



# UNITED CAPITAL CORP.

United Capital Building  
9 Park Place  
Great Neck, NY 11021

## **Quarterly Report**

For the Period Ended  
September 30, 2011  
(Unaudited)

The accompanying unaudited interim financial statements have been prepared by the Company's management.  
Independent auditors have not performed a review of these financial statements.

**Item 1. Exact name of the issuer and the address of its 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](http://www.unitedcapitalcorp.net)

**Item 2. Shares outstanding.**

Period end date .....	September 30, 2011
Number of shares authorized .....	17,500,000
Number of shares outstanding .....	7,427,457
Freely tradable shares (public float) .....	958,009
Total number of beneficial shareholders (approximately) .....	250
Total number of shareholders of record <sup>1</sup> .....	120

<sup>1</sup>As of July 31, 2011 and based on the definition of Securities “held of record” contained in Rule 12g5-1 of the Securities Exchange Act of 1934, as amended.

**Item 3. Interim financial statements.**

	<u>Page</u>
Condensed Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010	2
Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2011 and 2010 (Unaudited)	3
Condensed Consolidated Statements of Stockholders’ Equity and Comprehensive Income for the Nine Months Ended September 30, 2011 and 2010 (Unaudited)	4
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010 (Unaudited)	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6-11

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

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 25,157	\$ 82,397
Marketable securities	9,362	29,182
Notes and accounts receivable, net	10,857	8,724
Inventories	5,712	5,812
Prepaid income taxes	5,200	—
Prepaid expenses and other current assets	1,960	1,842
Deferred income taxes	<u>1,422</u>	<u>—</u>
<b>Total current assets</b>	<u>59,670</u>	<u>127,957</u>
Property, plant and equipment, net	9,006	10,202
Real property held for rental, net	101,735	100,608
Other investments	8,136	8,887
Notes receivable, net of current portion	44,159	42,362
Other assets	<u>6,830</u>	<u>6,112</u>
<b>Total assets</b>	<u>\$ 229,536</u>	<u>\$ 296,128</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 1,290	\$ 1,226
Accounts payable and accrued liabilities	11,766	13,238
Income taxes payable	4,520	4,345
Deferred income taxes	<u>—</u>	<u>2,848</u>
<b>Total current liabilities</b>	<u>17,576</u>	<u>21,657</u>
Long-term debt	35,678	36,660
Other long-term liabilities	11,694	12,967
Deferred income taxes	<u>10,147</u>	<u>9,855</u>
<b>Total liabilities</b>	<u>75,095</u>	<u>81,139</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.10 par value, authorized 17,500 shares; issued and outstanding 7,427 and 8,955 shares, respectively	743	896
Retained earnings	154,711	206,843
Accumulated other comprehensive (loss) income, net of tax	<u>(1,013)</u>	<u>7,250</u>
<b>Total stockholders' equity</b>	<u>154,441</u>	<u>214,989</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 229,536</u>	<u>\$ 296,128</u>

