and the resulting gross realized gains and losses included in the determination of net income are as follows:

| | Six Months Ended | |
|-----------------------|-------------------------|-------------------|
| | June 30, | |
| | <u>2007</u> | <u>2006</u> |
| Proceeds | <u>\$ 28,427</u> | <u>\$ 9,004</u> |
| Gross realized gains | <u>\$ 2,259</u> | <u>\$ 701</u> |
| Gross realized losses | <u>\$ (1,605)</u> | <u>\$ (1,483)</u> |

Included in notes and accounts receivable, net as of June 30, 2007 is \$8,985 related to the sale of marketable securities which settled subsequent to the end of the quarter.

6. Inventories

The components of inventories are as follows:

| | <u>June 30,</u> | <u>December 31,</u> |
|-----------------|-----------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| Raw materials | \$ 2,510 | \$ 2,197 |
| Work in process | 429 | 506 |
| Finished goods | <u>2,213</u> | <u>2,191</u> |
| | <u>\$ 5,152</u> | <u>\$ 4,894</u> |

7. Real Estate

Property acquisitions

During May 2007, the Company purchased a hotel located in Utica, New York for approximately \$16,000 plus closing costs, including the assumption of an underlying mortgage of \$2,315, of which \$872 of the purchase price was allocated to furniture, fixtures and equipment and is included in property, plant and equipment in the Condensed Consolidated Balance Sheet. The mortgage assumed bears interest at 7.5% per annum, with monthly installments of interest and principal of \$30 through December 2015. The total cost of the acquisition, less the assumption of the mortgage, is reflected in acquisition of/additions to real estate assets in the Condensed Consolidated Statements of Cash Flows.

During May 2006, the Company purchased, for cash, a commercial property located in Long Island City, New York for \$8,531.

Property sales

During the six months ended June 30, 2007, the Company divested itself of five commercial properties and one other property which had a net book value of \$1,102 from its real estate investment and management segment. The aggregate proceeds from these transactions were \$2,855 resulting in a gain of \$1,052, on a net of tax basis.

During the six months ended June 30, 2006, the Company divested itself of a commercial property which had a net book value of \$925 from its real estate investment and management segment. The proceeds from this transaction were \$1,701 resulting in a gain of \$465, on a net of tax basis.

The results of operations of properties sold prior to June 30, 2007 have been reclassified to discontinued operations, on a net of tax basis, for the three and six months ended June 30, 2007 and 2006. Summarized financial information of properties sold and accounted for as discontinued operations is as follows:

| | Three Months Ended | | Six Months Ended | |
|--------------------------------------|---------------------------|----------------|-------------------------|----------------|
| | June 30, | | June 30, | |
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Revenues from real estate operations | \$ 2 | \$ 55 | \$ 20 | \$ 110 |
| Depreciation expense | — | 16 | 3 | 32 |
| Other operating expenses | <u>6</u> | <u>63</u> | <u>47</u> | <u>122</u> |
| Loss from operations | <u>\$ (4)</u> | <u>\$ (24)</u> | <u>\$ (30)</u> | <u>\$ (44)</u> |

Properties held for sale

As of June 30, 2007, the Company considered one other property from its real estate and investment management segment to be held for sale and reported as discontinued operations. The results of operations of this property, primarily consisted of revenues of \$11 for each of the three months ended June 30, 2007 and 2006 and \$22 for each of the six months ended June 30, 2007 and 2006, have been reclassified to discontinued operations, on a net of tax basis, in the Condensed Consolidated Statements of Income. In addition, the assets and liabilities associated with this property, which primarily consist of real property, net of accumulated depreciation, have been reclassified to discontinued operations in the Condensed Consolidated Balance Sheets at June 30, 2007 and December 31, 2006.

8. Derivative Financial Instruments

Management maintains a diversified portfolio of cash equivalents and investments in a variety of securities, primarily U.S. investments in common and preferred equity issues, as well as corporate bonds, and participates on a limited basis in transactions involving derivative financial instruments, including short stock sales and put and/or call options. At June 30, 2007 and December 31, 2006, the fair value of such derivatives was (\$12) and (\$20), respectively, which is recorded as a component of accounts payable and accrued liabilities in the Condensed Consolidated Balance Sheets. These instruments do not qualify for hedge accounting and therefore changes in the derivatives' fair value are recognized in earnings. The Company recognized \$163 and \$62 in net realized and unrealized gains from derivative instruments for the six months ended June 30, 2007 and 2006, respectively, which are included in other income and expense, net in the Condensed Consolidated Statements of Income.

9. Income Taxes

On January 1, 2007, the Company adopted Financial Accounting Standard Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions by prescribing a recognition threshold for positions taken or expected to be taken in a tax return that result in a benefit.

