



# UNITED CAPITAL CORP.

United Capital Building  
9 Park Place  
Great Neck, NY 11021

## ANNUAL REPORT

For the Year Ended December 31, 2012

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**Part A — General Company Information**

**Item 1. The exact name of the issuer and its predecessor (if any).**

The name of the issuer is United Capital Corp. (“United Capital,” the “Company,” “we,” “our,” or “us”).

**Item 2. The address of the issuer’s principal executive offices.**

United Capital Corp.  
United Capital Building  
9 Park Place  
Great Neck, New York 11021  
Phone: (516) 466-6464  
Fax: (516) 829-4301  
Website: www.unitedcapitalcorp.net

**Item 3. The jurisdiction(s) and date of the issuer’s incorporation or organization.**

United Capital was incorporated in 1980 in the State of Delaware.

**Part B — Share Structure**

**Item 4. The exact title and class of securities outstanding.**

United Capital has one class of stock currently outstanding:

Common Stock  
CUSIP: 909912 1 07  
Symbol: UCAP

**Item 5. Par or stated value and description of the security.**

United Capital’s outstanding securities are shares of common stock, par value \$.10 per share. Each share of common stock is entitled to one vote. There are no other classes of voting securities of the Company currently outstanding. All shares of common stock have equal voting rights. The Company has not declared a dividend during the past two years.

**Item 6. The number of shares or total amount of the securities outstanding for each class of securities authorized.**

<b>Period end date</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Number of shares authorized	7,500,000	7,500,000
Number of shares outstanding	5,861,582	7,427,457
Freely tradable shares (public float)	392,134	958,009
Total number of shareholders of record <sup>A</sup>	116	128

<sup>A</sup> Based on the definition of Securities “held of record” contained in Rule 12g5-1 of the Securities Exchange Act of 1934, as amended.

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**Item 7. The name and address of the transfer agent.**

Continental Stock Transfer & Trust Company  
17 Battery Place – 8<sup>th</sup> Floor  
New York, NY 10004  
Phone: (212) 509-4000

Continental Stock Transfer & Trust Company is a registered transfer agent under the Securities and Exchange Act of 1934, as amended, and is regulated by the Securities and Exchange Commission.

**Part C — Business Information**

**Item 8. The nature of the Issuer's business.**

**A. Business Development.**

**1. The form of organization of the issuer:**

United Capital Corp. is a corporation.

**2. The year that the issuer was organized:**

United Capital was incorporated in 1980.

**3. The issuer's fiscal year end date:**

United Capital's fiscal year end date is December 31<sup>st</sup>.

**4. Whether the issuer has been in bankruptcy, receivership or any similar proceeding:**

United Capital has not been involved as a debtor in any bankruptcy, receivership, or any similar proceedings during the preceding three years.

**5. Any material reclassifications, merger, consolidation, or purchase or sale of a significant amount of assets:**

The Company has not been involved in any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets during the preceding three years except for the acquisition of properties as disclosed in the footnotes to financial statements for such years.

**6. Any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments:**

During the preceding three year period, the Company has not defaulted on the terms of any note, loan, lease, or other material indebtedness or financing.

**7. Any change of control:**

There has been no change in control of the Company during the preceding three year period.

**8. Any increase of 10% or more of the same class of outstanding equity securities:**

During the preceding three year period, there has not been any increase of 10% or more in any class of securities of the Company.

**9. Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization:**

There has been no stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization of the Company during the past three years.

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During July 2011, United Capital completed a tender offer resulting in the purchase of an aggregate of 3,379,474 shares of its common stock, at a purchase price of \$30 per share (net to the seller in cash, without interest), for a total cost of approximately \$101.4 million, excluding fees and expenses related to the tender.

**10. Any delisting of the issuer's securities by any securities exchange or deletion from the OTC Bulletin Board:**

On July 18, 2011, the Company filed a Form 25 with the Securities and Exchange Commission which resulted in the delisting of the Company's common stock from the NYSE Amex and also resulted in the deregistration of the Company's reporting obligations under the Securities Exchange Act of 1934, as amended. The Company was not obligated to file a Form 15 with the Securities and Exchange Commission because it had less than 300 stockholders of record for the past few years. Effective July 28, 2011, shares of the Company are being traded on the OTC Pink tier.

**11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator:**

The Company has never been involved in any trading suspensions by a securities regulator.

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 part of its withdrawal of the earlier order to continue to impose defense obligations, pending a decision based on a new hearing held in September 2009. In March 2010, another of the insurance companies filed a motion for summary judgment relating to coverage allocations, which was decided in July, 2010. Similar motions were filed by other carriers. One such matter was heard in September 2010 with the court granting plaintiffs motion, in part, and also granting the Company's counter motion. Certain matters were remanded to federal court and heard in September 2010. A decision is pending. As a result of the chapter 11 filing of Metex Mfg. Corporation ("Metex") in November 2012 (discussed below) all such matters have been stayed. In the event that the stay is lifted, the Company intends to continue to vigorously defend all actions in this matter.

As a result of the insurance coverage action discussed above, Metex entered into discussions with certain insurance carriers and firms representing personal injury claimants in order to reach a global resolution to the underlying matters. Those discussions culminated in the development of a prepackaged plan of reorganization (the "Plan") for Metex, which, had it been approved, would have transferred any existing or future personal injury claims to a trust formed under the Plan and resolved all of the foregoing litigation. Votes solicited for the Plan were insufficient to attain confirmation. Metex ultimately determined to file for chapter 11 protection in order to preserve the insurance settlements that had been reached in connection with the Plan. The filing occurred in the United States Bankruptcy Court for the Southern District of New York in November 2012. The matter is in the early stages, although Metex expects to file a plan of reorganization in the coming months, substantially similar to the Plan, and will continue to vigorously defend this matter.

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In June 2011, United Capital, its directors, and Beverly Petrocelli were named in a suit filed in Supreme Court of the State of New York, New York County challenging the tender offer announced on June 17, 2011. In the action, plaintiffs allege that United Capital, and the other defendants, breached and/or aided and abetted in the breach of fiduciary duties purportedly owed to United Capital's public stockholders. The action originally sought to enjoin the tender offer which was completed on July 25, 2011. However, once the tender offer closed, the action was amended to withdraw the request for an injunction while continuing to assert putative class action claims for unspecified damages. The action also seeks attorney's fees and expenses. United Capital and its directors believe these claims are wholly without merit and have filed a motion to dismiss the matter, which was heard in December 2011. In November 2012, the Supreme Court of New York granted the Company's summary judgment motion. Plaintiffs have filed a notice of appeal. The Company and its directors believe these claims are wholly without merit and intend to continue to vigorously defend this action.

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 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.

***B. Business of Issuer.***

United Capital Corp. and its more than 100 wholly-owned subsidiaries operate through three business segments: real estate investment and management (SIC Code 6512), hotel operations (SIC Code 7011), and engineered products (SIC Code 3496 and 3612). The Company has never been a "shell company."

The Company expenses research, development and product engineering costs as incurred. Approximately \$23,000 and \$26,000 of such costs were incurred by the Company in 2012 and 2011, respectively.

The Company has undertaken the completion of environmental studies and/or remedial action at its two New Jersey manufacturing 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"), while environmental studies at the second facility indicate that remediation may be necessary. The foregoing estimates may 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.

At December 31, 2012, the Company employed approximately 630 persons, approximately 60 of which are covered by a collective bargaining agreement that expires in February 2018. The Company believes that its relationship with its employees is good.

**Item 9. The nature of products or services offered.**

***Real Estate Investment and Management***

The Company is engaged in the business of investing in and managing real estate properties and, on a limited basis, the making of high-yield, short-term loans secured by desirable properties. Most real estate properties owned by the Company are leased under net leases whereby the tenants are responsible for all expenses relating to the leased premises, including taxes, utilities, insurance, and maintenance. The Company owns properties that it manages which are leased primarily as department stores, shopping centers, restaurants, and office buildings around the

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country. The Company also owns child-care centers located in New York City, several of which are operated by the City of New York. In addition, the Company owns properties available for sale and lease with the assistance of a consultant or realtor working in the locale of the premises.

***Hotel Operations***

The Company's hotel operations are comprised of almost 1,500 rooms, over 100,000 square feet of meeting space, and a newly renovated convention center with approximately 160,000 square feet of exhibit and meeting space amongst its six full service hotels located in Connecticut, Florida, Georgia, New Hampshire, New Jersey and New York State. These hotels operate under the DoubleTree by Hilton and Radisson brands or as independents. Each property is managed by the Company, with on-site managers responsible for all day-to-day operations.

***Engineered Products***

The Company's engineered products are manufactured through Metal Textiles Corporation ("Metal Textiles") and AFP Transformers Corporation ("AFP Transformers"), wholly-owned subsidiaries of the Company. The knitted wire products and components manufactured by Metal Textiles must function in adverse environments and meet rigid performance requirements. The principal areas in which these products have application are as high temperature gaskets, seals, components for use in airbags, shock and vibration isolators, noise reduction elements, EMI electronic shielding, and air, liquid and solid filtering devices serving the automotive, aerospace and general industrial markets.

Metal Textiles presently supplies many automobile manufacturers with exhaust seals and components for use in airbag inflators. Our manufacturing facilities are ISO/TS 16949 certified, an essential qualification for supplying the automotive industry.

The Company also designs and manufactures transformers marketed under the AFP Transformers and EPOXYCAST™ brand names for a wide variety of applications including variable frequency motor drive systems, manufacturing machine tools, utility company substations, semiconductor fabrication equipment, and industrial furnaces. These products also include custom magnetics for transit vehicle traction systems, as well as components in solar and wind energy, nuclear power, electric vehicle batteries and power quality and conditioning systems. The Company's EPOXYCAST™ transformers provide a unique capability that offers epoxy molded resin to protect the transformer's coils from environmental conditions that could cause corrosion or rust to unprotected copper coil windings. The Company's transformer product line is sold domestically and internationally.

The Company's manufactured products are distributed by a direct sales force and through distributors to industrial consumers and original equipment manufacturers.

***Competition***

The Company has established close relationships with a large number of major national and regional real estate brokers and maintains a broad network of industry contacts. There are numerous regional and local commercial developers, real estate companies, financial institutions and other investors who compete with the Company for the acquisition of properties and tenants.

The Company's hotels compete with national, regional, and local hotels in each of their geographic markets. Competition is based on a number of factors, most notably convenience of location, brand affiliation, price, range of services and guest amenities offered, quality of customer service and the overall condition of the property.

The Company competes with approximately 25 other companies in the sale of engineered products. The Company emphasizes product performance and service in connection with the sale of these products. The principal competition faced by the Company results from the sales price of the products sold by its competitors.

***Product Methods and Sources of Raw Materials***

The Company's products are manufactured at facilities owned by the Company and a leased facility in Tijuana, Mexico. Raw materials used in the Company's engineered products segment, which consist primarily of stainless

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steel wire, steel-related products, and copper, are typically purchased from multiple suppliers throughout the world. The price and availability of raw materials can be volatile due to numerous factors beyond the Company's control, including general domestic and international economic conditions, labor costs, supply and demand, competition, import duties and tariffs, and currency exchange rates. Although these factors could significantly affect the availability and cost of the Company's raw materials, they are generally purchased at levels that the Company believes will satisfy the anticipated needs of the Company's customers based upon contractual commitments, historical buying practices and market conditions. To date, the Company has limited its exposure related to the effects that have arisen from these factors by various methods, including finding alternate sources or by having suppliers and/or customers absorb any additional related costs. Although management does not expect such matters to adversely affect the Company's financial position in the future, it is uncertain what effect, if any, such factors could have on the cost and availability of such materials. An interruption in the supply, or a significant increase in the cost of the Company's raw materials could have a material adverse effect on the Company's revenues, results of operations or cash flows. The Company has not had and does not expect to have any problems fulfilling its raw material requirements during the remainder of 2013.

