

CAPITAL PROPERTIES INC /RI/
Form 10-K
March 17, 2011

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

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

For the fiscal year ended December 31, 2010
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)

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) (Zip Code)

(401) 435-7171

(Registrant's telephone number, including area code)

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

Title of each class

Name of each exchange on which registered

Class A Common Stock, \$.01 par value

OTCQX

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

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes
 No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 of a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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, 2010, the aggregate market value of the Class A and Class B voting stock held by non-affiliates of the Company was \$13,502,000, which excludes voting stock held by directors, executive officers and holders of 5 percent or more of the voting power of the Company's common stock (without conceding that such persons are affiliates of the Company for purposes of federal securities laws). The Company has no outstanding non-voting common equity.

As of March 1, 2011, the Company had 3,729,599 shares of Class A Common Stock and 2,870,313 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2011 Annual Meeting of Shareholders to be held on April 26, 2011, are incorporated by reference into Part III of this Form 10-K.

**CAPITAL PROPERTIES, INC.
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2010
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PART I
FORWARD-LOOKING STATEMENTS

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

Item 1. Business

Business Development

The Company was organized as a business corporation under the laws of Rhode Island in 1983 as Providence and Worcester Company and is the successor by merger in 1983 to a corporation also named Providence and Worcester Company which was organized under the laws of Delaware in 1979. In 1984, the Company's name was changed to Capital Properties, Inc.

General Economic Conditions

The current economic conditions have had limited impact on the Company's results of operations to date. In 2009, the Company granted rent concessions to two tenants of its leasing segment, which concessions terminated July 1, 2010, for a total increase of \$93,000 annually. As none of the Company's leases require the tenant to provide financial information, the Company has no information concerning the impact of current economic conditions on its major tenants and, therefore, cannot predict whether any other tenants will request rent relief or concessions.

Segments

The Company operates in two segments: leasing and petroleum storage. For financial information, see Note 9 of Notes to Consolidated Financial Statements in Item 8.

Leasing

Capital Center

The leasing segment is principally devoted to the leasing of Company-owned land in the Capital Center 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, Amtrak's Northeast Corridor rail was relocated, a new railroad station (the "Railroad Station") was constructed and significant public improvements were made to improve pedestrian and vehicular traffic in the area.

With the exception of the Steeple Street property, the Company has not acted, and does not intend to act, as a developer with respect to any improvements constructed on Company-owned parcels. Rather, the Company offers individual parcels for lease pursuant to long-term ground leases with terms of 99 years or more. Each lease contains provisions permitting the tenant to develop the parcel under certain terms and conditions. Each lease provides for periodic rent adjustments of various kinds. Under the leases, the tenants are responsible for insuring the Company

against various hazards and events. Each tenant is required to indemnify the Company with respect to all of the tenant's activities on the land. The leases contain other terms and conditions customary to such instruments. As part of the construction of the Railroad Station, the Federal Railroad Administration constructed a 330-car parking garage on the Company's land adjacent to the Railroad Station, and the Company paid one-half of the construction cost. Subsequently, the Company became the sole owner of the parking garage. In 2005, the Company sold the parking garage for \$2,500,000 in cash and leased the underlying land to the buyer for 99 years at an initial annual contractual rental of \$100,000. Under the lease the buyer is responsible for all real estate taxes and other expenses relating to the parking garage. The sale of the parking garage, while retaining title to the underlying land, is consistent with the Company's policy not to act as a developer with respect to improvements constructed on land that it currently owns or may hereafter acquire.

The Company first began offering parcels for lease in the Capital Center area in the late 1980's. As of December 31, 2010, six developed parcels have been leased by the Company under long-term leases of 99 years or more. Located on these parcels are the following:

13-story office building (235,000 gross square feet)

8-story 225-unit apartment building (454,000 gross square feet)

4-story office building (114,000 gross square feet)

10-story office building (210,000 gross square feet)

17-story and a 19-story apartment building containing 193 apartments (307,000 gross square feet) and a 10-story office building (307,000 gross square feet), and

330-car public parking garage.

In addition, in 2005 a long-term land lease commenced on an undeveloped parcel on which two residential buildings were planned. One building containing 96 apartments (120,000 gross square feet) was completed in September 2009. The other building has not progressed beyond the early stages of site preparation, and the timing of construction and completion is uncertain.

