



UNITED CAPITAL CORP.

United Capital Building
9 Park Place
Great Neck, NY 11021

ANNUAL REPORT

For the Year Ended December 31, 2013

1) Name of the issuer and its predecessors (if any)

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

2) Address of the issuer’s principal executive officesCompany Headquarters

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

IR Contact

Not Applicable

3) Security Information

Trading Symbol:	UCAP
Exact title and class of securities outstanding:	Common Stock
CUSIP:	909912 1 07
Par or Stated Value:	\$.10 per share
Total shares authorized:	6,000,000 as of December 31, 2013
Total shares outstanding:	5,854,089 as of December 31, 2013

Transfer Agent

Continental Stock Transfer & Trust Company
 17 Battery Place – 8th 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.

List any restrictions on the transfer of security: Mr. Petrocelli is the holder of approximately 5,470,000 shares of the Company’s common stock. The transfer of such shares may only be made via an effective resale registration statement under the Securities Act of 1933, as amended, or an exemption from the registration requirements.

Describe any trading suspension orders issued by the SEC in the past 12 months: The Company has never been involved in any trading suspensions by the SEC.

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months: None

4) Issuance History

The Company has not issued any shares of the Company’s common stock in exchange for services or in connection with the offerings of equity securities during the past two fiscal years.

As described in previous filings, the Company has repurchased shares of its common stock during the past two fiscal years.

5) Financial Statements

The following financial statements of the Company are included in this Annual Report at the pages noted below:

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6) Describe the Issuer's Business, Products and Services

United Capital was incorporated in 1980 in the State of Delaware and its fiscal year end date is December 31st.

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).

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 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.

7) Describe the Issuer's Facilities

Real Property Held for Rental or Sale

As of December 31, 2013, the Company owned 149 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 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 properties leased to Kmart Corporation ("Kmart") and Macy's. In addition, one of the Company's shopping centers and retail outlets is held through a long-term ground lease.

Commercial Properties

Commercial properties consist of properties leased as restaurants, Midas Muffler Shops, convenience stores, 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. In addition, three of the Company's commercial properties are held through long-term ground leases.

Child Care Centers

Child care centers comprise both schools and child care centers located in New York City, certain 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.

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.

8) Officers, Directors, and Control Persons**A. Names of Officers, Directors, and Control Persons.**

The following sets forth the names of each of the executive officers and directors of the Company as of December 31, 2013:

A.F. Petrocelli *	Chairman of the Board, President and Chief Executive Officer
Michael T. Lamoretti	Vice President – Real Estate Operations, Assistant Secretary and Director
Anthony J. Miceli	Vice President, Chief Financial Officer, Secretary and Director
Michael J. Weinbaum	Vice President – Real Estate Operations, Assistant Secretary and Director
Howard M. Lorber	Director
Robert M. Mann	Director
Arnold S. Penner	Director

* Control person

B. Legal/Disciplinary History.

Not Applicable

C. Beneficial Shareholders.

The following table sets forth information as of December 31, 2013 as to all persons known by the Company to be beneficial owners of 5% or more of its outstanding common stock.

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

9) Third Party ProvidersLegal Counsel

Olshan Frome & Wolosky LLP
65 East 55th Street
New York, New York 10022
(212) 451-2300

Accountant or Auditor

Baker Tilly Virchow Krause, LLP
125 Baylis Road
Melville, New York 11747
(631) 752-7400

Investor Relations Consultants

Not Applicable

Other Advisor

Not Applicable

10) Issuer Certification

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 20, 2014

/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 20, 2014

/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, 2013 and 2012, 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, 2013 and 2012, 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/ Baker Tilly Virchow Krause, LLP
BAKER TILLY VIRCHOW KRAUSE, LLP

