CAPITAL PROPERTIES INC /RI/
Form 10QSB
August 04, 2003

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

OR

[ ] 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 0-9380

CAPITAL PROPERTIES, INC.
(Name of small business issuer 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
(Small business issuer's telephone number, including area code)

Check whether the small business issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the small business issuer was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date:

As of August 1, 2003, the Issuer had 3,000,000 shares of Class A Common Stock and 299,956 shares of Class B Common Stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes[ ] No [X]

PART I

ITEM 1. FINANCIAL STATEMENTS

CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
JUNE 30, 2003
(UNAUDITED)

ASSETS

Properties and equipment (net of accumulated depreciation)	$14,978,000
Cash and cash equivalents	2,088,000
Receivables, other	140,000
Accrued rental income	448,000
Prepaid and other	119,000
	$17,773,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:	
Accounts payable and accrued expenses:	
Property taxes	$ 1,028,000
Other	731,000
Deferred income taxes, net	3,493,000
	5,252,000
Shareholders' equity:	
Class A common stock, $.01 par; authorized 6,000,000 shares; issued and outstanding 3,000,000 shares	30,000
Class B common stock, $.01 par; authorized 300,000 shares; issued and outstanding 299,956 shares	3,000
Excess stock, $.01 par; authorized 1,000,000 shares; none issued and outstanding	--
Capital in excess of par	11,795,000
Retained earnings	693,000
	12,521,000
	$17,773,000

See notes to consolidated financial statements.

CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF LOSS
(UNAUDITED)

	Three Months Ended June 30		Six Month June
	2003	2002	2003
Income:			
Revenues:			
Leasing	$ 896,000	$ 692,000	$ 1,606,000
Petroleum storage facilities	478,000	429,000	1,110,000
	1,374,000	1,121,000	2,716,000

Interest	1,000	31,000	3,000
	1,375,000	1,152,000	2,719,000
Expenses:			
Expenses applicable to:			
Leasing	582,000	580,000	1,127,000
Petroleum storage facilities	588,000	490,000	1,111,000
General and administrative	253,000	252,000	521,000
	1,423,000	1,322,000	2,759,000
Loss before income taxes	(48,000)	(170,000)	(40,000)
Income tax expense (benefit):			
Current	(8,000)	(130,000)	2,000
Deferred	(22,000)	86,000	(26,000)
	(30,000)	(44,000)	(24,000)
Net loss	$ (18,000)	$ (126,000)	$ (16,000)
Basic loss per common share	$ --	$ (.04)	$ --
Dividends on common stock	$ --	$ --	$ --

See notes to consolidated financial statements.

CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(UNAUDITED)

	2003	2002
Cash flows from operating activities:		
Net loss	$ (16,000)	$ (196,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	209,000	209,000
Deferred income taxes	(26,000)	699,000
Other, principally net changes in receivables, prepaids, accounts payable, income taxes and accrued expenses	403,000	97,000
Net cash provided by operating activities	570,000	809,000

Cash used in investing activities, purchase of properties and equipment	(115,000)	(173,000)
Cash used in financing activities, payment of dividends	--	(99,000)
Increase in cash and cash equivalents	455,000	537,000
Cash and cash equivalents, beginning	1,633,000	1,167,000
Cash and cash equivalents, ending	$ 2,088,000	$ 1,704,000
Supplemental disclosures, cash paid or received for income taxes:		
Cash paid	$ 9,000	$ 9,000
Refunds received	$ 381,000	$ 724,000

See notes to consolidated financial statements.

CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(UNAUDITED)

1. BASIS OF PRESENTATION:

The accompanying consolidated financial statements have been prepared by the Company. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the year ended December 31, 2002. In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position as of June 30, 2003 and the results of operations for the three and six months ended June 30, 2003 and 2002 and the cash flows for the six months ended June 30, 2003 and 2002.

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

2. 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 income and expenses during the reporting period. Actual results could differ from those estimates.

3. PROPERTIES AND EQUIPMENT:

Properties on lease or held for lease:	
Land and land improvements	$ 3,740,000
Parking garage	2,500,000
	6,240,000
Petroleum storage facilities:	
Land and land improvements	5,106,000
Buildings and structures	706,000
Tanks and equipment	8,978,000
	14,790,000
Office equipment	84,000
	21,114,000
Less accumulated depreciation:	
Properties on lease or held for lease	960,000
Petroleum storage facilities	5,102,000
Office equipment	74,000
	6,136,000
	$ 14,978,000

4. DESCRIPTION OF LEASING ARRANGEMENTS:

At June 30, 2003, the Company had entered into seven long-term land leases covering ten land parcels; of these leases, four will not commence until construction begins.

The Company also leases various parcels of land for outdoor advertising purposes for remaining terms of up to 28 years and for public parking purposes under short-term cancellable leases.

For those leases with presently known scheduled rent increases, the cumulative excess of straight-line over contractual rentals (considering scheduled rent increases over the 30 to 149 year terms of the leases) amounted to $15,195,000 through June 30, 2003. Management has concluded that a portion of the excess of straight-line over contractual rentals ($448,000 at June 30, 2003) is realizable when payable over the terms of the leases.

The three long-term land leases which have commenced provide that the tenants pay the City of Providence for real property taxes, which amounts are excluded from leasing revenues and expenses applicable to leasing on the accompanying consolidated statements of loss. These tenant payments attributable to the Company's land are as follows: for the three months ended June 30, 2003 and 2002, $92,000 and $83,000 respectively; for the six months ended June 30, 2003 and 2002, $178,000 and $166,000, respectively.

