

**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, 2009**

COMMISSION FILE NUMBER: 1-10104

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**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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer   
Non-accelerated filer

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

The registrant had 9,102,930 shares of common stock, \$.10 par value, outstanding as of November 11, 2009.

**UNITED CAPITAL CORP. AND SUBSIDIARIES**

**Index**

	<u>PAGE</u>
<b>PART I – FINANCIAL INFORMATION</b>	
ITEM 1.	FINANCIAL STATEMENTS
	Condensed Consolidated Balance Sheets as of September 30, 2009 (Unaudited) and December 31, 2008 ..... 3
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008 (Unaudited) ..... 4
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008 (Unaudited) ..... 5
	Notes to Condensed Consolidated Financial Statements (Unaudited) .....6-13
ITEM 2.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ..... 13-19
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK ..... 20
ITEM 4T.	CONTROLS AND PROCEDURES ..... 20
<b>PART II – OTHER INFORMATION</b>	
ITEM 1.	LEGAL PROCEEDINGS .....20 - 21
ITEM 1A.	RISK FACTORS ..... 21
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS ..... 22
ITEM 6.	EXHIBITS ..... 22
SIGNATURES	..... 22

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except per share data)

	<b>September 30,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	<u>(Unaudited)</u>	
<b>ASSET</b>		
Current assets:		
Cash and cash equivalents	\$ 126,182	\$ 138,142
Marketable securities	21,346	9,178
Notes and accounts receivable, net	7,433	7,427
Income taxes receivable	—	4,163
Inventories	3,707	5,624
Prepaid expenses and other current assets	1,871	1,732
Deferred income taxes	<u>1,212</u>	<u>4,011</u>
<b>Total current assets</b>	<u>161,751</u>	<u>170,277</u>
Property, plant and equipment, net	8,106	5,591
Real property held for rental, net	86,631	73,060
Investment in joint venture	4,857	5,440
Noncurrent notes receivable	9,699	1,058
Other assets	3,657	3,317
Noncurrent assets of discontinued operations	<u>—</u>	<u>4,142</u>
<b>Total assets</b>	<u>\$ 274,701</u>	<u>\$ 262,885</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 1,279	\$ 2,717
Accounts payable and accrued liabilities	10,225	10,036
Income taxes payable	<u>4,064</u>	<u>3,629</u>
<b>Total current liabilities</b>	<u>15,568</u>	<u>16,382</u>
Long-term debt	29,119	30,146
Other long-term liabilities	18,120	18,076
Deferred income taxes	<u>7,928</u>	<u>8,314</u>
<b>Total liabilities</b>	<u>70,735</u>	<u>72,918</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.10 par value, authorized 17,500 shares; issued and outstanding 9,107 and 8,483 shares, respectively	911	848
Retained earnings	205,827	197,056
Accumulated other comprehensive loss, net of tax	<u>(2,772)</u>	<u>(7,937)</u>
<b>Total stockholders' equity</b>	<u>203,966</u>	<u>189,967</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 274,701</u>	<u>\$ 262,885</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 OPERATIONS**

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Revenues from real estate operations	\$ 9,075	\$ 9,436	\$ 25,524	\$ 27,366
Net sales	<u>5,659</u>	<u>9,109</u>	<u>16,644</u>	<u>28,628</u>
Total revenues	<u>14,734</u>	<u>18,545</u>	<u>42,168</u>	<u>55,994</u>
<b>Costs and expenses:</b>				
Cost of sales	4,358	7,201	13,160	22,382
Real estate operations:				
Mortgage interest expense	510	538	1,562	1,588
Depreciation expense	1,002	877	2,902	2,688
Other operating expenses	4,625	4,474	12,401	13,064
General and administrative expenses	1,812	1,655	5,274	5,067
Selling expenses	<u>764</u>	<u>986</u>	<u>2,325</u>	<u>2,910</u>
Total costs and expenses	<u>13,071</u>	<u>15,731</u>	<u>37,624</u>	<u>47,699</u>
Operating income	<u>1,663</u>	<u>2,814</u>	<u>4,544</u>	<u>8,295</u>
<b>Other income (expense):</b>				
Interest and dividend income	999	1,341	2,661	4,156
Other income and (expense), net	<u>(9)</u>	<u>(14,982)</u>	<u>6</u>	<u>(15,193)</u>
Total other income (expense)	<u>990</u>	<u>(13,641)</u>	<u>2,667</u>	<u>(11,037)</u>
Income (loss) from continuing operations before income taxes	2,653	(10,827)	7,211	(2,742)
Provision (benefit) for income taxes	<u>1,027</u>	<u>(3,883)</u>	<u>2,708</u>	<u>(895)</u>
<b>Income (loss) from continuing operations</b>	<u>1,626</u>	<u>(6,944)</u>	<u>4,503</u>	<u>(1,847)</u>
<b>Discontinued operations:</b>				
(Loss) income from discontinued operations, net of tax (benefit) provision of (\$7), (\$60), (\$96) and \$9, respectively	(9)	(89)	(143)	14
Net loss on disposal of discontinued operations, net of tax benefit of \$16 and \$276, respectively	<u>(24)</u>	<u>—</u>	<u>(414)</u>	<u>—</u>
<b>(Loss) income from discontinued operations</b>	<u>(33)</u>	<u>(89)</u>	<u>(557)</u>	<u>14</u>
<b>Net income (loss)</b>	<u>\$ 1,593</u>	<u>\$ (7,033)</u>	<u>\$ 3,946</u>	<u>\$ (1,833)</u>
<b>Basic earnings (loss) per share:</b>				
Income (loss) from continuing operations	\$ .18	\$ (.82)	\$ .50	\$ (.22)
Loss from discontinued operations	<u>—</u>	<u>(.01)</u>	<u>(.06)</u>	<u>—</u>
<b>Net income (loss) per share</b>	<u>\$ .18</u>	<u>\$ (.83)</u>	<u>\$ .44</u>	<u>\$ (.22)</u>
<b>Diluted earnings (loss) per share:</b>				
Income (loss) from continuing operations	\$ .16	\$ (.82)	\$ .46	\$ (.22)
Loss from discontinued operations	<u>—</u>	<u>(.01)</u>	<u>(.06)</u>	<u>—</u>
<b>Net income (loss) per share assuming dilution</b>	<u>\$ .16</u>	<u>\$ (.83)</u>	<u>\$ .40</u>	<u>\$ (.22)</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)

