CAPITAL PROPERTIES INC /RI/
Form 10-Q
July 30, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-08499

CAPITAL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Rhode Island	**05-0386287**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

100 Dexter Road
East Providence, Rhode Island 02914
(Address of principal executive offices) (Zip Code)

(401) 435-7171
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value	**OTCQX (Pink Sheets)**

Securities registered pursuant to Section 12(g) of the Act:

NONE

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of June 30, 2010, the Company had 3,721,411 shares of Class A Common Stock and 2,878,501 shares of Class B Common Stock outstanding.

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FOR THE QUARTER ENDED JUNE 30, 2010
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PART I

Item 1. Consolidated Financial Statements
CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Properties and equipment (net of accumulated depreciation)	$ 22,274,000	$ 22,069,000
Cash	2,712,000	2,315,000
Income taxes receivable	318,000	47,000
Prepaid and other	453,000	331,000
	$ 25,757,000	$ 24,762,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Note payable	$ 5,975,000	$
Accounts payable and accrued expenses:		
Property taxes	248,000	243,000
Environmental remediation	81,000	81,000
Other	511,000	514,000
Deferred:		
Leasing revenues	520,000	520,000
Income taxes, net	5,407,000	5,305,000
	12,742,000	6,663,000
Shareholders equity:		
Class A common stock, $.01 par; authorized 10,000,000 shares; issued and outstanding, 3,721,411 shares at June 30, 2010 and 3,654,739 shares at December 31, 2009	37,000	37,000
Class B common stock, $.01 par; authorized 3,500,000 shares; issued and outstanding, 2,878,501 shares at June 30, 2010 and 2,945,173 shares at December 31, 2009	29,000	29,000
Excess stock, $.01 par; authorized 1,000,000 shares; none issued and outstanding		
Capital in excess of par	11,762,000	11,762,000
Retained earnings	1,187,000	6,271,000
	13,015,000	18,099,000
	$ 25,757,000	$ 24,762,000

See notes to consolidated financial statements.

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Revenues:				
Leasing	$ 775,000	$ 760,000	$ 1,490,000	$ 1,474,000
Petroleum storage facility	953,000	949,000	1,889,000	1,885,000
	1,728,000	1,709,000	3,379,000	3,359,000
Expenses:				
Leasing	228,000	204,000	564,000	407,000
Petroleum storage facility	602,000	647,000	1,131,000	1,224,000
General and administrative	226,000	231,000	492,000	490,000
Interest	64,000		64,000	
	1,120,000	1,082,000	2,251,000	2,121,000
Income before income taxes	608,000	627,000	1,128,000	1,238,000
Income tax expense (benefit):				
Current	114,000	267,000	236,000	522,000
Deferred	68,000	(12,000)	102,000	(22,000)
	182,000	255,000	338,000	500,000
Net income	$ 426,000	$ 372,000	$ 790,000	$ 738,000
Basic income per common share based upon 6,599,912 shares outstanding	$ .06	$ .06	$ .12	$ .11
Dividends per share on common stock based upon 6,599,912 shares outstanding	$ .86	$ .03	$ .89	$ .06

See notes to consolidated financial statements.

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Unaudited)

	2010	2009
Cash flows from operating activities:		
Net income	$ 790,000	$ 738,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	375,000	346,000
Deferred income taxes	102,000	(22,000)
Other, principally net changes in prepaids, accounts payable, accrued expenses and current income taxes	(135,000)	(461,000)
Net cash provided by operating activities	1,132,000	601,000
Cash used in investing activities, payments for properties and equipment	(781,000)	(287,000)
Cash flows from financing activities:		
Proceeds from note payable	6,000,000	
Payments:		
Note payable	(25,000)	
Deferred financing fees	(55,000)	
Dividends	(5,874,000)	(396,000)
Net cash provided by (used in) financing activities	46,000	(396,000)
Increase (decrease) in cash	397,000	(82,000)
Cash, beginning	2,315,000	3,395,000
Cash, ending	$ 2,712,000	$ 3,313,000
Supplemental disclosures:		
Cash paid for:		
Income taxes	$ 561,000	$ 941,000
Interest	$ 34,000	$
Non-cash investing and financing activities:		
Capital expenditures financed through accounts payable	$ 167,000	$ 115,000
Conversion of Class B Common Stock into Class A Common Stock	$	$ 3,000

See notes to consolidated financial statements.