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

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands, except per share data)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>				
Revenues from real estate operations	\$ 13,433	\$ 11,689	\$ 40,468	\$ 36,411
Net sales	<u>9,010</u>	<u>8,484</u>	<u>26,954</u>	<u>23,721</u>
Total revenues	<u>22,443</u>	<u>20,173</u>	<u>67,422</u>	<u>60,132</u>
<b>Costs and expenses:</b>				
Cost of sales	6,827	6,352	20,540	17,749
Real estate operations:				
Mortgage interest expense	569	502	1,717	1,541
Depreciation expense	1,488	1,262	4,422	3,721
Other operating expenses	7,308	6,334	22,019	19,955
General and administrative expenses	1,969	1,947	5,492	5,630
Selling expenses	<u>903</u>	<u>820</u>	<u>2,671</u>	<u>2,399</u>
Total costs and expenses	<u>19,064</u>	<u>17,217</u>	<u>56,861</u>	<u>50,995</u>
Operating income	<u>3,379</u>	<u>2,956</u>	<u>10,561</u>	<u>9,137</u>
<b>Other income (expense):</b>				
Interest and dividend income	872	873	2,796	2,678
Other income and (expense), net	<u>104</u>	<u>(64)</u>	<u>8,887</u>	<u>1,308</u>
Total other income	<u>976</u>	<u>809</u>	<u>11,683</u>	<u>3,986</u>
Income from continuing operations before income taxes	4,355	3,765	22,244	13,123
Provision for income taxes	<u>1,714</u>	<u>774</u>	<u>7,162</u>	<u>3,549</u>
<b>Income from continuing operations</b>	<u>2,641</u>	<u>2,991</u>	<u>15,082</u>	<u>9,574</u>
<b>Discontinued operations:</b>				
Income from discontinued operations, net of tax provision of \$3 and \$52, respectively	—	6	—	79
Net gain on disposal of discontinued operations, net of tax provision of \$386	<u>—</u>	<u>578</u>	<u>—</u>	<u>578</u>
<b>Income from discontinued operations</b>	<u>—</u>	<u>584</u>	<u>—</u>	<u>657</u>
<b>Net income</b>	<u>\$ 2,641</u>	<u>\$ 3,575</u>	<u>\$ 15,082</u>	<u>\$ 10,231</u>
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ .33	\$ .33	\$ 1.74	\$ 1.06
Income from discontinued operations	<u>—</u>	<u>.07</u>	<u>—</u>	<u>.07</u>
<b>Net income per share</b>	<u>\$ .33</u>	<u>\$ .40</u>	<u>\$ 1.74</u>	<u>\$ 1.13</u>
<b>Diluted earnings per share:</b>				
Income from continuing operations	\$ .33	\$ .31	\$ 1.67	\$ .98
Income from discontinued operations	<u>—</u>	<u>.06</u>	<u>—</u>	<u>.07</u>
<b>Net income per share assuming dilution</b>	<u>\$ .33</u>	<u>\$ .37</u>	<u>\$ 1.67</u>	<u>\$ 1.05</u>

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

UNITED CAPITAL CORP. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 AND COMPREHENSIVE INCOME  
 (Unaudited)  
 (In thousands)

	<u>Common Stock Issued</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income, Net of Tax</u>	<u>Total Stockholders' Equity</u>	<u>Comprehensive Income</u>
	<u>Shares</u>	<u>Amount</u>				
<i>For the Nine Months Ended September 30, 2011</i>						
<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	—	—	9,916	—	9,916	
Net income	—	—	15,082	—	15,082	\$ 15,082
Other comprehensive income (loss), net of tax:						
Change in net unrealized loss on available for sale securities, net of tax effect of \$1,282	—	—	—	(2,381)	(2,381)	(2,381)
Reclassification adjustment for net gains realized in net income, net of tax effect of \$3,167	—	—	—	(5,882)	(5,882)	(5,882)
Comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,882)</u>	<u>(5,882)</u>	<u>\$ 6,819</u>
<b>Balance – September 30, 2011</b>	<u>7,427</u>	<u>\$ 743</u>	<u>\$ 154,711</u>	<u>\$ (1,013)</u>	<u>\$ 154,441</u>	
<i>For the Nine Months Ended September 30, 2010</i>						
<b>Balance – January 1, 2010</b>	9,081	\$ 908	\$ 207,029	\$ 2,046	\$ 209,983	
Purchase and retirement of common shares	(1,009)	(101)	(24,507)	—	(24,608)	
Proceeds from the exercise of stock options	918	92	7,295	—	7,387	
Tax benefit from employee stock options	—	—	5,106	—	5,106	
Net income	—	—	10,231	—	10,231	\$ 10,231
Other comprehensive income (loss), net of tax:						
Change in net unrealized gain on available for sale securities, net of tax effect of (\$2,284)	—	—	—	4,240	4,240	4,240
Reclassification adjustment for net gains realized in net income, net of tax effect of \$485	—	—	—	(901)	(901)	(901)
Comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>(901)</u>	<u>(901)</u>	<u>\$ 13,570</u>
<b>Balance – September 30, 2010</b>	<u>8,990</u>	<u>\$ 899</u>	<u>\$ 205,154</u>	<u>\$ 5,385</u>	<u>\$ 211,438</u>	