While seeking developers, the Company also leases Parcels 3E, 3W, 4E and 4W in the Capital Center area for public parking purposes on a short-term basis to Metropark, Ltd.

Parcel 20 Adjacent to the Capital Center

Since the 1980's, the Company has owned an undeveloped parcel of land adjacent to the Capital Center containing 20,600 square feet, which is leased out for public parking purposes on a short-term basis. In 2007, the Company purchased the adjacent parcel containing a three-four-story 18,000 square foot building (the Steeple Street Building) and related land for \$2,329,000, which, with the previously-owned land, now comprises Parcel 20. The Steeple Street Building is on the State Registry of Historic Buildings. At the time of acquisition, the Steeple Street Building had both residential and commercial tenants. It now has two commercial tenants. While seeking a developer for the entire 26,600 square foot parcel, in June 2009 the Company commenced the construction of the historic restoration and utility infrastructure of the building, which was completed in December 2010, at a total cost of \$3,178,000 plus tenant improvements of \$191,000.

All of the properties described above are shown on a map contained in Exhibit 20.1.

Lamar Lease

The Company, through a wholly-owned subsidiary, leases certain outdoor advertising locations along interstate and primary highways in Rhode Island and Massachusetts to Lamar under a lease which expires in 2033. Presently, there are 24 locations under lease, containing 46 billboard faces. Of these locations, 22 are controlled by the Company through permanent easements granted to the Company pursuant to an agreement between the Company and Providence & Worcester Railroad Company, a related company (Railroad), and two are leased by the Company from third parties under leases with remaining terms of five years or less. The term of the Lamar

lease is extended for two years for each additional location added. Although no new locations have been added since 2002, one structure was moved to a different location and the lease was extended for two years. Lamar has a right of first refusal for additional billboard location sites acquired by the Company in New England and Metropolitan New York City.

Effective June 1, 2006, the Company entered into an Amended and Restated Agreement with Lamar which, among other things, provides the following: (1) the base rent will increase annually at the rate of 2.75% for each leased billboard location commencing June 1, 2006 and on each June 1 thereafter; and (2) in addition to base rent, for each 12-month period commencing each June 1, Lamar must pay to the Company 30% of the gross revenues from each standard billboard and 20% of the gross revenues from each electronic billboard for such 12-month period, reduced

by the sum of (a) commissions paid to third parties and (b) the base monthly rent for each leased billboard display for such 12-month period. In all other respects, the lease remains substantially unchanged.

The Company has the right to require the Railroad to grant to it additional permanent easements for the location of billboards along the Railroad's right-of-way on commercially reasonable terms.

A summary of the long-term leases which have commenced is as follows:

| | Parcels in Capital Center Area | | | | | | | | | |
|--|---------------------------------------|-----------|-------------------|---------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|-----------|------------------------------|
| | 2 | 3S | 5 | 6, Phase I | 6, Phase II | 6, Phase III | 7A | 8 | 9 | Lamar |
| Description of Usage | Residential Office | Office | Residential | Residential | Residential Office | Residential Office | Garage | Office | Office | Billboard |
| Term of Lease | 103 Yrs. | 99 Yrs. | 149 Yrs. | 99 Yrs. | 99 Yrs. | 99 Yrs. | 99 Yrs. | 99 Yrs. | 149 Yrs. | 27 Yrs. |
| Termination Date | 2108 | 2087 | 2142 | 2103 | 2103 | 2103 | 2104 | 2090 | 2153 | 2033 |
| Options to Extend Lease | Two 75-Year | None | None | Two 50-Year | Two 50-Year | Two 50-Year | Two 75-Year | None | None | See <i>Lamar Lease</i> above |
| Current Annual Contractual Rental | \$72,000 | \$485,000 | \$344,000 | \$300,000 | \$48,000 | \$24,000 | \$113,000 | \$270,000 | \$100,000 | \$755,000 |
| Contingent Rent | None | None | 1% Gross Revenues | None | None | None | None | 1% Gross Revenues | None | See <i>Lamar Lease</i> above |
| Next Periodic Rental Adjustment | 2011 | 2014 | 2013 | 2014 | 2012 | 2012 | 2015 | 2015 | 2011 | 2011 |
| Annual Rent after Next Adjustment and/or Type of Next Adjustment | \$456,000 | \$618,000 | Appraisal | \$330,000 | \$175,000 | \$48,000 | Cost-of-Living Adjustment | Cost-of-Living Adjustment | \$360,000 | \$774,000 |

