

CAPITAL PROPERTIES INC /RI/

Form 10-Q

July 31, 2012

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

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 001-08499

**CAPITAL PROPERTIES, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: CAPITAL PROPERTIES INC /RI/ - Form 10-Q

<b>Rhode Island</b> (State or other jurisdiction of incorporation or organization)	<b>05-0386287</b> (IRS Employer Identification No.)
<b>100 Dexter Road</b>  <b>East Providence, Rhode Island</b> (Address of principal executive offices)	<b>02914</b> (Zip Code)
<b>(401) 435-7171</b> (Registrant's telephone number, including area code)	

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes  No

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

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

As of June 30, 2012, the Company had 3,759,141 shares of Class A Common Stock and 2,840,771 shares of Class B Common Stock outstanding.

**Table of Contents**

**CAPITAL PROPERTIES, INC.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED JUNE 30, 2012**  
**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Consolidated Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 4. <u>Controls and Procedures</u>	19
<b><u>PART II OTHER INFORMATION</u></b>	
Item 6. <u>Exhibits</u>	20
<u>Signatures</u>	21
Exhibits 31 Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	22
Exhibits 32 Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	24

**Table of Contents****PART I****Item 1. Consolidated Financial Statements  
CAPITAL PROPERTIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	June 30, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Properties and equipment (net of accumulated depreciation)	\$ 21,784,000	\$ 22,097,000
Cash	2,115,000	2,178,000
Income taxes receivable		45,000
Prepaid and other	466,000	652,000
	\$ 24,365,000	\$ 24,972,000
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Liabilities:		
Note payable (\$300,000 due within one year)	\$ 2,850,000	\$ 4,000,000
Accounts payable and accrued expenses:		
Property taxes	304,000	291,000
Environmental incidents:		
Pipeline rupture		76,000
Environmental remediation	81,000	81,000
Other	266,000	242,000
Income taxes payable	57,000	
Deferred:		
Leasing revenues		70,000
Income taxes, net	5,543,000	5,641,000
	9,101,000	10,401,000
Shareholders equity:		
Class A common stock, \$.01 par; authorized 10,000,000 shares; issued and outstanding, 3,759,141 shares at June 30, 2012 and 3,744,192 shares at December 31, 2011	38,000	37,000
Class B common stock, \$.01 par; authorized 3,500,000 shares; issued and outstanding, 2,840,771 shares at June 30, 2012 and 2,855,720 shares at December 31, 2011	28,000	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	3,436,000	2,743,000
	15,264,000	14,571,000
	\$ 24,365,000	\$ 24,972,000

See notes to consolidated financial statements.



**Table of Contents****CAPITAL PROPERTIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS****THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011****(Unaudited)**

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
<b>Revenues:</b>				
Leasing	\$ 1,091,000	\$ 1,047,000	\$ 2,103,000	\$ 1,869,000
Petroleum storage facility:				
Contractual	985,000	961,000	1,961,000	1,912,000
Reimbursement of tank repairs		495,000		495,000
	2,076,000	2,503,000	4,064,000	4,276,000
<b>Expenses:</b>				
Leasing	270,000	249,000	540,000	499,000
Petroleum storage facility:				
Operating	516,000	528,000	1,067,000	1,106,000
Tank repairs		37,000		87,000
General and administrative	270,000	234,000	533,000	490,000
Interest	61,000	85,000	122,000	173,000
	1,117,000	1,133,000	2,262,000	2,355,000
<b>Income before income taxes</b>	<b>959,000</b>	<b>1,370,000</b>	<b>1,802,000</b>	<b>1,921,000</b>
<b>Income tax expense (benefit):</b>				
Current	414,000	565,000	811,000	756,000
Deferred	(33,000)	(2,000)	(98,000)	26,000
	381,000	563,000	713,000	782,000
<b>Net income</b>	<b>578,000</b>	<b>807,000</b>	<b>1,089,000</b>	<b>1,139,000</b>
<b>Retained earnings, beginning</b>	<b>3,056,000</b>	<b>1,637,000</b>	<b>2,743,000</b>	<b>1,503,000</b>
Dividends on common stock based upon 6,599,912 shares outstanding: \$.03 per share for the three months ended June 30, 2012 and 2011 and \$.06 per share for the six months ended June 30, 2012 and 2011	(198,000)	(198,000)	(396,000)	(396,000)
<b>Retained earnings</b>	<b>\$ 3,436,000</b>	<b>\$ 2,246,000</b>	<b>\$ 3,436,000</b>	<b>\$ 2,246,000</b>
<b>Basic income per common share based upon 6,599,912 shares outstanding</b>	<b>\$ .09</b>	<b>\$ .12</b>	<b>\$ .17</b>	<b>\$ .17</b>

See notes to consolidated financial statements.