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 3,946	\$ (1,833)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,189	3,029
Loss on disposal of discontinued operations, net of tax	414	—
Net loss on available-for-sale securities	104	16,088
Net realized and unrealized gains on derivative instruments	(139)	(438)
Litigation award from prior condemnation	—	(457)
Deferred income taxes	(367)	(3,170)
Other, net	(971)	(222)
Changes in assets and liabilities, net of effect of business acquisition:		
Notes and accounts receivable, net	885	(454)
Inventories	1,917	301
Prepaid expenses and other current assets	388	(2)
Accounts payable and accrued liabilities	(74)	121
Income taxes payable	4,874	(3,367)
Other long-term liabilities	(357)	(101)
Net cash provided by operating activities of continuing operations	13,809	9,495
Operating activities of discontinued operations	194	191
<b>Net cash provided by operating activities</b>	<b>14,003</b>	<b>9,686</b>
<b>Cash flows from investing activities:</b>		
Purchase of available-for-sale securities	(3,939)	(27,145)
Proceeds/maturities from sale of available-for-sale securities	622	1,352
Proceeds from sale of real estate assets	3,258	—
Escrowed proceeds from sale of real estate assets	—	15,000
Net proceeds from litigation award from prior condemnation	—	457
Proceeds from sale of derivative instruments	135	1,070
Purchase of notes receivable	(9,428)	—
Principal payments on notes receivable	33	35
Acquisition of property, plant and equipment	(476)	(528)
Acquisition of/additions to real estate assets	(2,093)	(14,917)
Business acquisition, net of cash acquired	(17,081)	—
Distributions from joint venture	583	585
Net cash used in investing activities of continuing operations	(28,386)	(24,091)
Investing activities of discontinued operations	—	122
<b>Net cash used in investing activities</b>	<b>(28,386)</b>	<b>(23,969)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from mortgage obligations	—	500
Principal payments on mortgage obligations	(2,465)	(734)
Purchase and retirement of common stock	(2,553)	(13,325)
Proceeds from exercise of stock options	5,344	9,224
Tax benefit from exercise of stock options	2,097	2,830
<b>Net cash provided by (used in) financing activities</b>	<b>2,423</b>	<b>(1,505)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(11,960)</b>	<b>(15,788)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>138,142</b>	<b>129,003</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 126,182</b>	<b>\$ 113,215</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 1,539	\$ 1,585
Taxes	\$ 762	\$ 2,754

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 8 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, 2008 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. The Company has evaluated subsequent events through November 11, 2009, the date the financial statements were issued.

**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 nine months ended September 30, 2009 and 2008, the Company received proceeds of \$5,344 and \$9,224 from the exercise of 760 and 804 stock options, respectively. During the nine months ended September 30, 2009 and 2008, the Company recorded a tax benefit of \$2,097 and \$2,830 to retained earnings related to the exercise of stock options.

During the nine months ended September 30, 2009 and 2008, the Company purchased and retired 136 and 607 shares of common stock for an aggregate purchase price of \$2,553 and \$13,325, respectively.

**3. EARNINGS (LOSS) PER SHARE**

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Numerator:				
Income (loss) from continuing operations	\$ <u>1,626</u>	\$ <u>(6,944)</u>	\$ <u>4,503</u>	\$ <u>(1,847)</u>
Denominator:				
Basic – weighted-average shares outstanding	9,106	8,502	8,954	8,396
Dilutive effect of employee stock options	<u>869</u>	<u>—</u>	<u>799</u>	<u>—</u>
Diluted – weighted-average shares outstanding	<u>9,975</u>	<u>8,502</u>	<u>9,753</u>	<u>8,396</u>
Basic earnings per share – continuing operations	\$ <u>.18</u>	\$ <u>(.82)</u>	\$ <u>.50</u>	\$ <u>(.22)</u>
Diluted earnings per share – continuing operations	\$ <u>.16</u>	\$ <u>(.82)</u>	\$ <u>.46</u>	\$ <u>(.22)</u>

Potentially dilutive common shares, related to outstanding employee stock options, amounting to 740 shares for the nine months ended September 30, 2009 and 1,307 and 1,351 shares for the three and nine months ended September 30, 2008, respectively, were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

#### 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.

As of September 30, 2009 and December 31, 2008, the Company had outstanding options to purchase 3,185 and 3,945 shares with a weighted-average exercise price of \$13.18 and \$11.99 per share, respectively. As of September 30, 2009, these options had a weighted-average remaining contractual term of 2.2 years and an aggregate intrinsic value of \$31,664. The aggregate intrinsic value represents the difference between the Company's closing stock price on September 30, 2009 (\$23.12) and the exercise price of each option, multiplied by the number of "in-the-money" options. This amount changes based upon the fair market value of the Company's common stock. During the nine months ended September 30, 2009, options to purchase 760 shares were exercised which had a weighted-average exercise price of \$7.03 per share.