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Unaudited)

1. Description of business:

Capital Properties, Inc. and its wholly-owned subsidiaries, Tri-State Displays, Inc., Capital Terminal Company and Dunellen, LLC (collectively referred to as the Company), operate in two segments: (1) Leasing and (2) Petroleum Storage.

The leasing segment consists of the long-term leasing of certain of its real estate interests in downtown Providence, Rhode Island (upon the commencement of which the tenants are required to construct buildings thereon, with the exception of a parking garage), the leasing of a portion of its building (Steeple Street Building) under short-term leasing arrangements and the leasing of locations along interstate and primary highways in Rhode Island and Massachusetts to Lamar Outdoor Advertising, LLC (Lamar) which has constructed outdoor advertising boards thereon. The Company anticipates that the future development of its remaining properties in and adjacent to the Capital Center area will consist primarily of long-term ground leases. Pending this development, the Company leases these parcels for public parking under short-term leasing arrangements to Metropark, Ltd. (Metropark).

The petroleum storage segment consists of operating the petroleum storage terminal (the Terminal) and the Wilkesbarre Pier (the Pier), collectively referred to as the Facility, located in East Providence, Rhode Island, for Global Companies, LLC (Global) which stores and distributes petroleum products.

The principal difference between the two segments relates to the nature of the operations. In the leasing segment, the tenants under long-term land leases incur substantially all of the development and operating costs of the assets constructed on the Company s land, including the payment of real property taxes on both the land and any improvements constructed thereon; whereas the Company is responsible for the operating and maintenance expenditures, including a portion of the real property taxes, as well as capital improvements at the Facility.

2. Principles of consolidation and basis of presentation:

The accompanying condensed consolidated financial statements include the accounts and transactions of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying condensed consolidated balance sheet as of December 31, 2009, has been derived from audited financial statements and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s latest Form 10-K. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2010, the results of operations for the three and six months ended June 30, 2010 and 2009, and cash flows for the six months ended June 30, 2010 and 2009.

The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

New accounting standards:

The Company reviews new accounting standards as issued. Although some of these accounting standards may be applicable to the Company, the Company has not identified any standards that it believes merit further discussion. The Company expects that none of the new standards would have a significant impact on its consolidated financial statements.

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3. Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

4. Properties and equipment:

Properties and equipment consists of the following:

	June 30, 2010	December 31, 2009
Properties on lease or held for lease:		
Land and land improvements	$ 4,621,000	$ 4,621,000
Building and improvements, Steeple Street	1,961,000	1,772,000
Construction in progress	2,633,000	2,246,000
	9,215,000	8,639,000
Petroleum storage facility, on lease:		
Land and land improvements	5,591,000	5,591,000
Buildings and structures	1,748,000	1,744,000
Tanks and equipment	14,600,000	14,600,000
	21,939,000	21,935,000
Office equipment	131,000	131,000
	31,285,000	30,705,000
Less accumulated depreciation:		
Properties on lease or held for lease	151,000	104,000
Petroleum storage facility, on lease	8,754,000	8,430,000
Office equipment	106,000	102,000
	9,011,000	8,636,000
	$ 22,274,000	$ 22,069,000

In June 2009, the Company commenced the construction of the historic restoration and utility infrastructure of the Steeple Street Building at an original estimated cost of $2,100,000. In July 2010, the restoration was substantially completed at a total cost of $2,633,000 plus tenant improvements not originally budgeted of $189,000.

5. Note payable:

In April 2010**,** the Company borrowed $6,000,000 from a bank. The loan bears interest at the rate of 6 percent per annum and has a term of ten years with repayments on a twenty-year amortization schedule (monthly principal

payments of $25,000 plus interest). The loan matures April 26, 2020 and contains the customary covenants, terms and conditions and permits prepayment, in whole or in part, at any time without penalty if the prepayment is made from internally generated funds. As collateral for the loan, the Company granted the bank a mortgage on Parcels 3S and 5 in the Capital Center.

