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CAPITAL PROPERTIES INC /RI/  
Form 10QSB  
May 02, 2003

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

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

OR

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

For the transition period from to \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-9380

CAPITAL PROPERTIES, INC.  
(Name of small business registrant in its charter)

RHODE ISLAND  
(State or other jurisdiction of  
incorporation or organization)

05-0386287  
(IRS Employer  
Identification No.)

100 DEXTER ROAD  
EAST PROVIDENCE, RHODE ISLAND 02914  
(Address of principal executive offices) (ZipCode)

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

Check whether the registrant: (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 registrant was required to file such reports) and (2)  
has been subject to such filing requirements for the past 90 days. Yes   
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 April 30, 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

PART I

ITEM 1. FINANCIAL STATEMENTS

CAPITAL PROPERTIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
MARCH 31, 2003  
(UNAUDITED)

ASSETS

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Properties and equipment (net of accumulated depreciation).....  
 Cash and cash equivalents.....  
 Receivables:  
     Income taxes.....  
     Other.....  
 Accrued rental income.....  
 Prepaid and other.....

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:  
     Accounts payable and accrued expenses:  
         Property taxes.....  
         Other.....  
     Deferred income taxes, net.....

Shareholders' equity:  
     Class A common stock, \$.01 par; authorized 6,000,000 shares;  
         issued and outstanding 3,000,000 shares.....  
     Class B common stock, \$.01 par; authorized 300,000 shares;  
         issued and outstanding 299,956 shares.....  
     Excess stock, \$.01 par; authorized 1,000,000 shares; none issued  
         and outstanding.....  
     Capital in excess of par.....  
     Retained earnings.....

See notes to consolidated financial statements.

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
 THREE MONTHS ENDED MARCH 31, 2003 AND 2002  
 (UNAUDITED)

	2003
Income:	
Revenues:	
Leasing.....	\$ 710,000
Petroleum storage facilities.....	632,000
	1,342,000
Interest.....	2,000
	1,344,000

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	1,344,000
	-----
Expenses:	
Expenses applicable to:	
Leasing.....	545,000
Petroleum storage facilities.....	523,000
General and administrative.....	268,000
	-----
	1,336,000
	-----
Income (loss) before income taxes.....	8,000
Income tax expense (benefit).....	6,000
	-----
Net income (loss).....	\$ 2,000
	=====
Basic earnings (loss) per common share.....	\$ --
	=====
Dividends on common stock.....	\$ --
	=====

See notes to consolidated financial statements.

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED MARCH 31, 2003 AND 2002  
(UNAUDITED)

	2003
	-----
Cash flows from operating activities:	
Net income (loss).....	\$ 2,000
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation.....	105,000
Deferred income taxes.....	(4,000)
Other, principally net changes in receivables, prepaids, accounts payable, income taxes and accrued expenses.....	(375,000)
	-----
Net cash used in operating activities.....	(272,000)
	-----
Cash used in investing activities, purchase of properties and equipment.....	(112,000)
	-----
Cash used in financing activities, payment of dividends.....	--
	-----
Decrease in cash and cash equivalents.....	(384,000)

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Cash and cash equivalents, beginning.....	1,633,000
	-----
Cash and cash equivalents, ending.....	\$ 1,249,000
	=====
Supplemental disclosures, cash paid for income taxes.....	\$ 9,000
	=====

See notes to consolidated financial statements.

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTHS ENDED MARCH 31, 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 March 31, 2003 and the results of operations and cash flows for the three months ended March 31, 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.....	703,000
Tanks and equipment.....	8,978,000
	-----

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	14,787,000
	-----
Office equipment.....	84,000
	-----
	21,111,000
	-----
Less accumulated depreciation:	
Properties on lease or held for lease.....	944,000
Petroleum storage facilities.....	5,016,000
Office equipment.....	72,000
	-----
	6,032,000
	-----
	\$ 15,079,000
	=====

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4. DESCRIPTION OF LEASING ARRANGEMENTS:

At March 31, 2003, the Company had entered into six long-term land leases covering six land parcels; of these leases, three 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 \$15,015,000 through March 31, 2003. Management has concluded that a portion of the excess of straight-line over contractual rentals (\$464,000 at March 31, 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 income (loss). These tenant payments attributable to the Company's land totaled \$86,000 and \$83,000 for the three months ended March 31, 2003 and 2002, respectively.

5. PETROLEUM STORAGE FACILITIES:

Current operations:

The Company and a petroleum distribution company (Petroleum Company) entered into an agreement which will expire April 30, 2004, but will continue thereafter on a year-to-year basis unless terminated by either party upon three months written notice, 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. The agreement further provides for annual fee increases of 4.5%. After the scheduled increase on May 1, 2002, the present monthly fee is \$118,000.

The agreement also provides that the Company will receive an additional

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\$.10 per barrel for every barrel in excess of 2,000,000 barrels of throughput in an agreement year (contingent revenue). For the agreement year ended April 30, 2002, throughput exceeded 2,000,000 barrels in January 2002. For the agreement year ending April 30, 2003, throughput exceeded 2,000,000 barrels in December 2002. For the three months ended March 31, 2003 and 2002, the Company earned contingent revenues of \$220,000 and \$106,000.