5. PETROLEUM STORAGE FACILITIES:

Current operations:

The Company and a petroleum distribution company (Petroleum Company) are parties to an agreement whereby the Company operates the entire Petroleum Facilities for the Petroleum Company. The Company is responsible for labor, insurance, property taxes and other operating expenses, as well as capital improvements. Through April 30, 2003, the agreement provided for a monthly fee which increased annually by 4.5%, as well as an additional $.10 per barrel for every barrel in excess of 2,000,000 barrels in any agreement year (contingent revenues). For the agreement year ended April 30, 2003, throughput exceeded 2,000,000 barrels in December 2002. For the agreement year ended April 30, 2002, throughput exceeded 2,000,000 barrels in January 2002. For the six months ended June 30, 2003 and 2002, the Company earned contingent revenues of $264,000 and $135,000, respectively.

Effective May 1, 2003, the Company and Petroleum Company entered into an amended and restated lease agreement (Amended Agreement) which, among other things, provides as follows: (1) the Amended Agreement will expire April 30, 2013, but will continue thereafter on a year-to-year basis unless terminated by either party upon ninety days written notice; (2) the Petroleum Company may terminate the Amended Agreement after five years upon one year written notice; (3) the monthly fee is $147,000 (an increase of $30,000) and is subject to annual cost of living adjustments; (4) the Petroleum Company will reimburse the Company for any increase in real property taxes over the 2002 level; and (5) the Company will receive an additional $.10 per barrel for every barrel in excess of 4,000,000 barrels of throughput in any twelve-month period ending on April 30 during each year the Amended Agreement is in effect. Also effective May 1, 2003, the Petroleum Company was granted the option to purchase the Petroleum Facilities at any time during the term of the Amended

Agreement under the terms and conditions set forth in an option agreement. In a separate but related agreement, the Petroleum Company agreed to pay a portion of certain costs which may be incurred at the Wilkesbarre Pier. [See Wilkesbarre Pier below].

Environmental incidents:

In March 2002, during testing of monitoring wells at the Petroleum Facilities, the Company's consultant sampled a groundwater monitoring well located on that portion of the Petroleum Facilities purchased in 2000 and discovered free floating phase product. Preliminary laboratory analysis indicated that the product was gasoline, which is not a product the Company currently stores at its Petroleum Facilities. However, in the 1950's gasoline was stored on the Company's property by a predecessor owner. The Company commenced an environmental investigation and analysis, and the results indicate that the gasoline is not coming from the Company's Petroleum Facilities. The Company notified the State of Rhode Island Department of Environmental Management (RIDEM). The Company will continue to monitor RIDEM's investigation of this contamination to ensure that the responsible party addresses this contamination.

The Company maintains what management believes to be adequate levels of insurance. The Company notified its insurance company of the contamination. The insurance company advised the Company that coverage is only provided under policies in place at the time the contamination occurs.

For the year ended December 31, 2002, the Company incurred costs totaling $102,000 during its initial investigation and laboratory analysis. Currently, the Company is not incurring significant costs in connection with this matter 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. This situation does not affect current operations at the Petroleum Facilities.

In 1994, a leak was discovered in a 25,000 barrel storage tank at the Petroleum Facilities which allowed the escape of a small amount of fuel oil. All required notices were made to RIDEM. In 2000, the tank was demolished and testing of the groundwater indicated that there were no large pooling of contaminants. In 2001, RIDEM approved a plan whereby the Company installed a passive system consisting of three wells and commenced monitoring the wells. In December 2002, the Company determined that it would no longer incur significant costs in connection with the implementation of this monitoring plan and reversed into income a previously recorded payable of $50,000. In the spring of 2003, RIDEM decided that the passive monitoring system previously approved was not sufficient and is now requiring the Company to install an active remediation system for the removal of product from the contaminated site. The Company anticipates installing the system before yearend at an estimated cost of $50,000, at which time this amount will be included in properties and equipment on the Company's balance sheet. The Company anticipates that the ongoing cost of meeting its obligations under the new remediation plan will not be significant.

Wilkesbarre Pier:

Wilkesbarre Pier (the Pier) is a deep-water pier in East Providence, Rhode Island, now owned by the Company, which is integral to the operation of the Petroleum Facilities. The

Pier and the Petroleum Facilities are connected by two petroleum pipelines. In 1995, the Company and Providence and Worcester Railroad Company (Railroad) (the then owner of the Pier) entered into an agreement which, among other provisions, gave the Company the right to acquire the Pier for $1. The Company and Railroad have a common controlling shareholder.

Effective January 1, 1998, Railroad and a company which uses the Pier to off-load primarily gasoline from ships to its terminal (Oil Company) entered into an agreement (the Agreement) whereby Oil Company agreed to pay annual fees for five years ($185,000 in 2002). In January 1998, the Company exercised its right and acquired the Pier, and Railroad assigned its rights under the Agreement to the Company. The Agreement was extended to March 31, 2003 at a monthly fee of $15,000, which Agreement terminated at that time. Under the terms of the Agreement, the owner of the Pier was not required to make any repairs to the Pier.

In May 2000, the Fire Department of the City of East Providence (Fire

Department) notified the Company, Oil Company and another company then related to Oil Company (Other Company) that there was a lack of adequate fire protection at the Pier and required them to install certain equipment and facilities. The Company demanded that Other Company take steps to commence and complete the performance of all work and to supply all material required to satisfy the Fire Department.