In May 2010, the proceeds from the loan were used principally to fund a special dividend of $5,478,000 to shareholders, which represented the Company s earnings and profits as calculated for federal income tax purposes at December 31, 2009.

In connection with the borrowing, the Company incurred financing fees totaling $55,000, which are included in prepaid and other on the accompanying consolidated balance sheet at June 30, 2010. These fees are being amortized on a straight-line basis over the 10-year term of the note and are included in interest expense on the accompanying consolidated statements of income for the three and six months ended June 30, 2010.

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6. Description of leasing arrangements:

Long-term land leases:

As of June 30, 2010, the Company had entered into six long-term land leases for six separate parcels upon which the improvements have been completed (developed parcels). In addition, in 2005 a long-term land lease commenced on an undeveloped parcel on which two residential buildings were planned. One building was completed in September 2009. The other building has not progressed beyond the early stages of site preparation and the timing of its construction and completion is uncertain.

Under the seven land leases, the tenants are required to negotiate any tax stabilization treaty or other arrangements, appeal any changes in real property assessments, and pay real property taxes assessed under these arrangements. Accordingly, the amounts payable by the tenants are excluded from leasing revenues and leasing expenses on the accompanying consolidated statements of income. The real property taxes attributable to the Company s land under these leases totaled $250,000 and $500,000, respectively, for the three and six months ended June 30, 2010, and $360,000 and $720,000, respectively, for the three and six months ended June 30, 2009.

Under the lease which commenced in 2005, the tenant is entitled to a credit for future rents equal to a portion of the real property taxes paid by the tenant through April 2007, which credit totaled $520,000 at June 30, 2010. In connection with Phase I of the tenant s project, commencing July 1, 2010, the annual rent increased from $48,000 to $300,000. As a result of the rent credit, the tenant will not be required to make cash payments for rent for the next 21 months. Each month during the period of the rent credit, the Company will reclassify $25,000 of deferred leasing revenues to leasing revenues.

Short-term leases:

The Company leases the undeveloped parcels of land in or adjacent to the Capital Center area for public parking purposes to Metropark, Ltd. under a short-term cancellable lease.

A former tenant of the Steeple Street Building filed for receivership in November 2009. At December 31, 2009, the former tenant owed the Company $40,000 and the Company recorded an allowance for doubtful accounts of $40,000. At March 31, 2010, the former tenant owed the Company an additional $22,000 and the Company recorded an allowance for doubtful accounts for the additional amount. In June 2010, the former tenant sold its operations to a new tenant who assumed the lease and paid the Company in full; the Company has reversed the allowance for doubtful accounts for the full amount.

At June 30, 2010, the Company has two tenants in a portion of the Steeple Street Building (including the new tenant who assumed the lease) under short-term leases (five years or less) at a current annual rental of $114,000. The Company is seeking additional tenants for the remaining available space.

7. Petroleum storage facility:

Environmental remediation:

In 1994, a leak was discovered in a 25,000 barrel storage tank at the Terminal which allowed the escape of a small amount of fuel oil. All required notices were made to the State of Rhode Island Department of Environmental Management (RIDEM). In 2000, the tank was demolished and testing of the groundwater indicated that there was no large pooling of contaminants. In 2001, RIDEM approved a plan pursuant to which the Company installed a passive system consisting of three wells and commenced monitoring the wells.

In 2003, RIDEM decided that the passive monitoring system previously approved was not sufficient and required the Company to design an active remediation system for the removal of product from the contaminated site. The Company and its consulting engineers began the pre-design testing of the site in the fourth quarter of 2004. The consulting engineers estimated a total cost of $200,000 to design, install and operate the system, which amount was accrued in 2004. Through 2006, the Company had expended $119,000 and has not incurred any additional costs since then. RIDEM has not taken any action on the Company s proposed plan. As designed, the system will pump out the contaminants which will be disposed of in compliance with applicable regulations. After a period of time, the groundwater will be tested to determine if sufficient contaminants have been removed. While the Company and its consulting engineers believe that the proposed active remediation system will correct the situation, it is possible that RIDEM could require the Company to expand remediation efforts, which could result in the Company incurring additional costs.