At the date of the adoption, the Company had a total of \$4,324 of gross unrecognized tax benefits. Substantially the entire amount, if recognized, would favorably effect the Company's effective tax rate in future periods. The adoption of FIN 48 did not result in a cumulative effect adjustment to retained earnings. As of June 30, 2007, the Company had a total of \$4,741 of gross unrecognized tax benefits.

FIN 48 also requires companies to reclassify uncertain tax positions not expected to be settled within one year to long-term liabilities. Therefore upon adoption of FIN 48, the Company reclassified \$1,128 from income taxes payable to other long-term liabilities.

The Company's recognizes interest and penalties related to unrecognized tax positions as a component of income tax expense. As of June 30, 2007 and January 1, 2007, the Company had approximately \$2,183 and \$2,076, respectively, of accrued interest and penalties related to uncertain tax positions.

The Company is subject to U.S. federal income tax, as well as income tax in multiple states. For all major taxing jurisdictions, the tax years 2003 through 2006 remain open to examination. As of June 30, 2007, the Company does not anticipate that total unrecognized tax benefits will significantly change during the next twelve months.

10. Pension Plan

The Company has a noncontributory defined benefit pension plan that covers substantially all full-time employees and the former employees of one of the Company's discontinued manufacturing segments. The plan provides defined benefits based on years of service and compensation level.

Net periodic pension expense consists of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|--------------------------------|----------------|------------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ (95) | \$ (76) | \$ (165) | \$ (146) |
| Interest cost | (164) | (164) | (329) | (329) |
| Expected return on plan assets | 236 | (318) | 371 | 6 |
| Net amortization and deferral | <u>(52)</u> | <u>487</u> | <u>—</u> | <u>335</u> |
| Net periodic pension expense | <u>\$ (75)</u> | <u>\$ (71)</u> | <u>\$ (123)</u> | <u>\$ (134)</u> |

The Company contributed \$700 to the pension plan during the six months ended June 30, 2007.

11. Net Gain from Condemnation Award

Included in other income and expense, net during the first half of 2007 is \$5,665 in net gain from a condemnation award related to a property taken by the City of New York in 2001.

12. Comprehensive Income

The components of comprehensive income are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 3,840 | \$ 3,201 | \$ 11,428 | \$ 5,289 |
| Other comprehensive income, net of tax: | | | | |
| Change in net unrealized gain (loss) on available-for-sale securities, net of tax effect of (\$732), \$621, (\$595) and \$14 respectively | 1,359 | (1,153) | 1,107 | (26) |
| Reclassification adjustment for net (gains) losses realized in net income, net of tax effect of \$204, (\$330), \$195 and (\$275) respectively | (379) | 613 | (363) | 508 |
| Amortization of unrecognized net gains from pension plan, net of tax effect of (\$18) | <u>34</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Comprehensive income | <u>\$ 4,854</u> | <u>\$ 2,661</u> | <u>\$ 12,172</u> | <u>\$ 5,771</u> |

The components of accumulated other comprehensive income, net of tax are as follows:

| | June 30, 2007 | December 31, 2006 |
|---|------------------|----------------------|
| Net unrealized gains on available-for-sale securities, net of tax effect of \$1,127 and \$728, respectively | \$ 2,094 | \$ 1,350 |
| Unrecognized net gains from pension plan, net of tax effect of \$417 | <u>775</u> | <u>775</u> |
| Accumulated other comprehensive income, net of tax | <u>\$ 2,869</u> | <u>\$ 2,125</u> |

13. Business Segments

The Company operates through three business segments: real estate investment and management, hotel operations and engineered products. The real estate investment and management segment is engaged in the business of investing in and managing real estate properties located throughout the United States. The hotel operations segment

owns and operates three hotels located in the United States. Engineered products are manufactured through wholly-owned subsidiaries of the Company and primarily consist of knitted wire products and components and transformer products sold worldwide.

The accounting policies of the Company's segments are the same as those described in the Summary of Significant Accounting Policies included in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Operating results of the Company's business segments are as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net revenues and sales: | | | | |
| Real estate investment and management | \$ 4,996 | \$ 5,247 | \$ 9,820 | \$ 9,929 |
| Hotel operations | 3,041 | 2,239 | 5,134 | 4,220 |
| Engineered products | <u>9,659</u> | <u>9,643</u> | <u>19,587</u> | <u>18,940</u> |
| | <u>\$17,696</u> | <u>\$17,129</u> | <u>\$34,541</u> | <u>\$33,089</u> |
| Operating income (loss): | | | | |
| Real estate investment and management | \$ 3,039 | \$ 3,497 | \$ 5,983 | \$ 6,408 |
| Hotel operations | 475 | 173 | 352 | 57 |
| Engineered products | 636 | 758 | 1,392 | 1,175 |
| General corporate expenses | <u>(724)</u> | <u>(1,164)</u> | <u>(1,500)</u> | <u>(2,587)</u> |
| | 3,426 | 3,264 | 6,227 | 5,053 |
| Other income, net | <u>2,553</u> | <u>954</u> | <u>10,072</u> | <u>2,458</u> |
| Income from continuing operations before income taxes | <u>\$ 5,979</u> | <u>\$ 4,218</u> | <u>\$16,299</u> | <u>\$ 7,511</u> |