In August 2000, Oil Company and Other Company (collectively Plaintiffs) filed a lawsuit against the Company in the United States District Court for the District of Rhode Island (the Court) claiming fraud on the part of Railroad and sought rescission of the Agreement and other agreements. The Company filed counterclaims against Other Company, including one for damages based on Other Company's failure to comply with the order and direction of the Fire Department as well as the failure of Other Company to comply with certain other agreements. Plaintiffs amended their complaint in June 2001 to include additional claims. Following the close of discovery, the Court dismissed all the fraud claims. The Court later bifurcated the trial of the jury claims for damages and the non-jury claims for declaratory and injunctive relief.

The jury claims were tried in December 2002. The jury returned a verdict against the Company in the amount of $100,000, which amount was recorded as an expense in 2002 and is included in accounts payable and accrued expenses, other on the accompanying consolidated balance sheet. The Company filed a post-trial motion requesting that the Court vacate the verdict. The Court entered judgment as a matter of law against the Company on the Company's claim that Other Company was obligated to pay for the installation of certain fire suppression equipment on the Pier. In June 2003, the remaining non-jury claims were tried. The Company anticipates a decision prior to the end of 2003.

In connection with this litigation, the Company incurred legal fees as follows: for the three months ended June 30, 2003 and 2002, $137,000 and $50,000, respectively; for the six months ended June 30, 2003 and 2002, $217,000 and $84,000, respectively. These amounts are included in expenses, petroleum storage facilities on the accompanying consolidated statements of loss.

Pursuant to a Guaranty and Indemnity Agreement, the Company filed a lawsuit in September 2002 against Other Company and Other Company's parent in the U. S. District Court for the

Eastern District of New York seeking reimbursement for all reasonable costs incurred by the Company in defending the Wilkesbarre Pier litigation described above. The matter has been transferred to the U. S. District Court for the District of Rhode Island and is in the early stages of discovery.

6. CLAIM AGAINST CITY OF PROVIDENCE FOR ATTORNEYS FEES:

In 1997, the City of Providence (the City) revalued certain of the Company's properties within the Capital Center area in downtown Providence, Rhode Island, and reached back six years to assess over $13,000,000 in back taxes, interest and penalties on the properties based upon a retroactive increase in the assessed values. These increases were not a part of a city-wide revaluation. The Company contended that this action by the City was both unprecedented and illegal.

In another action, the City claimed that the Company was not the owner of a certain parcel of land in the Capital Center (Disputed Parcel), which the Company purchased in 1989 from the State of Rhode Island subsequent to the State's acquiring the parcel from the City. Moreover, the City attempted to condemn the Disputed Parcel. The Company contested both the City's claim of ownership and the City's attempt to condemn the Disputed Parcel.

In July 1999, the Rhode Island Superior Court (Superior Court) ruled in favor of the Company and found (1) that both the City's new tax assessments and back taxes were illegal and void, and (2) that the Company is the rightful owner of the Disputed Parcel and that the City had no right to condemn same. The City appealed the judgments to the Rhode Island Supreme Court (Supreme Court), which denied and dismissed the City's appeal in December 1999.

After prevailing on the merits, the Company made claim against the City for attorneys fees.

In July 2000, the City filed a motion to vacate the Superior Court and Supreme Court judgments entered in favor of the Company. In October 2000, the Superior Court denied the motion to vacate and awarded the Company attorneys fees of $258,000. The City has filed an appeal in the Supreme Court. The Court has not yet scheduled this matter for hearing. Pending the ultimate resolution of the matter, the Company is not reporting the award as income in the accompanying consolidated financial statements.

7. CITY OF PROVIDENCE PROPERTY TAXES:

After receiving tax bills from the City of Providence for the years 1995 through 1999 and making the necessary tax payments, the Company filed appeals with the City contesting the assessed values with respect to certain of its properties.

In accordance with Rhode Island law, the City of Providence completed a city-wide revaluation of all real property for property tax assessment purposes. In March 2001, the Company received revaluation notices for each of its properties which set forth the proposed assessed values of its properties as of December 31, 2000. The proposed assessed values of the properties (other than those properties for which the tenants are responsible for tax payments) totaled $64,300,000 as compared with the prior assessed values which totaled

$24,400,000. In management's opinion, the proposed assessed values of its properties are significantly in excess of their market values as of December 31, 2000. After a meeting between representatives of the Company and the revaluation firm retained by the City, the Company received notices indicating that the proposed assessed values had been reduced to $53,341,000.

In August 2001, the Company received real property tax bills from the City of Providence for 2001 totaling $1,845,000. In accordance with statutory requirements, after the first tax installment of $461,000 was paid in August 2001, the Company filed appeals with the City contesting the assessed values with respect to most of its properties. If successful, the appeals will reduce the Company's 2001 annual tax expense to approximately $1,105,000.

The Providence Board of Tax Assessment Review (the Board) failed to hear any of the Company's appeals until it was directed to do so by the Superior Court. The hearing was held in March 2002 and the Board denied all of the Company's appeals for the years 1995 through 1999 and 2001. The Company appealed the decision of the Board to the Superior Court.