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

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 15,082	\$ 10,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,691	4,124
Net gain on available-for-sale securities	(9,049)	(1,386)
Gain on disposal of discontinued operations, net of tax	—	(578)
Deferred income taxes	471	89
Other, net	68	(27)
Changes in assets and liabilities:		
Notes and accounts receivable, net	(1,381)	(680)
Inventories	100	(713)
Prepaid expenses and other current assets	(118)	453
Other assets	(639)	(729)
Accounts payable and accrued liabilities	(1,472)	1,492
Income taxes payable	(5,025)	(1,429)
Other long-term liabilities	(1,273)	(1,519)
Net cash provided by operating activities of continuing operations	1,455	9,328
Operating activities of discontinued operations	—	6
<b>Net cash provided by operating activities</b>	<u>1,455</u>	<u>9,334</u>
<b>Cash flows from investing activities:</b>		
Purchase of available-for-sale securities	(6,179)	(1,847)
Proceeds/maturities from sale of available-for-sale securities	22,336	5,478
Proceeds from sale of real estate assets	—	989
Principal payments on notes receivable	3,942	36
Net investment in non-performing mortgage notes	(6,491)	—
Acquisition of property, plant and equipment	(856)	(1,071)
Acquisition of/additions to real estate assets	(3,976)	(3,084)
Distributions from other investments	582	583
Other	232	—
<b>Net cash provided by investing activities</b>	<u>9,590</u>	<u>1,084</u>
<b>Cash flows from financing activities:</b>		
Principal payments on mortgage obligations	(918)	(1,842)
Purchase and retirement of common stock	(111,762)	(24,608)
Proceeds from exercise of stock options	34,479	7,387
Tax benefit from exercise of stock options	9,916	5,106
<b>Net cash used in financing activities</b>	<u>(68,285)</u>	<u>(13,957)</u>
<b>Net decrease in cash and cash equivalents</b>	(57,240)	(3,539)
<b>Cash and cash equivalents, beginning of period</b>	<u>82,397</u>	<u>124,354</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 25,157</u>	<u>\$ 120,815</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	<u>\$ 1,662</u>	<u>\$ 1,509</u>
Taxes	<u>\$ 2,771</u>	<u>\$ 1,025</u>

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

**UNITED CAPITAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands, except per share data)  
(Unaudited)

**1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented have been recorded. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. These financial statements have been prepared in conformity with the accounting principles, and methods of applying those accounting principles, reflected in the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on March 30, 2011, and should be read in conjunction therewith.

**2. STOCKHOLDERS' EQUITY**

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

Repurchases of the Company's common stock may be made from time to time in the open market at prevailing market prices and may be made in privately negotiated transactions, subject to available resources. Future proceeds from the issuance of common stock in excess of par value will be credited to retained earnings until such time that previously recorded reductions have been recovered. During 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. In addition, during the nine months ended September 30, 2011 and 2010, the Company purchased and retired 409 and 1,009 shares of common stock for an aggregate purchase price of \$10,378 and \$24,608, respectively.

During the nine months ended September 30, 2011 and 2010, the Company received proceeds of \$34,479 and \$7,387 from the exercise of options to purchase 2,260 and 918 shares of the Company's common stock, respectively, and recorded a tax benefit of \$9,916 and \$5,106, respectively, to retained earnings related to such exercises. As of September 30, 2011, the Company had no outstanding options or stock option plans.