14. Commitments and Contingencies

The Company has undertaken the completion of environmental studies and/or remedial action at Metex' (as hereafter defined) two New Jersey facilities and has recorded a liability for the estimated investigation, remediation and administrative costs associated therewith.

The process of remediation has begun at one facility pursuant to a plan filed with the New Jersey Department of Environmental Protection ("NJDEP"). Environmental experts engaged by the Company estimate that under the most probable scenario, the remediation of this site is anticipated to require initial expenditures of \$860, including the cost of capital equipment, and \$86 in annual operating and maintenance costs over a 15 year period.

Environmental studies at the second facility indicate that remediation may be necessary. Based upon the facts presently available, environmental experts have advised the Company that under the most probable remediation scenario, the estimated cost to remediate this site is anticipated to require \$2,300 in initial costs, including capital equipment expenditures, and \$258 in annual operating and maintenance costs over a 10 year period. These estimated costs of future expenses for environmental remediation obligations are not discounted to their present value. The Company may revise such estimates in the future due to the uncertainty regarding the nature, timing and extent of any remediation efforts that may be required at this site, should an appropriate regulatory agency deem such efforts to be necessary.

The foregoing estimates may also be revised by the Company as new or additional information in these matters become available or should the NJDEP or other regulatory agencies require additional or alternative remediation efforts in the future. Although such events are not expected to change these estimates, adverse decisions or events, particularly as to the merits of the Company's factual and legal basis, could cause the Company to change its estimate of liability with respect to such matters in the future. The Company had approximately \$9,564 and \$9,700 recorded in accounts payable and accrued liabilities and other long-term liabilities at June 30, 2007 and December 31, 2006, respectively, to cover such matters.

The Company has an employment agreement with its Chairman, President and Chief Executive Officer (the "Officer") which provides for a base salary of \$800 per annum plus a discretionary bonus as determined by the

Compensation and Stock Option Committee of the Board of Directors. In the event of termination or a change in control, as defined in the employment agreement, the Company is required to pay the Officer a lump sum severance payment equal to three years salary and purchase outstanding options. The employment agreement provides for successive one-year terms, unless either the Company or the Officer gives the other written notice that the employment agreement is terminated, and also provides a death benefit which the Company secures through an insurance policy.

The Company is subject to various other litigation, legal and regulatory matters that arise in the ordinary course of business activities. When management believes it is probable that a liability has been incurred and such amounts are reasonably estimable, the Company provides for amounts that include judgments and penalties that may be assessed. These liabilities are usually included in accounts payable and accrued liabilities or other long-term liabilities in the Condensed Consolidated Financial Statements, depending on the anticipated payment date. None of these matters are expected to result in a material adverse effect on the Company's consolidated financial position or results of operations.

15. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, which would be the first quarter of 2008 for the Company. The Company is currently evaluating the effect, if any, that SFAS No. 157 will have on its consolidated financial position or results of operations. However, the Company does not expect the adoption of SFAS No. 157 to have a material effect on the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, which would be the first quarter of 2008 for the Company. The Company is currently evaluating the effect, if any, that SFAS No. 159 will have on its consolidated financial position or results of operations.

16. Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Certain of the estimates and assumptions required to be made relate to matters that are inherently uncertain as they pertain to future events. While management believes that the estimates and assumptions used were the most appropriate, actual results could differ significantly from those estimates under different assumptions and conditions.

17. Reclassifications

Certain prior year amounts have been reclassified to present them on a basis consistent with the current year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In thousands, except per share data or as otherwise noted)

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements of United Capital Corp. (the "Company") and related notes thereto.

Results of Operations: Three and Six Months Ended June 30, 2007 and 2006

Income from continuing operations for the quarter ended June 30, 2007 was \$3,731 or \$.45 per basic share, an increase of \$988 or 36%, compared to \$2,743 or \$.33 per basic share for the quarter ended June 30, 2006. Total revenues increased \$567 or 3% for the second quarter of 2007 to \$17,696, compared to \$17,129 for the comparative quarter of 2006. During this quarter, net gains on available-for-sale securities were \$1,622 higher than that reported in the second quarter of 2006. Net income for the quarter ended June 30, 2007 was \$3,840 or \$.46 per basic share compared to net income of \$3,201 or \$.39 per basic share for the comparative quarter of 2006.