**Table of Contents****CAPITAL PROPERTIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2012 AND 2011****(Unaudited)**

	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,089,000	\$ 1,139,000
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	425,000	417,000
Amortization of deferred financing fees	3,000	3,000
<b>Deferred:</b>		
Income taxes	(98,000)	26,000
Leasing revenues	(70,000)	(150,000)
Other, principally net changes in prepaids, accounts payable, accrued expenses and current income taxes	194,000	40,000
 Net cash provided by operating activities	 1,543,000	 1,475,000
 <b>Cash flows from investing activities:</b>		
Payments for properties and equipment	(112,000)	(348,000)
<b>Related party transaction:</b>		
Advance	(100,000)	
Repayment	152,000	
 Net cash used in investing activities	 (60,000)	 (348,000)
 <b>Cash flows from financing activities:</b>		
<b>Payments:</b>		
Note payable	(1,150,000)	(1,150,000)
Dividends	(396,000)	(396,000)
 Cash used in financing activities	 (1,546,000)	 (1,546,000)
 Decrease in cash	 (63,000)	 (419,000)
Cash, beginning	2,178,000	2,395,000
 Cash, ending	 \$ 2,115,000	 \$ 1,976,000
 <b>Supplemental disclosures:</b>		
<b>Cash paid for:</b>		
Income taxes	\$ 710,000	\$ 95,000
 Interest	 \$ 121,000	 \$ 175,000
 Non-cash investing and financing activities, capital expenditures financed through accounts payable	 \$	 \$ 21,000



See notes to consolidated financial statements.

**Table of Contents**

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SIX MONTHS ENDED JUNE 30, 2012 AND 2011**

**(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, 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 space in 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 ), both of which are owned by the Company and are 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. In the petroleum storage segment, the Company is responsible for the operating and maintenance expenditures, including insurance and a portion of the real property taxes, as well as certain 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, 2011, 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 accounting principles generally accepted in the United States 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, 2012, the results of operations for the three and six months ended June 30, 2012 and 2011, and the cash flows for the six months ended June 30, 2012 and 2011.

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

*Environmental incidents:*

The Company accrues a liability when an environmental incident has occurred and the costs are estimable. The Company does not record a receivable for recoveries from third parties for environmental matters until it has determined that the amount of the collection is reasonably assured. The accrued liability is relieved when the Company pays the liability or a third party assumes the liability. Upon determination that

collection is reasonably assured or a third party assumes the liability, the Company records the amount as a reduction of expense.

**Table of Contents**

The Company charges to expense those costs that do not extend the life, increase the capacity or improve the safety or efficiency of the property owned or used by the Company.

*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.

**3. Use of estimates:**

The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of income 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, 2012	December 31, 2011
Properties on lease or held for lease:		
Land and land improvements	\$ 4,701,000	\$ 4,701,000
Building and improvements, Steeple Street	5,509,000	5,411,000
	10,210,000	10,112,000
Petroleum storage facility, on lease:		
Land and land improvements	5,591,000	5,591,000
Buildings and structures	1,847,000	1,833,000
Tanks and equipment	14,625,000	14,625,000
	22,063,000	22,049,000
Office equipment	83,000	83,000
	32,356,000	32,244,000
Less accumulated depreciation:		
Properties on lease or held for lease	475,000	374,000
Petroleum storage facility, on lease	10,027,000	9,706,000
Office equipment	70,000	67,000
	10,572,000	10,147,000
	\$ 21,784,000	\$ 22,097,000

**5. Note payable:**

In 2010, the Company borrowed \$6,000,000 from a bank. The loan bears interest at an annual rate of 6 percent and has a term of ten years with repayments on a twenty-year amortization schedule (monthly principal payments of \$25,000 plus interest) and a balloon payment due April 2020 when the loan matures. The note further 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 June 2012, the Company made a principal prepayment of \$1,000,000. In June and December of 2011, the Company made principal prepayments of \$1,000,000 and \$525,000, respectively. As a result of these prepayments, the balloon payment due April 2020 is \$500,000.

In connection with the borrowing, the Company incurred financing fees totaling \$55,000, which are being amortized on a straight-line method over the 10-year term of the note (which approximates the effective interest rate method) and are included in interest expense on the accompanying consolidated statements of income and retained earnings.

**Table of Contents****6. Description of leasing arrangements:***Long-term land leases:*

As of June 30, 2012, the Company had entered into seven long-term land leases for seven separate parcels (including the Parcel 6A lease discussed below) upon which the improvements have been completed ( developed parcels ).

Under the seven land leases, the tenants are required to negotiate any tax stabilization treaties or other arrangements, appeal any changes in real property assessments, and pay real property taxes assessed on land and improvements under these arrangements. Accordingly, real property taxes payable by the tenants are excluded from leasing revenues and leasing expenses on the accompanying consolidated statements of income and retained earnings. The real property taxes attributable to the Company's land under these leases totaled \$308,000 and \$623,000, respectively, for the three and six months ended June 30, 2012 and \$293,000 and \$586,000, respectively, for the three and six months ended June 30, 2011.