#### 5. MARKETABLE SECURITIES

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

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Market Value</u>
<b>September 30, 2009:</b>				
Equity securities	\$ 21,367	\$ 980	\$ (1,331)	\$ 21,016
Bonds	<u>327</u>	<u>8</u>	<u>(5)</u>	<u>330</u>
	<u>\$ 21,694</u>	<u>\$ 988</u>	<u>\$ (1,336)</u>	<u>\$ 21,346</u>
<b>December 31, 2008:</b>				
Equity securities	\$ 16,440	\$ 1,050	\$ (9,184)	\$ 8,306
Bonds	<u>1,031</u>	<u>4</u>	<u>(163)</u>	<u>872</u>
	<u>\$ 17,471</u>	<u>\$ 1,054</u>	<u>\$ (9,347)</u>	<u>\$ 9,178</u>

Proceeds/maturities from the sale of available-for-sale securities as well as the gains and losses recognized in earnings on available-for-sale securities included in the determination of net income (loss) are as follows:

	<u>Nine Months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
Proceeds/maturities	<u>\$ 622</u>	<u>\$ 1,352</u>
Gains recognized in earnings	<u>\$ —</u>	<u>\$ 138</u>
Losses recognized in earnings	<u>\$ (104)</u>	<u>\$ (16,226)</u>

Included in the results of the nine months ended September 30, 2008 was \$16,226 in impairment charges on the Company's marketable security portfolio resulting from the sudden decline in the stock market and collapse of certain financial institutions in which the Company held an interest which are included as a component of other income and (expense), net in the Condensed Consolidated Statements of Operations.

## 6. INVENTORIES

The components of inventories are as follows:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Raw materials	\$ 1,902	\$ 2,607
Work in process	309	458
Finished goods	<u>1,496</u>	<u>2,559</u>
	<u>\$ 3,707</u>	<u>\$ 5,624</u>

## 7. BUSINESS ACQUISITION

In July 2009, the Company purchased a non-performing mortgage note encumbering a hotel located in Miami, Florida (the "Miami Hotel"). The Company took title to the Miami Hotel in mid-August and has undertaken operation of the hotel. The Company anticipates investing up to \$10,000 in renovations and improvements to this property over the next few quarters. The purchase price, which approximates fair value and includes certain assumed liabilities, was allocated as follows:

Real property	\$13,684
Furniture, fixtures and equipment	3,000
Current assets	763
Current liabilities assumed	<u>(366)</u>
Cash paid for business acquisition, net of cash acquired	<u>\$17,081</u>

The estimates of fair value are preliminary and subject to adjustment for a period of up to one year from the date of acquisition.

Included in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009, are revenues of \$302 and a net operating loss of (\$266) from the operations of the Miami Hotel since the date of the acquisition.

The following represents the unaudited condensed pro forma financial results of the Company as if the acquisition of the Miami Hotel had occurred as of the beginning of the annual period presented. Unaudited condensed pro forma results are based upon accounting estimates and judgments that the Company believes are reasonable. The unaudited condensed pro forma results also include adjustments to depreciation on acquired real property and furniture, fixtures and equipment, adjustments to interest expense and the related tax effects. The condensed pro forma results are not necessarily indicative of the actual results of operations of the Company had the acquisition occurred at the beginning of the years presented, nor does it purport to represent the results of operations for future periods.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Total revenues	<u>\$ 16,221</u>	<u>\$ 20,683</u>	<u>\$ 50,549</u>	<u>\$ 68,135</u>
Net income (loss)	<u>\$ 1,075</u>	<u>\$ (7,814)</u>	<u>\$ 3,168</u>	<u>\$ (2,162)</u>

## 8. REAL ESTATE

### *Property Acquisitions*

During January 2008, the Company purchased two commercial properties located in Michigan for approximately \$13,600. These properties were purchased using funds available from a property sold during 2007 in connection with a Section 1031 tax-deferred exchange. In addition, during July 2008, the Company purchased a commercial property located in Connecticut for approximately \$700. This purchase was partially financed by a \$500 mortgage which bears interest at 6.73% per annum, is payable monthly based on a 25-year amortization and matures in July 2013.

### *Property sales*

During the nine months ended September 30, 2009, the Company divested itself of one commercial property and one of its shopping centers and retail outlets which had a net book value of \$3,948 from its real estate investment and management segment. The aggregate proceeds from these transactions were \$3,258 resulting in a net loss of \$414, on a net of tax basis.

The results of operations of properties sold prior to September 30, 2009 have been reclassified to discontinued operations, on a net of tax basis, for the three and nine months ended September 30, 2009 and 2008. Summarized financial information of these properties is as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues	\$ 29	\$ 70	\$ 152	\$ 650
Depreciation expense	—	80	194	191
Other operating expenses	<u>45</u>	<u>139</u>	<u>197</u>	<u>436</u>
(Loss) income from operations	<u>\$ (16)</u>	<u>\$ (149)</u>	<u>\$ (239)</u>	<u>\$ 23</u>

### *Properties held for sale*

As of September 30, 2009, there were no properties considered by the Company to be held for sale.

## **9. 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 December 31, 2008, the fair value of such derivatives was (\$5), which is recorded as a component of accounts payable and accrued liabilities in the Condensed Consolidated Balance Sheet. These instruments do not qualify for hedge accounting and therefore changes in the derivatives' fair value are recognized in earnings. The Company recognized \$139 and \$438 in net realized and unrealized gains on derivative instruments for the nine months ended September 30, 2009 and 2008, respectively, which are included in other income and (expense), net in the Condensed Consolidated Statements of Operations. The Company held no such derivatives at September 30, 2009.