Net income increased \$6,139 or 116% for the six months ended June 30, 2007 to \$11,428, compared to \$5,289 for the six months ended June 30, 2006. On a per share basis, net income was \$1.38 per basic share for the first half of 2007, compared to \$.64 per basic share for the comparable 2006 period. Total revenues increased \$1,452 or 4% to \$34,541 for the six months ended June 30, 2007, compared to \$33,089 for the comparable period of 2006, while operating income increased 23% in the current period to \$6,227, compared to the first six months of 2006.

Included in other income and expense, net during the first quarter of 2007 is \$5,665 in net gain from a condemnation award related to a property taken by the City of New York in 2001.

The results of the second quarter and first half of 2006 include compensation expense associated with unvested stock options (\$350 and \$807, respectively) recorded in connection with the adoption of SFAS No. 123R (see Note 4 of Notes to Condensed Consolidated Financial Statements).

Real Estate Operations

The Company's real estate operations consist of the real estate investment and management and hotel operations segments. The operating results for these segments are as follows:

| | Three Months Ended June 30, 2007 | | | Six Months Ended June 30, 2007 | | |
|---------------------------|---|-----------------------------|-----------------|---|-----------------------------|-----------------|
| | Real Estate | Hotel Operations | Total | Real Estate | Hotel Operations | Total |
| Revenues | \$ 4,996 | \$ 3,041 | \$ 8,037 | \$ 9,820 | \$ 5,134 | \$14,954 |
| Mortgage interest expense | 62 | 138 | 200 | 126 | 269 | 395 |
| Depreciation expense | 487 | 254 | 741 | 906 | 547 | 1,453 |
| Other operating expenses | <u>1,408</u> | <u>2,174</u> | <u>3,582</u> | <u>2,805</u> | <u>3,966</u> | <u>6,771</u> |
| Income from operations | <u>\$ 3,039</u> | <u>\$ 475</u> | <u>\$ 3,514</u> | <u>\$ 5,983</u> | <u>\$ 352</u> | <u>\$ 6,335</u> |

| | Three Months Ended June 30, 2006 | | | Six Months Ended June 30, 2006 | | |
|---------------------------|---|-----------------------------|-----------------|---|-----------------------------|-----------------|
| | Real Estate | Hotel Operations | Total | Real Estate | Hotel Operations | Total |
| Revenues | \$ 5,247 | \$ 2,239 | \$ 7,486 | \$ 9,929 | \$ 4,220 | \$14,149 |
| Mortgage interest expense | 67 | 133 | 200 | 136 | 266 | 402 |
| Depreciation expense | 387 | 196 | 583 | 721 | 392 | 1,113 |
| Other operating expenses | <u>1,296</u> | <u>1,737</u> | <u>3,033</u> | <u>2,664</u> | <u>3,505</u> | <u>6,169</u> |
| Income from operations | <u>\$ 3,497</u> | <u>\$ 173</u> | <u>\$ 3,670</u> | <u>\$ 6,408</u> | <u>\$ 57</u> | <u>\$ 6,465</u> |

Real Estate Investment and Management

Revenues from the real estate investment and management segment decreased \$251 or 4.8% to \$4,996 for the quarter ended June 30, 2007 and \$109 or 1.1% to \$9,820 for the six months ended June 30, 2007, compared to the corresponding periods in 2006. The decrease for the current quarter was primarily the result of revenue recognized for a non-recurring amount (\$321) during the second quarter of 2006 and a decrease in the timing of tenant reimbursements (\$142), partially offset by new leases and/or renewals at higher rents (\$337). For the six month period, the decrease was primarily the result of the recognition of additional revenue from a non-recurring transaction (\$500) in 2006 and a decrease in the timing of tenant reimbursements (\$155), partially offset by new leases and/or renewals at higher rents (\$630). In general, rental revenues from the Company's real estate properties do not fluctuate significantly due to the long-term nature of the Company's leases. However, future rental revenues could be affected by lease renewals, terminations, step-ups and escalations and by the purchase or sale of additional properties.

Mortgage interest expense continued to decrease as a result of continuing mortgage amortization. Such expense decreased \$5 or 7.5% for the quarter ended June 30, 2007 and \$10 or 7.4% for the six months ended June 30, 2007, compared to the corresponding periods in 2006. Mortgage interest expense on existing obligations of the Company's real estate investment and management segment will continue to decline with scheduled principal reductions.