In 2005, a long-term land lease commenced on an undeveloped parcel (Parcel 6) on which two residential buildings were planned. One building containing 96 apartments (120,000 gross square feet) was completed in September 2009. On May 8, 2012, the designee of the holder of the leasehold mortgage on the parcel received title to the premises through a foreclosure deed. On May 18, 2012, the Company entered into three amended and restated leases, each for a portion of the parcel, with single purpose entities formed by the designee of the holder of the leasehold mortgage. Each of the leases has an initial term of approximately 95 years with two renewal terms of fifty years each. The lease for the portion of the parcel (6A) on which the improvements have been completed provides for an annual rent of \$300,000 subject to periodic cost of living and appraisal adjustments. The portions of the parcel (6B and 6C) on which construction has not commenced have different rental terms. With respect to Parcel 6B, there is no rent until July 1, 2012, at which time the annual rent is \$175,000. As to Parcel 6C, there is no rent until July 1, 2015, at which time the annual rent is \$200,000. In each case, the rent is subject to periodic adjustment. The ground leases are non-recourse to each of the tenants. With respect to the Parcel 6B and 6C leases, an affiliate of the leasehold mortgagee has guaranteed the payment by the tenants of rent and real property taxes as well as certain other tenant monetary obligations for a two-year period which commenced on May 18, 2012. Commencing May 18, 2014, the lessees of the Parcel 6B and 6C leases each have the right to terminate its lease at any time during the remaining term of that lease upon thirty days' notice.

Under the original Parcel 6 lease which commenced in 2005, the tenant was entitled to a credit for future rents equal to a portion of the real property taxes paid by the tenant through April 2007. 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 was not required to make cash payments for Phase I rent until March 2012 when the rent credit was fully utilized. Commencing July 1, 2010, the Company reclassified each month \$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 under a short-term cancellable lease.

At June 30, 2012, the Company has three tenants occupying 56 percent of the Steeple Street Building under short-term leases of five years or less at a current combined annual rental of \$119,000. The Company is recognizing the revenue from these leases on a straight-line basis over the terms of the leases. At June 30, 2012, the excess of straight-line over contractual rentals is \$12,000, which is included in prepaid and other on the accompanying consolidated balance sheet at June 30, 2012. The Company also reports as revenue from tenants reimbursements for common area costs and real property taxes. The Company is currently marketing the remaining portions of the building for lease.

**7. Petroleum storage facility and environmental incidents:***Exercise of purchase option by Global:*

On April 27, 2012, the Company received from Global notice of Preliminary Exercise of the option to purchase the Company's petroleum storage terminal and related facilities, including the Wilkesbarre Pier. Under the terms of the Option Agreement between the Company and Global dated June 9, 2003 ( Option Agreement ), the Company provided Global with a calculation of Adjusted Book Value (as that term is defined in the Option Agreement) of the Terminal, which amounted to \$19,700,000. Global then elected to proceed with a determination of Appraised Value

## Table of Contents

(as defined in the Option Agreement). Each of Global and the Company has selected an appraiser. Global and the Company have agreed to defer the selection of a third appraiser until their respective appraisers have completed their appraisals and discussed the results. The Company and Global are discussing establishing a deadline for completion of the appraisals. If Global and the Company cannot agree on a price based on the appraisals from their respective appraisers, then the two appraisers must select a third appraiser. The three appraisers then attempt to agree on Appraised Value. If they cannot agree, then Appraised Value is the average of the two appraisals that are closest to one another. The Company is unable to estimate when the appraisal process will be completed. Upon the determination of Appraised Value, Global has the right to either rescind the notice of exercise or elect to commence a feasibility study and inspection of the Terminal. Global has 180 days to complete the feasibility study and inspection. At any time during the 180-day period, Global may elect to rescind its notice of exercise. If Global fails to do so, then the exercise becomes final subject to usual and customary closing conditions and the parties have 90 days to close the transaction. Under the Option Agreement, if Global elects to proceed with the purchase, it must pay the greater of (a) the Adjusted Book Value or (b) the Appraised Value. On May 1, 2012, the Company gave Global notice of non-extension of the Global lease. Accordingly, the Global lease will expire on April 30, 2013. The Company is evaluating its options in the event Global does not purchase the Terminal.

### *Pipeline rupture (2011):*

On August 31, 2011, while excavating in connection with the construction of a highway for the Rhode Island Department of Transportation (RIDOT), Cardi Corporation (Cardi) ruptured an underground pipeline controlled and used by the Company for the transportation of Ultra Low Sulfur Diesel (ULSD) from the Wilkesbarre Pier to its Petroleum Storage Facility. At the time, the Company was receiving product from a barge and, as a result of the rupture, approximately 70,000 gallons of ULSD were discharged. Pursuant to the Company's Emergency Response Plan, representatives of the Company took control of the spill site and coordinated the response of various governmental agencies as well as private contractors. Approximately 56,000 gallons of spilled diesel were recovered. On September 6, 2011, the Company turned over the responsibility for the clean-up to Cardi.