Major tenants:

The following table sets forth those major tenants whose revenues exceed 10% of the Company's leasing segment revenues:

| | 2010 | 2009 |
|--------------------------------|--------------|--------------|
| Lamar Outdoor Advertising, LLC | \$ 810,000 | \$ 793,000 |
| Metropark, Ltd. | 558,000 | 543,000 |
| Gramercy Capital Corp | 485,000 | 472,000 |
| AvalonBay Communities, Inc. | 398,000 | 397,000 |
| | \$ 2,251,000 | \$ 2,205,000 |

Competition

The Company competes for tenants with other owners of undeveloped real property in downtown Providence. The Company maintains no listing of other competitive properties and will not engage in a competitive bid arrangement with proposed developers. The Company's refusal to sell the land that it owns may restrict the number of interested developers. As to the Steeple Street Building, the Company competes for tenants with other office and commercial buildings located in downtown Providence.

Employees

The leasing segment has two employees.

Petroleum StorageTerminal and Pier Facility

The Company, through its wholly-owned subsidiary, Dunellen, LLC, owns a petroleum storage terminal with a capacity of approximately 1,000,000 barrels (the Terminal) and the Wilkesbarre Pier (the Pier), collectively referred to as the Facility, located in East Providence, Rhode Island. The Facility is leased to Global Companies, LLC (Global) for the storage and sale of petroleum distillates. The Terminal utilizes the Pier and pipelines connecting the Pier to the Terminal. The Company operates the Facility for Global pursuant to a contract with another Company subsidiary, Capital Terminal Company. The lease provides for a fixed monthly rent which is subject to annual cost-of-living adjustments. The lease expires April 30, 2013, but will continue thereafter on a year-to-year basis unless terminated by either party upon ninety days' written notice. Global may terminate the lease on the anniversary date (April 30) provided it gives at least one year's written notice. The lease includes provisions for additional payments based upon petroleum throughput in any twelve-month period beginning on May 1 of each year and ending on April 30 of the subsequent year at the rate of \$.10 per barrel for every barrel in excess of 4,000,000 barrels, and for real property taxes in excess of \$106,000 annually. The Company bears all of the operating costs with respect to the Facility, including a portion of the real property taxes and insurance. In addition, Global has an option to purchase the Facility at any time during the term of the lease (other than the last year thereof) on the terms and conditions set forth in a separate option agreement. Under a companion agreement, Global has agreed to pay 50% of the cost of all improvements to the Pier but not more than \$1,000,000; to date Global has paid \$966,000.

Environmental

The operation of a petroleum storage facility carries with it the risk of environmental contamination.

Environmental incident (2010): On August 30, 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 Environmental Protection Agency and the United States Coast Guard. It also notified its insurance

carriers of the release and the damage to the tank.

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 indicates that the corrosion was caused by microbial contamination, which was affirmed by a corrosion specialist.

The total cost of the cleanup, inspection and repair of the tank was \$550,000. Tank 153 was placed back in service in February 2011.

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 the first quarter of 2011 for a complete inspection of the tank bottom.

At this time, management does not know which costs, if any, will be recovered under its insurance policies; however, the Company has put its insurance carrier on notice under the property policy with its insurance carrier to recover the repair costs. The deductibles on the Company's insurance policies are \$50,000 for environmental and \$75,000 for property. In addition, the Company is reviewing all of the facts and circumstances to determine if it has a claim against third parties for costs of cleanup, inspection and repair. The Company cannot determine with any certainty what amount may be recovered from a third party and, accordingly, has not recorded any receivable at December 31, 2010.

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, on October 20, 2008, a RIDEM Hearing Officer determined that Power Test is responsible for the discharge of the petroleum product under the Rhode Island Oil Pollution Control Act, R.I.G.L. Section 46-12.5.1-3 and Rule 6(a) and 12(b) of the Oil Pollution Control Regulations. The RIDEM Decision and Order requires Power Test to remediate the contamination as directed by RIDEM 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. On October 2, 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 on December 23, 2009. On January 20, 2010, Power Test appealed that decision to Superior Court. There can be no assurance that the Superior Court will affirm the final RIDEM decision.