## **10. FAIR VALUE MEASUREMENTS**

The following table sets forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis, by level, within the fair value hierarchy:

	<b>Fair Value Measurements at Reporting Date Using</b>			
	<b>Total Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>September 30, 2009:</b>				
Marketable securities	<u>\$ 21,346</u>	<u>\$ 21,341</u>	<u>\$ 5</u>	<u>\$ —</u>
<b>December 31, 2008:</b>				
Marketable securities	<u>\$ 9,178</u>	<u>\$ 9,144</u>	<u>\$ 34</u>	<u>\$ —</u>
Derivative financial instruments	<u>\$ (5)</u>	<u>\$ (5)</u>	<u>\$ —</u>	<u>\$ —</u>

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of such items. The

estimated fair values of the Company's other financial assets and liabilities not measured at fair value on a recurring basis at September 30, 2009 and December 31, 2008 are as follows:

	<b>September 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Notes receivable	<u>\$ 5,068</u>	<u>\$ 6,130</u>	<u>\$ 1,101</u>	<u>\$ 1,169</u>
Note receivable – non-performing	<u>\$ 5,428</u>	<u>\$ 5,428</u>	<u>\$ —</u>	<u>\$ —</u>
Long-term debt, including current portion	<u>\$ 30,398</u>	<u>\$ 27,640</u>	<u>\$ 32,863</u>	<u>\$ 29,435</u>

The fair value of notes receivable is estimated using discounted cash flow analyses, with interest rates comparable to loans with similar terms and borrowers of similar credit quality. In May 2009, the Company purchased a non-performing mortgage note for \$5,428 encumbering a property located in Jericho, New York which is subject to a pending foreclosure action. Management believes that the fair value of the note approximates its carrying amount. Upon foreclosure, such amounts will be reclassified to real property held for rental. The fair value of long-term debt is estimated based on interest rates available for debt with terms and due dates similar to the Company's existing debt arrangements.

In February 2008, the Financial Accounting Standards Board ("FASB") issued authoritative guidance which delayed the effective date of fair value measurements for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, for one year. The Company adopted the provisions of this guidance as they relate to long-lived assets effective January 1, 2009 and it did not have a material impact on the Company's financial statements.

#### **11. TRANSACTIONS WITH RELATED PARTIES**

During July 2009, the Company purchased a \$5,000 participation in a note secured by a warehouse located in New York of which Mrs. Petrocelli (the wife of Mr. Petrocelli, the Company's Board Chairman) holds a 20% interest. The participation, which matures in July 2012, bears interest at 18% per annum payable monthly. The participants also received a commitment fee of 1% in connection with the note.

#### **12. PENSION PLAN**

The Company has a noncontributory defined benefit pension plan that covers substantially all full-time employees of the engineered products and real estate investment and management segments. The plan, which provides defined benefits based on years of service and compensation level, was frozen in September 2009, ceasing the accrual of further benefits.

Net periodic pension cost consists of the following:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Service cost	\$ (61)	\$ (75)	\$ (202)	\$ (225)
Interest cost	(189)	(180)	(568)	(530)
Expected return on plan assets	131	196	403	601
Amortization of net loss	<u>(62)</u>	<u>—</u>	<u>(184)</u>	<u>—</u>
Net periodic pension cost	<u>\$ (181)</u>	<u>\$ (59)</u>	<u>\$ (551)</u>	<u>\$ (154)</u>

During the third quarter of 2009, the Company contributed \$150 to the pension plan and anticipates that it will make an additional contribution of approximately \$650 by the first quarter of 2010.

### 13. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 1,593	\$ (7,033)	\$ 3,946	\$ (1,833)
Other comprehensive income (loss), net of tax:				
Change in net unrealized gain (loss) on available-for-sale securities, net of tax effect of (\$1,378), \$5,306, (\$2,744) and \$5,489, respectively	2,561	(9,852)	5,097	(10,193)
Reclassification adjustment for net losses realized in net income (loss), net of tax effect of (\$5,278), (\$36) and (\$1,954), respectively	<u>—</u>	<u>9,802</u>	<u>68</u>	<u>3,628</u>
Comprehensive income (loss)	<u>\$ 4,154</u>	<u>\$ (7,083)</u>	<u>\$ 9,111</u>	<u>\$ (8,398)</u>

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

	September 30, 2009	December 31, 2008
Net unrealized loss on available-for-sale securities, net of tax effect of \$122 and \$2,902, respectively	\$ (226)	\$ (5,391)
Unrecognized net gains from pension plan, net of tax effect of \$1,371	<u>(2,546)</u>	<u>(2,546)</u>
Accumulated other comprehensive loss, net of tax	<u>\$ (2,772)</u>	<u>\$ (7,937)</u>

### 14. 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 four 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, 2008.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net revenues and sales:				
Real estate investment and management	\$ 4,959	\$ 4,953	\$ 14,863	\$ 14,973
Hotel operations	4,116	4,483	10,661	12,393
Engineered products	<u>5,659</u>	<u>9,109</u>	<u>16,644</u>	<u>28,628</u>
	<u>\$ 14,734</u>	<u>\$ 18,545</u>	<u>\$ 42,168</u>	<u>\$ 55,994</u>
Operating income (loss):				
Real estate investment and management	\$ 3,012	\$ 2,886	\$ 9,148	\$ 9,154
Hotel operations	(74)	661	(489)	872
Engineered products	(173)	69	(1,047)	802
General corporate expenses	<u>(1,102)</u>	<u>(802)</u>	<u>(3,068)</u>	<u>(2,533)</u>
	1,663	2,814	4,544	8,295
Other income (expense), net	<u>990</u>	<u>(13,641)</u>	<u>2,667</u>	<u>(11,037)</u>
Income (loss) from continuing operations before income taxes	<u>\$ 2,653</u>	<u>\$ (10,827)</u>	<u>\$ 7,211</u>	<u>\$ (2,742)</u>

## **15. COMMITMENTS AND CONTINGENCIES**

The Company has undertaken the completion of environmental studies and/or remedial action at its 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”). Management’s assessment, based on estimates from environmental contractors, is 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, management’s assessment, based on estimates from environmental contractors, is 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 \$8,900 and \$9,300 recorded in accounts payable and accrued liabilities and other long-term liabilities at September 30, 2009 and December 31, 2008, 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 contains non-competition, non-solicitation and confidentiality provisions which apply for one year after cessation of employment and also 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. Based on the facts presently available, the Company does not believe that the disposition of matters that are pending or asserted will have a material adverse effect on the Company’s consolidated financial position or results of operations. However, new or additional facts or an adverse judgment by a court, arbitrator or a settlement could adversely impact the Company’s results of operations in any given period.