The Company notified the required government agencies and its insurance carriers of the rupture.

Management's estimate of the total cost incurred by the Company in responding to the emergency and repairing the pipeline was \$349,000, which amount was accrued as an expense at September 30, 2011, and the Company determined that no receivable could be recorded at that time. In November 2011, Cardi paid the Company \$89,000, which amount was offset against the expense previously recorded. During the fourth quarter of 2011, the Company paid an additional \$14,000 in connection with the pipeline rupture. At December 31, 2011, the Company determined that \$184,000 of the remaining liability was assumed by Cardi. The Company reduced the previously recorded liability and expense by that amount. In February 2012, Cardi paid the \$184,000. At March 31, 2012, the Company had determined that no receivable could be recorded for the remaining \$76,000. In May 2012, Cardi paid both the \$76,000 and the \$14,000, and the Company reduced the accrued liability and recorded the \$90,000 as a reduction of expense on the accompanying consolidated statements of income and retained earnings for the three and six months ended June 30, 2012.

### *ULSD incident (2011):*

In March 2011, management learned that, during the normal receipt of product from a barge, No. 2 heating oil (high sulfur heating oil) was accidentally pumped into one of the Company's ULSD petroleum storage tanks (Tank 67), resulting in a mixture with a sulfur content in excess of that allowed by the Environmental Protection Agency (EPA). The Company notified Global and its insurance carriers of the incident.

Global informed the Company that it had contacted its customers that received the mixture and commenced a sampling and testing program with certain of its customers to determine (1) if any product should be removed and replaced with conforming product or (2) if the product need only be treated to meet the EPA requirements. In August 2011, Global asserted a claim against the Company of \$132,000 for damages incurred by Global arising out of the incident, which amount was accrued as an expense at September 30, 2011. At December 31, 2011, the Company determined that its insurance carrier had assumed this liability, and the Company reduced the previously recorded liability and expense by that amount. In March 2012, the Company's insurance carrier paid Global the full amount of its claim, and Global released the Company of all liability relating to this incident.

### *Tank 153 (2010):*

In August 2010, during a regular facility inspection of the Terminal, a release of petroleum-contaminated water was discovered from the tank bottom of one of the Company's 150,000 barrel tanks (Tank 153). The Company notified the Rhode Island Department of Environmental Management (RIDEM), the EPA and the United States Coast Guard. It also notified its insurance carriers of the release and the damage to the tank.





**Table of Contents**

The tank was emptied of product and the cleaning of the tank bottom was completed in September 2010. The petroleum-contaminated water released from the tank was contained on the secondary containment liner under the tank bottom, preventing contamination of the groundwater. The Company engaged an outside engineering firm to inspect the tank bottom to determine the cause and location of the release, as well as the extent of the required repairs. The findings of the inspection indicated that aggressive corrosion from inside the tank occurred, causing two holes in the immediate vicinity of the observed release, as well as several other holes or potential holes in other areas of the tank bottom. The report concluded that the corrosion was caused by microbial contamination, which was affirmed by a corrosion specialist.

The final cost of the cleanup, inspection and repair of the tank was \$533,000, all of which was recorded as an expense at December 31, 2010. The tank was placed back in service in February 2011. In June 2011, Global paid the Company \$458,000 which is recorded in petroleum storage facility revenues on the accompanying consolidated statements of income and retained earnings for the three and six months ended June 30, 2011. The difference relates to the \$75,000 cost of epoxy coating the bottom of Tank 153 which the Company paid.

The testing of certain of the Company's other tanks revealed the presence of corrosive microbial contaminants in Tanks 151 and 32. Both tanks were treated with a biocide and continue to be monitored and treated as necessary. Since Tank 32 had been inspected in June 2010, the Company believes that the contaminants have not affected the integrity of this tank bottom. However, since Tank 151 had not been inspected since construction in 2006, the Company took this tank out of service in February 2011. The tank was emptied of product, and an inspection of the tank bottom revealed minor corrosion. The Company completed the repairs recommended by the inspectors and applied an epoxy coating to the bottom of Tank 151 at a cost of \$50,000, which amount is included in petroleum storage facility expenses, operating on the accompanying consolidated statement of income and retained earnings for the six months ended June 30, 2011. The tank was back in service in May 2011. Exclusive of the epoxy coating, the total cost of cleanup, inspection and repair of the tanks was \$40,000 which Global paid the Company in September 2011.

Tank repairs related to this incident have been presented as a separate line item within petroleum storage facility expenses on the accompanying consolidated statement of income and retained earnings for the three months and six ended June 30, 2011. Routine tank repairs continue to be included with petroleum storage facility operating expenses on the accompanying consolidated statements of income and retained earnings.