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. In February 2011, the Company was notified by the United States District Court for the District of Rhode Island that the case was being transferred to the United States District Court for the District of New Hampshire due to a backlog of cases in Rhode Island.

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. This situation does not affect current operations at the Facility but may affect the Company's ability to sell the Facility should it determine to do so.

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. RIDEM has not taken any action on the Company's proposed plan. As designed, the system will pump out the contaminants which will be disposed of in compliance with applicable regulations. After a period of time, the groundwater will be tested to determine if sufficient contaminants have been removed. While the Company and its consulting engineers believe that the proposed active remediation system will correct the situation, it is possible that RIDEM could require the Company to expand remediation efforts, which could result in the Company incurring additional costs.

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

Insurance

The Company maintains what management believes to be adequate levels of insurance, including environmental insurance. The Company notified its insurance company of the gasoline contamination associated with the incident in 2002. The insurance company advised the Company that coverage is only provided under policies in place at the time the contamination occurs.

Competition

The Facility competes with several other similar facilities located on and adjacent to the Providence Harbor. The Terminal has approximately 42% of the total distillate storage capacity in the Providence area. Global competes with other terminal operators on the basis of price, availability, and a willingness to advance credit to local wholesalers. The amount of petroleum throughput at the Terminal is a function of Global's ability to compete effectively in the marketplace.

Employees

The Terminal employs seven people on a full-time basis and one person on a part-time basis.

Item 2. Properties

The Company owns approximately 18.5 acres and a historic building in and adjacent to the Capital Center District in Providence, Rhode Island. All of the property and a portion of the building are leased either under long-term leases or short-term leases as more particularly described in Item 1, Leasing Segment. The Company also owns or controls 24 locations on which billboards have been constructed. Of these, 22 are owned by the Company under permanent easements from a related company, the Railroad, and two are leased from unrelated third parties with terms remaining terms of five years or less. The Company owns an approximate 10-acre site in East Providence, Rhode Island on which there are located nine petroleum storage tanks and related distribution racks together with a 3,000 square foot single-story office building in which the Company's headquarters and other support operations are located. In 2006, the Company completed the development of the land currently owned by the Company at the Terminal. In addition, the Company is the owner of the Pier located in East Providence, Rhode Island. The Pier, which has a deep water draft capacity of -40 feet MLW, can accommodate ships up to eight hundred feet in length. The Company has a permanent right to use the pipelines connecting the Pier to the Terminal.

Item 3. Legal Proceedings

None.

Item 4. Reserved

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

The Company's Class A Common Stock is traded on the OTCQX, symbol CPTP. The following table shows the high and low trading prices for the Company's Class A Common Stock during the quarterly periods indicated as obtained from the OTCQX, together with cash dividends paid per share during such periods.

| | Trading Prices | | Dividends Paid |
|-------------|----------------|------|-------------------|
| | High | Low | |
| <u>2010</u> | | | |
| 1st Quarter | 9.25 | 7.25 | .03 |
| 2nd Quarter | 9.00 | 6.45 | .86 |
| 3rd Quarter | 8.25 | 6.98 | .03 |
| 4th Quarter | 10.01 | 8.25 | .03 |
| <u>2009</u> | | | |
| 1st Quarter | 10.01 | 6.50 | .03 |
| 2nd Quarter | 8.75 | 6.85 | .03 |
| 3rd Quarter | 8.25 | 7.22 | .03 |
| 4th Quarter | 10.00 | 7.01 | .03 |

Information with respect to the high and low trading prices for the Class B Common Stock is not available because the stock is not listed on any exchange, is not quoted by any quotation service, and there is no known market for such Class B Common Stock.

At March 1, 2011, there were 634 holders of record of the Company's Class A Common Stock and 552 holders of record of the Company's Class B Common Stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

1. Overview:

Critical accounting policies:

The Securities and Exchange Commission (SEC) has issued guidance for the disclosure of critical accounting policies. The SEC defines such policies as those 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 2 of Notes to Consolidated Financial Statements in Item 8. 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 SEC 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 United States generally accepted accounting principles in accounting for leases, 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 known annual rental amounts are totaled and this total is divided by 99.

In 2009, a scheduled appraisal occurred, resulting in a rental increase. The Company recalculated the future annual straight-line amount using the remaining years under the lease. The turnaround date discussed below did not change.