## **16. Recent Accounting Pronouncements**

In July 2009, the FASB issued authoritative guidance to establish the FASB Accounting Standards Codification (“Codification”) as the single source of authoritative accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the SEC. The Codification does not change current GAAP, but changes the referencing of financial standards, and is intended to simplify user access to authoritative GAAP by providing all authoritative literature related to a particular topic in one place. The Codification is effective for the Company’s interim reporting period which ended on September 30, 2009. As the

Codification is not intended to change or alter existing GAAP, it did not have any impact on the Company's consolidated financial condition or results of operations.

In May 2009, the FASB issued authoritative guidance which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. This guidance is effective for interim and annual periods ending after June 15, 2009. Accordingly, the Company has adopted the provisions of this guidance and the adoption has not had a material impact on the Company's financial condition, results of operations or disclosures.

In December 2008, the FASB issued authoritative guidance that requires an employer to provide certain disclosures about plan assets of its defined benefit pension or other postretirement plans. The disclosures required include the investment policies and strategies of the plans, the fair value of the major categories of plan assets, the inputs and valuation techniques used to develop fair value measurements and a description of significant concentrations of risk in plan assets. This guidance, which only provides for enhanced annual disclosures and does not require additional interim disclosures, will be effective for the Company's current fiscal year ending December 31, 2009. The Company does not expect the adoption of this guidance will have a material impact on its financial condition or results of operations.

In April 2009, the FASB issued authoritative guidance to address concerns about measuring the fair value of financial instruments when the markets become inactive and quoted prices may reflect distressed transactions, recording impairment charges on investments in debt instruments and requiring the disclosure of fair value of certain financial instruments in interim financial statements. The guidance provides additional guidance to highlight and expand the factors that should be considered in estimating fair value when there has been a significant decrease in market activity for a financial asset. The guidance also changes the method for determining whether an other-than-temporary impairment exists for debt securities and the amount of an impairment charge to be recorded in earnings. In addition, the guidance increases the frequency of fair value disclosures from annual, to quarterly. This guidance is effective for interim periods ending after June 15, 2009, with the option for early adoption in interim periods ending after March 15, 2009. The Company adopted this guidance effective April 1, 2009 which did not have a material impact on its financial statements. See Note 10 for the additional required interim disclosures.

## **17. 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.

## **18. 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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

Total revenues for the third quarter of 2009 were \$14,734, a decrease of \$3,811 or 20.6% from the comparable 2008 period, reflecting the impact the weakened economy has had on the Company's engineered products and hotel operations segments. The decline in total revenues was the main driver in the decrease in operating income which

decreased \$1,151 for the current quarter. Net income for the three months ended September 30, 2009 was \$1,593 or \$.18 per basic share compared to a net loss of (\$7,033) or (\$.83) per basic share for the comparative quarter of 2008.

For the nine month period ended September 30, 2009, total revenues were \$42,168, compared to \$55,944 for the same period of 2008. Operating income for the first nine months of 2009 was \$4,544, a decrease of \$3,751 compared to the corresponding 2008 period. Net income for the nine months ended September 30, 2009 was \$3,946 or \$.44 per basic share compared to a net loss of (\$1,833) or (\$.22) per basic share for the comparative 2008 period.

The 2008 results include impairment charges of \$15,777 and \$16,226 for the three and nine month periods, respectively, on the Company's marketable security portfolio resulting from the sudden decline in the stock market and collapse of certain financial institutions in which the Company held an interest. These impairment charges are included as a component of other income and (expense), net in the Condensed Consolidated Statements of Operations.

The continued weakness in the economy has affected profitability of the Company's engineered products and hotel operations segments. These factors are expected to continue to impact the Company for the remainder of the year.

### 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 September 30, 2009			Nine Months Ended September 30, 2009		
	Real Estate	Hotel Operations	Total	Real Estate	Hotel Operations	Total
Revenues	\$ 4,959	\$ 4,116	\$ 9,075	\$ 14,863	\$ 10,661	\$ 25,524
Mortgage interest expense	36	474	510	133	1,429	1,562
Depreciation expense	578	424	1,002	1,703	1,199	2,902
Other operating expenses	<u>1,333</u>	<u>3,292</u>	<u>4,625</u>	<u>3,879</u>	<u>8,522</u>	<u>12,401</u>
Income (loss) from operations	<u>\$ 3,012</u>	<u>\$ (74)</u>	<u>\$ 2,938</u>	<u>\$ 9,148</u>	<u>\$ (489)</u>	<u>\$ 8,659</u>

  

	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	Real Estate	Hotel Operations	Total	Real Estate	Hotel Operations	Total
Revenues	\$ 4,953	\$ 4,483	\$ 9,436	\$ 14,973	\$ 12,393	\$ 27,366
Mortgage interest expense	63	475	538	178	1,410	1,588
Depreciation expense	547	330	877	1,629	1,059	2,688
Other operating expenses	<u>1,457</u>	<u>3,017</u>	<u>4,474</u>	<u>4,012</u>	<u>9,052</u>	<u>13,064</u>
Income from operations	<u>\$ 2,886</u>	<u>\$ 661</u>	<u>\$ 3,547</u>	<u>\$ 9,154</u>	<u>\$ 872</u>	<u>\$ 10,026</u>

#### *Real Estate Investment and Management*

Revenues from the real estate investment and management segment varied by less than 1% for the three and nine months ended September 30, 2009, compared to the corresponding periods of 2008. Revenues from the Company's real estate portfolio are generally derived from properties with single tenant, long-term leases. Therefore, rental revenues recognized under GAAP do not fluctuate significantly, but are affected by lease renewals, terminations and the purchase or sale of additional properties.