In August 2002, the Company received real property tax bills from the City of Providence for 2002 totaling $1,850,000. After paying the first installment of $463,000 in September 2002, the Company filed appeals with the City contesting the assessed values with respect to most of its properties. If successful, the appeals will reduce the Company's 2002 annual tax expense to approximately $1,166,000. The Board has not scheduled a hearing date for the 2002 appeals.

The Company and the City have scheduled mediation in August 2003 in an effort to resolve all property tax disputes.

The Company is unable to determine to what extent, if any, the taxes may be reduced. The Company is recording and paying its tax expense in accordance with the bills received.

In July 2003, the City increased its tax rate by 8%. Consistent with prior years, the Company does not expect the City to mail tax bills until August 2003. Accordingly, the Company is accruing property tax expense assuming a 8% increase over 2002.

8. DISPUTE WITH AMTRAK:

The Company is in litigation with the National Railroad Passenger Corporation (Amtrak) concerning various trespasses by Amtrak. During the 1980's, the Company, State, City and Amtrak each conveyed parcels of land in Capital Center so that each party had the land it needed for its designated functions within Capital Center. As part of this arrangement, Amtrak conveyed to the Company approximately 1.9 acres of air rights over Amtrak's Northeast Corridor, which rights began 19.3 feet above the top of rail. Following that conveyance, the railroad station and the Company's adjacent parking garage were constructed and partially financed by the Federal Railroad Administration (FRA).

In the fall of 1998, as part of Amtrak's electrification of the Northeast Corridor, Amtrak erected towers and a signal bridge within the air rights (the tops of which vary in height between 27 and 42 feet above the top of rail).

In July 1999, Amtrak condemned a three-year temporary easement of all the air rights owned by the Company retroactive to August 1998. In October 1999, the Company received from Amtrak $335,000, the sum estimated by Amtrak to be just compensation for the property taken.

In May 2001, Amtrak permanently condemned the air rights and a parcel of land adjacent to the air rights (with a carrying value of $625,000) for which the Company received from Amtrak $925,000, the amount estimated by Amtrak to be just compensation for the air rights and property taken.

The Company believed that the condemnation amounts paid by Amtrak were inadequate and accordingly, brought suit in the United States District Court for the District of Rhode Island (U.S. District Court) against Amtrak seeking additional compensation for the land condemned.

In November 2002, the case was tried in the U.S. District Court and the Company was awarded approximately $1,500,000, including interest, in additional damages resulting from the aforementioned condemnations. In February 2003, Amtrak appealed the decision to the U. S. Court of Appeals for the First Circuit. In July 2003, Amtrak posted an appeal bond with the Court in the amount of the judgment. The Company is unable to determine when the appeal will be heard and the amount of additional damages, if any, the Company may ultimately receive. Pending the final resolution of the matter, the Company is not reporting the award as income in the accompanying consolidated financial statements.

9. INCOME TAXES:

The permanent condemnation proceeds received in 1999 from the State of Rhode Island qualify for deferred reinvestment for income tax reporting purposes whereby the Company may elect to reduce the income tax basis of qualifying subsequent acquisitions, subject to certain restrictions. In February 2002, the Company effected a qualifying purchase with a consolidated subsidiary and amended its 1999 federal and state income tax returns to claim refunds totaling $568,000 with respect to condemnation proceeds previously taxed. Through June 30, 2002, the Company received the state refund of $117,000 plus interest of $30,000. The federal income tax refund plus interest was received in the fourth quarter of 2002.

For income tax reporting purposes, the Company reported a loss for the year ended December 31, 2001. In April 2002, the Company filed a carryback claim which resulted in a refund of federal income taxes previously paid for years 1996 through 1999 in the amount of $607,000, all of which was received by June 30, 2002.

For income tax reporting purposes, the Company reported a tax loss for the year ended December 31, 2002, and filed carryback claims that resulted in a refund of federal income taxes previously paid in the amount of $381,000, which amount was received in May 2003. With this refund, the Company has recovered substantially all federal income taxes paid during the carryback period.

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Under present Rhode Island law, income tax losses cannot be carried back, and state tax loss carryforwards are limited to the amount of the federal tax loss carryforward. As of June 30, 2003, the Company has $235,000 of federal and state loss carryforwards. For income tax reporting purposes, the Company expects to report a loss for the year ending December 31, 2003.

Deferred income taxes are recorded based upon differences between financial statement and tax carrying amounts of assets and liabilities. The tax effects of temporary differences which give rise to deferred tax assets and liabilities at June 30, 2003 were as follows:

Gross deferred tax liabilities:

Property having a financial statement basis in excess of tax basis................................	$3,627,000
Accrued rental income.................................	179,000
	3,806,000
Gross deferred tax assets:	
Professional fees in connection with Amtrak dispute and environmental matters................................	161,000
Loss carryforwards....................................	94,000
Other..	58,000
	313,000
	$3,493,000

10. OPERATING SEGMENT DISCLOSURES:

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

The Leasing segment consists of the long-term leasing of certain of its real estate interests in downtown Providence, Rhode Island (to tenants that have constructed buildings thereon) and locations along interstate and primary highways in Rhode Island and Massachusetts (to a company which has constructed outdoor advertising boards thereon). The Company anticipates that the future development of its remaining properties will consist primarily of long-term ground leases. Pending this development, the Company leases these parcels and an adjacent parking garage for public parking purposes under short-term cancellable leasing arrangements.