***Patents and Trademarks***

The Company owns several patents, patent licenses and trademarks. While the Company considers that in the aggregate its patents, patent licenses and trademarks used in the engineered products operations are significant to this segment, it does not believe that any of them are of such importance that the loss of one or more of them would materially affect its consolidated financial condition or results of operations. The Company is not currently involved in any litigation regarding infringement upon its intellectual property or of the Company's infringement upon the intellectual property of others.

***Risk Factors***

The following are some of the risks that could cause actual results to differ significantly from those expressed or implied by such statements:

***Changes in economic conditions, the global economy and credit markets could negatively affect our businesses, results of operations and financial condition.***

Although recent economic trends appear to have stabilized, current U.S. and global economic conditions have affected and, most likely, will continue to affect our results of operations and financial position. Slower economic activity, increased unemployment, the continued crisis in the financial and credit markets, increased energy costs, concerns about inflation, decreased business and consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns have had and will continue to have a negative effect on the Company's business segments. If the economic and market conditions remain uncertain or weaken further, the Company may experience material adverse impacts to its businesses, financial condition, and results of operations.

***Our performance is subject to risks associated with the real estate industry.***

Although the Company's leases are generally long-term and may be below market, real property investments are subject to varying degrees of risk and are relatively illiquid. Among the factors that may impact our real estate property values or the revenues derived from our portfolio are changes in the national, regional, and local economic climate, the attractiveness of our properties to tenants, competition from other available property owners, and changes in market rental rates. Our performance also depends on the financial condition of our tenants and our ability to collect rent from tenants and to pay for adequate maintenance, insurance and other operating costs, including real estate taxes, which could increase over time. Also, the expenses of owning and operating a property are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property.

The Company reviews the carrying value of its properties when circumstances, such as adverse market conditions, indicate potential impairment may exist. If the evaluation indicates an inability to recover the carrying value of a real estate investment, an impairment loss is recorded. Impairment charges could adversely affect our financial condition, results of operations, and cash flows.

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***Our results could be negatively affected by delinquencies in our mortgage or high-yield loan receivables.***

On a limited basis we provide high-yield, short-term mortgage loans that we believe are collateralized by desirable properties at substantial value-to-loan ratios. Although we believe that the collateral for these loans is sufficient to recover its carrying value, changes in the real estate market in the locale in which the property is located or delinquencies by the borrower could negatively affect our carrying value for these loans and, ultimately, our results of operations and cash flows.

***Off-balance sheet obligations could deplete our liquidity and capital resources.***

We do not have any off-balance sheet arrangements that we believe are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. We believe that with each arrangement the value of the underlying property and its operating cash flows are sufficient to satisfy its obligations. The debt of the joint venture in which we currently have an ownership interest is a non-recourse obligation and is collateralized by the entity's real property. In addition, we are not obligated for the debts of the joint venture. However, we could decide to satisfy the debts of the joint venture to protect our investment. In such event, our capital resources and financial condition would be reduced and, in certain instances, the carrying value of our investment and our results of operations would be negatively impacted.

***Our cash and cash equivalents could be adversely affected if the financial institutions in which we hold our cash and cash equivalents fail.***

Our cash and cash equivalents are highly liquid investments with original maturities of three months or less at the time of purchase. We maintain the cash and cash equivalents with reputable major financial institutions. Deposits with these banks exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. These balances could be impacted if one or more of the financial institutions with which we deposit fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents, however, we can provide no assurance that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial and credit markets.

***Our investments in marketable securities are subject to risks which may cause losses and affect the liquidity of these investments.***

We invest funds in excess of those needed for working capital, purchasing real estate, and arranging financing for real estate acquisitions in corporate equity securities, corporate notes, certificates of deposit, government securities, and other financial instruments. Significant declines in the value of these investments due to the operating performance of the companies we invest in or general economic or market conditions may result in the recognition of realized or impairment losses which could be material.

***Operating results of our hotel operations are subject to conditions common in the lodging industry.***

The performance of the lodging industry has traditionally been closely linked with the performance of the general economy. It is also sensitive to business and personal discretionary spending levels. Declines in corporate budgets and consumer demand due to adverse general economic conditions, risks affecting or reducing travel patterns, higher energy costs, lower consumer confidence or adverse political conditions can lower the revenues and profitability of our hotel properties. The recent global economic downturn led to a significant decline in demand for products and services provided by the lodging industry, lower occupancy levels, and significantly reduced room rates. Though we have seen general improvement in the economy, we cannot assure that these conditions will continue to improve or that the recovery is sustainable. A deterioration in the U.S. economy, if experienced, could have an adverse impact on the operating results of our hotels.

In addition, changes in certain factors could adversely impact hotel room demand and pricing and result in reduced occupancy or could otherwise adversely affect our results of operations and financial condition. These factors include:

- local conditions such as an oversupply of, or a reduction in demand for, hotel rooms;
- the attractiveness of our hotels to consumers and competition from other hotels;
- the quality, philosophy, and performance of the managers of our hotels;
- increases in operating costs due to inflation and other factors such as increases in the price of energy, healthcare, or insurance;
- changes in travel patterns, extreme weather conditions, and cancellation of or changes in events scheduled to occur in our markets;

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- seasonality, inherent in the hotel industry, may cause our results to fluctuate significantly between quarters; and
- other unpredictable external factors, such as acts of god, war, terrorist attacks, epidemics, airline strikes, transportation and fuel price increases and severe weather, may reduce business and leisure travel.

***As certain of our hotels operate under franchise agreements, termination of these agreements or circumstances that negatively affect the franchisor or the hotel brand could cause us to lose business at our hotels.***

Certain of our hotels operate under franchise agreements with international franchisors. In general, under these arrangements, the franchisor provides marketing services and room reservations and certain other operating assistance, but requires us to pay significant fees to it and to maintain the hotel in a required condition. If we fail to maintain these required standards, then the franchisor may terminate its agreement with us. Moreover, from time to time, we may receive notices from franchisors regarding our alleged non-compliance with the franchise agreements or brand standards, and we may disagree with these claims that we are not in compliance. Any disputes arising under these agreements could also lead to a termination of a franchise agreement. In addition, as our franchise agreements expire, we may not be able to renew them on favorable terms or at all. If we were to lose a franchise or hotel brand for a particular hotel, it could harm the operation, financing, leverage opportunity or value of that hotel due to the loss of the franchise or hotel brand name, marketing support, and centralized reservation system. Moreover, negative publicity affecting a franchisor or hotel brand in general could reduce the revenue we receive from the hotels subject to that particular franchise or brand.

***Our engineered products segment relies on significant customers and has a concentration of customers in the automotive industry.***

The Company sells its engineered products to many customers throughout the world. Historically, a small number of customers accounted for significant portions of these sales. Since our engineered products segment accounted for 30.9% of our consolidated revenues in 2012, the loss of such customers, or a significant decline in sales to them, would adversely affect our revenues, cash flows and results of operations.

In addition, the automotive industry has always been cyclical and highly impacted by changes in levels of economic activity. The current economic environment continues to be uncertain and is affected by factors such as interest rates, fuel prices, energy costs, consumer confidence, employment trends, regulatory and legislative oversight and trade agreements. Weakness or deteriorating conditions in the global economy that result in a reduction or depressed levels of automotive production, sales by our largest customers, customer bankruptcies, or increased demands on the Company for pricing decreases, have had, and will continue to have, a significant adverse effect on the Company's financial results and cash flows.

***Our engineered products segment could be adversely affected by technological and regulatory changes.***

Changes in legislative, regulatory or industry requirements or competitive technologies may render certain of our products obsolete. Our ability to anticipate changes in technology and regulatory standards, including those related to climate changes, and to develop and introduce new and enhanced products successfully on a timely basis will be a significant factor in our ability to grow and to remain competitive. There can be no assurance that we will be able to achieve the technological advances that may be necessary for the Company to remain competitive or that certain of our products will not become obsolete. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development, and failure of products to operate properly. Declines in sales of our engineered products segment could negatively impact our financial results and cash flows.

***Our markets are highly competitive.***

The markets for our engineered products are highly competitive. We compete with a number of other manufacturers that produce and sell similar products. Our engineered products primarily compete on the basis of price, manufacturing and distribution capability and product design, quality, delivery and service. We cannot assure that we will be able to successfully compete or that our competitors will not develop new technologies and products that are more commercially effective than our own. Some of our competitors have financial, technical, marketing, sales, and distribution resources greater than ours. While the past increases in demand for our engineered products are encouraging, it is uncertain whether such recoveries are sustainable or to what extent the Company will benefit from increased demand. Declines in sales of our engineered products segment could negatively impact our financial results and cash flows.

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***An interruption in the supply, or a significant increase in the cost, of our raw materials could have a material adverse effect on our revenues, results of operations and cash flows.***

The principal raw materials used in the Company's engineered products business are stainless steel wire, steel-related products, and copper, which are typically purchased from multiple suppliers throughout the world. The price and availability of raw materials can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labor costs, supply and demand, competition, import duties and tariffs, and currency exchange rates. These factors could significantly affect the availability and cost of our raw materials which are generally purchased at levels that we believe will satisfy the anticipated needs of our customers based upon contractual commitments, historical buying practices, and market conditions. We may be unable to recover raw material cost increases due to contractual or competitive conditions. Conversely, reductions in raw material prices could result in lower sales prices for our products and lower margins as we utilize existing inventories. Therefore, changing raw material costs could significantly impact our revenues, gross margins, operating and net income. If, in the future, we are unable to obtain sufficient amounts of stainless steel wire or other critical raw materials on a timely basis and at competitive prices, we may be unable to fulfill our customers' requirements, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

***Protection of our intellectual property is limited; we are subject to the risk of third party claims of infringement.***

Our engineered products business relies in large part upon our proprietary scientific and engineering "know-how" and production techniques. Historically, patents have not been an important part of the protection of our intellectual property rights. We rely upon the laws regarding unfair competition, restrictions in licensing agreements, and confidentiality agreements to protect our intellectual property. We limit access to and distribution of our proprietary information.

Our ability to compete successfully and achieve future revenue growth will depend, in part, on our ability to protect our proprietary technology and operate without infringing upon the rights of others. We are not currently involved in any litigation regarding the infringement upon our intellectual property or regarding our infringement upon the intellectual property of others.

***Our operations are subject to environmental regulation and environmental problems which are possible and can be costly.***

Our engineered products segment is subject to a variety of federal, state, and local governmental regulations relating to the storage, discharge, handling, emission, generation, manufacture, and disposal of toxic or other hazardous substances used to manufacture our products. We believe that we are currently in compliance in all material respects with such regulations and that we have obtained all necessary environmental permits to conduct our business. Nevertheless, the failure to comply with current or future regulations could result in the imposition of fines, suspension of production, alteration of our manufacturing processes, or cessation of operations.

Federal, state, and local laws and regulations relating to the protection of the environment require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances at such property.

We have undertaken the completion of environmental studies and/or remedial action at our two New Jersey facilities and have recorded a liability for the estimated investigation, remediation, and administrative costs associated therewith (See Note 19, "Commitments and Contingencies" of Notes to Consolidated Financial Statements).

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 these sites, should an appropriate regulatory agency deem such efforts to be necessary. The estimates may also be revised as new or additional information in these matters becomes available or should the NJDEP or other regulatory agencies require additional or alternative remediation efforts in the future. Although we do not expect such events to significantly change our estimates, adverse decisions or events, particularly as to the merits of our factual and legal basis, could cause us to change our estimate of liability with respect to such matters in the future. Accordingly, we are unable to predict whether our estimate of future remediation costs will materially increase in the future.