Mortgage interest expense decreased \$27 or 42.9% for the third quarter and \$45 or 25.3% for the first nine months of 2009, compared to the corresponding 2008 periods. These decreases are primarily the result of continuing mortgage amortization, partially offset by an increase in mortgage interest due to a mortgage obtained in connection with the purchase of a commercial property in the second quarter of 2008. Based on scheduled amortizations, mortgage interest expense on existing obligations of the Company's real estate investment and management segment

will continue to decline. At September 30, 2009, the outstanding mortgage balance on the Company's three real estate investment properties which are currently encumbered is approximately \$2,100.

Depreciation expense associated with real properties held for rental increased \$31 for the quarter and \$74 for the nine months ended September 30, 2009, compared to the corresponding periods of 2008. These increases are primarily attributable to depreciation expense (\$78 and \$29 for the three and nine month periods, respectively) related to additions to real estate assets over the past twelve months. As a result of the purchase of commercial properties during the prior year and other expenditures for capital improvements incurred during the current and prior year, the Company expects that depreciation expense on the Company's properties for the fourth quarter and full year of 2009 should be higher than that reported in the corresponding 2008 periods.

Other operating expenses associated with the management of real properties decreased \$124 for the quarter and \$133 for the nine month period ended September 30, 2009, compared to the corresponding periods of 2008. The decrease for the quarterly period primarily relates to a decrease in property maintenance (\$116) which is the result of the timing of certain repairs and renovations. The decrease for the nine month period primarily relates to decreases in professional fees (\$80), related to the timing of lease renewals and other property related transactions, and the cost of utilities (\$57). Due to the extent of property age, location and vacancies, certain operating expenses could fluctuate in the future from those previously incurred.

### *Hotel Operations*

Hotel revenues decreased \$367 or 8.2% to \$4,116 for the quarter ended September 30, 2009 and \$1,732 or 14.0% to \$10,661 for the first nine months of 2009, compared to the corresponding 2008 periods. These decreases are primarily related to the overall weakness in the U.S. economy which has resulted in a reduction in both consumer and business travel. Partially offsetting these decreases are additional revenues recognized (\$302) in the current year periods from the August 2009 acquisition of a hotel located in Miami, Florida (the "Miami Hotel"). The Company does not expect lodging demand to improve through the remainder of the year, and therefore, with the exception of additional revenue from the Miami Hotel, the Company's hotels will likely report lower revenues in the fourth quarter and full year of 2009, compared to the same periods of 2008.

Mortgage interest expense related to the Company's hotel properties decreased slightly for the third quarter and increased \$19 for the nine months ended September 30, 2009, compared to the corresponding periods of 2008. The increase for the nine month period is primarily the result of a mortgage obtained on one of the Company's hotels in the prior year. The Company expects that mortgage interest expense on existing obligations related to the Company's hotel properties for the full year of 2009 should be similar to that reported in 2008.

Depreciation expense associated with the Company's hotel operations increased \$94 for the three months and \$140 for the nine months ended September 30, 2009, compared to the corresponding periods of 2008, primarily attributable to additional depreciation expense (\$37 and \$96 for the three and nine month periods, respectively) on renovations and improvements added during the past twelve months at two of the Company's hotels. In addition, the Company incurred additional depreciation expense (\$32) during the current quarter and nine month period as a result of the acquisition of the Miami Hotel. Depreciation expense on the Company's hotel properties for the full year of 2009 should be higher than that reported in 2008 due to the Miami Hotel acquisition and from the renovations and improvements at two of the Company's hotels.

Other operating expenses related to the management of the Company's hotels increased \$275 to \$3,292 for the third quarter and decreased \$530 to \$8,522 for the first nine months of 2009, compared to the corresponding 2008 periods. The Company incurred additional operating expenses (\$536) during the current quarter and nine month period due to the acquisition of the Miami Hotel. Operating expenses at the Company's other hotels continue to decrease in both the quarter and nine month period, primarily as a result of the lower revenues, noted above. The growing weakness in the economy has pressured results in the Company's hotel operations. This condition is expected to continue to impact this segment for the remainder of 2009. The Company is continuously working to streamline operations, control expenses and maximize cash flow from operations. The success of these efforts and the depth and duration of the current negative economic environment and its impact on future hotel operations remain uncertain.

## ENGINEERED PRODUCTS

The operating results of the engineered products segment are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	\$ 5,659	\$ 9,109	\$ 16,644	\$ 28,628
Cost of sales	4,358	7,201	13,160	22,382
Selling, general and administrative expenses	1,474	1,839	4,531	5,444
Operating (loss) income	<u>\$ (173)</u>	<u>\$ 69</u>	<u>\$ (1,047)</u>	<u>\$ 802</u>

Net sales of the engineered products segment decreased \$3,450 or 37.9% for the three months and \$11,984 or 41.9% for the nine months ended September 30, 2009, compared with the results of the corresponding periods of 2008. The decrease for the three month period is primarily related to decreased demand in the Company's engineered and transformer product lines which were brought about by a general decrease in capital spending related to the current economic environment. The decrease for the nine month period is primarily related to decreased demand in the Company's automotive, engineered and transformer product lines. The automotive product line, which is down approximately 40% from the prior year-to-date period, has shown improvements in the current quarter as a result of the re-opening of certain plants which experienced extended shut-downs during the first half of 2009. The automotive declines are the result of a significant reduction in North American automotive production, especially from General Motors, our largest customer, and the general slowdown in the global vehicle market. Although the Company has experienced improvements in its automotive sales from the prior quarter, the Company expects continued declines in net sales of its engineered products segment during the remainder of the year.

Cost of sales as a percentage of net sales decreased 2.0% for the quarter ended September 30, 2009 and increased less than 1.0% in the nine months ended September 30, 2009, compared to the corresponding 2008 periods. These fluctuations are primarily attributable to the reduction in material costs as a percentage of net sales (5.3% and 4.3% for the three and nine month periods, respectively), which reflects reductions in the cost of raw materials and changes in the mix of products sold. These fluctuations are also attributable to the significant reduction in net sales, noted above, which led to lower absorption of incurred manufacturing costs. During each of these periods, labor and overhead costs as a percentage of net sales increased (3.2% and 5.0% for the three and nine month periods, respectively). Although the Company's automotive product line has started to show improvements during the quarter, management is still carefully monitoring its operating costs and only increasing its workforce as needed.