**3. EARNINGS PER SHARE**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Numerator:				
Income from continuing operations	<u>\$ 2,641</u>	<u>\$ 2,991</u>	<u>\$15,082</u>	<u>\$ 9,574</u>
Denominator:				
Basic – weighted-average shares outstanding	8,006	9,002	8,656	9,038
Dilutive effect of employee stock options	—	544	375	685
Diluted – weighted-average shares outstanding	<u>8,006</u>	<u>9,546</u>	<u>9,031</u>	<u>9,723</u>
Basic earnings per share – continuing operations	<u>\$ .33</u>	<u>\$ .33</u>	<u>\$ 1.74</u>	<u>\$ 1.06</u>
Diluted earnings per share – continuing operations	<u>\$ .33</u>	<u>\$ .31</u>	<u>\$ 1.67</u>	<u>\$ .98</u>

**4. MARKETABLE SECURITIES**

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

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Market Value</u>
<b>September 30, 2011:</b>				
Equity securities	\$ 11,289	\$ 827	\$ (2,985)	\$ 9,131
Bonds	158	73	—	231
	<u>\$ 11,447</u>	<u>\$ 900</u>	<u>\$ (2,985)</u>	<u>\$ 9,362</u>
<b>December 31, 2010:</b>				
Equity securities	\$ 18,438	\$ 11,124	\$ (578)	\$ 28,984
Bonds	117	82	(1)	198
	<u>\$ 18,555</u>	<u>\$ 11,206</u>	<u>\$ (579)</u>	<u>\$ 29,182</u>

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

	<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>
Proceeds/maturities	\$ 22,336	\$ 5,478
Gains recognized in earnings	\$ 9,050	\$ 1,386
Losses recognized in earnings	\$ (1)	\$ —

**5. INVENTORIES**

The components of inventories are as follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Raw materials	\$ 2,775	\$ 2,595
Work in process	528	552
Finished goods	<u>2,409</u>	<u>2,665</u>
	<u>\$ 5,712</u>	<u>\$ 5,812</u>

**6. REAL ESTATE*****Property acquisition***

In 2009, the Company purchased a non-performing mortgage note encumbering a property located in Jericho, New York which was subject to a foreclosure action. During September 2010, the Company reclassified the investment to real property held for rental as the Company then received title to the property.

***Property sales***

During the nine months ended September 30, 2010, the Company divested itself of two commercial properties which had a net book value of \$25 from its real estate investment and management segment. The aggregate proceeds from these transactions were \$989 resulting in a gain of \$578, on a net of tax basis.

There were no properties sold in the nine months ended September 30, 2011. The results of operations of properties sold prior to September 30, 2011 have been reclassified to discontinued operations, on a net of tax basis, for the three and nine months ended September 30, 2010. Summarized financial information of these properties is as follows:

	<b>Three Months Ended September 30, 2010</b>	<b>Nine Month Ended September 30, 2010</b>
Revenues	\$ 22	\$ 176
Depreciation expense	2	6
Other operating expenses	<u>11</u>	<u>39</u>
Operating income	<u>\$ 9</u>	<u>\$ 131</u>

### *Properties held for sale*

As of September 30, 2011, there were no properties considered by the Company to be held for sale.

## 7. FAIR VALUE MEASUREMENTS

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

	<b>Fair Value Measurements at Reporting Date Using</b>			
	<b>Total Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>September 30, 2011:</b>				
Equity securities	\$ 9,131	\$ 7,546	\$ 1,585	\$ —
Bonds	231	81	150	—
	<u>\$ 9,362</u>	<u>\$ 7,627</u>	<u>\$ 1,735</u>	<u>\$ —</u>
<b>December 31, 2010:</b>				
Equity securities	\$ 28,984	\$ 27,056	\$ 1,928	\$ —
Bonds	198	98	100	—
	<u>\$ 29,182</u>	<u>\$ 27,154</u>	<u>\$ 2,028</u>	<u>\$ —</u>

The carrying amount 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 the Company's other financial assets and liabilities not measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 are as follows:

	<b>September 30, 2011</b>		<b>December 31, 2010</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Notes receivable	<u>\$ 971</u>	<u>\$ 1,004</u>	<u>\$ 4,909</u>	<u>\$ 5,578</u>
Long-term debt, including current portion	<u>\$ 36,968</u>	<u>\$ 31,191</u>	<u>\$ 37,886</u>	<u>\$ 33,574</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.

## 8. LONG-TERM INVESTMENT

In 2011, the Company purchased a non-performing senior mortgage loan and mezzanine note which have combined outstanding obligations in excess of \$22,000. These notes are included in notes receivable in the Condensed Consolidated Balance Sheets and are secured by a 326 room full-service hotel and spa located in Nashua, New Hampshire. A foreclosure auction is scheduled for November 30, 2011. If title to the property is obtained, the net investment will be reclassified in accordance with the assets acquired.