***We may be adversely affected by regulations related to climate change.***

Government regulatory bodies in the United States are contemplating introducing regulatory changes in response to the potential impacts of climate change including control of greenhouse gas emissions and limiting carbon

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emissions. These laws and regulations may impact each of the Company's business segments in different ways. Each of our segments could be impacted directly through potential higher costs for energy and from additional capital needed to modify our buildings and hotels with energy efficient lighting and heating. In addition, our engineered products segment could also incur higher costs for its raw materials. Furthermore, as automotive manufacturers continue to look for ways to lessen environmental impacts and reduce oil dependence, our engineered products segment could obtain business opportunities related to the manufacturing of automotive parts that assist in the reduction of carbon and other emissions. On the other hand, as automotive manufacturers move towards the production of hybrid and electric vehicles to comply with the potential new regulations, certain of our engineered products could become obsolete. Because it is uncertain what laws and regulations will be enacted, we cannot predict the potential impact of such laws on our future consolidated financial condition, results of operations, or cash flows.

***Current and future litigation could have an adverse effect on the Company.***

The Company is subject to various litigation, legal, regulatory, and tax matters, some of which could be considered frivolous, that arise in the ordinary course of business activities. These lawsuits and other legal proceedings can involve substantial costs, including the costs associated with investigation, litigation and possible settlement, judgment, penalty or fine. Although insurance is maintained to mitigate these costs, there can be no assurance that costs associated with lawsuits or other legal proceedings will be covered by insurance or will not exceed the limits of insurance policies. The Company's results of operations could be adversely affected if a judgment, penalty, or fine is not fully covered by insurance.

***Our common stock has experienced low trading volumes.***

Although shares of our common stock are traded on the OTC Pink tier, operated by the OTC Market Group, under the symbol UCAP, there is a very limited public market for our common stock. Our common stock has a small amount of public float and, therefore, has been thinly traded, meaning that the number of persons interested in purchasing our common stock at or near asking prices at any given time may be relatively small or non-existent. Shareholders may experience difficulty selling their shares if they choose to do so because of the limited public float for our common stock.

***Mr. A.F. Petrocelli can control the outcome of all matters requiring stockholder approval.***

Mr. A.F. Petrocelli, the Company's Chairman, President and Chief Executive Officer, beneficially owns, in the aggregate, approximately 93% of the Company's outstanding common stock. Accordingly, Mr. Petrocelli is able to exercise considerable influence over the outcome of all matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers or other business combinations.

**Item 10. The nature and extent of the issuer's facilities.**

***Real Property Held for Rental or Sale***

As of December 31, 2012, the Company owned 151 properties throughout the United States. The properties are primarily leased under long-term net leases.

***Shopping Centers and Retail Outlets***

Shopping centers and retail outlets include 11 department stores and miscellaneous other properties, primarily leased under net leases. The tenants are responsible for taxes, maintenance, and all other expenses of the properties. The leases for certain shopping centers and retail outlets provide for additional rents based on sales volume and renewal options at higher rents. The department stores include six properties leased to Kmart Corporation ("Kmart") and two Macy's stores, with a total of approximately 577,000 and 364,000 square feet, respectively. The Kmart stores are primarily located in the Midwest region of the United States. The Macy's stores are located in the Pacific Coast and Southwest regions of the United States. The Company has one shopping center and retail outlet subject to an encumbrance of approximately \$775,000 at December 31, 2012. In addition, one of the Company's properties is held through a long-term ground lease with a gross carrying value of approximately \$514,000 at December 31, 2012.

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*Commercial Properties*

Commercial properties consist of properties leased as 46 restaurants, 6 Midas Muffler Shops, two convenience stores, seven office buildings and miscellaneous other properties. These properties are primarily leased under net leases, which in certain cases have renewal options at higher rents. Certain of these leases also provide for additional rents based on sales volume. The restaurants, located throughout the United States, include properties leased as Boston Market, Dunkin' Donuts, Hardee's, Kentucky Fried Chicken, McDonald's, Papa Gino's, Pizza Hut, and Wendy's. The Company has three commercial properties subject to encumbrances of approximately \$9,886,000 at December 31, 2012. In addition, three of the Company's properties are held through long-term ground leases with a gross carrying value of approximately \$1,760,000 at December 31, 2012.

*Child Care Centers*

The Company has two schools and seven child care centers located in New York City, five of which are leased to the City of New York. The City of New York is responsible for real estate taxes and certain maintenance costs on the properties they lease, while the Company maintains insurance and certain other maintenance obligations. All such leases provide for the reimbursement of operating costs above base year levels, and certain leases include rental increases and renewal options.

*Hotel Properties*

The Company's hotel operations are comprised of almost 1,500 rooms, over 100,000 square feet of meeting space, and a newly renovated convention center with approximately 160,000 square feet of exhibit and meeting space amongst its six full service hotels located in Connecticut, Florida, Georgia, New Hampshire, New Jersey and New York State. These hotels operate under the DoubleTree by Hilton and Radisson brands or as independents. Each property is managed by the Company, with on-site managers responsible for all day-to-day operations. Two of these hotels are subject to encumbrances in the aggregate of approximately \$18,687,000 at December 31, 2012. In January and February 2013, subsidiaries of the Company obtained mortgages of \$35,500,000 and \$40,000,000, respectively, on two of their hotel properties.

*Manufacturing Facilities*

The Company's engineered products are manufactured at 970 New Durham Road, Edison, New Jersey, in a one-story building having approximately 55,000 square feet of floor space, and also in a second facility at 206 Talmadge Road, Edison, New Jersey, which has approximately 55,000 square feet of floor space. These facilities are owned by a subsidiary of the Company. The engineered products segment also leases a manufacturing facility in Tijuana, Mexico, with approximately 69,000 square feet of floor space.

## **Part D — Management Structure and Financial Information**

**Item 11. The name of the chief executive officer, members of the board of directors, as well as control persons.**

**A. Officers and Directors.**

The following sets forth information concerning the officers and directors of the Company, as well as ownership of the Company's common stock as of December 31, 2012. The business address of each of our officers and directors is United Capital Corp., 9 Park Place, Great Neck, New York 11021. The compensation paid to the Company's officers and directors is similar to that which has been disclosed in previously filed public documents.

**A.F. Petrocelli**, has been Chairman of the Board and Chief Executive Officer of the Company since December, 1987, President of the Company since June, 1991 and from June, 1983 to March, 1989 and a Director of the Company since June, 1981. Mr. Petrocelli is also a director of Nathan's Famous, Inc. ("Nathan's"), a chain of fast food restaurants. Mr. Petrocelli owns directly 5,469,448 shares of common stock.

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**Michael T. Lamoretti**, has been a Director of the Company since April, 2005 and has been a Vice President in the Company's real estate operations since 1994. Mr. Lamoretti is a son-in-law of Mr. Petrocelli. Mr. Lamoretti is a member of the Real Estate Board of New York, the International Council of Shopping Centers and a member of the board of the Great Neck Plaza Management Council. Mr. Lamoretti does not directly own any shares of the Company's common stock.

**Howard M. Lorber**, has been a Director of the Company since 1991. In addition, Mr. Lorber has been the President and Chief Executive Officer of Vector Group Ltd. since January 2006. Previously, Mr. Lorber served as the President and Chief Operating Officer of Vector Group Ltd. from January 2001 until December 2005 and has served as a director of Vector Group Ltd. since January 2001. From November 1994 to December 2005, Mr. Lorber served as President and Chief Operating Officer of New Valley Corporation, where he also served as a Director. Mr. Lorber was Chairman of the Board of Hallman & Lorber Associates, Inc., consultants and actuaries of qualified pension and profit sharing plans, and various of its affiliates from 1975 to December 2004 and has been a consultant to these entities since January 2005 until becoming a stockholder in June 2010; Executive Chairman of the Board since January 2007 and a director since 1987, Chairman of the Board from 1990 to December 2006, and Chief Executive Officer from November 1993 to December 2006 of Nathan's; Chairman of the Board of Ladenburg Thalmann Financial Services, Inc. from May 2001 to July 2006 and Vice Chairman since July 2006; and was a director of Borders Group Inc. from May 2010 until January 2012. Mr. Lorber is also a trustee of Long Island University. Mr. Lorber does not directly own any shares of the Company's common stock.

**Robert M. Mann**, has been a Director of the Company since June 2001. Mr. Mann has been a private investor for more than five years. Mr. Mann does not directly own any shares of the Company's common stock.

**Anthony J. Miceli**, has been a Director, a Vice President and Chief Financial Officer of the Company since June, 1996 and prior thereto was the Corporate Controller of the Company for more than eight years. Mr. Miceli is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and New Jersey Society of Certified Public Accountants. Mr. Miceli does not directly own any shares of the Company's common stock.

**Arnold S. Penner**, has been a Director of the Company since 1989 and has worked for more than the past five years as a private real estate investor and as a self-employed real estate broker in New York. Mr. Penner does not directly own any shares of the Company's common stock.

**Michael J. Weinbaum**, has been a Director of the Company since April, 2005 and has been a Vice President in the Company's real estate operations since 1994. Mr. Weinbaum is a son-in-law of Mr. Petrocelli. Mr. Weinbaum has also been a director of Patriot National Bancorp, Inc. since October 2010 and is a member of the International Council of Shopping Centers. Mr. Weinbaum does not directly own any shares of the Company's common stock.

**B. Legal/Disciplinary History.**

Not Applicable

**C. Disclosure of Family Relationships.**

Messrs. Lamoretti and Weinbaum are the sons-in-law of Mr. Petrocelli.

**D. Disclosure of Related Party Transactions.**

The Company has a 50% interest in an unconsolidated limited liability corporation, whose principal assets are two distribution centers leased to Kmart Corporation, which are accounted for as leveraged leases. Also participating in this transaction are Mrs. Petrocelli (the wife of Mr. Petrocelli, the Company's Board Chairman), Mr. Lorber and Mr. Penner, Directors of the Company, as well as Ms. Madaleine Berley (the wife of Mr. Penner), who together have approximately an 8% interest in this transaction. Income on leveraged leases are recognized by a method which produces a constant rate of return on the outstanding investment in the lease, net of the related deferred tax liability in the years in which the investment is positive. Accordingly, although the Company received \$777,000 in cash distributions from this investment, it did not record any income during the year ended December 31, 2012.

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Cash distributions from this investment to each of Mrs. Petrocelli, Mr. Penner, Ms. Berley, and Mr. Lorber were approximately \$36,000, \$26,000, \$26,000, and \$26,000, respectively, in both 2012 and 2011. Mrs. Petrocelli, Mr. Penner, Ms. Berley, and Mr. Lorber originally invested \$275,000, \$200,000, \$200,000, and \$200,000, respectively, in the transaction.

During 2011, the Company purchased an \$8.0 million participation in a note secured by a hotel located in New York. Also participating in this transaction is a group that includes the Company's Board Chairman, the wife of the Company's Board Chairman, two directors of the Company, the wife of one of the Directors, and the Company's pension plan, which, as a group, hold a 62.5% interest. The participation, which matures in November 2016, bears interest at 12.0% per annum payable monthly.

As described in Note 6 of Notes to Consolidated Financial Statements, the Company has a 10% interest in an entity which has an 88% interest in Patriot National Bancorp, Inc. ("Patriot"). Michael Weinbaum is a director of Patriot.

During 2012, the wife and grandchildren of the Company's Board Chairman sold an aggregate of 1,477,200 shares of the Company's common stock to the Company at a purchase price of \$30.00 per share. The shares acquired by the Company were acquired pursuant to the Company's previously announced stock buy back plan.