*Environmental incident (2002):*

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, in October 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 and remanded the proposed penalty to RIDEM for recalculation. 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 penalty. In October 2009, RIDEM issued a recalculated administrative penalty, and, subsequently, the RIDEM Hearing Officer issued a recommended amended decision, which was affirmed as a final decision by the RIDEM Director in December 2009. In January 2010, Power Test appealed that decision to Superior Court. In September 2011, the Superior Court affirmed the decision of the RIDEM director. Power Test has appealed that decision to the Rhode Island Supreme Court.

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 Company has amended its Complaint to add Getty Petroleum Marketing, Inc. as a defendant. On December 5, 2011, Getty Petroleum Marketing, Inc., filed for bankruptcy under Chapter 11 of the United States Bankruptcy Act.

**Table of Contents**

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.

*Environmental remediation (1994):*

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 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. In 2011, RIDEM notified the company to proceed with the next phase of the approval process, notifying the abutters of the proposed remediation system even though RIDEM has not yet 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 costs in excess of the remaining accrual of \$81,000.

**8. Income taxes:**

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

	June 30, 2012	December 31, 2011
<b>Gross deferred tax liabilities:</b>		
Property having a financial statement basis in excess of tax basis	\$ 5,582,000	\$ 5,698,000
Prepaid expenses and accrued leasing revenues	100,000	93,000
	5,682,000	5,791,000
Accrued assets	(139,000)	(150,000)
	\$ 5,543,000	\$ 5,641,000

**9. Shareholders Equity:**

The Company's Class B Common Stock is convertible by the record owner thereof into the same number of shares of Class A Common Stock at any time. For the six months ended June 30, 2012 and 2011, the number of shares converted was 14,949 and 10,153 shares, respectively.

**10. Operating segment disclosures:**

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

## Edgar Filing: CAPITAL PROPERTIES INC /RI/ - Form 10-Q

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 expense and certain corporate expenses.

Inter-segment revenues are immaterial in amount.

**Table of Contents**

The following financial information is used for making operating decisions and assessing performance of each of the Company's segments for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
<i>Leasing:</i>				
Revenues:				
Long-term land leases:				
Contractual	\$ 795,000	\$ 764,000	\$ 1,594,000	\$ 1,396,000
Contingent	101,000	109,000	118,000	124,000
Short-term leases	195,000	174,000	391,000	349,000
<b>Total revenues</b>	<b>\$ 1,091,000</b>	<b>\$ 1,047,000</b>	<b>\$ 2,103,000</b>	<b>\$ 1,869,000</b>
Property tax expense	\$ 151,000	\$ 154,000	\$ 304,000	\$ 291,000
Depreciation	\$ 51,000	\$ 43,000	\$ 101,000	\$ 86,000
Income before income taxes	\$ 821,000	\$ 798,000	\$ 1,563,000	\$ 1,370,000
<b>Assets</b>	<b>\$ 9,958,000</b>	<b>\$ 9,949,000</b>	<b>\$ 9,958,000</b>	<b>\$ 9,949,000</b>
Properties and equipment, additions	\$ 25,000	\$ 119,000	\$ 98,000	\$ 189,000
<i>Petroleum storage:</i>				
Revenues:				
Contractual	\$ 985,000	\$ 961,000	\$ 1,961,000	\$ 1,912,000
Reimbursement of tank repairs		495,000		495,000
<b>Total revenues</b>	<b>\$ 985,000</b>	<b>\$ 1,456,000</b>	<b>\$ 1,961,000</b>	<b>\$ 2,407,000</b>
Property tax expense	\$ 61,000	\$ 60,000	\$ 126,000	\$ 121,000
Depreciation	\$ 160,000	\$ 164,000	\$ 321,000	\$ 328,000
Income before income taxes	\$ 469,000	\$ 891,000	\$ 894,000	\$ 1,214,000
<b>Assets</b>	<b>\$ 12,784,000</b>	<b>\$ 13,056,000</b>	<b>\$ 12,784,000</b>	<b>\$ 13,056,000</b>
Properties and equipment, additions	\$ 14,000	\$ 25,000	\$ 14,000	\$ 62,000