Melville, New York
March 20, 2014

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

<i>As of December 31,</i>	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 78,526	\$ 10,267
Marketable securities	7,112	6,097
Notes and accounts receivable, net	11,665	11,201
Inventories	6,108	5,878
Prepaid expenses and other current assets	4,006	2,775
Deferred income taxes	<u>158</u>	<u>311</u>
Total current assets	<u>107,575</u>	<u>36,529</u>
Property, plant and equipment, net	14,968	14,287
Real property held for rental, net	148,754	146,598
Other investments	6,389	7,165
Notes receivable, net of current portion	3,801	4,616
Other assets	10,397	7,474
Noncurrent assets of discontinued operations	<u>—</u>	<u>91</u>
Total assets	<u>\$ 291,884</u>	<u>\$ 216,760</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 3,897	\$ 1,793
Borrowings under credit facilities	—	20,000
Accounts payable and accrued liabilities	13,702	12,802
Income taxes payable	<u>4,682</u>	<u>4,951</u>
Total current liabilities	<u>22,281</u>	<u>39,546</u>
Long-term debt	104,711	27,554
Other long-term liabilities	12,095	11,112
Deferred income taxes	<u>11,028</u>	<u>10,361</u>
Total liabilities	<u>150,115</u>	<u>88,573</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.10 par value, authorized 6,000 and 7,500 shares; issued and outstanding 5,854 and 5,862 shares, respectively	585	586
Retained earnings	139,195	126,966
Accumulated other comprehensive income, net of tax	<u>1,989</u>	<u>635</u>
Total stockholders' equity	<u>141,769</u>	<u>128,187</u>
Total liabilities and stockholders' equity	<u>\$ 291,884</u>	<u>\$ 216,760</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>	2013	2012
Revenues:		
Revenues from real estate operations	\$ 82,550	\$ 79,969
Net sales	<u>36,558</u>	<u>35,814</u>
Total revenues	<u>119,108</u>	<u>115,783</u>
Costs and expenses:		
Cost of sales	26,167	25,558
Real estate operations:		
Mortgage interest expense	4,354	2,226
Depreciation expense	9,147	8,074
Other operating expenses	49,258	45,721
General and administrative expenses	7,345	7,817
Selling expenses	<u>3,750</u>	<u>3,711</u>
Total costs and expenses	<u>100,021</u>	<u>93,107</u>
Operating income	<u>19,087</u>	<u>22,676</u>
Other income (expense):		
Interest and dividend income	1,001	1,089
Interest expense	(401)	(228)
Other income and (expense), net	<u>149</u>	<u>2,454</u>
Total other income	<u>749</u>	<u>3,315</u>
Income from continuing operations before income taxes	19,836	25,991
Provision for income taxes	<u>7,518</u>	<u>9,360</u>
Income from continuing operations	<u>12,318</u>	<u>16,631</u>
Discontinued operations:		
Net gain on disposal of discontinued operations, net of tax provision of \$91 and \$22, respectively	<u>137</u>	<u>33</u>
Income from discontinued operations	<u>137</u>	<u>33</u>
Net income	<u>\$ 12,455</u>	<u>\$ 16,664</u>
Basic and diluted earnings per share:		
Income from continuing operations	\$ 2.11	\$ 2.36
Income from discontinued operations	<u>.02</u>	<u>.01</u>
Net income per share	<u>\$ 2.13</u>	<u>\$ 2.37</u>
Weighted-average shares outstanding:		
Basic and diluted	<u>5,856</u>	<u>7,041</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>	2013	2012
Net income	\$ 12,455	\$ 16,664
Other comprehensive income, net of tax:		
Changes in net unrealized gains on available-for-sale securities, net of tax effect of \$419 and \$718, respectively	780	1,334
Reclassification adjustment for net (gains) losses realized in net income, net of tax effect of \$10 and (\$3), respectively	(19)	6
Pension plan adjustments, net of tax effect of \$320 and \$386, respectively	<u>593</u>	<u>717</u>
Comprehensive income	<u>\$ 13,809</u>	<u>\$ 18,721</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)