Depreciation expense associated with real properties held for rental increased \$100 or 25.8% for the quarter ended June 30, 2007 and \$185 or 25.7% for the six months ended June 30, 2007, compared to the corresponding periods in 2006. These increases were primarily attributable to depreciation expense (\$144 and \$275 for the three and six month periods, respectively) related to additions to real estate assets over the past twelve months, partially offset by a reduction in depreciation expense (\$46 and \$92 for the three and six month periods, respectively) associated with certain properties or improvements becoming fully depreciated in the current and prior year. Depreciation expense on the Company's properties for the full year of 2007 should be higher than that reported in 2006 due to the May 2006 purchase of a commercial property and other expenditures for capital improvements incurred during the current and prior years, but the second half of 2007 should be more comparable to that of 2006.

Other operating expenses associated with the management of real properties increased \$112 or 8.6% for the three months ended June 30, 2007 and \$141 or 5.3% for the six months ended June 30, 2007, compared to the same periods in 2006, primarily related to an increase in property maintenance expenses (\$65 and \$136 for the three and six month periods, respectively). In addition, the increase in the quarter is also due to an increase in utility expenses (\$49).

Hotel Operations

Hotel revenues increased \$802 or 35.8% to \$3,041 for the three months ended June 30, 2007 and \$914 or 21.7% to \$5,134 for the six months ended June 30, 2007, compared to the same periods of 2006, primarily as the result of stronger demand at the Company's hotels related to recent renovations and improvements which has allowed the Company to increase average room rates. In addition, the Company received additional hotel revenues from the May 2007 acquisition of a hotel located in Utica, New York (the "Utica Hotel").

Mortgage interest expense for the current quarter and six months ended June 30, 2007 increased, compared to the same periods of 2006, as a result of the mortgage assumed with the acquisition of the Utica Hotel.

Depreciation expense associated with the Company's hotel operations increased \$58 or 29.6% for the quarter ended June 30, 2007 and \$155 or 39.5% for the six months ended June 30, 2007, compared to the corresponding periods in 2006, primarily attributable to depreciation expense related to the renovations and improvements completed during the second half of 2006.

Other operating expenses related to the management of the Company's hotels increased \$437 or 25.2% to \$2,174 for the second quarter of 2007 and \$461 or 13.2% to \$3,966 for the first half of 2007, compared to the corresponding periods of 2006. Other operating expenses increased for the quarter and year-to-date periods primarily due to the acquisition of the Utica Hotel.

Future hotel revenues and expenses will vary based on demand and desirability of these properties compared to others in their immediate proximity and may be influenced by local and other economic conditions, including the room rate of the hotels.

Engineered Products

The Company's engineered products segment includes Metex Mfg. Corporation ("Metex") and AFP Transformers, LLC ("AFP Transformers"). The operating results of the engineered products segment are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------|------------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$ 9,659 | \$ 9,643 | \$ 19,587 | \$ 18,940 |
| Cost of sales | 7,335 | 7,250 | 14,755 | 14,243 |
| Selling, general and administrative expenses | <u>1,688</u> | <u>1,635</u> | <u>3,440</u> | <u>3,522</u> |
| Operating income | <u>\$ 636</u> | <u>\$ 758</u> | <u>\$ 1,392</u> | <u>\$ 1,175</u> |

Net sales of the engineered products segment increased less than 1% for the quarter ended June 30, 2007. For the six months ended June 30, 2007, net sales of the engineered products segment increased \$647 or 3.4%, compared with the results of the corresponding 2006 period. This increase was primarily the result of increased demand in the Company's transformer and engineered product lines. Sales of the Company's automotive product line decreased during the second quarter of 2007, compared to the second quarter of 2006, primarily related to a program completed during 2006. Although management believes that sales of its engineered products segment are directly influenced by general economic conditions, worldwide automotive demand and industrial capital spending, future sales of this segment could also be affected by changes in technology, competitive forces or challenges to its intellectual property.

Cost of sales as a percentage of sales increased less than 1% for both the three and six months ended June 30, 2007, compared to the corresponding periods of 2006. The Company has experienced an increase in the cost of raw materials, primarily copper and steel components, which, where possible, has been passed along to customers. To offset the effect of material cost increases and maintain a relatively stable gross margin, the Company has improved manufacturing efficiencies by managing overhead and labor costs.

Selling, general and administrative expenses of the engineered products segment increased \$53 or 3.2% for the quarter ended June 30, 2007 and decreased \$82 or 2.3% for the six months ended June 30, 2007, compared to the corresponding periods of 2006. The increase for the quarter was primarily due to an increase in professional fees (\$105), partially offset by a decrease in payroll and payroll related expenses (\$74). On a year-to-date basis, the decrease was primarily related to a decrease in payroll and payroll related expenses (\$248), partially offset by an increase in professional fees (\$75) and European sales office expenses (\$54).