***E. Disclosure of Conflicts of Interest.***

None

**Item 12. Financial information for the issuer's most recent fiscal period.**

The following financial statements for the Company are attached at the end of this Annual Report and are incorporated herein by reference:

	<u>Page</u>
○ Independent Auditors' Report – Holtz Rubenstein Reminick LLP	21
○ Consolidated Balance Sheets as of December 31, 2012 and 2011	22
○ Consolidated Statements of Income for the Years Ended December 31, 2012 and 2011	23
○ Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012 and 2011	24
○ Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2012 and 2011	25
○ Consolidated Statements of Cash Flows for the Years Ended December 31, 2012 and 2011	26
○ Notes to Consolidated Financial Statements	27-42

**Item 13. Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.**

The Company's December 31, 2011 and 2010 financial statements are included in the Company's 2011 Annual Report which was filed on March 26, 2012 with the OTC Market Group and are incorporated herein by reference. The following is a list of statements which are incorporated herein by reference and where within the 2011 Annual Report they can be located:

	<u>Page</u>
○ Report of Independent Registered Public Accounting Firm – Holtz Rubenstein Reminick LLP	20
○ Consolidated Balance Sheets as of December 31, 2011 and 2010	21
○ Consolidated Statements of Income for the Years Ended December 31, 2011 and 2010	22
○ Consolidated Statements of Stockholders' Equity and Comprehensive (Loss) Income for the Years Ended December 31, 2011 and 2010	23
○ Consolidated Statements of Cash Flows for the Years Ended December 31, 2011 and 2010	24
○ Notes to Consolidated Financial Statements	25-40

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**Item 14. Beneficial Owners.**

The following table sets forth information as of December 31, 2012 of all persons known by the Company to be beneficial owners of 5% or more of its outstanding common stock.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Outstanding Common Stock
A.F. Petrocelli 9 Park Place, Great Neck, NY 11021	5,469,448	93%

**Item 15. The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure.**

- 1. Investment Banker** – Not Applicable
- 2. Promoters** – Not Applicable
- 3. Counsel**  
Olshan Frome & Wolosky LLP  
65 East 55th Street  
New York, New York 10022  
(212) 451-2300
- 4. Accountant or Auditor**  
Holtz Rubenstein Remnick LLP  
125 Baylis Road  
Melville, New York 11747  
(631) 752-7400
- 5. Public Relations Consultant(s)** – Not Applicable
- 6. Investor Relations Consultants(s)** – Not Applicable
- 7. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement** – Not Applicable

**Item 16. Management's Discussion and Analysis or Plan of Operation.**

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the description of the Company's business and properties contained in Part C and the Consolidated Financial Statements and Notes thereto, included elsewhere in this report.

**RESULTS OF OPERATIONS: 2012 AND 2011**

Operating income increased by \$9.5 million or 72% for the year ended December 31, 2012 to \$22.7 million, compared to \$13.2 million for the year ended December 31, 2011. Total revenues increased \$25.6 million or 28% to \$115.8 million for the year ended December 31, 2012, compared to \$90.1 million for the year ended December 31, 2011. The significant improvements for the current year are primarily the result of two additional hotels added to our portfolio since December 2011. For 2012, net income was \$16.7 million or \$2.37 per basic share, compared to \$17.5 million or \$2.09 per basic share in 2011. The prior year results include \$9.0 million in pre-tax gains on the

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sale of available-for-sale securities above those recognized in the current year. In addition, the current year results include \$2.5 million recognized from the satisfaction of a mortgage obligation at a discount.

**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:

(In thousands)	Year ended December 31, 2012			Year ended December 31, 2011		
	Real Estate	Hotel Operations	Total	Real Estate	Hotel Operations	Total
Revenues	\$ 22,358	\$ 57,611	\$ 79,969	\$ 22,304	\$ 32,678	\$ 54,982
Mortgage interest expense	636	1,590	2,226	662	1,617	2,279
Depreciation expense	2,623	5,451	8,074	2,747	3,381	6,128
Other operating expenses	<u>5,683</u>	<u>40,038</u>	<u>45,721</u>	<u>6,427</u>	<u>23,786</u>	<u>30,213</u>
Operating income	<u>\$ 13,416</u>	<u>\$ 10,532</u>	<u>\$ 23,948</u>	<u>\$ 12,468</u>	<u>\$ 3,894</u>	<u>\$ 16,362</u>

***Real Estate Investment and Management***

Revenues from the real estate investment and management segment increased slightly to \$22.4 million for the year ended December 31, 2012, compared to \$22.3 million for the year ended December 31, 2011, primarily as a result of additional revenues from lease renewals at higher rents, partially offset by a non-recurring item. Operating income for this segment increased \$.9 million or 7.6% to \$13.4 million for the current year, compared to \$12.5 million for the prior year, primarily benefiting from decreases in certain operating costs.

***Hotel Operations***

Revenues from our hotel operations increased \$24.9 million or 76% to \$57.6 million for the year ended December 31, 2012, compared to \$32.7 million for the year ended December 31, 2011. This increase primarily results from the acquisitions of the Nashua, New Hampshire hotel in December 2011 and the Long Branch, New Jersey hotel in March 2012. These acquisitions contributed increased revenues of \$22.9 million in the current year which generated operating income of \$5.3 million during the same period. Excluding these hotels, operating income from this segment increased \$1.3 million for the year ended December 31, 2012, compared to 2011.

**ENGINEERED PRODUCTS**

The operating results of the Company's engineered products segment are as follows (table in thousands):

<i>Years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Net sales	\$ 35,814	\$ 35,163
Cost of sales	25,558	26,632
Selling, general and administrative expenses	<u>6,610</u>	<u>6,569</u>
Operating income	<u>\$ 3,646</u>	<u>\$ 1,962</u>

Net sales of the engineered products segment increased \$.6 million or 1.9% to \$35.8 million for the year ended December 31, 2012, compared to \$35.2 million in 2011, primarily resulting from increased demand for the Company's automotive product line. Operating income of the engineered products segment increased \$1.7 million or 86% to \$3.6 million for the current year, compared to \$2.0 million for the prior year, primarily as a result of improvements in operating efficiency in the current year.

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**TOTAL OTHER INCOME**

Total other income was \$3.3 million for the year ended December 31, 2012, versus \$12.6 million in 2011. The change in total other income (expense) primarily results from realized gains on the Company's marketable securities portfolio of \$9.0 million in 2011 above those recognized in the current year. In addition, during 2012, the Company recognized a gain of \$2.5 million from the satisfaction of a mortgage obligation at a discount.

**DISCONTINUED OPERATIONS**

Net gains on the disposal of real estate assets accounted for as discontinued operations were \$33,000, on a net of tax basis, for the year ended December 31, 2012. The Company did not consider any of its properties to be held for sale as of December 31, 2012. No properties were sold during the year ended December 31, 2011.

**LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2012, the Company's cash and marketable securities were \$16.4 million with a working capital deficit of (\$3.0) million, compared to cash and marketable securities of \$34.1 million and working capital of \$41.9 million at December 31, 2011.

In August 2012, the Company entered into a \$130.0 million revolving credit facility ("Revolver") with seven banks. The Revolver may be increased under certain circumstances and expires in August 2015. The Revolver contains customary affirmative, negative, and financial covenants. As of December 31, 2012, the Company was in compliance with all such covenants as then required. The Revolver also contains provisions which allow the banks to perfect a security interest in certain real estate and other assets in the event of a default, as defined in the Revolver. Borrowings under the Revolver, at the Company's option, bear interest at the bank's prime lending rate or LIBOR plus 2.75% (2.97% at December 31, 2012). As of December 31, 2012, \$20.0 million was outstanding under the Revolver. This amount was repaid in January 2013.

In January 2013, a subsidiary of the Company obtained a \$35.5 million mortgage on the hotel located in Long Branch, New Jersey which bears interest at a floating rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.85% (3.1% at the initial term of the mortgage), is payable monthly based on a 25-year amortization, and matures in February 2018.

In February 2013, a subsidiary of the Company obtained a \$40.0 million mortgage on the hotel and convention center in Miami, Florida which bears interest at 4.55%, is payable monthly based on a 25-year amortization, and matures in March 2023.

The Company is subject to various 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 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**

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. The Company's significant accounting policies are described in the Notes to Consolidated Financial Statements. Certain of these policies require the application of subjective or complex judgments often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates and assumptions are based on historical experience, changes in the business environment and other factors that we believe to be reasonable under the circumstances. Different estimates that could have been applied in the current

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period or changes in the accounting estimates that are reasonably likely can result in a material impact on our financial condition and operating results in the current and future periods. 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.

The accounting policies we believe to be most critical to understanding our financial results and condition, and that require complex and subjective management judgments, are discussed below and should be read in conjunction with the Summary of Significant Accounting Policies in Notes to Consolidated Financial Statements.

***Long-Lived Assets***

The Company is required to make subjective assessments as to whether there are impairments in the value of its long-lived assets and other investments. On a periodic basis, management assesses whether there are any indicators that the value of its long-lived assets may be impaired. An asset's value is considered impaired only if management's estimate of current and projected operating cash flows (undiscounted and without interest charges) of the asset over its remaining useful life is less than the net carrying value of the asset. Such cash flow projections consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. To the extent impairment has occurred, the carrying amount of the asset would be written down to an amount to reflect the fair value of the asset. The Company's net income is directly affected by management's estimate of impairments.

***Pension Plan***

Pension plans can be a significant cost of doing business, but represent obligations that will ultimately be settled far in the future and therefore are subject to estimates. Pension accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period based on the terms of the plan and the investment and funding decisions made by the Company. The Company is required to make assumptions regarding such variables as the expected long-term rate of return on assets and the discount rate applied to determine service cost and interest cost to arrive at pension income or expense for the year. These assumptions are used in actuarial calculations to estimate pension costs as well as pension assets or liabilities included in the Company's Consolidated Financial Statements. While the Company believes that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect the Company's pension costs and obligations.

The Company has assumed the expected long-term rate of return on plan assets to be 8% in each of the last two years. Based on the Company's existing and forecasted asset allocation and related long-term investment performance results, the Company believes that its assumption of future returns of 8% is reasonable. The assumed long-term rate of return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner. This produces the expected return on plan assets that is included in net periodic pension cost. The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains (losses) affects the calculated value of plan assets and, ultimately, future net periodic pension cost. A 100 basis point change in the expected long-term rate of return on plan assets would have changed fiscal 2012 net periodic pension income by \$108,000.

***Recent Accounting Pronouncements***

See Note 1 of Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective dates of adoption and effects on results of operations and financial condition.

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**Part E — Issuance History**

**Item 17. List of securities offerings and shares issued for services in the past two years.**

The Company has not issued any shares of the Company's common stock in exchange for services during the past two years.

**Part F — Exhibits**

**Item 18. Material Contracts.**

The salary of A.F. Petrocelli, the Company's Chairman, President and Chief Executive Officer, is set forth in his employment agreement, as amended from time to time by the Company's Compensation and Stock Option Committee. The employment agreement was filed as exhibit 10.4 to the Company's Form 10-K for the fiscal year ended December 31, 2003, and is incorporated herein by reference. In addition, Mr. Petrocelli participates in the Company's Supplemental Retirement and Death Benefit Program, a copy of which was filed with the Company's report on Form 10-Q for the period ended June 30, 2009, and is incorporated herein by reference.