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Environmental incident:

In 2002, during testing of monitoring wells at the Terminal, the Company s consulting engineer discovered free floating phase product in a groundwater monitoring well located on that portion of the Terminal purchased in 2000. Laboratory analysis indicated that the product was gasoline, which is not a product the Company ever stored at the Terminal. The Company commenced an environmental investigation and analysis, the results of which indicate that the gasoline did not come from the Terminal. The Company notified RIDEM. RIDEM subsequently identified Power Test Realty Partnership (Power Test), the owner of an adjacent parcel, as a potentially responsible party for the contamination. Getty Properties Corp. is the general partner of Power Test. Power Test challenged that determination and, after an administrative hearing, on October 20, 2008, a RIDEM Hearing Officer determined that Power Test is responsible for the discharge of the petroleum product under the Rhode Island Oil Pollution Control Act, R.I.G.L. Section 46-12.5.1-3 and Rule 6(a) and 12(b) of the Oil Pollution Control Regulations. The RIDEM Decision and Order requires Power Test to remediate the contamination as directed by RIDEM. In November 2008, Power Test appealed the decision to the Rhode Island Superior Court. In addition, in November 2008, Power Test sought, and received, a stay of the Decision and Order of the Hearing Officer pending a clarification by RIDEM of the amount of the proposed fine. There can be no assurance that the Superior Court will affirm the decision of the Administrative Hearing Officer.

In April 2009, the Company sued Power Test and Getty Properties Corp. in the Rhode Island Superior Court seeking remediation of the site or, in the alternative, the cost of the remediation. On May 1, 2009, Power Test and Getty Properties Corp. removed the action to the United States District Court for the District of Rhode Island. On May 22, 2009, Power Test and Getty Properties Corp. answered the Complaint and filed a Counterclaim against Dunellen, LLC and Capital Terminal Company alleging that Dunellen, LLC and Capital Terminal Company are responsible for the contamination. Getty Properties Corp. and Power Test have joined Getty Petroleum Marketing, Inc., the tenant under a long-term lease with Getty Properties Corp. of the adjacent property, as a defendant. The parties are now engaged in discovery. There can be no assurance that the Company will prevail in this litigation.

Since January 2003, the Company has not incurred significant costs in connection with this matter, other than ongoing litigation costs, and is unable to determine the costs it might incur to remedy the situation, as well as any costs to investigate, defend and seek reimbursement from the responsible party with respect to this contamination.

8. Income taxes:

The income tax provision for the three and six months ended June 30, 2010, does not bear the customary relationship between tax expense and pretax accounting income. The Company has determined that the expenditures in connection with the historic restoration of the Steeple Street Building qualify for federal historic income tax credits in 2010 of approximately $500,000 and has incorporated the credit in determining the effective tax rate for 2010 in the accompanying consolidated financial statements.

9. Operating segment disclosures:

The Company operates in two segments: (1) Leasing and (2) Petroleum Storage.

The Company makes decisions relative to the allocation of resources and evaluates performance based on each segment s respective income before income taxes, excluding interest income and expense, and certain corporate expenses.

Inter-segment revenues are immaterial in amount. The Company incurred interest expense of $64,000 for the six months ended June 30, 2010. The Company did not incur interest expense during the six months ended June 30, 2009.

The following financial information is used for making operating decisions and assessing performance of each of the Company s segments for the six months ended June 30, 2010 and 2009:

	2010	2009

Leasing:		
Revenues:		
Long-term leases:		
Contractual	$ 1,094,000	$ 1,053,000
Contingent	80,000	86,000
Short-term leases	316,000	335,000
Total revenues	$ 1,490,000	$ 1,474,000

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	2010	2009
Property tax expense	$ 248,000	$ 245,000
Depreciation	$ 47,000	$ 21,000
Income before income taxes	$ 926,000	$ 1,067,000
Assets	$ 9,300,000	$ 6,895,000
Properties and equipment, additions	$ 576,000	$ 335,000
Petroleum storage:		
Revenues:		
Contractual	$ 1,889,000	$ 1,883,000
Contingent		2,000
Total revenues	$ 1,889,000	$ 1,885,000
Property tax expense	$ 117,000	$ 106,000
Depreciation	$ 324,000	$ 322,000
Income before income taxes	$ 758,000	$ 661,000
Assets	$ 13,604,000	$ 14,133,000
Properties and equipment, additions	$ 4,000	$ 67,000