## Edgar Filing: CAPITAL PROPERTIES INC /RI/ - Form 10-Q

The following is a reconciliation of the segment information to the amounts reported in the accompanying consolidated financial statements for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
<b>Revenues for operating segments:</b>				
Leasing	\$ 1,091,000	\$ 1,047,000	\$ 2,103,000	\$ 1,869,000
Petroleum storage	985,000	1,456,000	1,961,000	2,407,000
<b>Total consolidated revenues</b>	<b>\$ 2,076,000</b>	<b>\$ 2,503,000</b>	<b>\$ 4,064,000</b>	<b>\$ 4,276,000</b>
<b>Property tax expense:</b>				
<b>Property tax expense for operating segments:</b>				
Leasing	\$ 151,000	\$ 154,000	\$ 304,000	\$ 291,000
Petroleum storage	61,000	60,000	126,000	121,000
	212,000	214,000	430,000	412,000
Unallocated corporate property tax expense	1,000	1,000	2,000	2,000
<b>Total consolidated property tax expense</b>	<b>\$ 213,000</b>	<b>\$ 215,000</b>	<b>\$ 432,000</b>	<b>\$ 414,000</b>
<b>Depreciation:</b>				
<b>Depreciation for operating segments:</b>				
Leasing	\$ 51,000	\$ 43,000	\$ 101,000	\$ 86,000
Petroleum storage segment:	160,000	164,000	321,000	328,000
	211,000	207,000	422,000	414,000
Unallocated corporate depreciation	1,000	1,000	3,000	3,000
<b>Total consolidated depreciation</b>	<b>\$ 212,000</b>	<b>\$ 208,000</b>	<b>\$ 425,000</b>	<b>417,000</b>

**Table of Contents**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2012	2011	2012	2011
<b>Income before income taxes:</b>				
Income before income taxes for operating segments:				
Leasing	\$ 821,000	\$ 798,000	\$ 1,563,000	\$ 1,370,000
Petroleum storage	469,000	891,000	894,000	1,214,000
	1,290,000	1,689,000	2,457,000	2,584,000
Unallocated corporate expenses	(270,000)	(234,000)	(533,000)	(490,000)
Interest expense	(61,000)	(85,000)	(122,000)	(173,000)
Total consolidated income before income taxes	\$ 959,000	\$ 1,370,000	\$ 1,802,000	\$ 1,921,000
<b>Assets:</b>				
Assets for operating segments:				
Leasing	\$ 9,958,000	\$ 9,949,000	\$ 9,958,000	\$ 9,949,000
Petroleum storage	12,784,000	13,056,000	12,784,000	13,056,000
	22,742,000	23,005,000	22,742,000	23,005,000
Corporate cash	1,566,000	1,879,000	1,566,000	1,879,000
Other unallocated amounts	57,000	175,000	57,000	175,000
Total consolidated assets	\$ 24,365,000	\$ 25,059,000	\$ 24,365,000	\$ 25,059,000
<b>Properties and equipment:</b>				
Additions to properties and equipment for operating segments:				
Leasing	\$ 25,000	\$ 119,000	\$ 98,000	\$ 189,000
Petroleum storage	14,000	25,000	14,000	62,000
Total consolidated additions	\$ 39,000	\$ 144,000	\$ 112,000	\$ 251,000

**11. Related party transaction:**

The Company and Providence and Worcester Railroad Company ( the Railroad ) have a common controlling shareholder. The Company has the right to use certain pipelines located in the right of way of the Railroad which were constructed by Getty Oil Company (Eastern Operations), Inc. ( GettyEO ). Pursuant to an agreement between the Railroad and GettyEO dated August 6, 1975, the Railroad has the right to relocate any portion of the pipelines located within the Railroad s right of way. The Company has supported an extension of Waterfront Drive, so-called, up to Dexter Road and adjacent to the Company s Terminal, which road is being constructed on the Railroad right of way. The State of Rhode Island s plans for the Waterfront Drive extension required a relocation of a portion of the pipelines which the Railroad has the right to relocate. RIDOT entered into an agreement with the Railroad (the RIDOT Agreement ) to reimburse the Railroad for reasonable costs incurred by it in relocating the pipelines, which were originally estimated to be \$159,000. Any substantial change to the estimate requires the approval of RIDOT.

In May 2011, the Company entered into an agreement with the Railroad to act as the Railroad s agent with respect to the relocation of the pipelines. The Company, without receiving compensation, is obligated under the agreement to select, direct and supervise all subcontractors subject to the Railroad s approval. Upon the Railroad s receipt of invoices from the contractors, the Railroad requires the Company to verify the accuracy of the invoices and submit a check to the Railroad covering the amount of the invoices. The Railroad pays the invoices, using the funds advanced by the Company. The Railroad is then obligated to submit the invoices to RIDOT for reimbursement. Any reimbursements received from RIDOT are required to be paid to the Company in a timely manner. Any shortfall in RIDOT s reimbursement is borne by the Company.

## Edgar Filing: CAPITAL PROPERTIES INC /RI/ - Form 10-Q

During 2011, the costs incurred to relocate the pipeline totaled \$219,000. The Railroad submitted the total amount to RIDOT in February 2012; in March, RIDOT reimbursed the Railroad \$152,000, which the Railroad in turn paid to the Company. The Railroad and the Company have discussed with RIDOT the remaining \$67,000 in costs incurred to complete the project. RIDOT is reviewing the excess costs but no acceptance by RIDOT has yet been made. The Company believes, based on its discussions with RIDOT, that reimbursement to the Railroad and ultimately the Company is reasonably assured and the \$67,000 is included in prepaid and other on the accompanying consolidated balance sheet at June 30, 2012.