Environmental incident:

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

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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.

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. Under the terms of the Agreement, the owner of the Pier is not required to make any repairs to

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the Pier. The Agreement was extended to March 31, 2003 at a monthly fee of \$15,000, which Agreement terminated at that time.

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 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.

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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. 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. Trial of the remaining non-jury claims is anticipated in the spring of 2003.

For the three months ended March 31, 2003 and 2002, the Company incurred legal fees in connection with this litigation of \$80,000 and \$34,000, respectively, which amounts are included in expenses, petroleum storage facilities on the accompanying consolidated statements of income (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

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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

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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. Of this amount, \$82,000 represented the annual tax on the property condemned by Amtrak in May 2001 (see Note 8), and the Company has paid to the City its share of such tax on this condemned property (\$29,000) to the date of condemnation.

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 annual tax expense to approximately \$1,105,000.



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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 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 May 2003 in an effort to resolve all property tax disputes.

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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.

### 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

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for the First Circuit. 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 with respect to condemnation proceeds previously taxed. From June to December, 2002, the Company received refunds totaling \$661,000, including interest of \$94,000.

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For income tax reporting purposes, the Company reported a tax loss for the year ended December 31, 2002, and filed carryback claims that will result in a refund of federal income taxes previously paid in the amount of \$372,000.

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 March 31, 2003, the Company has \$156,000 of federal and state loss carryforwards.

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 March 31, 2003 were as follows:

#### Gross deferred tax liabilities:

Property having a financial statement basis in excess of tax basis.....	\$ 3,586,000
Accrued rental income.....	186,000
	3,772,000

#### Gross deferred tax assets:

Professional fees in connection with Amtrak dispute and environmental matters.....	158,000
Loss carryforwards.....	62,000
Other.....	37,000
	257,000
	\$ 3,515,000

### 10. OPERATING SEGMENT DISCLOSURES:

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

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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 a five-year agreement at a fixed monthly rate for the Petroleum Company which stores and distributes petroleum products. The 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.

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

There are no inter-segment revenues. The Company did not incur interest expense during the three months ended March 31, 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	
	-----	-----	-----
Three months ended March 31, 2003:			
Revenues:			
Contractual.....	\$ 597,000	\$ 412,000	\$
Contingent.....	1,000	220,000	
Option.....	128,000	--	
Noncash, excess of contractual over straight-line rentals.....	(16,000)	--	
	-----	-----	-----
	\$ 710,000	\$ 632,000	\$
	=====	=====	=====
Property tax expense.....	\$ 480,000	\$ 28,000	\$
	=====	=====	=====
Depreciation.....	\$ 16,000	\$ 86,000	\$
	=====	=====	=====
Income before income taxes.....	\$ 165,000	\$ 109,000	\$

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	=====	=====	=====
Assets.....	\$ 5,867,000	\$ 10,203,000	\$
	=====	=====	=====
Properties and equipment, additions.....	\$ --	\$ --	\$
	=====	=====	=====
Three months ended March 31, 2002:			
Revenues:			
Contractual.....	\$ 554,000	\$ 401,000	\$
Contingent.....	2,000	106,000	
Option.....	85,000	--	
Noncash, excess of contractual over straight-line rentals.....	(10,000)	--	
	-----	-----	-----
	\$ 631,000	\$ 507,000	\$
	=====	=====	=====
Property tax expense.....	\$ 450,000	\$ 26,000	\$
	=====	=====	=====
Depreciation.....	\$ 16,000	\$ 86,000	\$
	=====	=====	=====
Income before income taxes.....	\$ 60,000	\$ 124,000	\$
	=====	=====	=====
Assets.....	\$ 5,883,000	\$ 10,121,000	\$
	=====	=====	=====
Properties and equipment, additions.....	\$ --	\$ 20,000	\$
	=====	=====	=====

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The following is a reconciliation of the segment information to the amounts reported in the accompanying consolidated financial statements for the three months ended March 31, 2003 and 2002:

		2003	
		-----	-----
Income:			
Revenues for operating segments.....		\$ 1,342,000	\$
Interest income.....		2,000	
		-----	-----
Total consolidated income.....		\$ 1,344,000	\$
		=====	=====
Property tax expense:			
Property tax expense for operating segments.....		\$ 508,000	\$
Unallocated corporate property tax expense.....		1,000	
		-----	-----
Total consolidated property tax expense.....		\$ 509,000	\$
		=====	=====
Depreciation:			

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Depreciation for operating segments.....	\$	102,000	\$
Unallocated corporate depreciation.....		3,000	
		-----	-----
Total consolidated depreciation	\$	105,000	\$
		=====	=====
Income before income taxes:			
Income for operating segments.....	\$	274,000	\$
Interest income.....		2,000	
Unallocated corporate expenses.....		(268,000)	
		-----	-----
Total consolidated income (loss) before income taxes.....	\$	8,000	\$
		=====	=====
Assets:			
Assets for operating segments.....	\$	16,070,000	\$
Corporate cash and equivalents.....		1,096,000	
Income tax receivable.....		372,000	
Other unallocated amounts.....		52,000	
		-----	-----
Total consolidated assets.....	\$	17,590,000	\$
		=====	=====
Additions to properties and equipment:			
Operating segments.....	\$	--	\$
Unallocated corporate additions.....		--	
		-----	-----
Total consolidated additions	\$	--	\$
		=====	=====

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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:

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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.