General and Administrative Expenses

General and administrative expenses not associated with the manufacturing operations decreased \$440 or 38% for the second quarter of 2007 and \$1,087 or 42% for the first half of 2007, compared to such expenses incurred for the comparable 2006 periods. These decreases primarily relate to compensation expense associated with unvested stock options (\$350 and \$807 for the three and six month periods, respectively) recorded during 2006 in connection with the adoption of SFAS No. 123R (see Note 4 of Notes to Condensed Consolidated Financial Statements). No compensation costs relating to share-based payments were recognized in 2007.

Other Income and Expense, Net

The components of other income and expense, net in the Condensed Consolidated Statements of Income are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net gain from condemnation award | \$ — | \$ — | \$ 5,665 | \$ — |
| Net gain (loss) on sale of available-for-sale securities | 679 | (943) | 654 | (782) |
| Net realized and unrealized gain on derivative instruments | 92 | 30 | 163 | 62 |
| Litigation Settlement | — | 422 | — | 422 |
| Equity in losses of hotel venture | — | — | — | (35) |
| Other, net | <u>2</u> | <u>4</u> | <u>2</u> | <u>10</u> |
| | <u>\$ 773</u> | <u>\$ (487)</u> | <u>\$ 6,484</u> | <u>\$ (323)</u> |

Included in other income and expense, net during the first half of 2007 is \$5,665 in net gain from a condemnation award related to a property taken by the City of New York in 2001.

Discontinued Operations

Income from operations on properties sold or held for sale and accounted for as discontinued operations was \$4, on a net of tax basis, for the three months ended June 30, 2007, compared to a loss from operations on properties sold or held for sale of \$7, on a net of tax basis, for the three months ended June 30, 2006. Loss from operations on properties sold or held for sale for the six months ended June 30, 2007 and 2006 was \$5 and \$12, respectively, on a net of tax basis. Prior year amounts have been reclassified to reflect results of operations of real properties held for sale as of June 30, 2007 or sold during 2007 and 2006 as discontinued operations. As of June 30, 2007, the Company classified one property as held for sale. Net gains on the disposal of real estate assets accounted for as discontinued operations were \$105 and \$1,052, on a net of tax basis, for the three and six months ended June 30, 2007, respectively, and \$465 for each of the three and six months ended June 30, 2006 (see Note 7 of Notes to Condensed Consolidated Financial Statements).

Liquidity and Capital Resources

Net cash used in operating activities was \$4,942 for the six months ended June 30, 2007, compared to net cash provided by operating activities of \$7,008 for the same period of 2006. This change in operating cash flow results principally from an increase in notes and accounts receivables, net (\$10,201), due to the timing of cash receipts of certain items including proceeds received from the sale of marketable securities (\$8,985) and other assets.

Net cash provided by investing activities was \$11,401 for the six months ended June 30, 2007 versus net cash used in investing activities of \$21,241 for the six months ended June 30, 2006. This change primarily results from the timing of the purchase or sale of available-for-sale securities (\$28,747), and net proceeds received from a condemnation award (\$5,665) and sale of real estate assets (\$1,154), partially offset by an increase in acquisition of/additions to real estate assets (\$4,439), which includes the purchase of the Utica Hotel in May 2007, net of the related mortgage.

During May 2007, the Company purchased the Utica Hotel for approximately \$16,000 plus closing costs, including the assumption of an underlying mortgage of \$2,315, of which \$872 of the purchase price was allocated to furniture, fixtures and equipment and is included in property, plant and equipment in the Condensed Consolidated Balance Sheet. The mortgage assumed bears interest at 7.5% per annum, with monthly installments of interest and principal of \$30 through December 2015. The total cost of the acquisition, less the assumption of the mortgage, is reflected in acquisition of/additions to real estate assets in the Condensed Consolidated Statements of Cash Flows.

Net cash used in financing activities was \$7,033 and \$12,733 during the six months ended June 30, 2007 and 2006, respectively. The decrease in cash used for financing activities primarily results from additional proceeds from the exercise of stock options (\$4,183) and the additional tax benefits related to such exercises (\$3,376), partially offset by an increase in the purchase and retirement of common stock during the first half of 2007 (\$2,055) versus that purchased during the same period of 2006.

Previous purchases of the Company's common stock have reduced the Company's additional paid-in capital to zero and have also reduced retained earnings by amounts in excess of par value. Any future purchases in excess of par value will also reduce retained earnings. Repurchases of the Company's common stock may be made from time to time in the open market at prevailing market prices and may be made in privately negotiated transactions, subject to available resources. Future proceeds from the issuance of common stock in excess of par value will be credited to retained earnings until such time that previously recorded reductions have been recovered.