	Common Stock Issued		Retained	Accumulated	Total
	Shares	Amount	Earnings	Other	Stockholders'
				Comprehensive	Equity
				Income (Loss),	
				Net of Tax	
Balance – January 1, 2012	7,427	\$ 743	\$ 157,095	\$ (1,422)	\$ 156,416
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
Balance – December 31, 2012	<u>5,862</u>	<u>586</u>	<u>126,966</u>	<u>635</u>	<u>128,187</u>
Purchase and retirement of common shares	(8)	(1)	(226)	—	(227)
Net income	—	—	12,455	—	12,455
Other comprehensive income, net of tax	—	—	—	1,354	1,354
Balance – December 31, 2013	<u>5,854</u>	<u>\$ 585</u>	<u>\$ 139,195</u>	<u>\$ 1,989</u>	<u>\$ 141,769</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>	2013	2012
Cash flows from operating activities:		
Net income	\$ 12,455	\$ 16,664
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,564	8,468
Satisfaction of mortgage obligation at a discount	—	(2,518)
Net (gain) loss on sale of available-for-sale securities	(29)	9
Gain on disposal of discontinued operations, net of tax	(137)	(33)
Deferred income taxes	91	659
Other, net	(171)	(101)
Changes in assets and liabilities:		
Notes and accounts receivable, net	(451)	(44)
Inventories	(230)	388
Prepaid expenses and other current assets	(1,231)	(282)
Other assets	(1,860)	(479)
Accounts payable and accrued liabilities	1,894	(2,478)
Income taxes payable	(360)	4,469
Other long-term liabilities	<u>(11)</u>	<u>(558)</u>
Net cash provided by operating activities	<u>19,524</u>	<u>24,164</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(4,351)	(3,646)
Acquisition of/additions to real estate assets	(8,029)	(10,105)
Proceeds from sale of available-for-sale securities	184	6,108
Proceeds from sale of real estate assets	319	79
Origination of notes receivable	(111)	(150)
Principal payments on notes receivables	913	507
Business acquisition, net of cash acquired	—	347
Distributions from other investments	<u>776</u>	<u>777</u>
Net cash used in investing activities	<u>(10,299)</u>	<u>(6,083)</u>
Cash flows from financing activities:		
Proceeds from mortgage obligations	83,000	—
(Repayment of) proceeds from credit facility	(20,000)	20,000
Principal payments on mortgage obligations	(3,739)	(4,789)
Purchase and retirement of common stock	<u>(227)</u>	<u>(46,950)</u>
Net cash provided by (used in) financing activities	<u>59,034</u>	<u>(31,739)</u>
Net increase (decrease) in cash and cash equivalents	68,259	(13,658)
Cash and cash equivalents, beginning of year	<u>10,267</u>	<u>23,925</u>
Cash and cash equivalents, end of year	<u>\$ 78,526</u>	<u>\$ 10,267</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 4,177</u>	<u>\$ 2,225</u>
Taxes	<u>\$ 7,882</u>	<u>\$ 4,746</u>
Non-cash investing activities:		
Reclassification resulting from business acquisition (See Note 2)	<u>\$ —</u>	<u>\$ 37,775</u>

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, 2013 AND 2012
(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.

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

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 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 \$5,139 and \$131 at December 31, 2013 and 2012, 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, 2013 and 2012, 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>	2013	2012
Manufacturing receivables	\$ 6,255	\$ 6,146
Rental receivables	1,808	1,528
Hotel receivables	1,810	2,055
Other receivables	578	271
Current portion of notes receivable	<u>1,669</u>	<u>1,656</u>
Total	12,120	11,656
Less: Allowance for doubtful accounts	<u>455</u>	<u>455</u>
	<u>\$ 11,665</u>	<u>\$ 11,201</u>

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

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 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, 2013 or 2012.

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>	2013	2012
Raw materials	\$ 2,526	\$ 2,484
Work in process	620	596
Finished goods	<u>2,962</u>	<u>2,798</u>
	<u>\$ 6,108</u>	<u>\$ 5,878</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
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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.

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

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 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 \$24 and \$23 of such costs were incurred by the Company in 2013 and 2012, 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, 2013 and 2012, shipping and handling costs included in selling expenses were \$246 and \$274, 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. The Company had no outstanding stock options or other dilutive instruments during 2013 or 2012. As such, basic and diluted earnings per share are the same for the years ended December 31, 2013 and 2012.

Reclassifications

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

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.

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

Evaluation of subsequent events

The Company has evaluated subsequent events through March 20, 2014, the date the financial statements were available for issuance, and determined that there were no subsequent events that required adjustments or disclosures to the consolidated financial statements.

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, 2013. The Company adopted the updated standard in the first quarter of 2013. The adoption of this updated accounting standard did 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, a subsidiary of the Company purchased a non-performing mortgage note which had been in default since January 2008. This note was secured by a 254-room hotel located in Long Branch, New Jersey (the "Long Branch Hotel"). In February 2012, the subsidiary 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>

Included in the Consolidated Statement of Income for the year ended December 31, 2012 are revenues of \$18,818 and operating income of \$5,636 from the operations of the Long Branch Hotel from the date of the acquisition.