**Table of Contents**

**12. Fair value of financial instruments:**

The Company believes that the fair values of its financial instruments, including cash, receivables and payables, approximate their respective book values because of their short-term nature. The fair value of the note payable approximates its book value and was determined using borrowing rates currently available to the Company for loans with similar terms and maturities.



---

**Table of Contents**

**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, 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 collectability 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; the uncertainty related to Global's purchase of the petroleum storage facility; 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, 2011. There have been no changes to the application of this accounting policy since December 31, 2011.

*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 Companies, LLC (Global).

The principal difference between the two segments relates to the nature of the operations. In the leasing segment, the tenants under the 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. In the petroleum storage segment, the Company is responsible for the operating and maintenance expenditures, including a portion of the real property taxes, as well as certain capital improvements at the Facility.

**Table of Contents****2. Results of operations:****Three months ended June 30, 2012 compared to three months ended June 30, 2011:***Leasing segment:*

	2012	2011	Difference
Leasing revenues	\$ 1,091,000	\$ 1,047,000	\$ 44,000
Leasing expense	270,000	249,000	\$ 21,000
	\$ 821,000	\$ 798,000	

Leasing revenue increased principally due to scheduled increases under long-term land leases and increases in rentals and reimbursements for common area costs under short-term leases. Leasing expense increased principally due to increases in expenses for the Steeple Street Building.

*Petroleum storage segment:*

	2012	2011	Difference
Petroleum storage facility revenues	\$ 985,000	\$ 1,456,000	\$ (471,000)
Petroleum storage facility expense	516,000	565,000	\$ (49,000)
	\$ 469,000	\$ 891,000	

In June 2011, Global reimbursed the Company \$458,000 for certain costs associated with the cleanup, inspection and repair of a tank (which costs were recorded in 2010) and an additional \$37,000 for tank repairs. Exclusive of these amounts, petroleum storage facility revenues increased \$24,000 due to scheduled annual cost-of-living adjustments under the lease for the petroleum storage facility. In May 2012, the Company was reimbursed \$90,000 for certain costs recorded in 2011 associated with a pipeline breach, which was recorded as a reduction of expense. Exclusive of this amount, petroleum storage facility expense increased \$41,000 principally due to increases in payroll and related costs and legal fees in connection with the Global Option Agreement. See Note 7 of Notes to Consolidated Financial Statements herein.

*General:*

For the three months ended June 30, 2012, general and administrative expense increased \$36,000 principally due to increases in payroll and related costs and professional fees.

*Interest expense:*

In 2010, the Company borrowed \$6,000,000 from a bank. The loan bears interest at an annual rate of 6 percent and has a term of ten years with repayments on a twenty-year amortization schedule (monthly principal payments of \$25,000 plus interest) and a balloon payment due April 2020 when the loan matures. In June 2012, the Company made a principal prepayment of \$1,000,000. In June and December of 2011, the Company made principal prepayments of \$1,000,000 and \$525,000, respectively. As a result of these prepayments, interest expense decreased, and the balloon payment due April 2020 is \$500,000.

**Six months ended June 30, 2012 compared to six months ended June 30, 2011:***Leasing segment:*

	2012	2011	Difference
--	------	------	------------

Edgar Filing: CAPITAL PROPERTIES INC /RI/ - Form 10-Q

Leasing revenues	\$ 2,103,000	\$ 1,869,000	\$ 234,000
Leasing expense	540,000	499,000	\$ 41,000
	\$ 1,563,000	\$ 1,370,000	

Leasing revenue increased principally due to scheduled increases under long-term land leases. Leasing expense increased due to increases in legal fees in connection with the restructuring of the Parcel 6 lease and real property taxes on the Steeple Street Building.

**Table of Contents***Petroleum storage segment:*

	2012	2011	Difference
Petroleum storage facility revenues	\$ 1,961,000	\$ 2,407,000	\$ (446,000)
Petroleum storage facility expense	1,067,000	1,193,000	\$ (126,000)
	\$ 894,000	\$ 1,214,000	

In June 2011, Global reimbursed the Company \$458,000 for certain costs associated with the cleanup, inspection and repair of a tank (which costs were recorded in 2010), and an additional \$37,000 for tank repairs. Exclusive of these amounts, petroleum storage facility revenues increased \$49,000 due to scheduled annual cost-of-living adjustments under the lease for the petroleum storage facility. In May 2012, the Company was reimbursed \$90,000 for certain costs recorded in 2011 associated with a pipeline breach, which was recorded as a reduction of expense.

Exclusive of this amount, petroleum storage facility expense decreased \$36,000 principally due to lower levels of repairs and maintenance offset in part by increases in payroll and related costs and legal fees in connection with the Global Option Agreement. See Note 7 of Notes to Consolidated Financial Statements herein.