In 2010, the Company purchased a non-performing mortgage note (the "Note") which has been in default since January 2008. The Note, which is included in notes receivable in the Condensed Consolidated Balance Sheets,

bears interest at the default rate of 9.8%, has approximately \$60,000 in total outstanding obligations and is secured by a 254-room hotel located in Long Branch, New Jersey, and was subject to a pending foreclosure action. The foreclosure sale was scheduled for February 2011, at which time the borrower filed for Chapter 11 bankruptcy protection. The Company is vigorously pursuing all of its legal remedies. If title to the property is obtained, the net investment will be reclassified in accordance with the assets acquired.

## 9. PENSION PLAN

Net periodic pension income of the Company's noncontributory defined benefit pension plan was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Service cost	\$ (16)	\$ (15)	\$ (48)	\$ (45)
Interest cost	(178)	(172)	(528)	(515)
Expected return on plan assets	<u>222</u>	<u>193</u>	<u>677</u>	<u>587</u>
Net periodic pension income	<u>\$ 28</u>	<u>\$ 6</u>	<u>\$ 101</u>	<u>\$ 27</u>

During the first quarter of 2011, the Company contributed \$555 to the pension plan. In addition, the Company contributed \$357 subsequent to September 30, 2011.

## 10. COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 2,641	\$ 3,575	\$ 15,082	\$ 10,231
Other comprehensive income (loss), net of tax:				
Change in net unrealized (loss) gain on available-for-sale securities, net of tax effect of \$936, (\$661), \$1,282, and (\$2,284), respectively	(1,738)	1,226	(2,381)	4,240
Reclassification adjustment for net gains realized in net income, net of tax effect of \$32, \$0, \$3,167 and \$485, respectively	<u>(61)</u>	<u>—</u>	<u>(5,882)</u>	<u>(901)</u>
Comprehensive income	<u>\$ 842</u>	<u>\$ 4,801</u>	<u>\$ 6,819</u>	<u>\$ 13,570</u>

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

	September 30, 2011	December 31, 2010
Net unrealized (loss) gain on available-for-sale securities, net of tax effect of \$729 and (\$3,720), respectively	\$ (1,356)	\$ 6,907
Pension plan adjustments, net of tax effect of (\$185)	<u>343</u>	<u>343</u>
Accumulated other comprehensive (loss) income, net of tax	<u>\$ (1,013)</u>	<u>\$ 7,250</u>

## 11. BUSINESS SEGMENTS

The Company operates through three business segments: real estate investment and management, hotel operations and engineered products. The real estate investment and management segment is engaged in the business of investing in and managing real estate properties located throughout the United States. The hotel operations segment owns and operates four hotels located in the United States. Engineered products are manufactured through wholly-owned subsidiaries of the Company and primarily consist of knitted wire products and components and transformer products sold worldwide.

The accounting policies of the Company's segments are the same as those described in the Summary of Significant Accounting Policies included in the Notes to Consolidated Financial Statements in the Company's Annual Report on

Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on March 30, 2011.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net revenues and sales:				
Real estate investment and management	\$ 5,822	\$ 5,514	\$ 16,669	\$ 15,661
Hotel operations	7,611	6,175	23,799	20,750
Engineered products	<u>9,010</u>	<u>8,484</u>	<u>26,954</u>	<u>23,721</u>
	<u>\$ 22,443</u>	<u>\$ 20,173</u>	<u>\$ 67,422</u>	<u>\$ 60,132</u>
Operating income:				
Real estate investment and management	\$ 3,268	\$ 3,408	\$ 9,316	\$ 9,397
Hotel operations	800	183	2,994	1,797
Engineered products	522	567	1,519	1,363
General corporate expenses	<u>(1,211)</u>	<u>(1,202)</u>	<u>(3,268)</u>	<u>(3,420)</u>
	3,379	2,956	10,561	9,137
Other income, net	<u>976</u>	<u>809</u>	<u>11,683</u>	<u>3,986</u>
Income from continuing operations before income taxes	<u>\$ 4,355</u>	<u>\$ 3,765</u>	<u>\$ 22,244</u>	<u>\$ 13,123</u>