The Petroleum Storage Facilities segment consists of the operating of the Petroleum Facilities in East Providence under the Amended Agreement that expires in 2013 at a fixed monthly rate for the Petroleum Company which stores and distributes petroleum products. The Amended Agreement includes provisions to extend and additional payments based upon throughput. (See Note 5.)

The principal difference between the two segments relates to the nature of the operations. The tenants in the Leasing segment incur substantially all of the development and operating costs of the asset constructed on the Company's land, whereas the Company is responsible for the operating and maintenance expenditures as well as capital improvements at the Petroleum Facilities.

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

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There are no inter-segment revenues. The Company did not incur interest expense during the six months ended June 30, 2003 and 2002.

The following financial information is used for making operating decisions and assessing performance of the Company's segments:

	Leasing	Petroleum Storage Facilities	Total
Six months ended June 30, 2003:			
Revenues:			
Contractual	$ 1,195,000	$ 846,000	$ 2,041,000
Contingent	75,000	264,000	339,000
Option	368,000	--	368,000
Noncash, excess of contractual over straight-line rentals	(32,000)	--	(32,000)
	$ 1,606,000	$ 1,110,000	$ 2,716,000
Property tax expense	$ 1,000,000	$ 56,000	$ 1,056,000
Depreciation	$ 31,000	$ 173,000	$ 204,000
Income (loss) before income taxes	$ 479,000	$ (1,000)	$ 478,000
Assets	$ 5,900,000	$ 10,055,000	$ 15,955,000
Properties and equipment, additions	$ --	$ 3,000	$ 3,000
Six months ended June 30, 2002:			
Revenues:			
Contractual	$ 1,113,000	$ 801,000	$ 1,914,000
Contingent	59,000	135,000	194,000
Option	170,000	--	170,000
Noncash, excess of contractual over straight-line rentals	(19,000)	--	(19,000)
	$ 1,323,000	$ 936,000	$ 2,259,000
Property tax expense	$ 930,000	$ 53,000	$ 983,000
Depreciation	$ 31,000	$ 173,000	$ 204,000
Income before income taxes	$ 172,000	$ 63,000	$ 235,000
Assets	$ 5,953,000	$ 10,028,000	$ 15,981,000
Properties and equipment, additions	$ --	$ 172,000	$ 172,000

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, 2003 and 2002:

	2003	2002
Income:		
Revenues for operating segments	$ 2,716,000	$ 2,259,000
Interest income	3,000	33,000
Total consolidated income	$ 2,719,000	$ 2,292,000
Property tax expense:		
Property tax expense for operating segments	$ 1,056,000	$ 983,000
Unallocated corporate property tax expense	1,000	1,000
Total consolidated property tax expense	$ 1,057,000	$ 984,000
Depreciation:		
Depreciation for operating segments	$ 204,000	$ 204,000
Unallocated corporate depreciation	5,000	5,000
Total consolidated depreciation	$ 209,000	$ 209,000
Income before income taxes:		
Income for operating segments	$ 478,000	$ 235,000
Interest income	3,000	33,000
Unallocated corporate expenses	(521,000)	(511,000)
Total consolidated loss before income taxes	$ (40,000)	$ (243,000)
Assets:		
Assets for operating segments	$ 15,955,000	$ 15,981,000
Corporate cash and cash equivalents	1,769,000	1,473,000
Income tax receivable	--	634,000
Other unallocated amounts	49,000	60,000
Total consolidated assets	$ 17,773,000	$ 18,148,000
Additions to properties and equipment:		
Operating segments	$ 3,000	$ 172,000
Unallocated corporate additions	--	1,000
Total consolidated additions	$ 3,000	$ 173,000

CAPITAL PROPERTIES, INC. AND SUBSIDIARIES

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 THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, CONTAIN FORWARD-LOOKING STATEMENTS 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 RENTAL INCOME 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; THE FINAL OUTCOME OF THE AMTRAK, OIL COMPANY AND CITY OF PROVIDENCE LAWSUITS AND CITY OF PROVIDENCE TAX APPEALS; AND EXPOSURE TO CONTAMINATION, CLEANUP OR SIMILAR COSTS ASSOCIATED WITH THE OPERATION OF THE PETROLEUM STORAGE FACILITIES.

1. OVERVIEW:

Critical accounting policies:

Critical accounting policies are policies that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in its Report on Form 10-KSB for the year ended December 31, 2002. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the Company's revenue recognition policy for long-term leases with scheduled rent increases (leasing segment) meets the definition of "critical."

Certain of the Company's long-term land leases have original terms of 30 to 149 years and contain scheduled rent increases where the future dollar increases are known at the time of the commencement of the lease or at a subsequent date.

The first such lease commenced in 1988, had an original term of 99 years and provides for fixed percentage increases at specified intervals (as well as reappraisal increases). In accordance with the provisions of Statement of Financial Accounting Standards (FAS) No. 13 (Accounting for Leases) and certain of its interpretations, rental income related to the fixed percentage increases that are presently known should be recognized on a straight-line basis. To calculate the annual straight-line amount, the 99 annual rental amounts are totaled and this total is divided by 99.

For this lease, the calculated annual straight-line amount for 1988 was eight times (multiple) the amount paid by the tenant under the terms of the lease (contractual amount). In subsequent years, as the tenant pays higher rents, the multiple gradually decreases until the 57th year of the lease, at which time the contractual amount paid by the tenant will exceed the calculated straight-line amount. If the Company were to report annual revenue for this lease using the straight-line amount, it would record a significant receivable for each of the first 56 years, which receivable would grow to approximately $33,000,000. Management does not believe that the Company should record a receivable that would not begin to be collected for 56 years (turnaround date) since management could not be assured of collection.