Selling, general and administrative expenses of the engineered products segment decreased \$365 or 19.8% for the third quarter and \$913 or 16.8% for the nine months ended September 30, 2009, compared to the corresponding periods of 2008. These decreases are the result of cost containment efforts which include reductions in payroll and payroll related expenses (\$163 and \$481 for the three and nine month period, respectively), freight charges (\$47 and \$158 for the three and nine month period, respectively) and professional fees (\$28 and \$145 for the three and nine month period, respectively). These reductions are part of the Company's efforts to streamline operations, control expenses and maximize cash flow in light of the significant decline in sales.

## GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses not associated with the manufacturing operations increased \$300 for the third quarter and \$535 for the first nine months of 2009, compared to such expenses incurred in the comparable 2008 periods. These increases are primarily attributable to the increase in net periodic pension expense (\$122 and \$397 for the three and nine month periods, respectively), which results from the significant decline in the fair value of the Company's pension assets in 2008, and an increase in professional fees (\$202 and \$302 for the three and nine month periods, respectively), primarily as a result of acquisition costs which are not capitalizable.

## OTHER INCOME AND EXPENSE, NET

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net realized and unrealized gains on derivative instruments	\$ —	\$ 216	\$ 139	\$ 438
Net loss on available-for-sale securities	—	(15,671)	(104)	(16,088)
Litigation award from prior condemnation	—	457	—	457
Other, net	(9)	16	(29)	—
	<u>\$ (9)</u>	<u>\$ (14,982)</u>	<u>\$ 6</u>	<u>\$ (15,193)</u>

Included in the results for the three and nine months ended September 30, 2008 are \$15,777 and \$16,226, respectively, in impairment charges on the Company's marketable security portfolio resulting from the sudden decline in the stock market and collapse of certain financial institutions in which the Company held an interest which are included in net loss on available-for-sale securities, above.

Included in other income and expense, net for the 2008 periods are amounts received in connection with a litigation award from a property condemned by the City of New York in 2001.

## DISCONTINUED OPERATIONS

Loss from operations on properties sold and accounted for as discontinued operations was (\$9), on a net of tax basis, for the third quarter of 2009, compared to loss from operations on properties sold of (\$89), on a net of tax basis, for the corresponding quarter of 2008. For the nine months ended September 30, 2009, the loss from operations on properties sold and accounted for as discontinued operations was (\$143), on a net of tax basis, compared to income from operations on properties sold of \$14, on a net of tax basis, for the corresponding period in 2008. Net loss on the disposal of real estate assets accounted for as discontinued operations were (\$24) and (\$414), on a net of tax basis, for the three and nine months ended September 30, 2009, respectively. No properties were sold during the nine months ended September 30, 2008. Prior year amounts have been reclassified to reflect results of operations of real properties sold during 2009 and 2008 as discontinued operations. As of September 30, 2009, the Company did not consider any of its properties to be held for sale.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$14,003 and \$9,686 for the nine months ended September 30, 2009 and 2008, respectively. This increase in operating cash flows results primarily from the receipt of tax refunds (\$4,163) and reductions in inventories and notes and accounts receivable, net (\$1,616 and \$1,339, respectively), offset by lower operating income before depreciation (\$3,591).

Net cash used in investing activities was \$28,386 and \$23,969 for the nine months ended September 30, 2009 and 2008, respectively. This change primarily results from cash used in a business acquisition, net of cash acquired, in August 2009 (\$17,081) and from the purchase of notes receivable (\$9,428) during the current year offset by decreases in the purchase of available-for-sale securities (\$23,206) and acquisition of/additions to real estate assets (\$12,824), less the release of proceeds held in escrow on the sale of real estate in 2008 (\$15,000).

Net cash provided by financing activities was \$2,423 for the nine months ended September 30, 2009, compared to net cash used in financing activities of \$1,505 for the same period of 2008. This change results from a decrease in the purchase and retirement of common stock (\$10,772) during the current year, as compared to 2008, offset by a reduction in proceeds from the exercise of stock options (\$3,880), an increase in principal payments on mortgage obligations (\$1,731), a reduction in the tax benefits related to the exercise of stock options (\$733) and proceeds received from a mortgage obtained during 2008 (\$500).

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 September 30, 2009, the Company's cash and marketable securities totaled \$147.5 million and working capital was \$145.9 million compared to cash and marketable securities of \$147.3 million and working capital of \$153.9 million at December 31, 2008. While there has been a decline in the value of certain real estate properties in the United States, the recession could cause real estate prices to drop even further. Management has limited acquisitions to those select properties that meet the Company's stringent financial requirements. Management believes that opportunities to acquire additional properties at favorable prices may soon be available and the Company's available working capital provides a considerable advantage to fund acquisitions and grow its portfolio, if and when attractive long-term opportunities become available. The tightened credit market however, could limit the Company's ability to leverage future acquisitions.

In July 2009, the Company purchased a non-performing mortgage note encumbering a hotel located in Miami, Florida (the "Miami Hotel"). The Company took title to the Miami Hotel in mid-August and has undertaken operation of the hotel. The Company anticipates investing up to \$10,000 in renovations and improvements to this property over the next few quarters.

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. Although these excess funds are invested in investment grade securities, they are subject to significant fluctuations in fair value due to the volatility of the stock market and changes in general economic conditions. 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, declines in U.S. interest rates have adversely impacted the Company's earnings in 2009.

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, as of December 31, 2008, were recorded as a component of accounts payable and accrued liabilities in the Condensed Consolidated Balance Sheet. The Company held no such derivatives at September 30, 2009.