**Item 19. Articles of Incorporation and Bylaws.**

The Company's amended and restated certificate of incorporation was filed on April 8, 1994 with the Securities and Exchange Commission as exhibit 3.1 to the Form 10-K for the fiscal year ended December 31, 1993 and is incorporated herein by reference. The Company's amendment to the amended and restated certificate of incorporation was filed on March 26, 2004 with the Securities and Exchange Commission as exhibit 3.2 to the Form 10-K for the fiscal year ended December 31, 2003 and is incorporated herein by reference. The Company's amendment to the restated certificate of incorporation, decreasing the number of authorized common shares, par value \$.10 per share, from 17,500,000 to 7,500,000, was filed on March 26, 2012 with the OTC Market Group as Exhibit A to the Annual Report for the year ended December 31, 2011 and is incorporated herein by reference.

The bylaws of the Company were filed on April 14, 2005 with the Securities and Exchange Commission as exhibit 3.2 to Form 8-K and are incorporated herein by reference.

**Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

The following table details the Company's repurchases of common stock during the three months ended December 31, 2012:

**Issuer Purchases of Equity Securities**  
(Table in thousands, except per share data)

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
October 1, 2012 — October 31, 2012	1,395	\$29.98	1,395	422
November 1, 2012 — November 30, 2012	<u>3</u>	\$29.87	<u>3</u>	419
Total	<u>1,398</u>	\$29.98	<u>1,398</u>	419

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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. In October 2012, the Board of Directors approved the repurchase of up to an additional 1,800,000 shares of the Company's common stock, to be made from time to time in the open market at prevailing market prices or in privately negotiated transactions, and to commence after the previous authorization has been exhausted. At December 31, 2012, 419,000 shares remained available to be purchased under such plans. These authorizations are ongoing and have no expiration date.

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**Item 21. Issuer's Certifications.**

I, A.F. Petrocelli, certify that:

1. I have reviewed this annual disclosure statement of United Capital Corp.;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 26, 2013

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

I, Anthony J. Miceli, certify that:

1. I have reviewed this annual disclosure statement of United Capital Corp.;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 26, 2013

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

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
United Capital Corp. and Subsidiaries  
Great Neck, New York

We have audited the accompanying consolidated financial statements of United Capital Corp. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Capital Corp. and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Holtz Rubenstein Reminick LLP  
**HOLTZ RUBENSTEIN REMINICK LLP**

Melville, New York  
March 26, 2013

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

<i>As of December 31,</i>	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,267	\$ 23,925
Marketable securities	6,097	10,153
Notes and accounts receivable, net	11,201	10,561
Inventories	5,878	6,266
Prepaid income taxes	—	3,800
Prepaid expenses and other current assets	2,775	2,134
Deferred income taxes	<u>311</u>	<u>1,802</u>
<b>Total current assets</b>	<u>36,529</u>	<u>58,641</u>
Property, plant and equipment, net	14,287	11,302
Real property held for rental, net	146,689	103,540
Other investments	7,165	7,942
Notes receivable, net of current portion	4,616	43,148
Other assets	7,474	5,709
Noncurrent assets of discontinued operations	<u>—</u>	<u>24</u>
<b>Total assets</b>	<u>\$ 216,760</u>	<u>\$ 230,306</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 1,793	\$ 1,311
Borrowings under credit facilities	20,000	—
Accounts payable and accrued liabilities	12,802	11,220
Income taxes payable	<u>4,951</u>	<u>4,260</u>
<b>Total current liabilities</b>	<u>39,546</u>	<u>16,791</u>
Long-term debt	27,554	35,343
Other long-term liabilities	11,112	11,670
Deferred income taxes	<u>10,361</u>	<u>10,086</u>
<b>Total liabilities</b>	<u>88,573</u>	<u>73,890</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.10 par value, authorized 7,500 shares; issued and outstanding 5,862 and 7,427 shares, respectively	586	743
Retained earnings	126,966	157,095
Accumulated other comprehensive income (loss), net of tax	<u>635</u>	<u>(1,422)</u>
<b>Total stockholders' equity</b>	<u>128,187</u>	<u>156,416</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 216,760</u>	<u>\$ 230,306</u>

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

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except per share data)

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>		
Revenues from real estate operations	\$ 79,969	\$ 54,982
Net sales	<u>35,814</u>	<u>35,163</u>
Total revenues	<u>115,783</u>	<u>90,145</u>
<b>Costs and expenses:</b>		
Cost of sales	25,558	26,632
Real estate operations:		
Mortgage interest expense	2,226	2,279
Depreciation expense	8,074	6,128
Other operating expenses	45,721	30,213
General and administrative expenses	7,817	8,133
Selling expenses	<u>3,711</u>	<u>3,553</u>
Total costs and expenses	<u>93,107</u>	<u>76,938</u>
Operating income	<u>22,676</u>	<u>13,207</u>
<b>Other income (expense):</b>		
Interest and dividend income	1,089	3,691
Interest expense	(228)	—
Other income and (expense), net	<u>2,454</u>	<u>8,882</u>
Total other income	<u>3,315</u>	<u>12,573</u>
Income from continuing operations before income taxes	25,991	25,780
Provision for income taxes	<u>9,360</u>	<u>8,316</u>
<b>Income from continuing operations</b>	<u>16,631</u>	<u>17,464</u>
<b>Discontinued operations:</b>		
Net gain on disposal of discontinued operations, net of tax provision of \$22	<u>33</u>	<u>—</u>
<b>Income from discontinued operations</b>	<u>33</u>	<u>—</u>
<b>Net income</b>	<u>\$ 16,664</u>	<u>\$ 17,464</u>
<b>Basic earnings per share:</b>		
Income from continuing operations	\$ 2.36	\$ 2.09
Income from discontinued operations	<u>.01</u>	<u>—</u>
<b>Net income per share</b>	<u>\$ 2.37</u>	<u>\$ 2.09</u>
<b>Diluted earnings per share:</b>		
Income from continuing operations	\$ 2.36	\$ 2.03
Income from discontinued operations	<u>.01</u>	<u>—</u>
<b>Net income per share assuming dilution</b>	<u>\$ 2.37</u>	<u>\$ 2.03</u>

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

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands)

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Net income</b>	\$ 16,664	\$ 17,464
Other comprehensive income (loss), net of tax:		
Changes in net unrealized gain (loss) on available-for-sale securities, net of tax effect of (\$718) and \$1,006, respectively	1,334	(1,866)
Reclassification adjustment for net loss (gains) realized in net income, net of tax effect of (\$3) and \$3,167, respectively	6	(5,882)
Pension plan adjustments, net of tax effect of (\$386) and \$498, respectively	<u>717</u>	<u>(924)</u>
<b>Comprehensive income</b>	<u>\$ 18,721</u>	<u>\$ 8,792</u>

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

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands)

	<b>Common Stock Issued</b>		<b>Retained</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Earnings</b>	<b>Other Comprehensive Income (Loss), Net of Tax</b>	<b>Stockholders' Equity</b>
<b>Balance – January 1, 2011</b>	8,955	\$ 896	\$ 206,843	\$ 7,250	\$ 214,989
Purchase and retirement of common shares	(3,788)	(379)	(111,383)	—	(111,762)
Proceeds from the exercise of stock options	2,260	226	34,253	—	34,479
Tax benefit from employee stock options	—	—	9,918	—	9,918
Net income	—	—	17,464	—	17,464
Other comprehensive loss, net of tax	—	—	—	(8,672)	(8,672)
<b>Balance – December 31, 2011</b>	<u>7,427</u>	<u>743</u>	<u>157,095</u>	<u>(1,422)</u>	<u>156,416</u>
Purchase and retirement of common shares	(1,565)	(157)	(46,793)	—	(46,950)
Net income	—	—	16,664	—	16,664
Other comprehensive income, net of tax	—	—	—	2,057	2,057
<b>Balance – December 31, 2012</b>	<u>5,862</u>	<u>\$ 586</u>	<u>\$ 126,966</u>	<u>\$ 635</u>	<u>\$ 128,187</u>

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

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 16,664	\$ 17,464
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,468	6,520
Satisfaction of mortgage obligation at a discount	(2,518)	—
Net loss (gain) on sale of available-for-sale securities	9	(9,049)
Gain on disposal of discontinued operations, net of tax	(33)	—
Deferred income taxes	659	252
Other, net	(101)	51
Changes in assets and liabilities:		
Notes and accounts receivable, net	(44)	(406)
Inventories	388	(454)
Prepaid expenses and other current assets	(282)	(228)
Other assets	(479)	(925)
Accounts payable and accrued liabilities	(2,478)	(2,571)
Income taxes payable	4,469	(3,885)
Other long-term liabilities	(558)	(1,297)
<b>Net cash provided by operating activities</b>	<b>24,164</b>	<b>5,472</b>
<b>Cash flows from investing activities:</b>		
Purchase of available-for-sale securities	—	(6,179)
Proceeds from sale of available-for-sale securities	6,108	22,336
Proceeds from sale of real estate assets	79	—
Purchase/origination of notes receivable	(150)	(3,000)
Principal payments on notes receivables	507	4,356
Net investment in non-performing mortgage note	—	(271)
Acquisition of property, plant and equipment	(3,646)	(2,578)
Acquisition of/additions to real estate assets	(10,105)	(4,390)
Business acquisition, net of cash acquired	347	(6,629)
Distributions from other investments	777	776
Other	—	232
<b>Net cash (used in) provided by investing activities</b>	<b>(6,083)</b>	<b>4,653</b>
<b>Cash flows from financing activities:</b>		
Proceeds from credit facility	20,000	—
Principal payments on mortgage obligations	(4,789)	(1,232)
Purchase and retirement of common stock	(46,950)	(111,762)
Proceeds from the exercise of stock options	—	34,479
Tax benefit from exercise of employee stock options	—	9,918
<b>Net cash used in financing activities</b>	<b>(31,739)</b>	<b>(68,597)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(13,658)</b>	<b>(58,472)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>23,925</b>	<b>82,397</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 10,267</b>	<b>\$ 23,925</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for:		
Interest	\$ 2,225	\$ 2,205
Taxes	\$ 4,746	\$ 2,988
<b>Non-cash investing activities:</b>		
Reclassification resulting from business acquisition (See Note 2)	\$ 37,775	\$ —

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

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**  
(In thousands, except per share data)

**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Business*

United Capital Corp. (the “Company”) and its subsidiaries are engaged in the investment and management of real estate, including the operation of full and limited-service hotels, and in the manufacture and sale of engineered products. The Company also invests excess available cash in marketable securities and other financial instruments.

*Principles of Consolidation*

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The equity method of accounting is used primarily for investments of 50% or less 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 Company’s remaining investments are generally accounted for on the cost basis.

*Revenue Recognition and Accounts Receivable – Real Estate Investment and Management*

The Company leases substantially all of its properties to tenants under net leases which are accounted for as operating leases. Under this type of lease, the tenant is obligated to pay all operating costs of the property including real estate taxes, insurance, and repairs and maintenance. Revenue is recognized as earned and deemed collectible. The effect of stepped-rent increases on significant leases are recorded, net of allowances, on a straight-line basis. Gains on sales of real estate assets and equity investments are recorded when the gain recognition criteria under generally accepted accounting principles in the United States of America have been met.

The Company does not generally have leases that include significant rent concessions or provisions that require the lessee to fund capital improvements or to pay the lessor any revenues based upon indexes or rates that are not explicitly stated in the lease.

Reimbursements of certain costs received from tenants are recognized as tenant reimbursement revenues.

Certain lease agreements provide for additional rent based on a percentage of tenants’ sales. These percentage rents are recorded once the required sales levels are achieved.

Income on leveraged leases is recognized by a method that produces a constant rate of return on the outstanding investment in the lease, net of the related deferred tax liability, in the years in which the net investment is positive.

Accounts receivable are recorded at the outstanding amounts, net of allowances for doubtful accounts. The Company makes estimates of the uncollectibility of its accounts receivable related to base rents, tenant escalations, expense reimbursements, and other revenues. The Company analyzes accounts receivable, historical bad debt levels, customer credit worthiness, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims.