At June 30, 2007, the Company's cash and marketable securities totaled \$125.4 million and working capital was \$137.2 million compared to cash and marketable securities of \$139.6 million and working capital of \$140.2 million at December 31, 2006. Included in notes and accounts receivable, net as of June 30, 2007 is \$8,985 related to the sale of marketable securities which settled subsequent to the end of the quarter. Management continues to believe that the real estate market is overvalued and accordingly acquisitions have been limited to those select properties that meet the Company's stringent financial requirements. Management believes that the available working capital puts the Company in an opportune position to fund acquisitions and grow its portfolio, if and when attractive long-term opportunities become available.

The equity method of accounting is used for investments in 20% to 50% owned joint ventures in which the Company has the ability to exercise significant influence, but not control. These investments are recorded initially at cost and subsequently adjusted for equity in earnings and cash contributions and distributions. The debt of the joint venture in which the Company currently has an ownership interest is a non-recourse obligation and is collateralized by the entity's real property. The Company believes that the value of the underlying property and its operating cash flows are sufficient to satisfy its obligations. The Company is not obligated for the debts of the joint venture, but could decide to satisfy them in order to protect its investment. In such event, the Company's capital resources and financial condition would be reduced and, in certain instances, the carrying value of the Company's investment and its results of operations would be negatively impacted.

The cash needs of the Company have been satisfied from funds generated by current operations. It is expected that future operational cash needs will also be satisfied from existing cash balances, marketable securities, ongoing operations or borrowings. The primary source of capital to fund additional real estate acquisitions and to make additional high-yield mortgage loans may come from existing funds, the sale, financing and refinancing of the Company's properties and from third party mortgages and purchase money notes obtained in connection with specific acquisitions.

In addition to the acquisition of properties for consideration consisting of cash and mortgage financing proceeds, the Company may acquire real properties in exchange for the issuance of the Company's equity securities. The Company may also finance acquisitions of other companies in the future with borrowings from institutional lenders and/or the public or private offerings of debt or equity securities. The Company currently has no agreements, commitments or understandings with respect to the acquisition of real properties or other companies in exchange for its equity or debt securities.

Funds of the Company in excess of that needed for working capital, purchasing real estate and arranging financing for real estate acquisitions are invested by the Company in corporate equity securities, corporate notes, certificates of deposit, government securities and other financial instruments. Changes in U.S. interest rates affect the interest earned on the Company's cash and cash equivalent balances and other interest bearing investments. Given the level of cash and other interest bearing investments held by the Company, changes in U.S. interest rates could impact the Company's earnings.

In strategies designed to hedge overall market risk, the Company may sell common stock short and participate in put and/or call options. These instruments do not qualify for hedge accounting and therefore changes in such derivatives fair value are recognized in earnings. These derivatives are recorded as a component of accounts payable and accrued liabilities in the Condensed Consolidated Balance Sheets.

The Company manufactures its products in the United States and Mexico and sells its products in those markets as well as in Europe, South America and Asia. As a result, the Company's operating results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company distributes its products. Most of the Company's sales are denominated in U.S. dollars. Net sales of the Company's engineered products segment denominated in Euros were 9.3% and 9.0% for the three and

six months ended June 30, 2007 and 5.3% and 5.9% for the three and six months ended June 30, 2006, respectively. As such, a portion of the Company's receivables are exposed to fluctuations with the U.S. dollar. However, the Company does not believe this risk to be material to its overall financial position. Since the Euro has historically been relatively stable in relation to the U.S. dollar, the Company's results have not been significantly impacted by foreign exchange gains or losses in the past. Accordingly, the Company has not entered into forward exchange contracts to hedge this exposure. If such exposure increased in the future, the Company may reexamine this practice to minimize the associated risks.

The Company has undertaken the completion of environmental studies and/or remedial action at Metex' two New Jersey facilities and has recorded a liability for the estimated investigation, remediation and administrative costs associated therewith. See Note 14 of Notes to Condensed Consolidated Financial Statements for further discussion of this matter.

The Company is subject to various other litigation, legal and regulatory matters that arise in the ordinary course of business activities. When management believes it is probable that liabilities have been incurred and such amounts are reasonably estimable, the Company provides for amounts that include judgments and penalties that may be assessed. These liabilities are usually included in accounts payable and accrued liabilities or other long-term liabilities in the Condensed Consolidated Financial Statements, depending on the anticipated payment date. None of these matters are expected to result in a material adverse effect on the Company's consolidated financial position or results of operations.

Related Party Transactions

During 2007, certain officers and directors of the Company exercised options to purchase 522 shares of the Company's common stock at exercise prices between \$8.50 and \$12.58 and sold such shares to the Company at purchase prices of \$29.30 and \$34.40 per share.