The following is a reconciliation of the segment information to the amounts reported in the accompanying consolidated financial statements for the six months ended June 30, 2010 and 2009:

	2010	2009
Revenues for operating segments:		
Leasing	$ 1,490,000	$ 1,474,000
Petroleum storage	1,889,000	1,885,000
Total consolidated revenues	$ 3,379,000	$ 3,359,000

Property tax expense:		
Property tax expense for operating segments:		
Leasing	$ 248,000	$ 245,000
Petroleum storage	117,000	106,000
	365,000	351,000
Unallocated corporate property tax expense	2,000	2,000
Total consolidated property tax expense	$ 367,000	$ 353,000
Depreciation:		
Depreciation for operating segments:		
Leasing	$ 47,000	$ 21,000
Petroleum storage segment:	324,000	322,000
	371,000	343,000
Unallocated corporate depreciation	4,000	3,000
Total consolidated depreciation	$ 375,000	$ 346,000
Income before income taxes:		
Income before income taxes for operating segments:		
Leasing	$ 926,000	$ 1,067,000
Petroleum storage	758,000	661,000
	1,684,000	1,728,000
Unallocated corporate expenses	(492,000)	(490,000)
Interest expense	(64,000)	
Total consolidated income before income taxes	$ 1,128,000	$ 1,238,000

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	2010	2009
Assets:		
Assets for operating segments:		
Leasing	$ 9,300,000	$ 6,895,000
Petroleum storage	13,604,000	14,133,000
	22,904,000	21,028,000
Corporate cash	2,509,000	3,116,000
Other unallocated amounts	344,000	105,000
Total consolidated assets	$ 25,757,000	$ 24,249,000
Additions to properties and equipment for operating segments:		
Leasing	$ 576,000	$ 335,000
Petroleum storage	4,000	67,000
Total consolidated additions	$ 580,000	$ 402,000

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

Certain portions of this report, and particularly the Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Notes to Consolidated Financial Statements, contain forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and Sections 21E of the Securities Exchange Act of 1934, as amended, which represent the Company s expectations or beliefs concerning future events. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including, without limitation, the following: the ability of the Company to generate adequate amounts of cash; the collectibility of the accrued leasing revenues when due over the terms of the long-term land leases; the commencement of additional long-term land leases; changes in economic conditions that may affect either the current or future development on the Company s parcels; and exposure to contamination, remediation or similar costs associated with the operation of the petroleum storage facility. The Company does not undertake the obligation to update forward-looking statements in response to new information, future events or otherwise.

1. Overview:

Critical accounting policies:

The Company believes that its revenue recognition policy for long-term leases with scheduled rent increases (leasing segment) meets the definition of a critical accounting policy which is discussed in the Company s Form 10-K for the year ended December 31, 2009. There have been no changes to the application of this accounting policy since December 31, 2009.

Segments:

The Company operates in two segments, leasing and petroleum storage.

The leasing segment consists of the long-term leasing of certain of its real estate interests in downtown Providence, Rhode Island (upon the commencement of which the tenants are required to construct buildings thereon, with the exception of a parking garage), the leasing of a portion of the Steeple Street Building under short-term leasing arrangements and the leasing of locations along interstate and primary highways in Rhode Island and Massachusetts to Lamar which has constructed outdoor advertising boards thereon. The Company anticipates that the future development of its remaining properties in and adjacent to the Capital Center area will consist primarily of long-term ground leases. Pending this development, the Company leases these parcels for public parking under short-term leasing arrangements to Metropark.

The petroleum storage segment consists of operating the Facility located in East Providence, Rhode Island, for Global.

The principal difference between the two segments relates to the nature of the operations. In the leasing segment, the tenants under long-term land leases incur substantially all of the development and operating costs of the assets constructed on the Company s land, including the payment of real property taxes on both the land and any improvements constructed thereon; whereas the Company is responsible for the operating and maintenance expenditures, including a portion of the real property taxes, as well as capital improvements at the Facility.