The following represents the unaudited condensed pro forma financial results of the Company as if the acquisition of the Long Branch Hotel had occurred as of the beginning of the 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>	2012
Total revenues	<u>\$ 117,066</u>
Net income	<u>\$ 16,251</u>

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

3. REAL ESTATE

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

<i>December 31,</i>	2013	2012
Land	\$ 20,792	\$ 20,792
Buildings	170,366	170,366
Building renovations and improvements	39,967	31,956
Equipment and fixtures	<u>4,388</u>	<u>4,369</u>
	235,513	227,483
Less: Accumulated depreciation	<u>86,759</u>	<u>80,885</u>
	<u>\$ 148,754</u>	<u>\$ 146,598</u>

The Company is the lessor of real estate under operating leases which expire in various years through 2078. As of December 31, 2013, 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>	2014	2015	2016	2017	2018	There- after	Total
Minimum future rentals	<u>\$ 20,884</u>	<u>\$ 17,415</u>	<u>\$ 13,029</u>	<u>\$ 10,438</u>	<u>\$ 8,943</u>	<u>\$ 52,363</u>	<u>\$ 123,072</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 2013 and 2012 were approximately \$278 and \$340, respectively.

Property Acquisitions

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

Property Sales

During 2013, the Company divested itself of two of its properties which had a net book value of \$91 from its real estate investment and management segment. The aggregate proceeds from these transactions were \$319, resulting in a gain of \$137, on a net of tax basis.

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.

Properties Held for Sale

As of December 31, 2013, 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:

<i>December 31,</i>	2013	2012
Land	\$ 28	\$ 28
Buildings and improvements	1,748	1,748
Furniture, fixtures and equipment	<u>41,369</u>	<u>37,018</u>
	43,145	38,794
Less: Accumulated depreciation	<u>28,177</u>	<u>24,507</u>
	<u>\$ 14,968</u>	<u>\$ 14,287</u>

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

5. MARKETABLE SECURITIES

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
<i>December 31, 2013:</i>				
Equity securities	<u>\$ 5,175</u>	<u>\$ 2,557</u>	<u>\$ (620)</u>	<u>\$ 7,112</u>
<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>

The following table shows the fair value and unrealized losses, aggregated by investment type, of the Company's available-for-sale securities, all of which have been in a continuous loss position of twelve months or more at the reported date.

	Fair Value	Unrealized Losses
<i>December 31, 2013:</i>		
Equity Securities	<u>\$ 1,880</u>	<u>\$ (620)</u>
<i>December 31, 2012:</i>		
Equity securities	<u>\$ 4,230</u>	<u>\$ (794)</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, 2013 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>	2013	2012
Proceeds	<u>\$ 184</u>	<u>\$ 6,108</u>
Gains recognized in earnings	<u>\$ 31</u>	<u>\$ 862</u>
Losses recognized in earnings	<u>\$ (2)</u>	<u>\$ (871)</u>

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, 2013 and 2012, 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 12).

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

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

<i>December 31,</i>	2013	2012
Rents receivable	\$ 33,238	\$ 37,266
Residual values	10,000	10,000
Nonrecourse debt service	(25,832)	(29,084)
Unearned income	<u>(15,848)</u>	<u>(15,848)</u>
	1,558	2,334
Less: Deferred taxes arising from leveraged leases	<u>3,196</u>	<u>3,726</u>
	<u>\$ (1,638)</u>	<u>\$ (1,392)</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 \$776, which includes amounts held in escrow, and \$777 in cash distributions from this investment during the years ended December 31, 2013 and 2012, respectively, it did not recognize any income in such years.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

<i>December 31,</i>	2013	2012
Accounts payable	\$ 4,844	\$ 4,791
Accrued wages and benefits	2,596	1,565
Tenant security deposits	1,635	1,415
Other accrued expenses	<u>4,627</u>	<u>5,031</u>
	<u>\$ 13,702</u>	<u>\$ 12,802</u>

8. LONG-TERM DEBT

Long-term debt consists of the following:

<i>December 31,</i>	2013	2012
Mortgages on real property	\$ 108,608	\$ 29,347
Less: Current maturities	<u>3,897</u>	<u>1,793</u>
	<u>\$ 104,711</u>	<u>\$ 27,554</u>

Mortgages bear interest at rates ranging from 3.0% to 7.5% per annum and are collateralized by the related real property which had a net carrying value at December 31, 2013 of \$103,796, exclusive of hotel furniture, fixtures and equipment. Such amounts are scheduled to mature at various dates from October 2015 through November 2023. Certain mortgages require escrow deposits for taxes, insurance and replacement reserves.