*General:*

For the six months ended June 30, 2012, general and administrative expense increased \$43,000 due principally to increases in payroll and related costs and professional fees.

*Interest expense:*

In 2010, the Company borrowed \$6,000,000 from a bank. The loan bears interest at an annual rate of 6 percent and has a term of ten years with repayments on a twenty-year amortization schedule (monthly principal payments of \$25,000 plus interest) and a balloon payment due April 2020 when the loan matures. In June 2012, the Company made a principal prepayment of \$1,000,000. In June and December of 2011, the Company made principal prepayments of \$1,000,000 and \$525,000, respectively. As a result of these prepayments, interest expense decreased, and the balloon payment due April 2020 is \$500,000.

**3. Liquidity and capital resources:**

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

During the first six months of 2012, the Company's operating activities provided \$1,543,000 of cash. The Company made cash payments of \$1,150,000 in principal payments on the note payable, \$396,000 for dividends and \$112,000 for properties and equipment. Cash decreased \$63,000 for the six months.

*Cash and cash commitments:*

At June 30, 2012, the Company had cash of \$2,115,000. The Company maintains all of its cash in a non-interest bearing checking account which is fully insured by the Federal Deposit Insurance Corporation.

As discussed in Note 7 of Notes to Consolidated Financial Statements herein, as a result of Global's exercise of its option to purchase the Terminal, the Company and Global are currently engaged in an appraisal process, the completion of which will establish the Appraised Value for the Terminal. The Company is unable to determine when that process will be completed and, in any event, Global has the right upon completion of the process to elect to (a) rescind its exercise of the option to purchase or (b) proceed with the purchase and pay the greater of (1) Adjusted Book Value or (2) the Appraised Value. On May 1, 2012, the Company gave Global notice of non-extension of the Global lease. Accordingly, the Global lease will expire on April 30, 2013. The Company is evaluating its options in the event Global does not purchase the Terminal. The Company believes that it has adequate cash flow from its leasing segment to meet the cash requirements of its business even if the

## Edgar Filing: CAPITAL PROPERTIES INC /RI/ - Form 10-Q

Terminal becomes vacant as of May 1, 2013 and is no longer generating revenue.

On July 1, 2012, the annual rent of \$175,000 commenced under the Parcel 6B long-term land lease.

Under the original Parcel 6 lease which commenced in 2005, the tenant was entitled to a credit for future rents equal to a portion of the real property taxes paid by the tenant through April 2007. 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 was not required to make cash payments for rent until March 2012 when the rent credit was fully utilized.

**Table of Contents**

The current economic conditions have had limited impact on the Company's results of operations to date. 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.

On April 16, 2012, the Company received notice from the holder of the Leasehold Mortgage on Parcel 3S that the mortgagor was in default of its obligations under the Leasehold Mortgage and that the holder intended to foreclose the mortgage under the power of sale provisions contained therein on a date to be determined. If the foreclosure occurs, the holder of the Leasehold Mortgage will succeed to the tenant's rights and obligations under the Parcel 3S lease. There has been no interruption in the payment of rent to the Company under the long-term land lease and any other tenant monetary obligations.

At June 30, 2012, the Company has three tenants occupying 56 percent of the Steeple Street Building under short-term leases (five years or less) at a current combined annual rental of \$119,000. The Company is currently marketing the remaining portions of the building for lease.

In June 2012, the Company made a principal prepayment of \$1,000,000 on its note payable. In June and December of 2011, the Company made principal prepayments of \$1,000,000 and \$525,000, respectively. As a result of these prepayments, the future annual savings in interest expense will be \$152,000. Any additional prepayments will depend on the Company's level of available cash.

On July 24, 2012, the Company declared a quarterly dividend of \$198,000 (\$.03 per common share) which dividend will be paid in August 2012. The declaration of future dividends and the amount thereof will depend on the Company's future earnings, financial factors and other events.

Under the Company's lease with Global, the annual cost-of-living adjustment was \$99,000 effective May 1, 2012. From time to time, unanticipated events at the Company's Terminal can result in short-term cash requirements.

The Company expects that cash generated from current operations will continue to be sufficient to meet operating expenses, debt service, ordinary capital expenditures, unanticipated events at the Terminal 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.

**Table of Contents**

**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.

**Table of Contents**

**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
- 101** The following financial information from the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2012, filed with the Securities and Exchange Commission on July 27, 2012, formatted in eXtensible Business Reporting Language:
- (i) Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011
- (ii) Consolidated Statements of Income and Retained Earnings for the Three and Six Months ended June 30, 2012 and 2011
- (iii) Consolidated Statements of Cash Flows for the Six Months ended June 30, 2012 and 2011
- (iv) Notes to Consolidated Financial Statements.

This exhibit will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C.78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Company specifically incorporates it by reference.



**Table of Contents**

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 31, 2012