In 1988, management met with the Securities and Exchange Commission (SEC) accounting staff to discuss its concerns over the provisions of FAS No. 13 as they related to a lease of this length which results in the recording of such a significant receivable that would remain on the Company's balance sheet and continue to grow on an annual basis with a turnaround date so far in the future. The Company presented the SEC accounting staff with an application of the accounting policy whereby management would evaluate the collectibility of the receivable on an annual basis and report as leasing revenue only that portion of the receivable that management could conclude would be collectible. The SEC accounting staff did not object to this application by the Company.

Through June 30, 2003, this receivable on this lease has grown to approximately $13,914,000 (cumulative excess of straight-line over contractual rentals) and management has not been able to conclude that any portion is collectible as the turnaround date is still 41 years away. Accordingly, the Company has not reported any portion of this amount as leasing revenue in its financial statements and does not anticipate that it can reach such a conclusion until the turnaround date is closer.

By contrast, the Company's long-term lease for outdoor advertising locations had an original term of 30 years, scheduled rent increases where the future dollar increases were known at the time of the commencement of the lease, and a turnaround date in the 9th year. In this instance, management was of the opinion that the receivable was collectible due to the closeness of the turnaround date and other factors. Accordingly, the Company has recognized leasing revenue using the annual straight-line amount in its consolidated financial statements since the inception of the lease.

Although the Company's other long-term land leases provide for scheduled rent increases, the provisions of the leases are such that the future dollar amounts could not be calculated either at the time of the commencement of the lease or now, as such amounts are based on factors that are not presently known, i.e., future cost-of-living adjustments or future appraised values. The Company is reporting the annual rental income under these leases using the contractual amounts in accordance with the provisions of FAS No. 13.

The Audit Committee of the Board of Directors concurs with the Company's application of its critical accounting policy relating to leasing revenue under long-term land leases.

Segments:

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

Leasing:

The leasing segment is principally devoted to the leasing of Company-owned land in the Capital Center Project Area (Capital Center), in downtown Providence, Rhode Island under long-term ground leases. The Company owns approximately 18 acres in the Capital Center consisting of 11 parcels. The Capital Center (approximately 77 acres of land) is the result of a development project undertaken by the State of Rhode Island, the City of Providence, the National Railroad Passenger Corporation (Amtrak) and the Company during the 1980's in which two rivers, the Moshassuck and the Woonasquatucket, were moved, a new railroad station (the Railroad Station) was constructed and significant public improvements were made to improve pedestrian and vehicular traffic in the area. The Company has not acted, and does not intend to act, as a developer with respect to any improvements constructed on Company-owned parcels.

The Company first began offering parcels for lease in the late 1980's. As part of the construction of the Railroad Station, the Federal Railroad Administration constructed a 330-car parking garage on one of the Company's parcels adjacent to the Railroad Station, and the Company paid one-half of the construction cost. Subsequently, the Company became sole owner of the parking garage, which is currently leased to an experienced parking operator (parking operator). Three other parcels have been leased by the Company under long-term leases of 99 years or more. Located on these parcels are a 13-story office building, a 225-unit luxury apartment complex and a 114,000 square foot office building.

The seven remaining parcels (undeveloped parcels) are the subject of four leases, the term of each of which has not commenced pending completion of development plans and closing of construction financing. During the interim, option payments are being made by the developers under the leases for the undeveloped parcels. Under one of the leases, the developer made a series of six-month option payments, the last of which was paid in June 2003 for the period ending December 27, 2003. In July 2003, this lease was assigned to GTECH Corporation which plans to construct its corporate headquarters on this parcel. Under another lease, the Company receives option payments pursuant to a month-to-month arrangement. Under the third and fourth leases, the Company began receiving option payments April 1, 2003. The monthly option income totals $80,000 at June 30, 2003. There is no assurance that any one or more of these development projects will actually proceed.

Pending future development or commencement of the leases, five of the parcels are subject to short-term leases with the parking operator.

The Company also owns two land parcels (18,000 sq. ft.) adjacent to the Company's parcels in the Capital Center which are also subject to a short-term lease with the parking operator.

Additionally, the Company, through a wholly-owned subsidiary, leases certain outdoor advertising locations along interstate and primary highways in Rhode Island and Massachusetts to an outdoor advertising company. Presently, there are now fifty billboard faces leased. The lease expires in 2031. The term of the lease is extended for two years for each additional location added. The Company added three locations in 2002.

Petroleum storage:

The Company, through a wholly-owned subsidiary, owns a 524,500 barrel petroleum storage facility located in East Providence, Rhode Island, and a deep-water pier (Wilkesbarre Pier) and

pipeline connecting the Wilkesbarre Pier to the petroleum storage facilities (Petroleum Facilities). The Company and a petroleum distribution company (Petroleum Company) are parties to an agreement whereby the Company operates the entire Petroleum Facilities for the Petroleum Company. The Company is responsible for labor, insurance, property taxes and other operating expenses, as well as capital improvements. Through April 30, 2003, the agreement provided for a monthly fee which increased annually by 4.5%, as well as an additional $.10 per barrel for every barrel in excess of 2,000,000 barrels in any agreement year.