In 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% (3.0375% at December 31, 2013), is payable monthly based on a 25-year amortization, and matures in February 2018.

In 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.

In 2013, a subsidiary of the Company obtained a \$7,500 mortgage on a property located in Long Island City, New York which bears interest currently at 4.125%, is payable monthly based on a 25-year amortization, and matures in November 2023.

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

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, 2013 are as follows:

<i>Years ending December 31,</i>	2014	2015	2016	2017	2018	There- After	Total
Aggregate maturities	<u>\$ 3,897</u>	<u>\$ 10,153</u>	<u>\$ 11,766</u>	<u>\$ 3,039</u>	<u>\$ 30,213</u>	<u>\$ 49,540</u>	<u>\$108,608</u>

9. CREDIT FACILITY

In 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, 2013, the Company was in compliance with all such covenants. 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%. As of December 31, 2012, \$20,000 was outstanding under the Revolver. This amount was repaid in January 2013, and as of December 31, 2013, there were no outstanding obligations under the Revolver.

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:

	Fair Value Measurements at Reporting Date Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>December 31, 2013:</i>				
Equity Securities	<u>\$ 7,112</u>	<u>\$ 5,232</u>	<u>\$ 1,880</u>	<u>\$ —</u>
<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>

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

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, 2013 and 2012 are as follows:

<i>December 31,</i>	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes receivable	<u>\$ 5,470</u>	<u>\$ 5,655</u>	<u>\$ 6,272</u>	<u>\$ 6,424</u>
Long-term debt, including current portion	<u>\$ 108,608</u>	<u>\$ 108,752</u>	<u>\$ 29,347</u>	<u>\$ 28,825</u>
Borrowings under credit facilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 20,000</u>	<u>\$ 20,000</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 2013 and 2012, the Company purchased and retired 8 and 1,565 shares of common stock for an aggregate purchase price of \$227 and \$46,950, respectively.

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component, on a net of tax basis, are as follows:

	Unrealized Gains (Losses) on		Total
	Pension Plan Adjustments	Available-for-Sale Securities	
Balance – January 1, 2012	\$ (581)	\$ (841)	\$ (1,422)
Other comprehensive income before reclassifications	717	1,334	2,051
Amounts reclassified from accumulated other comprehensive income	<u>—</u>	<u>6</u>	<u>6</u>
Net current period other comprehensive income	<u>717</u>	<u>1,340</u>	<u>2,057</u>
Balance – December 31, 2012	<u>136</u>	<u>499</u>	<u>635</u>
Other comprehensive income before reclassifications	593	780	1,373
Amounts reclassified from accumulated other comprehensive income	<u>—</u>	<u>(19)</u>	<u>(19)</u>
Net current period other comprehensive income	<u>593</u>	<u>761</u>	<u>1,354</u>
Balance – December 31, 2013	<u>\$ 729</u>	<u>\$ 1,260</u>	<u>\$ 1,989</u>

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

The effects on net income of amounts reclassified from accumulated other comprehensive income for the year ended December 31, 2013 are as follows:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains on available-for-sale securities	\$ 29	Other income and (expense), net
	<u>(10)</u>	Provision for income taxes
	<u>\$ 19</u>	Net of tax

12. 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 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. Madaline Berley (the wife of Mr. Penner), who together have approximately an 8% interest in this transaction (see Note 6).

The Company has an \$8,000 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.

13. 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.

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

<i>December 31,</i>	2013	2012
Realization allowances related to accounts receivable and inventories	\$ 313	\$ 306
Net unrealized gain on available-for-sale securities	(662)	(232)
Basis differences relating to real property	(6,882)	(6,558)
Accrued expenses, deductible when paid	3,718	3,452
Deferred profit	(631)	(493)
Basis differences relating to business acquisitions	(223)	(223)
Leveraged lease	(3,196)	(3,726)
Property, plant and equipment	(1,391)	(1,197)
Pensions	(1,594)	(1,078)
Other, net	<u>(322)</u>	<u>(301)</u>
Net deferred tax liability	(10,870)	(10,050)
Less: Current portion – asset	<u>158</u>	<u>311</u>
Noncurrent portion	<u>\$ (11,028)</u>	<u>\$ (10,361)</u>