Critical Accounting Policies and Management Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to use judgment in making estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Certain of the estimates and assumptions required to be made relate to matters that are inherently uncertain as they pertain to future events. While management believes that the estimates and assumptions used were the most appropriate, actual results could differ significantly from those estimates under different assumptions and conditions.

Refer to the Company's 2006 Annual Report on Form 10-K for a discussion of the Company's critical accounting policies, which include revenue recognition and accounts receivable, marketable securities, inventories, real estate, discontinued operations, long-lived assets and pension plans. Also see Note 9 of Notes to Condensed Consolidated Financial Statements included herein for a discussion on the adoption of FIN 48 effective January 1, 2007. There were no other material changes to the Company's critical accounting policies during the six months ended June 30, 2007.

Recent Accounting Pronouncements

Refer to Notes to Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

See Note 8 of Notes to Condensed Consolidated Financial Statements for a discussion of derivative financial activity since December 31, 2006. There have been no other material changes in quantitative and qualitative market risks from those disclosed in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated herein by reference.

ITEM 4T. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic reports. There have been no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II – OTHER INFORMATION

ITEM 1A. RISK FACTORS

The significant factors known to the Company that could materially effect the Company's business, financial position or results of operations are set forth under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, which are incorporated herein by reference.

Forward-Looking Statements

Certain statements in this Report on Form 10-Q and other statements made by the Company or its representatives that are not strictly historical facts are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 that should be considered as subject to the many risks and uncertainties that exist in the Company's operations and business environment. The forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results, performance and/or achievements of the Company to differ materially from any future results, performance or achievements, expressed or implied, by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, and that in light of the significant uncertainties inherent in forward-looking statements, the inclusion of such statements should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved. The Company also assumes no obligation to publicly update or revise its forward-looking statements or to advise of changes in the assumptions and factors on which they are based. See the Company's 2006 Annual Report on Form 10-K for a discussion of risk factors that could impact our future financial performance and/or cause actual results to differ significantly from those expressed or implied by such statements.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table details the Company's repurchases of common stock during the three months ended June 30, 2007:

Issuer Purchases of Equity Securities
(In thousands, except per share data)

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs |
|------------------------------|---|---|---|---|
| June 1, 2007 — June 30, 2007 | <u>449</u> | <u>\$ 29.30</u> | <u>—</u> | <u>\$ 3,962</u> |

As previously announced, the Board of Directors have approved repurchase plans for the Company's common stock, which may be made from time to time in the open market at prevailing market prices or in privately negotiated transactions. At June 30, 2007, \$3,962 remains to be purchased under such plans. These authorizations are ongoing and do not have an expiration date.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

On June 19, 2007, the Company held its Annual Meeting of Stockholders, whereby the stockholders voted to elect Directors as follows:

| | <u>For</u> | <u>Withheld</u> |
|----------------------------|------------|-----------------|
| A.F. Petrocelli | 7,645,149 | 347,099 |
| Michael T. Lamoretti | 7,629,959 | 362,289 |
| Howard M. Lorber | 7,604,564 | 387,684 |
| Robert M. Mann | 7,843,916 | 148,332 |
| Anthony J. Miceli | 7,604,222 | 388,026 |
| Arnold S. Penner | 7,842,696 | 149,552 |
| Michael J. Weinbaum | 7,629,959 | 362,289 |

ITEM 6. EXHIBITS

- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-15(e) and 15d-15(e).
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-15(e) and 15d-15(e).
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED CAPITAL CORP.

Date: August 13, 2007

By: /s/ Anthony J. Miceli
Anthony J. Miceli
Vice President, Chief Financial Officer
and Secretary of the Company

CERTIFICATION

I, A. F. Petrocelli, certify that:

1. I have reviewed this report on Form 10-Q of United Capital Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2007

By: /s/ A. F. Petrocelli
A. F. Petrocelli
Chairman, President and Chief Executive Officer

CERTIFICATION

I, Anthony J. Miceli, certify that:

1. I have reviewed this report on Form 10-Q of United Capital Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2007

By: /s/ Anthony J. Miceli
Anthony J. Miceli
Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, A. F. Petrocelli, Chairman, President and Chief Executive Officer of United Capital Corp., (the "Company"), does hereby certify, with respect to the Quarterly Report of the Company on Form10-Q for the period ended June 30, 2007 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2007

By: /s/ A. F. Petrocelli
A. F. Petrocelli
Chairman, President and Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Anthony J. Miceli, Chief Financial Officer of United Capital Corp., (the "Company"), does hereby certify, with respect to the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2007 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2007

By: /s/ Anthony J. Miceli
Anthony J. Miceli
Chief Financial Officer