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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 March 31, 2003, this receivable on this lease has grown to approximately \$13,716,000 (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

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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.

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### 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 individual 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 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.

Three of the remaining parcels (undeveloped parcels) are the subject of three leases, the term of each of which has not commenced pending completion of development plans and closing of construction financing.

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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 December 2002. The option will terminate June 27, 2003. However, in April 2003, as reported in the media, GTECH Holdings Corp. expressed an interest in moving its corporate headquarters in Rhode Island to this parcel. Under another lease, the Company receives option payments pursuant to a month-to-month arrangement. On the third lease, the Company began receiving option payments April 1, 2003. There is no assurance that any one or more of these development projects will actually proceed.

The Company continues to seek a developer for the remaining four parcels in the Capital Center which contain 2.9 acres. The Company is unable to predict when these parcels will be leased.

Pending future development or commencement of the leases, five of the parcels are subject to short-term leases to 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 (Petroleum Facilities) located in East Providence, Rhode Island. The Petroleum Facilities

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utilizes the Company's deep-water pier (Wilkesbarre Pier) and a pipeline connecting the Wilkesbarre Pier to the Petroleum Facilities. Another wholly-owned subsidiary operates the Petroleum Facilities under a five-year agreement with a petroleum distribution company at a fixed monthly rate. The agreement expires April 30, 2004 but will continue on a year-to-year basis unless terminated by either party upon three months written notice. The agreement includes provisions for additional payments based upon throughput in any twelve-month period beginning on May 1 of each year and ending on April 30 of the subsequent year. The Company bears all of the operating costs with respect to the Petroleum Facilities, including real estate taxes and insurance charges.

Pursuant to an agreement (Agreement) with another company (Oil Company), which affords 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



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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.

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

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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. 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 months ended March 31, 2003, revenue from leasing increased 13% 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 and revenue associated with the three billboard locations added in the fourth quarter of 2002. Expenses applicable to leasing decreased approximately 4% from 2002 due to a decrease in professional fees offset in part by an 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 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

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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 months ended March 31, 2003, revenue from petroleum storage facilities increased 25% from 2002 resulting principally from a scheduled annual fee increase and higher contingent revenues due to a colder winter. Expenses applicable to petroleum storage facilities increased 37% 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 months ended March 31, 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 income (loss) before income taxes.

### Liquidity:

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

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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. 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. The Company received all of these refunds plus interest in 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 will result in a refund of federal income taxes previously paid in the amount of \$372,000. With this refund, the Company will have 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.

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In January 2003, the Company paid \$112,000 for properties purchased in 2002. The Company has no present commitments for the purchase of properties and equipment.

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. 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.

In connection with one of the land leases which will not commence until construction begins, the developer has made a series of six-month option payments each in the amount of \$109,000, the last of which was paid in December 2002. This option will terminate June 27, 2003. The Company has no assurance that additional option payments will be made.

As discussed above, the Company's extended agreement with Oil Company terminated March 31, 2003.

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-4 of the Securities Exchange Act of 1934 (the "Exchange Act"), within the 90-day period prior to the filing date of this report, the President and Treasurer carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures. 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 were no significant changes in internal controls or, to the Company's knowledge, in other factors that could significantly affect such internal controls, subsequent to the date of the evaluation by the undersigned officers of the Company.

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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).

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- 10 Material contracts: leases between Metropark, Ltd. and registrant:
- (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).
- 99.1 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
- 99.2 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 March 31, 2003, no reports on Form 8-K were filed.

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SIGNATURE

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

CAPITAL PROPERTIES, INC.

By /s/ Ronald P. Chrzanowski

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Ronald P. Chrzanowski  
President and Principal Executive Officer

By /s/ Barbara J. Dreyer

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Barbara J. Dreyer  
Treasurer and Principal Financial Officer

DATED: April 30, 2003

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CAPITAL PROPERTIES, INC. AND CONSOLIDATED AFFILIATES

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CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald P. Chrzanowski, President and Principal Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Capital Properties, Inc. and Consolidated Affiliates;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 30, 2003

/s/ Ronald P. Chrzanowski  
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Ronald P. Chrzanowski  
President and Principal Executive Officer

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I, Barbara J. Dreyer, Treasurer and Principal Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Capital Properties, Inc. and Consolidated Affiliates;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 30, 2003

/s/ Barbara J. Dreyer

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Barbara J. Dreyer  
Treasurer and Principal Financial Officer