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

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

<i>For the years ended December 31,</i>	2013	2012
Current:		
Federal	\$ 6,237	\$ 7,329
State	1,153	1,310
Deferred	<u>128</u>	<u>721</u>
	<u>\$ 7,518</u>	<u>\$ 9,360</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>	2013	2012
Computed federal income tax provision at statutory rates	\$ 6,943	\$ 9,097
State tax, net of federal tax effect	745	861
Other, net	<u>(170)</u>	<u>(598)</u>
	<u>\$ 7,518</u>	<u>\$ 9,360</u>

The Company has evaluated its tax positions and concluded that, as of December 31, 2013, there are no uncertain tax positions that require adjustment to the Consolidated Financial Statements pursuant to the authoritative guidance related to income taxes. As of December 31, 2013 and 2012, the Company had a total of \$2,229 and \$2,201 of gross unrecognized tax benefits, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2013	2012
Balance, beginning of year	\$ 2,201	\$ 2,571
Additions based on tax positions related to the current year	391	381
Lapse of statute of limitations	<u>(363)</u>	<u>(751)</u>
Balance, end of year	<u>\$ 2,229</u>	<u>\$ 2,201</u>

Substantially the entire amount, if recognized, would favorably affect the Company's effective tax rate in future periods. As of December 31, 2013, 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, 2013 and 2012, the Company had approximately \$1,087 and \$1,078 of accrued interest and penalties related to uncertain tax positions, respectively. During the year ended December 31, 2013, the Company recognized \$9 of interest and penalties within income tax expense, while during the year ended December 31, 2012, the Company recorded a net benefit of \$207 as a result of a reduction in such interest and penalties.

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 2010 through 2012 remain open to examination.

14. 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>	2013	2012
Satisfaction of mortgage obligation at a discount	\$ —	\$ 2,518
Net gain (loss) on the sale of available-for-sale securities	29	(9)
Other, net	<u>120</u>	<u>(55)</u>
	<u>\$ 149</u>	<u>\$ 2,454</u>

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

15. 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>	2013	2012
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 9,340	\$ 9,333
Service cost	75	49
Interest cost	709	711
Actuarial loss	249	139
Benefits paid	<u>(945)</u>	<u>(892)</u>
Benefit obligation, end of year	<u>9,428</u>	<u>9,340</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	12,419	11,207
Actual return on plan assets	2,118	2,104
Contributions	390	—
Benefits paid	<u>(945)</u>	<u>(892)</u>
Fair value of plan assets, end of year	<u>13,982</u>	<u>12,419</u>
Funded status	<u>\$ 4,554</u>	<u>\$ 3,079</u>

The funded status at December 31, 2013 and 2012 is included in other assets in the Consolidated Balance Sheets. At December 31, 2013 and 2012, the accumulated benefit obligation was \$9,428 and \$9,340, respectively.

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

<i>December 31,</i>	2013	2012
Unrecognized net actuarial loss	\$ (570)	\$ (321)
Unrecognized net gain	<u>1,692</u>	<u>530</u>
	<u>\$ 1,122</u>	<u>\$ 209</u>

Net periodic pension income consists of the following:

<i>For the years ended December 31,</i>	2013	2012
Service cost	\$ (75)	\$ (49)
Interest cost	(709)	(711)
Expected return on plan assets	<u>955</u>	<u>861</u>
Net periodic pension income	<u>\$ 171</u>	<u>\$ 101</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 2013 pension income by \$119.

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.

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

The allocation of plan assets by category is as follows:

<i>December 31,</i>	2013	2012
Equity securities	61.9%	55.7%
Debt securities	33.6	39.2
Notes receivable	3.5	4.0
Cash and other investments	<u>1.0</u>	<u>1.1</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, 2013 and 2012:

	Fair Value Measurements at Reporting Date Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>December 31, 2013:</i>				
Equity securities	\$ 8,660	\$ 8,660	\$ —	\$ —
Debt securities	4,696	4,696	—	—
Notes receivable	482	—	—	482
Cash and other investments	<u>144</u>	<u>144</u>	<u>—</u>	<u>—</u>
	<u>\$ 13,982</u>	<u>\$ 13,500</u>	<u>\$ —</u>	<u>\$ 482</u>
<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>

The Company's pension plan has a participation in a note secured by a hotel located in New York (see Note 12) which is accounted for under the cost method of accounting which approximates fair market value and is classified as a Level 3 investment.