2. Results of operations:

Three months ended June 30, 2010 compared to three months ended June 30, 2009:

Leasing segment:

	2010	2009	Difference
Leasing revenues	$ 775,000	$ 760,000	$ 15,000
Leasing expense	228,000	204,000	$ 24,000
	$ 547,000	$ 556,000	

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Leasing revenue increased due to the termination of the rent relief granted Lamar 2009 (which rent has been restored to its scheduled level) and scheduled increases in rentals under long-term land leases. Leasing expense increased due to higher legal fees in connection with two leases; this increase was offset in part by the reversal of an allowance for doubtful accounts of $62,000.

Petroleum storage segment:

	2010	2009	Difference
Petroleum storage facility revenues	$ 953,000	$ 949,000	$ 4,000
Petroleum storage facility expense	602,000	647,000	$ (45,000)
	$ 351,000	$ 302,000	

Petroleum storage facility revenues remained at the 2009 level. The May 1, 2010 annual cost-of-living adjustment under the lease for the petroleum storage facility was $82,000 annually; however, this increase was offset in part by lower levels of payments by Global for repairs and no contingent rent earned in 2010. Contingent rent of $2,000 was earned in the three months ended June 30, 2009. Petroleum storage facility expense decreased due to lower levels of repairs and maintenance.

General:

For the three months ended June 30, 2010, general and administrative expense remained at the 2009 level.

Interest expense:

In April 2010**,** the Company borrowed $6,000,000 from a bank. The loan bears interest at the rate of 6 percent per annum and has a term of ten years with repayments on a twenty-year amortization schedule (monthly principal payments of $25,000 plus interest). For the three months ended June 30, 2010, interest expense was $64,000.

Income taxes:

The income tax provision for the three months ended June 30, 2010, does not bear the customary relationship between income tax expense and pretax accounting income. The Company has determined that the expenditures in connection will the historic restoration of the Steeple Street Building qualify for federal historic income tax credits in 2010 of approximately $500,000 and has incorporated the credit in determining the effective tax rate for 2010.

Six months ended June 30, 2010 compared to six months ended June 30, 2009:

Leasing segment:

	2010	2009	Difference
Leasing revenues	$ 1,490,000	$ 1,474,000	$ 16,000
Leasing expense	564,000	407,000	$ 157,000
	$ 926,000	$ 1,067,000	

Leasing revenue increased due to the termination of the rent relief granted Lamar 2009 (which rent has been restored to its scheduled level) and scheduled increases in rentals under long-term land leases. Leasing expense increased due to higher legal fees in connection with two leases and the hiring of a new employee. This increase was offset in part by the reversal of an allowance for a doubtful account of $62,000.

Petroleum storage segment:

	2010	2009	Difference
Petroleum storage facility revenues	$ 1,889,000	$ 1,885,000	$ 4,000
Petroleum storage facility expense	1,131,000	1,224,000	$ (93,000)
	$ 758,000	$ 661,000	

Petroleum storage facility revenues remained at the 2009 level. The May 1, 2010 annual cost-of-living adjustment under the lease for the petroleum storage facility was $82,000 annually; however, this increase was offset in part by lower levels of payments by Global for repairs and no contingent rent earned in 2010. Contingent rent of $2,000 was earned in the six months ended June 30, 2009. Petroleum storage facility expense decreased due to lower levels of repairs and maintenance and lower legal fees, offset in part by the hiring of a new employee.

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General:

For the six months ended June 30, 2010, general and administrative expense remained at the 2009 level.

Interest expense:

In April 2010**,** the Company borrowed $6,000,000 from a bank. The loan bears interest at the rate of 6 percent per annum and has a term of ten years with repayments on a twenty-year amortization schedule (monthly principal payments of $25,000 plus interest). For the six months ended June 30, 2010, interest expense was $64,000.

Income taxes:

The income tax provision for the six months ended June 30, 2010, does not bear the customary relationship between income tax expense and pretax accounting income. The Company has determined that the expenditures in connection will the historic restoration of the Steeple Street Building qualify for federal historic income tax credits in 2010 totaling approximately $512,000 and has incorporated the credit in determining the effective tax rate for 2010.

3. Liquidity and capital resources:

Historically, the Company has had adequate liquidity to fund its operations.