*Revenue Recognition and Accounts Receivable – Hotel Operations*

Revenues from the Company’s hotel operations are generally recognized when earned. Hotel revenues primarily represent room rental and food and beverage sales and are recognized at the time of the hotel stay or sale of restaurant services.

Accounts receivable are recorded at the outstanding amounts, net of allowances for doubtful accounts. The Company determines the allowance for doubtful accounts based on an assessment of the collectibility of specific

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

customer accounts which include the length of time the receivables are past due, the financial health of the customer, and historical experience.

***Revenue Recognition and Accounts Receivable – Engineered Products***

In general, sales are recorded when products are shipped, title has passed, and collection is reasonably assured. Management believes that adequate controls are in place to ensure compliance with contractual product specifications, a substantial history of such performance has been established, and historical returns and allowances have not been significant. If actual sales returns and allowances exceed historical amounts, the Company's sales would be adversely affected.

Accounts receivable are recorded at the outstanding amounts, net of allowances for doubtful accounts. Estimates are used in determining the Company's allowance for doubtful accounts based on historical collections experience, current economic trends, and a percentage of its accounts receivable by aging category. In determining these percentages, the Company looks at historical write-offs of its receivables. The Company also looks at the credit quality of its customer base as well as changes in its credit policies. The Company continuously monitors collections and payments from its customers. While credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past.

***Cash and Cash Equivalents***

Cash equivalents of \$131 and \$130 at December 31, 2012 and 2011, respectively, consisted of certificates of deposit. The Company considers all highly liquid investments with a maturity, at the purchase date, of three months or less to be cash equivalents. The Company maintains balances with various financial institutions which, at times, exceed federally insured limits.

***Marketable Securities***

The Company determines the appropriate classification of securities at the time of purchase and reassesses the appropriateness of such classification at each reporting date. At December 31, 2012 and 2011, all marketable securities held by the Company have been classified as available-for-sale and, as a result, are stated at fair value, based on quoted market prices. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders' equity. Realized gains and losses on the sale of securities, as determined on a first-in, first-out basis, are included in the Consolidated Statements of Income.

The Company reviews its investments on a regular basis to evaluate whether or not each security has experienced an other-than-temporary decline in fair value. If it is believed that an other-than-temporary decline exists, the Company will write down the investment to market value and record the related write-down in the Consolidated Statements of Income.

***Notes and Accounts Receivable, Net***

Notes and accounts receivable, net consist of the following:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Manufacturing receivables	\$ 6,146	\$ 6,597
Rental receivables	1,528	1,457
Hotel receivables	2,055	1,556
Other receivables	271	372
Current portion of notes receivable	<u>1,656</u>	<u>1,257</u>
Total	11,656	11,239
Less: Allowance for doubtful accounts	<u>455</u>	<u>678</u>
	<u>\$ 11,201</u>	<u>\$ 10,561</u>

Notes receivable are recorded at cost and typically collateralized by real estate properties. Notes receivable are considered to be past-due or delinquent when a contractually required principal or interest payment is not remitted in

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

accordance with the provisions of the underlying agreement. The Company evaluates the realizability of each note's carrying value based on an assessment of the underlying collateral to determine whether there is any impairment. A note is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to recover the value of its investment in the note. When a note is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value of the underlying collateral. If the underlying collateral is real estate, the same valuation techniques are utilized to value such collateral. As such, no provision for probable losses on specific notes was established as of December 31, 2012 or 2011.

***Inventories***

Inventories are stated at the lower of cost or market and include material, labor, and manufacturing overhead. The first-in, first-out (FIFO) method is used to determine the cost of inventories. Inventories consist of the following:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Raw materials	\$ 2,484	\$ 3,022
Work in process	596	566
Finished goods	<u>2,798</u>	<u>2,678</u>
	<u>\$ 5,878</u>	<u>\$ 6,266</u>

***Depreciation and Amortization***

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Real property held for rental:	
Buildings .....	27 to 39 years
Building renovations and improvements .....	5 to 39 years
Equipment and fixtures .....	5 to 15 years
Property, plant and equipment:	
Buildings and improvements .....	5 to 39 years
Furniture, fixtures and equipment .....	3 to 15 years
Intangible assets with definite lives:	
Patents and trademarks .....	5 to 20 years

***Real Estate***

Land, buildings, renovations and improvements, and equipment and fixtures are recorded at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations and replacements, which improve the life of the asset, are capitalized and depreciated over their estimated useful lives.

Assets held for sale are reported at the lower of the carrying amount or fair value less costs to sell and depreciation is discontinued. Property sales or dispositions are recorded when title transfers. Upon disposition, the related costs and accumulated depreciation are removed from the respective accounts. Any gain or loss on sale or disposition is recognized in accordance with accounting principles generally accepted in the United States of America.

***Property, Plant and Equipment***

Property, plant and equipment is recorded at cost, less accumulated depreciation. Major improvements are capitalized and maintenance and repairs are expensed as incurred.

***Long-Lived Assets***

On a periodic basis, management assesses whether there are any indicators that the value of its long-lived assets may be impaired. An asset's value is considered impaired only if management's estimate of current and projected operating cash flows (undiscounted and without interest charges) of the asset over its remaining useful life is less

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

than the net carrying value of the asset. Such cash flow projections consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. To the extent impairment has occurred, the carrying amount of the asset would be written down to an amount to reflect the fair value of the asset.

***Pension Plan***

Pension plans can be a significant cost of doing business, but represent obligations that will ultimately be settled far in the future and, therefore, are subject to estimates. Pension accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period based on the terms of the plan and the investment and funding decisions made by the Company. The Company is required to make assumptions regarding such variables as the expected long-term rate of return on assets and the discount rate applied to determine service cost and interest cost to arrive at net periodic pension income or expense for the year. These assumptions are used in actuarial calculations to estimate net periodic pension costs as well as pension assets or liabilities included in the Company's Consolidated Financial Statements. While the Company believes that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect the Company's pension costs and obligations.

***Research and Development***

The Company expenses research, development and product engineering costs as incurred. Approximately \$23 and \$26 of such costs were incurred by the Company in 2012 and 2011, respectively.

***Shipping and Handling Costs***

Shipping and handling costs billed to a customer are included in net sales and the related costs are included in cost of sales or selling expenses. For the years ended December 31, 2012 and 2011, shipping and handling costs included in selling expenses were \$274 and \$242, respectively.

***Earnings Per Share***

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding. Diluted earnings per share gives effect to all potentially dilutive shares that were outstanding during the period, unless the effect would be antidilutive. Dilutive shares used in the computation of diluted earnings per share result from the assumed exercise of stock options, using the treasury stock method. As of December 31, 2012 and 2011, the Company had no outstanding options or stock option plans.

***Derivative Financial Instruments***

The Company recognizes all derivative financial instruments, such as put and/or call options, in the Consolidated Financial Statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in stockholders' equity as a component of accumulated other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting and, if so, whether it qualifies as a fair value or cash flow hedge. Generally, changes in the fair value of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in the fair value of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in accumulated other comprehensive income, net of tax. Changes in the fair value of derivatives not qualifying as hedges are reported in income.

In strategies designed to hedge overall market risks and manage its interest rate exposure, the Company may sell common stock short, participate in put and/or call options or enter into interest rate swap agreements.

Management maintains a diversified portfolio of cash equivalents and investments in a variety of securities, primarily U.S. investments in both 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. The Company held no such derivatives at December 31, 2012 or 2011.

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Use of Estimates*

The preparation of consolidated financial statements in conformity 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, revenue 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.

*Recent Accounting Pronouncements*

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires companies to present information about reclassifications out of accumulated other comprehensive income in a single note or on the face of the financial statements. The updated standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company will adopt the updated standard in the first quarter of 2013. The adoption of this updated accounting standard will not have a significant impact on our consolidated financial position, results of operations, or cash flows.

A variety of proposed accounting standards are currently under study by standard setting organizations and various regulatory agencies on such topics as consolidation, financial statement presentation, revenue recognition, leases, financial instruments, hedging, contingencies and fair value. Some of the proposed changes are potentially significant and could have a material impact on the Company's reporting. The Company has not yet evaluated the potential impact of these proposals but will make such an evaluation as the standards are finalized.

**2. BUSINESS ACQUISITION**

In 2010, the Company purchased a non-performing mortgage note which had been in default since January 2008. This note, which was included in notes receivable in the Consolidated Balance Sheet at December 31, 2011, was secured by a 254-room hotel located in Long Branch, New Jersey (the "Long Branch Hotel"). In February 2012, the Company obtained title to the property and the net investment was reclassified in accordance with the assets acquired, as follows:

Current assets	\$ 555
Real property	38,000
Property, plant and equipment	2,829
Other assets	104
Current liabilities assumed	<u>(4,060)</u>
Cash paid for business acquisition, net of cash acquired	<u>\$ 37,428</u>

The results of operations of the Long Branch Hotel have been included in the Consolidated Statement of Income since the date of acquisition and include revenues of \$18,818 and operating income of \$5,636 for 2012.

In December 2011, the Company acquired a hotel located in Nashua, New Hampshire (the "Nashua Hotel"). The purchase price, which approximates fair value and includes certain assumed liabilities, was allocated as follows:

Current assets	\$ 690
Real property	2,450
Furniture, fixtures and equipment	1,366
Noncurrent notes receivable	2,676
Current liabilities assumed	<u>(553)</u>
Cash paid for business acquisition, net of cash acquired	<u>\$ 6,629</u>

Included in the Consolidated Statements of Income for the years ended December 31, 2012 and 2011, are revenues of \$4,462 and \$334 and operating losses of (\$418) and (\$77), respectively, from the operations of the Nashua Hotel.

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following represents the unaudited condensed pro forma financial results of the Company as if the acquisition of the Long Branch Hotel and Nashua 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 year presented, nor does it purport to represent the results of operations for future periods.

<i>For the year ended December 31,</i>	<b>2012</b>	<b>2011</b>
Total revenues	<u>\$117,066</u>	<u>\$113,826</u>
Net income	<u>\$ 16,251</u>	<u>\$ 18,980</u>

**3. REAL ESTATE**

The following is a summary of real property held for rental, including hotels:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Land	\$ 20,883	\$ 16,783
Buildings	170,366	134,457
Building renovations and improvements	31,956	23,893
Equipment and fixtures	<u>4,369</u>	<u>4,336</u>
	227,574	179,469
Less: Accumulated depreciation	<u>80,885</u>	<u>75,929</u>
	<u>\$146,689</u>	<u>\$103,540</u>

The Company is the lessor of real estate under operating leases which expire in various years through 2078. As of December 31, 2012, total minimum future rentals to be received under noncancelable leases for each of the next five years and thereafter are as follows:

<i>Years ending December 31,</i>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>There- after</b>	<b>Total</b>
Minimum future rentals	<u>\$ 20,666</u>	<u>\$ 17,463</u>	<u>\$ 15,849</u>	<u>\$ 11,699</u>	<u>\$ 9,155</u>	<u>\$ 56,731</u>	<u>\$131,563</u>

Minimum future rentals do not include amounts for renewals, tenant reimbursement or additional rentals that may be received under certain leases which provide for such rentals based upon a percentage of lessees' sales. Percentage rents included in revenues from real estate operations for 2012 and 2011 were approximately \$340 and \$276, respectively.

***Property Acquisitions***

During 2012, the Company purchased a commercial property located in New York for approximately \$2,000.

***Property Sales***

During 2012, the Company divested itself of two commercial properties which had a net book value of \$24 from its real estate investment and management segment. The aggregate proceeds from these transactions were \$79 resulting in a gain of \$33, on a net of tax basis. No properties were sold during the year ended December 31, 2011.