During 2013, the Company contributed \$390 to the pension plan and made an additional contribution of \$220 during the first quarter of 2014. The Company made no contributions to the pension plan during 2012.

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

<i>Years ending December 31,</i>	2014	2015	2016	2017	2018	2019- 2023
Expected benefit payments	<u>\$ 1,023</u>	<u>\$ 985</u>	<u>\$ 932</u>	<u>\$ 901</u>	<u>\$ 927</u>	<u>\$ 4,270</u>

16. 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.

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

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

<i>For the years ended December 31,</i>	2013	2012
Net revenues and sales:		
Real estate investment and management	\$ 22,538	\$ 22,358
Hotel operations	60,012	57,611
Engineered products	<u>36,558</u>	<u>35,814</u>
	<u>\$ 119,108</u>	<u>\$ 115,783</u>
Operating income:		
Real estate investment and management	\$ 13,093	\$ 13,416
Hotel operations	6,698	10,532
Engineered products	3,794	3,646
General corporate expenses	<u>(4,498)</u>	<u>(4,918)</u>
	19,087	22,676
Other income, net	<u>749</u>	<u>3,315</u>
Income from continuing operations before income taxes	<u>\$ 19,836</u>	<u>\$ 25,991</u>
Depreciation and amortization expense:		
Real estate investment and management	\$ 2,649	\$ 2,623
Hotel operations	6,498	5,451
Engineered products	308	297
General corporate expenses	<u>109</u>	<u>97</u>
	<u>\$ 9,564</u>	<u>\$ 8,468</u>
Mortgage interest expense:		
Real estate investment and management	\$ 644	\$ 636
Hotel operations	<u>3,710</u>	<u>1,590</u>
	<u>\$ 4,354</u>	<u>\$ 2,226</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.

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

<i>December 31,</i>	2013	2012
Identifiable assets:		
Real estate investment and management and corporate assets	\$ 157,625	\$ 87,949
Hotel operations	120,189	115,042
Engineered products	<u>14,070</u>	<u>13,769</u>
	<u>\$ 291,884</u>	<u>\$ 216,760</u>
Additions to long-lived assets:		
Real estate investment and management and corporate assets	\$ 530	\$ 2,853
Hotel operations	11,583	10,610
Engineered products	<u>267</u>	<u>288</u>
	<u>\$ 12,380</u>	<u>\$ 13,751</u>

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

17. LEASE OBLIGATIONS

At December 31, 2013, 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.

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

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>	2014	2015	2016	2017	2018	There- after	Total
Minimum rental commitments	<u>\$ 790</u>	<u>\$ 711</u>	<u>\$ 574</u>	<u>\$ 537</u>	<u>\$ 506</u>	<u>\$ 6,821</u>	<u>\$ 9,939</u>

Rental expense under operating leases was \$925 and \$898 for 2013 and 2012, respectively.

18. 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, 2013 and 2012, the Company had \$813 and \$812, 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 (see Management’s Discussion and Analysis – Legal Proceedings) 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In thousands, except per share data or as otherwise noted)

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 and the Consolidated Financial Statements and Notes thereto, included elsewhere in this report.

RESULTS OF OPERATIONS: 2013 AND 2012

Total revenues for the year ended December 31, 2013 increased \$3,325 to \$119,108, compared to \$115,783 for the year ended December 31, 2012. For 2013, net income was \$12,455 or \$2.13 per basic share, compared to \$16,664 or \$2.37 per basic share in 2012. The current year results include \$2,695 of mortgage interest expense from the financing of two of the Company's hotels during 2013. In addition, the prior year results include \$2,518 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:

	Year ended December 31, 2013			Year ended December 31, 2012		
	Real Estate	Hotel Operations	Total	Real Estate	Hotel Operations	Total
Revenues	\$ 22,538	\$ 60,012	\$ 82,550	\$ 22,358	\$ 57,611	\$ 79,969
Mortgage interest expense	644	3,710	4,354	636	1,590	2,226
Depreciation expense	2,649	6,498	9,147	2,623	5,451	8,074
Other operating expenses	6,152	43,106	49,258	5,683	40,038	45,721
Operating income	\$ 13,093	\$ 6,698	\$ 19,791	\$ 13,416	\$ 10,532	\$ 23,948

Real Estate Investment and Management

Revenues from the real estate investment and management segment for the year ended December 31, 2013 were \$22,538, an increase of less than 1% from \$22,358 reported for the year ended December 31, 2012. During the year, the Company received additional revenues from lease renewals at higher rents and from a property acquisition in the prior year, partially offset by certain vacancies, many of which are now occupied. Increases in certain operating costs have resulted in lower operating income during the current year.