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 (the 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 \$34,000,000. Management does not believe that the Company should record a receivable that would not begin to be collected until the 56th year (the turnaround date) since management could not be assured of collection.

In 1988, management met with the SEC accounting staff to discuss its concerns in applying United States generally accepted accounting principles 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 presently conclude would be collectible. The SEC accounting staff did not object to this application by the Company. Through December 31, 2010, the receivable on this lease has grown to \$19,290,000 (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 35 years away.

In 2004, a second such lease commenced with an original term of 149 years and provides for fixed minimum percentage increases at specified intervals (as well as reappraisal increases). For this lease, the contractual amount paid by the tenant will not exceed the calculated straight-line amount until the 94th year of the lease. Through December 31, 2010, the receivable on this lease is \$16,019,000 (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 87 years away.

In 2006, the Company entered into an Amended and Restated Agreement of its lease with Lamar Outdoor Advertising LLC (Lamar) with a current remaining term of 25 years which provides for fixed percentage increases annually. For this lease, the contractual amount paid by Lamar will not exceed the calculated

straight-line amount until the 16th year of the lease. Through December 31, 2010, the receivable on this lease is \$1,021,000 (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 11 years away.

Accordingly, the Company has not reported any portion of these amounts as leasing revenue in its consolidated financial statements and does not anticipate that it can reach such a conclusion until the turnaround dates are closer.

Although the Company's other long-term land leases provide for scheduled rent increases, the provisions of the leases are such that certain 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. Through December 31, 2010, the receivable on these leases is \$8,820,000 and management has not been able to conclude that any portion is collectible as the turnaround dates are approximately 50 years away. The Company continues to recognize accrued leasing revenue from two leases which were recorded in prior years.

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 have been required to construct buildings thereon, with the exception of a parking garage), the leasing of a portion of the Steeple Street Building acquired in 2007 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 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; whereas 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.

2. Results of operations:

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Leasing segment:

| | 2010 | 2009 | Increase |
|------------------|--------------|--------------|------------|
| Leasing revenues | \$ 3,135,000 | \$ 2,908,000 | \$ 227,000 |
| Leasing expense | 998,000 | 982,000 | \$ 16,000 |
| | \$ 2,137,000 | \$ 1,926,000 | |

Leasing revenues increased due to the termination of the rent relief granted Lamar and Metropark in 2009 (which rents were restored to their scheduled level on July 1, 2010) and scheduled increases in rentals under long-term land leases. Leasing expense increased due to higher legal fees in connection with two leases, an increase in property taxes and depreciation on the Steeple Street Building. These increases were offset in part by the reversal of an allowance for a doubtful account of \$40,000.

Petroleum storage segment:

| | 2010 | 2009 | Increase |
|-------------------------------------|--------------|--------------|-----------|
| Petroleum storage facility revenues | \$ 3,808,000 | \$ 3,756,000 | \$ 52,000 |

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| | | | |
|------------------------------------|------------|--------------|------------|
| Petroleum storage facility expense | 2,867,000 | 2,325,000 | \$ 542,000 |
| | \$ 941,000 | \$ 1,431,000 | |

Petroleum storage facility revenues increased due to the May 1, 2010 annual cost-of-living adjustment of \$82,000 under the lease for the petroleum storage facility. Petroleum storage facility expense increased due to costs of \$550,000 recorded in connection with the leak in Tank 153 in August 2010.

General:

For the year ended December 31, 2010, general and administrative expense remained at the 2009 level.

Interest expense:

In April 2010, the Company borrowed \$6,000,000 from a bank. The loan bears interest at 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).

Income taxes:

The income tax provision for the year ended December 31, 2010 does not bear the customary relationship between income tax expense and pretax accounting income. The Company determined that the expenditures in connection with the historic restoration of the Steeple Street Building qualified for federal historic income tax credits in 2010 totaling approximately \$588,000 and has incorporated the credit in determining the effective tax rate for 2010.

3. Liquidity and capital resources:

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

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

In order to fund the special dividend, the Company borrowed \$6,000,000 from a bank. The loan bears interest at 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). The loan matures April 26, 2020, contains the customary covenants, terms and conditions, and permits prepayment, in whole or in part, at any time without penalty if the prepayment is made from internally generated funds. As collateral for the loan, the Company granted the bank a mortgage on Parcels 3S and 5 in the Capital Center.