In April 2010, the Board of Directors of the Company declared a special dividend of $5,478,000 ($.83 per common share) on the Class A and Class B common stock to shareholders of record on May 12, 2010 payable on May 26, 2010. The dividend represented the payout to the shareholders of the Company s earnings and profits as calculated for federal income tax purposes at December 31, 2009. The Company has expressed its intention in the future to convert to a pass-through entity for income tax purposes. In order to effectuate such a conversion, the Company will be required to pay out its accumulated earnings and profits. The Board of Directors determined that it would be in the best interest of the shareholders to make the distribution of the earnings and profits while the tax laws are still favorable, since it is expected that the federal income tax rate on dividends will rise substantially on January 1, 2011.

In order to fund the special dividend, the Company borrowed $6,000,000 from a bank. The loan bears interest at the rate of 6 percent per annum and has a term of ten years with repayments on a twenty-year amortization schedule (monthly principal payments of $25,000 plus interest). The loan matures April 26, 2020 and contains the customary covenants, terms and conditions and permits prepayment, in whole or in part, at any time without penalty if the prepayment is made from internally generated funds. As collateral for the loan, the Company granted the bank a mortgage on Parcels 3S and 5 in the Capital Center.

During the first six months of 2010, the Company s operating activities provided an additional $1,132,000 of cash. The Company made cash payments of $5,874,000 for dividends and $781,000 for the restoration of the Steeple Street Building. Cash increased $397,000 for the six months.

Cash and cash commitments:

At June 30, 2010, the Company had cash of $2,712,000. Since February 2009, the Company maintains all of its cash in a non-interest bearing checking account.

In July 2009, the Company received notice from the holder of the leasehold mortgage on Parcel 8 that the Parcel 8 tenant was in default. A foreclosure sale was held on September 1, 2009, and the building was sold to the leasehold mortgagee. Under the terms of the Parcel 8 long-term land lease, upon the foreclosure of the leasehold mortgage, the Company is required to enter into a new long-term lease with the leasehold mortgagee or its assignee on substantially the same terms and conditions as the existing lease for Parcel 8. No new lease has been entered into to date. In such circumstances, the new tenant is required to cure any prior monetary defaults. The rent has continued to be paid in a timely fashion, and the Company has no reason to believe that the leasehold mortgagee will not continue to pay the rent and property taxes to the City of Providence in a timely fashion.

Under the terms of the Company s long-term land leases, appraisals of the premises are periodically required at various stated intervals to provide the basis for recalculating the annual rent. However, if as a result of such appraisal the annual rent is calculated to be less than the then current rent, the annual rent will remain at the current level. The appraisal process for Parcel 8 commenced in November 2009 to determine the amount of the adjustment, if any, in the annual fixed rent. Each of the Company and the tenant had an appraisal made. The appraised values differed by more than ten percent. Therefore, under the terms of the lease, a third appraiser has been engaged to

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perform an appraisal. The decision of the third appraiser will be binding on the Company and the tenant. The Company anticipates receiving the decision of the third appraiser during the third quarter. Any increase will be retroactive to February 1, 2010. The current annual rent is $223,000.

Under the one of the Company s long-term land leases, the tenant is entitled to a credit for future rents equal to a portion of the real property taxes paid by the tenant through April 2007, which credit totaled $520,000 at June 30, 2010. In connection with Phase I of the tenant s project, commencing July 1, 2010, the annual rent increased from $48,000 to $300,000. As a result of the rent credit, the tenant will not be required to make cash payments for rent for the next 21 months. Each month during the period of the rent credit, the Company will reclassify $25,000 of deferred leasing revenues to leasing revenues.

Under the Company s long-term land lease on Parcel 9, on April 1, 2011, the scheduled contractual rent will increase $260,000 annually. Under the Company s long-term land lease on Parcel 2, on May 1, 2011, the scheduled contractual rent will increase $384,000 annually.

The current economic conditions have had limited impact on the Company s results of operations to date. In 2009, the Company had decreased Metropark s rent under the short-term parking lease from April 1, 2009 to June 30, 2010. In 2009, the Company also granted Lamar rent relief under its long-term land lease for various billboard locations for the period January 1, 2009 to May 31, 2010. At July 1, 2010, both rents have been restored to the scheduled level (a total increase of $93,000 annually). As none of the Company s leases require the tenant to provide financial information, the Company has no information concerning the impact of current economic conditions on its major tenants and, therefore, cannot predict whether any other tenants will request such relief or concessions.