## 12. 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.

The Company is subject to various other litigation, legal and regulatory matters that arise in the ordinary course of business activities. When management believes it is probable that a liability has been incurred and such amounts are reasonably estimable, the Company provides for amounts that include judgments and penalties that may be assessed. These liabilities are usually included in accounts payable and accrued liabilities or other long-term liabilities in the Condensed Consolidated Financial Statements, depending on the anticipated payment date. Based on the facts presently available, the Company does not believe that the disposition of matters that are pending or asserted will have a material adverse effect on the Company's consolidated financial position or results of operations. However, new or additional facts or an adverse judgment by a court, arbitrator or a settlement could adversely impact the Company's results of operations in any given period.

## 13. USE OF ESTIMATES

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

## 14. RECLASSIFICATIONS

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

**15. Recent Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board issued authoritative guidance related to the presentation of comprehensive income. The new guidance will require the presentation of components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. There is no change to the items that we must report in other comprehensive income or when we must reclassify an item of other comprehensive income to net income. The guidance is effective for interim and annual periods beginning after December 15, 2011, which would be the first quarter of 2012 for the Company. Because the guidance impacts presentation only, it will have no effect on the Company's financial condition, results of operations or cash flows.

**Item 4. Management's discussion and analysis.**

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

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

**RESULTS OF OPERATIONS: THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

Total revenues for the nine months ended September 30, 2011 were \$67,422, an increase of \$7,290 or 12% from the comparable 2010 period. Income from continuing operations before income taxes for the first nine months of 2011 was \$22,244, an increase of \$9,121 or 70%, compared to the same period of 2010. Net income increased \$4,851 or 47% for the nine months ended September 30, 2011 to \$15,082, compared to \$10,231 for the nine months ended September 30, 2010. The results of 2011 include \$9,049 in pre-tax gains on the sale of available-for-sale securities, compared to \$1,386 for the same nine month period of 2010.

For the quarter ended September 30, 2011, total revenues increased \$2,270 or 11% to \$22,443, from \$20,173 for the corresponding quarter of 2010. Income from continuing operations before income taxes was \$4,355 for the current three month period, a 16% increase from \$3,765 reported for the quarter ended September 30, 2010. Net income for the third quarter of 2011 was \$2,641, compared to \$3,575 reported for the same quarter of 2010. The prior year quarter included \$578 in gains on the sale of real estate, net of tax. No such gains were realized in the current quarter.

**REAL ESTATE OPERATIONS**

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

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Real Estate	Hotel Operations	Total	Real Estate	Hotel Operations	Total
Revenues	\$ 5,822	\$ 7,611	\$ 13,433	\$ 16,669	\$ 23,799	\$ 40,468
Mortgage interest expense	166	403	569	498	1,219	1,717
Depreciation expense	692	796	1,488	2,048	2,374	4,422
Other operating expenses	<u>1,696</u>	<u>5,612</u>	<u>7,308</u>	<u>4,807</u>	<u>17,212</u>	<u>22,019</u>
Operating income	<u>\$ 3,268</u>	<u>\$ 800</u>	<u>\$ 4,068</u>	<u>\$ 9,316</u>	<u>\$ 2,994</u>	<u>\$ 12,310</u>

	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	Real Estate	Hotel Operations	Total	Real Estate	Hotel Operations	Total
Revenues	\$ 5,514	\$ 6,175	\$ 11,689	\$ 15,661	\$ 20,750	\$ 36,411
Mortgage interest expense	86	416	502	262	1,279	1,541
Depreciation expense	613	649	1,262	1,826	1,895	3,721
Other operating expenses	<u>1,407</u>	<u>4,927</u>	<u>6,334</u>	<u>4,176</u>	<u>15,779</u>	<u>19,955</u>
Operating income	<u>\$ 3,408</u>	<u>\$ 183</u>	<u>\$ 3,591</u>	<u>\$ 9,397</u>	<u>\$ 1,797</u>	<u>\$ 11,194</u>