During 2010, the Company's operating activities provided an additional \$1,994,000 of cash. The Company made cash payments of \$6,270,000 for dividends, \$1,414,000 principally for the restoration of the Steeple Street Building and \$175,000 in principal payments on the note payable. Cash increased \$80,000 from the 2009 level.

Cash and cash commitments:

At December 31, 2010, the Company had cash of \$2,395,000. The Company maintains all of its cash in a non-interest bearing checking account which is fully insured by the Federal Deposit Insurance Corporation.

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

Under the terms of the Company's long-term land leases, appraisals of the premises are periodically required at various stated intervals to provide the basis for recalculating the annual rent. The appraisal process for Parcel 8 commenced in November 2009 and the final appraisal was completed in September 2010, resulting in an annual increase of \$47,000 retroactive to February 1, 2010.

Under the lease which commenced in 2005, the tenant is entitled to a credit for future rents equal to a portion of the real property taxes paid by the tenant through April 2007. In connection with Phase I of the tenant's project, commencing July 1, 2010, the annual rent increased from \$48,000 to \$300,000. As a result of the rent credit, the tenant will not be required to make cash payments for rent until May 2012. Commencing July 1, 2010, the Company is reclassifying each month \$25,000 of deferred leasing revenues to leasing revenues. At December 31, 2010, the remaining credit is \$370,000.

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

The current economic conditions have had limited impact on the Company's results of operations to date. In 2009, the Company granted rent concessions to two tenants of its leasing segment, which concessions terminated July 1, 2010, for a total increase of \$93,000 annually. As none of the Company's leases require the tenant to provide financial information, the Company has no information concerning the impact of current economic conditions on its major tenants and, therefore, cannot predict whether any other tenants will request rent relief or concessions.

In June 2009, the Company commenced the construction of the historic restoration and utility infrastructure of the Steeple Street Building, which was completed in December 2010 at a total cost of \$3,178,000 plus tenant improvements of \$191,000. The Company has determined that certain expenditures qualify for federal historic tax credits in 2010 totaling \$588,000.

At December 31, 2010, the Company has two tenants in a portion of the Steeple Street Building (including the new tenant who assumed the lease) under short-term leases (five years or less) at a current annual rental of \$88,000. The Company is currently marketing the remaining portions of the building for lease.

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

On August 30, 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 Environmental Protection Agency and the United States Coast Guard. It also notified its insurance carriers of the release and the damage to the tank.

The tank was emptied of product and the cleaning of the tank bottom was completed in September. 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 indicates that the corrosion was caused by microbial contamination, which was affirmed by a corrosion specialist.

The total cost of the cleanup, inspection and repair of the tank was \$550,000 (of which \$273,000 has been paid through December 31, 2010). The tank was placed back in service in February 2011.

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 for approximately one month for a complete inspection of the tank bottom.

At this time, management does not know which costs, if any, will be recovered under its insurance policies; however, the Company has put its insurance carrier on notice under the property policy with its insurance carrier to recover the repair costs. The deductibles on the Company's insurance policies are \$50,000 for environmental and \$75,000 for property. In addition, the Company is reviewing all of the facts and circumstances to determine if it has a claim against third parties for costs of cleanup, inspection and repair. The Company cannot determine with any certainty what amount may be recovered from a third party and, accordingly, has not recorded any receivable at December 31, 2010.

In January 2011, the Company declared a quarterly dividend of \$198,000 (\$.03 per common share) which was paid in February 2011. The declaration of future dividends and the amount thereof will depend on the Company's future earnings, financial factors and other events.

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

At December 31, 2010, the Company has no noncancellable contract obligations other than two operating leases for billboard locations for which the rent expense is not material in amount.

Item 8. Consolidated Financial Statements

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

| | Page |
|---|-------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 17 |
| <u>Consolidated Balance Sheets as of December 31, 2010 and 2009</u> | 18 |
| <u>Consolidated Statements of Income and Retained Earnings for the Years Ended December 31, 2010 and 2009</u> | 19 |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2010 and 2009</u> | 20 |
| <u>Notes to Consolidated Financial Statements</u> | 21-31 |

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

Board of Directors
Capital Properties, Inc.