Globally, automakers and their suppliers continue to experience significant difficulties from a weakened economy and tightened credit market. Although the automotive industry has shown improvements in the current quarter as the result of the re-opening of certain plants which experienced extended shut-downs during the first half of 2009, continued adverse developments in the automotive industry, including but not limited to continued share declines in demand, customer bankruptcies and increased demands on the Company for pricing decreases, have had, and will continue to have, a significant adverse affect on our engineered products segment.

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 11.3% and 10.7% for the three and nine months ended September 30, 2009 and 7.9% and 8.7% for the three and nine months ended September 30, 2008, 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 as the Company's historical results have not been significantly impacted by foreign exchange gains or losses. 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 continued weakness in the economy has pressured results of the Company's engineered products and hotel segments. These factors are expected to continue to impact the Company for the remainder of the year. The Company continues to work to streamline operations, control expenses and maximize cash flow from operations. While the depth and duration of the current negative economic environment and its impact on the Company are uncertain, management believes the Company's strong balance sheet together with the significant cash flow generated from its core real estate portfolio, should allow the company to weather this downturn.

The Company has undertaken the completion of environmental studies and/or remedial action at the Company's two New Jersey facilities and has recorded a liability for the estimated investigation, remediation and administrative costs associated therewith. See Note 15 of Notes to Condensed Consolidated Financial Statements for further discussion of this matter.

The Company is subject to various other litigation, legal, regulatory and tax 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. Based on the facts presently available, the Company does not believe that the disposition of matters that are pending or asserted will have a material adverse effect on the Company's consolidated financial position or results of operations. However, new or additional facts or an adverse judgment by a court, arbitrator or a settlement could adversely impact the Company's results of operations in any given period.

#### **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 2008 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. There were no material changes to the Company's critical accounting policies during the nine months ended September 30, 2009.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable, as the Company is a smaller reporting company.

### **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 as of the end of the period covered by this report.

The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles (United States). Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets, provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Company's financial statements in accordance with generally accepted accounting principles (United States), and that the Company's receipts and expenditures are being made only in accordance with the authorization of the Company's Board of Directors and management, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

In May 2008, an insurance company for one of the Company's subsidiaries, purchased as part of a bankruptcy reorganization, filed suit in Supreme Court of the State of New York against such entity's other insurance companies seeking, among other things, contribution for insurance settlements from carriers, some of which now claim to be exhausted. The complaint also names the Company's subsidiary and several underlying claimants with whom such settlements were reached. The action challenges the exhaustion of the underlying policies and seeks contribution as well as a declaration of the rights, duties and liabilities of the parties under the insurance policies. In June 2008, the Company removed the action to the U.S. Court for the Southern District of New York. Plaintiffs and certain defendants contested the removal. In October 2008, a stipulation was reached to remand certain issues to State Court while staying the remaining issues in Federal Court. Plaintiffs have also agreed to dismiss the underlying claimants. In February 2009, the Company succeeded on a motion for summary judgment against one of the primary insurance companies who claimed exhaustion. The insurance company was ordered to defend the underlying actions and reimburse certain costs to the other carriers. This decision was appealed by the carrier in April 2009. In July 2009, the Company asked the lower court for leave to amend its complaint to correct a procedural deficiency. The lower court granted such leave, but withdrew its earlier summary judgment motion, pending a rehearing of the matter, rendering the appeal moot. The lower court, however, stayed the defense obligations, pending a decision based on a new hearing held in September 2009. The Company intends to vigorously defend 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 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. Based on the facts presently available, the Company does not believe that the disposition of matters that are pending or asserted will have a material adverse effect on the Company's consolidated financial position or

results of operations. However, new or additional facts or an adverse judgment by a court, arbitrator or a settlement could adversely impact the Company's results of operations in any given period.

## **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, 2008, which are incorporated herein by reference. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in our Form 10-K for the fiscal year ended December 31, 2008.

### ***Our engineered products segment has been, and may continue to be, adversely affected by current conditions in the automotive industry.***

Globally, automakers and their suppliers continue to experience significant difficulties from a weakened economy and tightened credit market. Although the automotive industry has shown improvements in the current quarter as the result of the re-opening of certain plants which experienced extended shut-downs during the first half of 2009, continued adverse developments in the automotive industry, including but not limited to continued share declines in demand, customer bankruptcies and increased demands on the Company for price decreases, have had, and will continue to have, a significant adverse affect on our engineered products segment.

### ***Our Company is a controlled company pursuant to NYSE Amex rules and, therefore, is not required to comply with certain governance requirements.***

The Company has elected to be a controlled company pursuant to NYSE Amex rules. The Company is eligible to make this election because A.F. Petrocelli, the Company's Chairman of the Board, President and Chief Executive Officer beneficially owns more than 50% of the Company's outstanding stock. As a result of being a controlled company, the Company is not required to comply with the following corporate governance requirements of the NYSE Amex: (i) majority of independent directors, (ii) fully independent nominating committee and (iii) fully independent compensation committee. While the Company currently has a fully independent compensation committee, it does not have a majority of independent directors or a fully independent nominating committee. As a result, the quality of Board oversight may be reduced as compared with companies which have a fully independent nominating committee and a majority of independent directors and the Company has a greater risk of conflicts of interest without these safeguards. In addition, the lack of an independent nominating committee increases the possibility that the Company will not have independent directors serving on the Board of Directors.

## **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 2008 Annual Report on Form 10-K and other portions of this Form 10-Q for a discussion of risk factors that could impact the Company's 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 September 30, 2009:

### Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
July 1, 2009 – July 31, 2009	<u>125,000</u>	<u>\$18.99</u>	<u>125,000</u>	<u>352,072</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 September 30, 2009, 352,072 shares remain to be purchased under such plans. These authorizations are ongoing and have no expiration date.

## 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 the 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 the 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: November 11, 2009

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: November 11, 2009

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: November 11, 2009

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 September 30, 2009 (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: November 11, 2009

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 September 30, 2009 (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: November 11, 2009

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