### *Real Estate Investment and Management*

Revenues from the real estate investment and management segment increased \$308 or 5.6% to \$5,822 for the three months ended September 30, 2011 and \$1,008 or 6.4% to \$16,669 for the nine months ended September 30, 2011, compared to the corresponding periods of 2010, primarily attributable to additional revenues from lease renewals at higher rents. Operating income for this segment decreased \$140 to \$3,268 for the three months ended September 30, 2011 and \$81 to \$9,316 for the nine months ended September 30, 2011, compared to the same periods of 2010. During these periods, this segment experienced increases in certain operating costs such as mortgage interest expense resulting from a mortgage obtained in December 2010, depreciation expense resulting from additions to real estate assets over the past twelve months, and certain operating expenses related to the lease renewals, noted above.

### *Hotel Operations*

Revenues from our hotel operations were \$7,611 and \$23,799 for the three and nine months ended September 30, 2011, reflecting increases of \$1,436 or 23.3% and \$3,049 or 14.7%, respectively, compared to the corresponding periods of 2010. These increases primarily result from higher occupancy and improved RevPAR (revenue per available room) at each of our hotels, especially related to the repositioning of the Miami, Florida hotel. Hotel operating income benefited from the increases in this segment's revenues, generating operating income of 10.5% and 12.6% of this segment's revenues for the three and nine months ended September 30, 2011, compared to 3.0% and 8.7% for the comparable periods of 2010, respectively.

### **ENGINEERED PRODUCTS**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	\$ 9,010	\$ 8,484	\$ 26,954	\$ 23,721
Cost of sales	6,827	6,352	20,540	17,749
Selling, general and administrative expenses	<u>1,661</u>	<u>1,565</u>	<u>4,895</u>	<u>4,609</u>
Operating income	<u>\$ 522</u>	<u>\$ 567</u>	<u>\$ 1,519</u>	<u>\$ 1,363</u>

Net sales of the engineered products segment increased \$526 or 6.2% and \$3,233 or 13.6% for the three and nine months ended September 30, 2011, respectively, compared to the corresponding periods of 2010. These increases primarily result from increased demand for the Company's transformer and engineered product lines, partially offset by decreased demand in the automotive product line during the current quarter which was caused by a general softness in the European automotive market. Higher costs of raw material for certain products, as a result of increased worldwide demand, has caused an increase in cost of sales as a percentage of net sales for both the quarter and year-to-date periods. Operating income of the engineered products segment decreased \$45 or 7.9% for third quarter of 2011 and increased \$156 or 11.4% for the nine months ended September 30, 2011, compared to the comparable 2010 periods.

**OTHER INCOME AND EXPENSE, NET**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net gains on available-for-sale securities	\$ 93	\$ —	\$ 9,049	\$ 1,386
Equity losses from other investments	—	—	(169)	—
Other, net	<u>11</u>	<u>(64)</u>	<u>7</u>	<u>(78)</u>
	<u>\$ 104</u>	<u>\$ (64)</u>	<u>\$ 8,887</u>	<u>\$ 1,308</u>

During 2011, the Company sold available-for-sale securities receiving proceeds of \$22,336 and realizing net gains of \$9,049 before taxes.

**DISCONTINUED OPERATIONS**

Income from operations on properties sold and accounted for as discontinued operations was \$6 and \$79, on a net of tax basis, for the three and nine months ended September 30, 2010. Such amounts have been reclassified to reflect results of operations of real estate properties sold during 2010 as discontinued operations. Net gains on the disposal of real estate assets accounted for as discontinued operations were \$578, on a net of tax basis, for each of the three and nine month periods ended September 30, 2010. The Company did not consider any of its properties to be held for sale as of September 30, 2011 and no properties have been sold during the nine months ended September 30, 2011.

**LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2011, the Company's cash and marketable securities totaled \$34.5 million and working capital was \$42.1 million compared to cash and marketable securities of \$111.6 million and working capital of \$106.3 million at December 31, 2010. 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 \$101.4 million, excluding fees and expenses related to the tender. In addition, all of the Company's outstanding stock options were exercised in July 2011 generating \$26.8 million in proceeds and the shares issued upon such exercises were sold in the tender offer. As a result, on a net basis, the Company expended \$74.6 million on the tender, excluding fees and expenses related to the tender.

The Company is subject to various other litigation, legal, regulatory and tax matters that arise in the ordinary course of business activities. When management believes it is probable that liabilities have been incurred and such amounts are reasonably estimable, the Company provides for amounts that include judgments and penalties that may be assessed. These liabilities are usually included in accounts payable and accrued liabilities or other long-term liabilities in the Condensed Consolidated Financial Statements, depending on the anticipated payment date. Based on the facts presently available, the Company does not believe that the disposition of matters that are pending or asserted will have a material adverse effect on the Company's consolidated financial position or results of operations. However, new or additional facts or an adverse judgment by a court, arbitrator or a settlement could adversely impact the Company's results of operations in any given period.

**CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES**

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

Refer to the Company's 2010 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 30, 2011, for a discussion of the Company's critical accounting policies, which include revenue

recognition and accounts receivable, marketable securities, inventories, real estate, discontinued operations, long-lived assets and pension plans. There were no material changes to the Company's critical accounting policies during the three months ended September 30, 2011.

#### **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.

#### **Item 5. Legal proceedings.**

In May 2008, an insurance company for one of the Company's subsidiaries, purchased as part of a bankruptcy reorganization, filed suit in Supreme Court of the State of New York against such entity's other insurance companies seeking, among other things, contribution for insurance settlements from carriers, some of which now claim to be exhausted. The complaint also names the Company's subsidiary and several underlying claimants with whom such settlements were reached. The action challenges the exhaustion of the underlying policies and seeks contribution as well as a declaration of the rights, duties and liabilities of the parties under the insurance policies. In June 2008, the Company removed the action to the U.S. Court for the Southern District of New York. Plaintiffs and certain defendants contested the removal. In October 2008, a stipulation was reached to remand certain issues to State Court while staying the remaining issues in Federal Court. Plaintiffs have also agreed to dismiss the underlying claimants. In February 2009, the Company succeeded on a motion for summary judgment against one of the primary insurance companies who claimed exhaustion. The insurance company was ordered to defend the underlying actions and reimburse certain costs to the other carriers. This decision was appealed by the carrier in April 2009. In July 2009, the Company asked the lower court for leave to amend its complaint to correct a procedural deficiency. The lower court granted such leave, but withdrew its earlier summary judgment motion, pending a rehearing of the matter, rendering the appeal moot. The lower court, however, stayed the defense obligations, pending a decision based on a new hearing held in September 2009. 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. All remaining motions are pending and not currently scheduled. Certain matters were remanded to federal court and heard in September 2010. A decision is pending. The Company intends to continue to vigorously defend all actions in this matter.

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 sought to enjoin the tender offer which was completed on July 25, 2011. 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 is scheduled to be heard in December of this year. The Company intends 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 Condensed Consolidated Financial Statements, depending on the anticipated payment date. Based on the facts presently available, the Company does not believe that the disposition of matters that are pending or asserted will have a material adverse effect on the Company's consolidated financial position or results of operations. However, new or additional facts or an adverse judgment by a court, arbitrator or a settlement could adversely impact the Company's results of operations in any given period.

#### **Item 6. Defaults upon senior securities.**

None.

**Item 7. Other information.**

None.

**Item 8. Exhibits.**

There have been no changes or amendments to any previously described or attached exhibits.

**Item 9. Certifications.**

I, A.F. Petrocelli, certify that:

1. I have reviewed this quarterly disclosure statement of United Capital Corp.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statements of 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: November 11, 2011

/s/ A.F. Petrocelli

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

I, Anthony J. Miceli, certify that:

1. I have reviewed this quarterly disclosure statement of United Capital Corp.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statements of 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: November 11, 2011

/s/ Anthony J. Miceli

Anthony J. Miceli  
Chief Financial Officer