East Providence, Rhode Island

We have audited the accompanying consolidated balance sheets of Capital Properties, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Properties, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

March 17, 2011

10 Weybosset Street Suite 700 Providence, Rhode Island 02903 Tel (401) 421-4800 1-800-927-LGCD Fax
(401) 421-0643

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|--|---------------|---------------|
| | 2010 | 2009 |
| ASSETS | | |
| Properties and equipment (net of accumulated depreciation) | \$ 22,500,000 | \$ 22,069,000 |
| Cash | 2,395,000 | 2,315,000 |
| Income taxes receivable | 769,000 | 47,000 |
| Prepaid and other | 496,000 | 331,000 |
| | \$ 26,160,000 | \$ 24,762,000 |
| | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Liabilities: | | |
| Note payable (\$300,000 due within one year) | \$ 5,825,000 | \$ -- |
| Accounts payable and accrued expenses: | | |
| Property taxes | 267,000 | 243,000 |
| Tank repairs | 277,000 | -- |
| Environmental remediation | 81,000 | 81,000 |
| Other | 457,000 | 514,000 |
| Deferred: | | |
| Leasing revenues | 370,000 | 520,000 |
| Income taxes, net | 5,552,000 | 5,305,000 |
| | 12,829,000 | 6,663,000 |
| | | |
| Shareholders equity: | | |
| Class A common stock, \$.01 par; authorized 10,000,000 shares; issued and outstanding, 3,727,874 shares and 3,654,739 shares at December 31, 2010 and 2009, respectively | 37,000 | 37,000 |
| Class B common stock, \$.01 par; authorized 3,500,000 shares; issued and outstanding, 2,872,038 shares and 2,945,173 shares at December 31, 2010 and 2009, respectively | 29,000 | 29,000 |
| Excess stock, \$.01 par; authorized 1,000,000 shares; none issued and outstanding | -- | -- |
| Capital in excess of par | 11,762,000 | 11,762,000 |
| Retained earnings | 1,503,000 | 6,271,000 |
| | 13,331,000 | 18,099,000 |
| | \$ 26,160,000 | \$ 24,762,000 |

See accompanying notes to consolidated financial statements.

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

| | Years Ended December 31, | |
|--|--------------------------|--------------|
| | 2010 | 2009 |
| Revenues: | | |
| Leasing | \$ 3,135,000 | \$ 2,908,000 |
| Petroleum storage facility | 3,808,000 | 3,756,000 |
| | 6,943,000 | 6,664,000 |
| Expenses: | | |
| Leasing | 998,000 | 982,000 |
| Petroleum storage facility | 2,867,000 | 2,325,000 |
| General and administrative | 939,000 | 951,000 |
| Interest | 248,000 | |
| | 5,052,000 | 4,258,000 |
| Income before income taxes | 1,891,000 | 2,406,000 |
| Income tax expense: | | |
| Current | 142,000 | 936,000 |
| Deferred | 247,000 | 36,000 |
| | 389,000 | 972,000 |
| Net income | 1,502,000 | 1,434,000 |
| Retained earnings, beginning | 6,271,000 | 5,629,000 |
| Dividends on common stock based upon 6,599,912 shares outstanding (\$.95 and \$.12 per share for the years ended December 31, 2010 and 2009, respectively) | (6,270,000) | (792,000) |
| Retained earnings, ending | \$ 1,503,000 | \$ 6,271,000 |
| Basic income per share, based upon 6,599,912 shares outstanding | \$.23 | \$.22 |

See accompanying notes to consolidated financial statements.

CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | |
|---|--------------------------|--------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 1,502,000 | \$ 1,434,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 733,000 | 691,000 |
| Amortization of deferred financing fees | 4,000 | -- |
| Deferred: | | |
| Income taxes | 247,000 | 36,000 |
| Leasing revenues | (150,000) | -- |
| Changes in assets and liabilities: | | |
| Increase in: | | |
| Income taxes receivable | (722,000) | (47,000) |
| Prepaid and other | (114,000) | -- |
| Accounts payable and accrued expenses | 494,000 | -- |
| Decrease in: | | |
| Prepaid and other | -- | 154,000 |
| Accounts payable and accrued expenses | -- | (180,000) |
| Current income taxes payable | -- | (346,000) |
| Net cash provided by operating activities | 1,994,000 | 1,742,000 |
| Cash used in investing activities: payments for properties and equipment | (1,414,000) | (2,030,000) |
| Cash flows from financing activities: | | |
| Proceeds from note payable | 6,000,000 | -- |
| Payments: | | |
| Note payable | (175,000) | -- |
| Deferred financing fees | (55,000) | -- |
| Dividends | (6,270,000) | (792,000) |
| Net cash used in financing activities | (500,000) | (792,000) |
| Increase (decrease) in cash | 80,000 | (1,080,000) |
| Cash, beginning | 2,315,000 | 3,395,000 |
| Cash, ending | \$ 2,395,000 | \$ 2,315,000 |
| Supplemental disclosure: | | |
| Cash paid for: | | |