***Properties Held for Sale***

As of December 31, 2012, there were no properties considered by the Company to be held for sale.

**4. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, including furniture, fixtures and equipment related to the Company's hotel operations segment, consists of the following:

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Land	\$ 28	\$ 28
Buildings and improvements	1,748	1,598
Furniture, fixtures and equipment	<u>37,018</u>	<u>30,694</u>
	38,794	32,320
Less: Accumulated depreciation	<u>24,507</u>	<u>21,018</u>
	<u>\$ 14,287</u>	<u>\$ 11,302</u>

**5. MARKETABLE SECURITIES**

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

	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>
<i>December 31, 2012:</i>				
Equity securities	\$ 5,171	\$ 1,488	\$ (794)	\$ 5,865
Bonds	<u>159</u>	<u>73</u>	<u>—</u>	<u>232</u>
	<u>\$ 5,330</u>	<u>\$ 1,561</u>	<u>\$ (794)</u>	<u>\$ 6,097</u>
<i>December 31, 2011:</i>				
Equity securities	\$ 11,288	\$ 1,249	\$ (2,612)	\$ 9,925
Bonds	<u>159</u>	<u>69</u>	<u>—</u>	<u>228</u>
	<u>\$ 11,447</u>	<u>\$ 1,318</u>	<u>\$ (2,612)</u>	<u>\$ 10,153</u>

The following table shows the fair value and unrealized losses, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position:

	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<i>December 31, 2012:</i>						
Equity Securities	\$ —	\$ —	\$ 4,230	\$ (794)	\$ 4,230	\$ (794)
Bonds	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,230</u>	<u>\$ (794)</u>	<u>\$ 4,230</u>	<u>\$ (794)</u>
<i>December 31, 2011:</i>						
Equity securities	\$ 4,559	\$ (1,569)	\$ 1,491	\$ (1,043)	\$ 6,050	\$ (2,612)
Bonds	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 4,559</u>	<u>\$ (1,569)</u>	<u>\$ 1,491</u>	<u>\$ (1,043)</u>	<u>\$ 6,050</u>	<u>\$ (2,612)</u>

The Company continuously reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. The Company does not believe that its investments in marketable securities with unrealized losses at December 31, 2012 are other-than-temporary due to market volatility of the security's fair value, analysts' expectations, and the Company's ability to hold the securities for a period of time sufficient to allow for any anticipated recoveries in market value.

Proceeds 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 are as follows:

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Proceeds	<u>\$ 6,108</u>	<u>\$ 22,336</u>
Gains recognized in earnings	<u>\$ 862</u>	<u>\$ 9,050</u>
Losses recognized in earnings	<u>\$ (871)</u>	<u>\$ (1)</u>

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**6. LONG-TERM INVESTMENTS**

***Investment in Limited Partnership***

The Company has a 10% interest in PNBK Holdings LLC (“PNBK”) which holds approximately 88% of the outstanding stock of Patriot National Bancorp, Inc., a commercial bank with branches located throughout southern Connecticut and Westchester County, New York. Based on the information available from PNBK, the cost method is used to account for this investment. Management believes that any difference between the equity method and cost method would be immaterial. This investment, valued at \$4,831 at both December 31, 2012 and 2011, is included in other investments in the Consolidated Balance Sheets.

***Investment in Joint Venture***

The Company has a 50% interest in a limited partnership whose principal assets are two distribution centers leased to Kmart Corporation (“Kmart”), which are accounted for as leveraged leases and included in other investments in the Consolidated Balance Sheets (also see Note 13).

The following represents the components of the net investment in the leveraged leases:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Rents receivable	\$ 37,266	\$ 41,295
Residual values	10,000	10,000
Nonrecourse debt service	(29,084)	(32,336)
Unearned income	<u>(15,848)</u>	<u>(15,848)</u>
	2,334	3,111
Less: Deferred taxes arising from leveraged leases	<u>3,726</u>	<u>4,223</u>
	<u>\$ (1,392)</u>	<u>\$ (1,112)</u>

Income on leveraged leases is recognized by a method which produces a constant rate of return on the outstanding investment in the lease, net of the related deferred tax liability in the years in which the investment is positive. Accordingly, although the Company received \$777 and \$776 in cash distributions from this investment, it did not recognize any income during the years ended December 31, 2012 and 2011, respectively.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consist of the following:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Accounts payable	\$ 4,791	\$ 4,513
Accrued wages and benefits	1,565	2,440
Tenant security deposits	1,415	1,350
Other accrued expenses	<u>5,031</u>	<u>2,917</u>
	<u>\$ 12,802</u>	<u>\$ 11,220</u>

**8. LONG-TERM DEBT**

Long-term debt consists of the following:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Mortgages on real property	\$ 29,347	\$ 36,654
Less: Current maturities	<u>1,793</u>	<u>1,311</u>
	<u>\$ 27,554</u>	<u>\$ 35,343</u>

Mortgages bear interest at rates ranging from 4.5% to 7.5% per annum and are collateralized by the related real property which had a net carrying value at December 31, 2012 of \$33,003, exclusive of hotel furniture, fixtures and

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
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equipment. Such amounts are scheduled to mature at various dates from July 2013 through December 2022. Certain mortgages, require escrow deposits for taxes, insurance and replacement reserves.

During 2012, a subsidiary of the Company renegotiated the mortgage on the Utica, New York hotel, reducing the interest rate from 6.18% to 4.5% and extending the maturity date to December 2022. In addition, during 2012, a subsidiary of the Company repurchased the mortgage on the Atlanta, Georgia hotel in advance of its maturity date for \$3,500, thereby recording a \$2,518 gain from the satisfaction of the mortgage obligation at a discount.

The approximate aggregate maturities of the Company's mortgage obligations at December 31, 2012 are as follows:

<i>Years ending December 31,</i>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>There- After</b>	<b>Total</b>
Aggregate maturities	<u>\$ 1,793</u>	<u>\$ 1,417</u>	<u>\$ 7,623</u>	<u>\$ 9,192</u>	<u>\$ 417</u>	<u>\$ 8,905</u>	<u>\$ 29,347</u>

In January 2013, a subsidiary of the Company obtained a \$35,500 mortgage on the hotel located in Long Branch, New Jersey, which bears interest at a floating rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.85% (3.1% at the initial term of the mortgage), is payable monthly based on a 25-year amortization, and matures in February 2018.

In February 2013, a subsidiary of the Company obtained a \$40,000 mortgage on the hotel and convention center in Miami, Florida which bears interest at 4.55%, is payable monthly based on a 25-year amortization, and matures in March 2023.

## **9. CREDIT FACILITY**

In August 2012, the Company entered into a \$130,000 revolving credit facility ("Revolver") with seven banks. The Revolver may be increased under certain circumstances and expires in August 2015. The Revolver contains customary affirmative, negative, and financial covenants. As of December 31, 2012, the Company was in compliance with all such covenants as then required. The Revolver also contains provisions which allow the banks to perfect a security interest in certain real estate and other assets in the event of a default, as defined in the Revolver. Borrowings under the Revolver, at the Company's option, bear interest at the bank's prime lending rate or LIBOR plus 2.75% (2.97% at December 31, 2012). As of December 31, 2012, \$20,000 was outstanding under the Revolver. This amount was repaid in January 2013.

## **10. FAIR VALUE MEASUREMENTS**

The authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The guidance requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The guidance establishes a hierarchy which requires an entity to maximize the use of quoted market prices and minimize the use of unobservable inputs. An asset or liability's classification is based on the lowest level of input that is significant to the fair value measurement.

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

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<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>
<i>December 31, 2012:</i>				
Equity Securities	\$ 5,865	\$ 3,911	\$ 1,954	\$ —
Bonds	<u>232</u>	<u>82</u>	<u>150</u>	<u>—</u>
	<u>\$ 6,097</u>	<u>\$ 3,993</u>	<u>\$ 2,104</u>	<u>\$ —</u>
<i>December 31, 2011:</i>				
Equity securities	\$ 9,925	\$ 8,454	\$ 1,471	\$ —
Bonds	<u>228</u>	<u>78</u>	<u>150</u>	<u>—</u>
	<u>\$ 10,153</u>	<u>\$ 8,532</u>	<u>\$ 1,621</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 maturity of such items. The estimated fair values of our other financial assets and liabilities not measured at fair value on a recurring basis at December 31, 2012 and 2011 are as follows:

	<b>2012</b>		<b>2011</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<i>December 31,</i>				
Notes receivable	<u>\$ 6,272</u>	<u>\$ 6,424</u>	<u>\$ 6,629</u>	<u>\$ 6,702</u>
Long-term debt, including current portion	<u>\$ 29,347</u>	<u>\$ 28,825</u>	<u>\$ 36,654</u>	<u>\$ 32,883</u>
Borrowings under credit facilities	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ —</u>	<u>\$ —</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. 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. The carrying amount of borrowings under credit facilities approximates their fair value due to the short-term nature of such item.

## 11. 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 2012 and 2011, the Company purchased and retired 1,565 and 409 shares of common stock for an aggregate purchase price of \$46,950 and \$10,378, respectively. In addition, during July 2011, the Company completed a tender offer resulting in the purchase of an aggregate of 3,379 shares of its common stock, at a purchase price of \$30 per share, for a total cost of approximately \$101,384, excluding fees and expenses related to the tender.

During 2011, the Company received proceeds of \$34,479 from the exercise of options to purchase 2,260 shares of the Company's common stock and recorded a tax benefit of \$9,918 to retained earnings related to such exercises. At December 31, 2012 and 2011, the Company had no outstanding stock option plans.

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. EARNINGS PER SHARE**

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

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Numerator:		
Income from continuing operations	<u>\$ 16,631</u>	<u>\$ 17,464</u>
Denominator:		
Basic – weighted-average shares outstanding	7,041	8,343
Dilutive effect of employee stock options	<u>—</u>	<u>281</u>
Diluted – weighted-average shares outstanding	<u>7,041</u>	<u>8,624</u>
Basic earnings per share – continuing operations	<u>\$ 2.36</u>	<u>\$ 2.09</u>
Diluted earnings per share – continuing operations	<u>\$ 2.36</u>	<u>\$ 2.03</u>

Basic and diluted earnings per share are the same for the year ended December 31, 2012 as the Company no longer has any options or other stock compensation programs that would impact the calculation of diluted earnings per share.

**13. TRANSACTIONS WITH RELATED PARTIES**

The Company has a 50% interest in an unconsolidated limited liability corporation, whose principal assets are two distribution centers leased to Kmart. Also participating in this transaction were Mrs. Petrocelli (the wife of Mr. Petrocelli, the Company’s Board Chairman), Mr. Lorber and Mr. Penner, Directors of the Company, as well as Ms. Madaleine Berley (the wife of Mr. Penner), who together have approximately an 8% interest in this transaction (see Note 6). Cash distributions from this investment to each of Mrs. Petrocelli, Mr. Penner, Ms. Berley, and Mr. Lorber were approximately \$36,000, \$26,000, \$26,000, and \$26,000, respectively, in both 2012 and 2011.

During 2011, the Company purchased an \$8.0 million participation in a note secured by a hotel located in New York. Also participating in this transaction is a group that includes the Company’s Board Chairman, the wife of the Company’s Board Chairman, two Directors of the Company, the wife of one of the Directors, and the Company’s pension plan, which, as a group, hold a 62.5% interest. The participation, which matures in November 2016, bears interest at 12.0% per annum payable monthly. During 2011, the participants also received a commitment fee of 1% in connection with the note.

During 2009, the Company purchased a \$5.0 million participation in a note (the “Participation”) secured by a warehouse located in New York of which Mrs. Petrocelli held a 20% interest. During November 2010, the Company sold a 2.5% interest in its remaining share of the Participation to the Company’s pension plan for \$100. The Participation, which was repaid in July 2011, bore interest at 18% per annum payable monthly.