In June 2009, the Company commenced the construction of the historic restoration and utility infrastructure of the Steeple Street Building at an original estimated cost of $2,100,000. In July 2010, the restoration was substantially completed at a total cost of $2,633,000, plus tenant improvements not originally budgeted of $189,000. The Company has determined that the expenditures qualify for Federal historic tax credits in 2010 totaling approximately $512,000.

A former tenant of the Steeple Street Building filed for receivership in November 2009. At December 31, 2009, the former tenant owed the Company $40,000 and the Company recorded an allowance for doubtful accounts of $40,000. At March 31, 2010, the former tenant owed the Company an additional $22,000 and the Company recorded an allowance for doubtful accounts for the additional amount. In June 2010, the former tenant sold its operations to a new tenant who assumed the lease and paid the Company in full; the Company has reversed the allowance for doubtful accounts for the full amount.

At June 30, 2010, the Company has two tenants in a portion of the Steeple Street Building (including the new tenant who assumed the lease) under short-term leases (five years or less) at a current annual rental of $114,000. The Company is currently marketing the remaining portions of the building for lease.

Under the Company s lease with Global, the annual cost-of-living adjustment was $82,000 effective May 1, 2010.

In March 2010, certain areas of the State of Rhode Island experienced unprecedented flooding but the Company s properties and operations were not affected.

On July 27, 2010, the Company declared a quarterly dividend of $198,000 ($.03 per common share) which dividend will be paid on August 25, 2010. The declaration of future dividends and the amount thereof will depend on the Company s future earnings, financial factors and other events.

The Company expects that cash generated from current operations will continue to be sufficient to meet operating expenses, debt service, ordinary capital expenditures and the current level of quarterly dividends. In the event temporary liquidity is required, the Company believes that a line of credit or other arrangements could be obtained by pledging some or all of its unencumbered assets as collateral.

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Item 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company carried out an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of the Company s management, including the Company s principal executive officer and the Company s principal financial officer. Based upon that evaluation, the principal executive officer and the principal financial officer concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

There was no significant change in the Company s internal control over financial reporting that occurred during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to affect, the Company s internal control over financial reporting. The Company continues to enhance its internal controls over financial reporting, primarily by evaluating and enhancing process and control documentation. Management discusses with and discloses these matters to the Audit Committee of the Board of Directors and the Company s auditors.

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PART II OTHER INFORMATION

Item 6. Exhibits

(b) Exhibits:

3.1 Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant s annual report on Form 10-K for the year ended December 31, 2008).

3.2 By-laws, as amended (incorporated by reference to Exhibit 3.2 to the registrant s annual report on Form 10-K for the year ended December 31, 2007).

10 Material contracts:

(a) Loan Agreement between Bank Rhode Island and Company:

(i) Dated April 26, 2010 (incorporated by reference to Exhibit 10.1 to the registrant s report on Form 8-K filed on April 28, 2010).

(b) Lease between Metropark, Ltd. and Company:

(i) Dated January 1, 2005 (incorporated by reference to Exhibit 10(a) to the registrant s annual report on Form 10-KSB for the year ended December 31, 2004), as amended.

(c) Miscellaneous contract:

(i) Option Agreement to Purchase Real Property and Related Assets, dated June 9, 2003, by and between Dunellen, LLC and Global Companies, LLC (incorporated by reference to Exhibit 10(b)(i) to the registrant s Report on Form 10-QSB/A for the quarterly period ended June 30, 2003), as amended.

31.1 Rule 13a-14(a) Certification of President and Principal Executive Officer

31.2 Rule 13a-14(a) Certification of Treasurer and Principal Financial Officer

32.1 Certification of President and Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Treasurer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

In accordance with the requirements of the Exchange Act, the Issuer caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL PROPERTIES, INC.

By /s/ Robert H. Eder
Robert H. Eder
President and Principal Executive Officer

By /s/ Barbara J. Dreyer
Barbara J. Dreyer
Treasurer and Principal Financial Officer

DATED: July 30, 2010