Hotel Operations

Revenues from our hotel operations increased \$2,401 to \$60,012 for the year ended December 31, 2013, compared to \$57,611 for the year ended December 31, 2012, resulting primarily from additional convention business at our Miami property and increased food and beverage sales from a new restaurant concept at our Nashua property.

During the first quarter of 2013, subsidiaries of the Company financed two hotels for a total of \$75,500, thereby increasing mortgage interest expense in the current year period. In addition, depreciation expense also increased, as compared to 2012, primarily due to recent and on-going renovations at certain of the Company's hotel properties. Operating income for this segment was \$6,698 for the year ended December 31, 2013, compared to \$10,532 for the year ended December 31, 2012.

ENGINEERED PRODUCTS

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

<i>Years ended December 31,</i>	2013	2012
Net sales	\$ 36,558	\$ 35,814
Cost of sales	26,167	25,558
Selling, general and administrative expenses	<u>6,597</u>	<u>6,610</u>
Operating income	<u>\$ 3,794</u>	<u>\$ 3,646</u>

Net sales of the engineered products segment increased \$744 to \$36,558 for the year ended December 31, 2013, compared to \$35,814 in 2012, primarily resulting from increased demand for the Company's automotive and engineered product lines, partially offset by a decrease in the transformer product line. Operating income of the engineered products segment increased \$148 to \$3,794 for the current year, compared to \$3,646 for the prior year.

TOTAL OTHER INCOME

Total other income was \$749 for the year ended December 31, 2013, versus \$3,315 in 2012. The change in total other income (expense) primarily results from a \$2,518 non-recurring gain in 2012 resulting from the satisfaction of a mortgage obligation at a discount.

DISCONTINUED OPERATIONS

Gains on the disposal of real estate assets accounted for as discontinued operations were \$137 and \$33, on a net of tax basis, for the years ended December 31, 2013 and 2012, respectively. The Company did not consider any of its properties to be held for sale as of December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, the Company's cash and marketable securities were \$85,638 and working capital was \$85,294, compared to cash and marketable securities of \$16,364 and a working capital deficit of (\$3,017) at December 31, 2012.

In 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% (3.0375% at December 31, 2013), is payable monthly based on a 25-year amortization, and matures in February 2018.

In 2013, a subsidiary of the Company also 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.

In 2013, a subsidiary of the Company obtained a \$7,500 mortgage on a property located in Long Island City, New York which bears interest currently at 4.125%, is payable monthly based on a 25-year amortization, and matures in November 2023.

In 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, 2013, the Company was in compliance with all such covenants. 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%. As of December 31, 2012, \$20,000 was outstanding under the Revolver. This amount was repaid in January 2013, and as of December 31, 2013, there were no outstanding obligations under the Revolver.

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 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.

In addition to the Significant Accounting Policies in Notes to Consolidated Financial Statements, we believe the policies 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 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 2013 net periodic pension income by \$119.

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.

OFF-BALANCE SHEET ARRANGEMENTS

Except as already discussed above, the Company does not believe it has any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition.

LEGAL PROCEEDINGS

In May 2008, an insurance company for one of the Company's subsidiaries, purchased as part of a bankruptcy reorganization, filed suit in Supreme Court of the State of New York against such entity's other insurance companies seeking, among other things, contribution for insurance settlements from carriers, some of which claimed to be exhausted. The complaint also named 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 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. In January 2014, Metex filed a Plan of Reorganization and Disclosure Statement with the bankruptcy court substantially similar to the Plan, but included the unsecured creditors committee and future claimants representative as co-proponents. In February 2014, the court approved the mailing of these documents and the solicitation of votes to approve the plan. A confirmation hearing is scheduled for May 2014.

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 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 filed an appeal and the Company responded. A hearing by the appellate division was held in January 2014. In February 2014, the appellate division affirmed the lower court's decision dismissing the matter.

The Company is subject to various other litigation, legal and regulatory matters that arise in the ordinary course of business activities. When management believes it is probable that a liability has been incurred and such amounts are reasonably estimable, the Company provides for amounts that include judgments and penalties that may be assessed. These liabilities are usually included in accounts payable and accrued liabilities or other long-term liabilities in the 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.