During 2012, the wife and grandchildren of the Company’s Board Chairman sold an aggregate of 1,477 shares of the Company’s common stock to the Company at a purchase price of \$30.00 per share. The shares acquired by the Company were acquired pursuant to the Company’s previously announced stock buy back plan.

**14. INCOME TAXES**

In accordance with the authoritative guidance, deferred income taxes are determined on the liability method. Deferred tax assets and liabilities are determined based on the difference between the tax basis of an asset or liability and its reported amount in the Consolidated Financial Statements using enacted tax rates. Future tax benefits attributable to these differences are recognized to the extent that realization of such benefits are more likely than not.

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of the net deferred tax liability are as follows:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Realization allowances related to accounts receivable and inventories	\$ 306	\$ 384
Net unrealized (gain) loss on available-for-sale securities	(232)	489
Basis differences relating to real property	(6,558)	(6,156)
Accrued expenses, deductible when paid	3,452	3,788
Deferred profit	(493)	(452)
Basis differences relating to business acquisitions	(223)	(223)
Leveraged lease	(3,726)	(4,223)
Property, plant and equipment	(1,197)	(1,060)
Pensions	(1,078)	(656)
Other, net	<u>(301)</u>	<u>(175)</u>
Net deferred tax liability	(10,050)	(8,284)
Less: Current portion – asset	<u>311</u>	<u>1,802</u>
Noncurrent portion	<u>\$ (10,361)</u>	<u>\$ (10,086)</u>

The income tax provision from continuing operations reflected in the Consolidated Statements of Income is as follows:

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Current:		
Federal	\$ 7,329	\$ 7,042
State	1,310	929
Deferred	<u>721</u>	<u>345</u>
	<u>\$ 9,360</u>	<u>\$ 8,316</u>

A reconciliation of the tax provision from continuing operations computed at statutory rates to the amounts shown in the Consolidated Statements of Income is as follows:

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Computed federal income tax provision at statutory rates	\$ 9,097	\$ 9,023
State tax, net of federal tax effect	861	608
Other, net	<u>(598)</u>	<u>(1,315)</u>
	<u>\$ 9,360</u>	<u>\$ 8,316</u>

As of December 31, 2012 and 2011, the Company had a total of \$2,201 and \$2,571 of gross unrecognized tax benefits, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<b>2012</b>	<b>2011</b>
Balance, beginning of year	\$ 2,571	\$ 3,386
Additions based on tax positions related to the current year	381	381
Lapse of statute of limitations	<u>(751)</u>	<u>(1,196)</u>
Balance, end of year	<u>\$ 2,201</u>	<u>\$ 2,571</u>

Substantially the entire amount, if recognized, would favorably effect the Company's effective tax rate in future periods. As of December 31, 2012, the Company does not anticipate that total unrecognized tax benefits will significantly change during the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax positions as a component of income tax expense. As of December 31, 2012 and 2011, the Company had approximately \$1,078 and \$1,285 of accrued interest and penalties related to uncertain tax positions, respectively. The net benefit recorded to the Company's tax provision for the years ended December 31, 2012 and 2011 was \$207 and \$296, respectively, as a result of a reduction in such interest and penalties.

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
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The Company is subject to U.S. federal income tax, as well as income tax in multiple states. The Company is under audit by the State of New York for the 2009 through 2011 tax years. For all major taxing jurisdictions, the tax years 2009 through 2011 remain open to examination.

**15. OTHER INCOME AND EXPENSE, NET**

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

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Satisfaction of mortgage obligation at a discount	\$ 2,518	\$ —
Net (loss) gain on the sale of available-for-sale securities	(9)	9,049
Equity losses from other investments	—	(169)
Other, net	<u>(55)</u>	<u>2</u>
	<u>\$ 2,454</u>	<u>\$ 8,882</u>

**16. 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 2009 ceasing the accrual of further benefits.

Changes in benefit obligation, plan assets and funded status of the plan are as follows:

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 9,333	\$ 9,264
Service cost	49	63
Interest cost	711	715
Actuarial loss (gain)	139	(70)
Benefits paid	<u>(892)</u>	<u>(639)</u>
Benefit obligation, end of year	<u>9,340</u>	<u>9,333</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	11,207	11,530
Actual return on plan assets	2,104	(596)
Contributions	—	912
Benefits paid	<u>(892)</u>	<u>(639)</u>
Fair value of plan assets, end of year	<u>12,419</u>	<u>11,207</u>
Funded status	<u>\$ 3,079</u>	<u>\$ 1,874</u>

The funded status at December 31, 2012 and 2011 is included in other assets in the Consolidated Balance Sheets. At December 31, 2012 and 2011, the accumulated benefit obligation was \$9,340 and \$9,333, respectively.

Amounts recognized in accumulated other comprehensive income (loss), before income taxes, consist of the following:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Unrecognized net actuarial loss	\$ (321)	\$ (182)
Unrecognized net gain (loss)	<u>530</u>	<u>(712)</u>
	<u>\$ 209</u>	<u>\$ (894)</u>

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Net periodic pension income consists of the following:

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Service cost	\$ (49)	\$ (63)
Interest cost	(711)	(715)
Expected return on plan assets	<u>861</u>	<u>896</u>
Net periodic pension income	<u>\$ 101</u>	<u>\$ 118</u>

In determining the projected benefit obligation and net periodic pension income, the weighted-average assumed discount rate and expected long-term rate of return on plan assets was 8% in all periods presented. As the plan was frozen in 2009, the rate of expected increases in future compensation is no longer applicable. A 100 basis point change in the expected long-term rate of return on plan assets would have changed fiscal 2012 pension income by \$108.

The expected long-term rate of return on plan assets is determined by considering historical rates of return, current return trends, the mix of investments that comprise plan assets, and forecasts of future long-term investment returns.

The allocation of plan assets by category is as follows:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
Equity securities	55.7%	52.3%
Debt securities	39.2	41.1
Notes receivable	4.0	4.4
Cash and other investments	<u>1.1</u>	<u>2.2</u>
	<u>100.0%</u>	<u>100.0%</u>

The Company's pension plan assets are managed by the plan's trustees. The Company's investment strategy with respect to pension assets is to maximize return while protecting principal. The plan's trustees have the flexibility to adjust the asset allocations and move funds to the asset class that offers the most opportunity for investment returns. The following table presents the fair value of plan assets by classification within the fair value hierarchy (as defined in Note 10) as of December 31, 2012 and 2011:

	<b>Fair Value Measurements</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>
<i>December 31, 2012:</i>				
Equity securities	\$ 6,917	\$ 6,917	\$ —	\$ —
Debt securities	4,870	4,870	—	—
Notes receivable	491	—	—	491
Cash and other investments	<u>141</u>	<u>141</u>	<u>—</u>	<u>—</u>
	<u>\$ 12,419</u>	<u>\$ 11,928</u>	<u>\$ —</u>	<u>\$ 491</u>
<i>December 31, 2011:</i>				
Equity securities	\$ 5,857	\$ 5,857	\$ —	\$ —
Debt securities	4,601	4,601	—	—
Notes receivable	499	—	—	499
Cash and other investments	<u>250</u>	<u>250</u>	<u>—</u>	<u>—</u>
	<u>\$ 11,207</u>	<u>\$ 10,708</u>	<u>\$ —</u>	<u>\$ 499</u>

During 2011, the Company's pension plan purchased a participation in a note secured by a hotel located in New York (see Note 13) which is accounted for under the cost method of accounting which approximates fair market value and is classified as a Level 3 investment.

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
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At December 31, 2010, the pension plan held a 2.5% interest in the Participation (see Note 13) which was accounted for under the cost method of accounting which approximates fair market value and is classified as a Level 3 investment. The note was repaid in July 2011.

The Company made no contributions to the pension plan during 2012, but made a contribution of \$390 during the first quarter of 2013.

Benefit payments are expected to be paid from the plan for the periods indicated as follows:

<i>Years ending December 31,</i>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018- 2022</b>
Expected benefit payments	<u>\$ 984</u>	<u>\$ 988</u>	<u>\$ 952</u>	<u>\$ 899</u>	<u>\$ 870</u>	<u>\$ 4,282</u>

**17. 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 which are located throughout the United States. The hotel operations segment owns and operates six full service 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.

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

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Net revenues and sales:</b>		
Real estate investment and management	\$ 22,358	\$ 22,304
Hotel operations	57,611	32,678
Engineered products	<u>35,814</u>	<u>35,163</u>
	<u>\$ 115,783</u>	<u>\$ 90,145</u>
<b>Operating income:</b>		
Real estate investment and management	\$ 13,416	\$ 12,468
Hotel operations	10,532	3,894
Engineered products	3,646	1,962
General corporate expenses	<u>(4,918)</u>	<u>(5,117)</u>
	22,676	13,207
<b>Other income, net</b>	<u>3,315</u>	<u>12,573</u>
<b>Income from continuing operations before income taxes</b>	<u>\$ 25,991</u>	<u>\$ 25,780</u>
<b>Depreciation and amortization expense:</b>		
Real estate investment and management	\$ 2,623	\$ 2,747
Hotel operations	5,451	3,381
Engineered products	297	273
General corporate expenses	<u>97</u>	<u>119</u>
	<u>\$ 8,468</u>	<u>\$ 6,520</u>
<b>Mortgage interest expense:</b>		
Real estate investment and management	\$ 636	\$ 662
Hotel operations	<u>1,590</u>	<u>1,617</u>
	<u>\$ 2,226</u>	<u>\$ 2,279</u>

Substantially all assets held by the Company's engineered products segment are located within the United States or its leased warehouse in Tijuana, Mexico.

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Selected information on the Company's business segments is as follows:

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Identifiable assets:</b>		
Real estate investment and management and corporate assets	\$87,949	\$ 150,376
Hotel operations	115,042	65,560
Engineered products	<u>13,769</u>	<u>14,370</u>
	<u>\$ 216,760</u>	<u>\$ 230,306</u>
<b>Additions to long-lived assets:</b>		
Real estate investment and management and corporate assets	\$ 2,853	\$ 1,102
Hotel operations	10,610	5,522
Engineered products	<u>288</u>	<u>344</u>
	<u>\$ 13,751</u>	<u>\$ 6,968</u>

Long-lived asset additions of the hotel operations segment are net of \$40,829 related to the acquisition of the Long Branch Hotel in 2012 and \$3,816 related to the acquisition of the Nashua Hotel in 2011 (see Note 2).

**18. LEASE OBLIGATIONS**

At December 31, 2012, the Company had obligations under various noncancelable operating leases which expire on various dates through 2040. These leases include certain facilities and/or equipment of the hotel operations and engineered products segments, as well as land leases of the real estate investment and management segment. Certain leases contain renewal options and/or increased rental amounts. The future minimum rental commitments under operating leases are as follows:

<i>Years ending December 31,</i>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>There- after</b>	<b>Total</b>
Minimum rental commitments	<u>\$ 885</u>	<u>\$ 742</u>	<u>\$ 651</u>	<u>\$ 526</u>	<u>\$ 520</u>	<u>\$ 7,327</u>	<u>\$ 10,651</u>

Rental expense under operating leases was \$898 and \$1,143 for 2012 and 2011, respectively.

**19. COMMITMENTS AND CONTINGENCIES**

The Company has undertaken the completion of environmental studies and/or remedial action at its two New Jersey manufacturing 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") while environmental studies at the second facility indicate that remediation may be necessary. The foregoing estimates may 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. At December 31, 2012 and 2011, the Company had \$812 and \$811, respectively, of restricted cash related to such issues included in other assets in the Consolidated Balance Sheets.

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 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 or financial position in any given period.