Effective May 1, 2003, the Company and Petroleum Company entered into an amended and restated lease agreement (Amended Agreement) which, among other things, provides as follows: (1) the Amended Agreement will expire April 30, 2013, but will continue thereafter on a year-to-year basis unless terminated by either party upon ninety days written notice; (2) the Petroleum Company may terminate the Amended Agreement after five years upon one year written notice; (3) the monthly fee is $147,000 (an increase of $30,000) and is subject to annual cost of living adjustments; (4) the Petroleum Company will reimburse the Company for any increase in real property taxes over the 2002 level; and (5) the Company will receive an additional $.10 per barrel for every barrel in excess of 4,000,000 barrels of throughput in any twelve-month period ending on April 30 during each year the Amended Agreement is in effect. Also effective May 1, 2003, the Petroleum Company was granted the option to purchase the Petroleum Facilities at any time during the term of the Amended Agreement under the terms and conditions set forth in an option agreement. In a separate but related agreement, the Petroleum Company agreed to pay a portion of certain costs which may be incurred at the Wilkesbarre Pier.

Pursuant to an agreement (Agreement) with another company (Oil Company), which afforded that Oil Company the right to use the Wilkesbarre Pier, the Company received annual payments. In 2002, this payment was $185,000. This Agreement was extended to March 31, 2003 at a monthly fee of $15,000, which Agreement terminated at that time. As described in Note 5 of Notes to Consolidated Financial Statements, the Company is in litigation (Wilkesbarre Pier litigation) with Oil Company and a related party over the Agreement and the rights of others to utilize the Wilkesbarre Pier.

In March 2002, during testing of a monitoring well at the Petroleum Facilities, the Company's consultant sampled a groundwater monitoring well on that portion of the Petroleum Facilities purchased in 2000 and discovered free floating phase product. Preliminary laboratory analysis indicated that the product was gasoline, which is not a product the Company currently stores at its Petroleum Facilities. However, in the 1950's gasoline was stored on the Company's property by a predecessor owner. The Company commenced an environmental investigation and analysis, and the results indicate that the gasoline is not coming from the Company's Petroleum Facilities. The Company notified the State of

Rhode Island Department of Environmental Management (RIDEM). The Company will continue to monitor RIDEM's investigation of this contamination.

The Company maintains what management believes to be adequate levels of insurance. The Company notified its insurance company of the contamination. The insurance company advised the Company that coverage is only provided under policies in place at the time the contamination occurs.

For the year ended December 31, 2002, the Company incurred costs totaling $102,000 during its initial investigation and laboratory analysis. Currently, the Company is not incurring significant costs in connection with this matter 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. This situation does not affect current operations at the Petroleum Facilities.

In 1994, a leak was discovered in a 25,000 barrel storage tank at the Petroleum Facilities which allowed the escape of a small amount of fuel oil. All required notices were made to RIDEM. In 2000, the tank was demolished and testing of the groundwater indicated that there were no large pooling of contaminants. In 2001, RIDEM approved a plan whereby the Company installed a passive system consisting of three wells and commenced monitoring the wells. In December 2002, the Company determined that it would no longer incur significant costs in connection with the implementation of this monitoring plan and reversed into income a previously recorded payable of $50,000. In the spring of 2003, RIDEM decided that the passive monitoring system previously approved was not sufficient and is now requiring the Company to install an active remediation system for the removal of product from the contaminated site. The Company anticipates installing the system before yearend at an estimated cost of $50,000. The Company anticipates that the ongoing cost of meeting its obligations under the new remediation plan will not be significant.

The Company manages its exposure to contamination, cleanup or similar costs associated with the Petroleum Facilities through adherence to established procedures for operations and equipment maintenance.

Condemnation proceedings:

As described in Note 8 to Consolidated Financial Statements, certain of the Company's property adjacent to Amtrak's Northeast Corridor in Providence, Rhode Island was condemned by Amtrak in 1999 and 2001. The Company believed that the amounts paid by Amtrak were inadequate and made a claim for additional condemnation proceeds. In November 2002 the U. S. District Court for the District of Rhode Island awarded the Company $1,500,000, including interest, in additional damages. In February 2003, Amtrak appealed the decision to the U. S. Court of Appeals for the First Circuit. In July 2003, Amtrak posted an appeal bond with the Court in the amount of the judgment. The Company is unable to determine when the appeal will be heard and the amount of additional damages, if any, the Company may ultimately receive.

2. RESULTS OF OPERATIONS:

Leasing segment:

For the three and six months ended June 30, 2003, revenue from leasing increased 29% and 21%, respectively, from 2002 due principally to higher option payments received on those leases which will not commence until construction begins, renewals of short-term parking leases, revenue associated with the three billboard locations added in the fourth quarter of 2002, and the commencement of contingent rentals relating to one developed parcel. For the three months ended June 30, 2003, expenses applicable to leasing remained approximately at the 2002 level which resulted from a decline in professional fees offset in part by an increase in property tax expense. For the six months ended June 30, 2003, expenses applicable to leasing decreased 2% from 2002 due to a decrease in professional fees offset in part by an 8% increase in property taxes.

As described in Note 7 of Notes to Consolidated Financial Statements, the Company appealed the tax increase for the years 1995 through 1999 and 2001 to the Providence Board of Tax

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Assessment Review (the Board). In March 2002, the Board denied the Company's appeal. The Company appealed the decision of the Board to the Superior Court. The Company cannot predict when this case will be heard or the outcome of the case. The Company's failure to achieve relief from the City of Providence's taxes will continue to have a material adverse effect on the income derived from its leasing segment. To date, all of the Company's long-term leases of the Capital Center property which have commenced require the tenant to pay all real property taxes. The Company has no reason to believe that future leases will not contain a similar requirement.

Petroleum storage:

For the three and six months ended June 30, 2003, revenue from petroleum storage facilities increased 11% and 19%, respectively, from 2002 resulting principally from higher monthly fees under the agreement and higher contingent revenues due to a colder winter, offset in part by the March 31, 2003 termination of the agreement with Oil Company for its use of the Wilkesbarre Pier. For the three and six months ended June 30, 2003, expenses applicable to petroleum storage facilities increased 20% and 27%, respectively, from 2002 principally due to higher legal fees associated with the Wilkesbarre Pier litigation, expenses associated with the higher volume of throughput at the Petroleum Facilities and increased insurance costs.

General:

For the three and six months ended June 30, 2003, general and administrative expenses remained approximately at the 2002 level.

Under present Rhode Island law, state income tax losses cannot be carried back, and state tax loss carryforwards are limited to the amount of the federal tax loss carryforward resulting in an income tax provision for 2002 that does not bear the customary relationship to loss before income taxes. The income tax provision does not bear the customary relationship in 2003 due to an adjustment to the estimated federal income tax refund recorded in 2002.

Liquidity:

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

In 1999, the Company was the recipient of substantial condemnation proceeds from the State of Rhode Island. In February 2002, the Company effected a qualifying purchase with a consolidated subsidiary which permitted it to amend its 1999 federal and state income tax returns to claim refunds totaling $568,000 with respect to condemnation proceeds previously taxed. Through June 30, 2002, the Company received the state refund of $117,000 plus interest of $30,000. For federal income tax reporting purposes, the Company reported a loss for the year ended December 31, 2001, and filed a carryback claim that resulted in a refund of federal income taxes previously paid for years 1996 through 1999 in the amount of $607,000, all of which was received by June 30, 2002.

For income tax reporting purposes, the Company reported a tax loss for the year ended December 31, 2002 and filed a carryback claim that resulted in a refund of federal income taxes previously paid in the amount of $381,000 which was received in May 2003. With this refund, the Company has recovered substantially all federal income taxes paid during the carryback period.

In February 2002, the Company paid a quarterly dividend of $99,000 to holders of Class A and Class B common stock at the rate of $.03 per share. However, at subsequent quarterly meetings, the Board of Directors elected to omit the dividend pending resolution of the Company's tax appeals against the City of Providence and other matters. The Board re-examines the situation quarterly to determine whether the dividend will be reinstated. The declaration of future dividends and the amount thereof will depend on the Company's future earnings, financial factors and other events.

In January 2003, the Company paid $112,000 for properties purchased in 2002. The Company will incur approximately $50,000 for the installation of the active remediation system at the Petroleum Facilities.

In connection with the condemnation by Amtrak, in November 2002 the Company was awarded approximately $1,500,000 including interest in additional damages. In February 2003, Amtrak appealed the decision to the U. S. Court of Appeals for the First Circuit. In July 2003, Amtrak posted an appeal bond with the Court in the amount of the judgment. The Company is unable to determine when the appeal will be heard and the amount of additional damages, if any, the Company may ultimately receive.

While the Company has been adversely impacted by the cost of the Wilkesbarre Pier litigation and the increase in the City of Providence real property taxes, in management's opinion, the Company should be able to generate sufficient amounts of cash to meet all of its anticipated obligations. In the event temporary additional 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 3. CONTROLS AND PROCEDURES

As required by Rule 13a-15 of the Securities Exchange Act of 1934 (the "Exchange Act"), the President and Treasurer carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the undersigned officers of the Company have concluded that such disclosure controls and procedures were adequate 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 SEC rules and regulations. There was no significant change in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

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PART II

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) INDEX OF EXHIBITS:

3.1 Amended Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Issuer's report on Form 8-K filed December 10, 2001).

3.2 By-laws, as amended (incorporated by reference to Exhibit 3(b) to the Issuer's quarterly report on Form 10-QSB for the quarter ended September 30, 1999).

10 Material contracts: leases between Metropark, Ltd. and small business issuer:

(i) Dated December 12, 2001 (incorporated by reference to Exhibit 10(a)(i) to the Issuer's annual report on Form 10-KSB for the year ended December 31, 2001).

(ii) Dated December 12, 2001 (incorporated by reference to Exhibit 10(a)(ii) to the Issuer's annual report on Form 10-KSB for the year ended December 31, 2001).

(iii) Dated December 12, 2001 (incorporated by reference to Exhibit 10(a)(iii) to the Issuer's annual report on Form 10-KSB for the year ended December 31, 2001).

(iv) Dated December 12, 2001 (incorporated by reference to Exhibit 10(a)(iv) to the Issuer's annual report on Form 10-KSB for the Year ended December 31, 2001).

(v) Dated December 12, 2001 (incorporated by reference to Exhibit 10(a)(v) to the Issuer's annual report on Form 10-KSB for the year ended December 31, 2001).

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

(b) For the quarter ended June 30, 2003, no reports on Form 8-K were filed.

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/ Ronald P. Chrzanowski

Ronald P. Chrzanowski
President and Principal Executive Officer

By /s/ Barbara J. Dreyer

Barbara J. Dreyer
Treasurer and Principal Financial Officer

DATED: August 1, 2003