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| | | |
|--|------------|--------------|
| Income taxes | \$ 876,000 | \$ 1,329,000 |
| Interest | \$ 218,000 | \$ -- |
| Non-cash investing and financing activities: | | |
| Capital expenditures financed through accounts payable | \$ 118,000 | \$ 368,000 |
| Conversion of Class B common stock into Class A common stock | \$ -- | \$ 4,000 |

See accompanying notes to consolidated financial statements.

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CAPITAL PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

1. Description of business:

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

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

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

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

2. Summary of significant accounting policies:

Principles of consolidation:

The accompanying 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.

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 financial statements. Estimates also affect the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments:

The Company believes that the fair values of its financial instruments, including receivables, payables and the note payable approximate their respective book values at December 31, 2010 and 2009. The fair value of the note payable was determined using borrowing rates currently available to the Company for loans with similar terms and maturities.

Properties and equipment:

Properties and equipment are stated at cost. Acquisitions and additions are capitalized while routine maintenance and repairs, which do not improve the asset or extend its life, are charged to expense when incurred. Depreciation is being provided by the straight-line method over the estimated useful lives of the respective assets.

The Company follows United States generally accepted accounting principles when accounting for the impairment or disposal of long-lived assets, which requires that properties and equipment held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the net book value of the asset may not be recoverable. An impairment loss will be recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the asset is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the difference between the net book value and the estimated fair value of the asset.

Cash and cash equivalents:

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2010 and 2009, the Company had no cash equivalents. The Company maintains all of its cash in non-interest bearing checking accounts in one bank which are fully insured by the Federal Deposit Insurance Corporation.

Environmental remediation:

The Company accrues a liability when an environmental remediation is probable and the costs are estimable. 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 by the Company. 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 assured.

Revenues:

Leasing The Company's properties leased to others are under operating leases. The Company reports leasing revenue when earned under the operating method.

Certain of the Company's long-term land leases, including the outdoor advertising locations, provide for presently known scheduled rent increases over the remaining terms (23 to 144 years). The Company follows United States generally accepted accounting principles in accounting for leases by recognizing leasing revenue on the straight-line basis over the terms of the leases; however, the Company does not report as revenue that portion of such straight-line rentals which management is unable to conclude is realizable (collectible) due to the length of the lease terms and other related uncertainties.

Petroleum storage facility The Company reports revenue from the operations of the Facility when earned and reports as revenue the tenant's portion of the real property taxes as required by the lease.

Contingent The Company reports contingent revenue in the period in which the factors occur on which the contingent payments are predicated.

Income taxes:

The Company and its subsidiaries file consolidated income tax returns.

The Company provides for income taxes based on income reported for financial reporting purposes. The provision for income taxes differs from the amounts currently payable because of temporary differences associated with the recognition of certain income and expense items for financial reporting and tax reporting purposes.

The Company follows United States generally accepted accounting principles in accounting for uncertainty in income taxes. Based on its evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the consolidated financial statements.

Legal fees:

The Company recognizes legal fees as incurred.

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 will have a significant impact on its consolidated financial statements.

3. Properties and equipment:

Properties and equipment consist of the following:

| | Estimated Useful Life in Years | December 31, | |
|---|---|---------------|---------------|
| | | 2010 | 2009 |
| Properties on lease or held for lease: | | | |
| Land and land improvements | -- | \$ 4,701,000 | \$ 4,621,000 |
| Building and improvements, Steeple Street | 39 | 5,068,000 | 1,772,000 |
| Construction in progress, Steeple Street | -- | -- | 2,446,000 |
| | | 9,769,000 | 8,639,000 |
| | | | |
| Petroleum storage facility, on lease: | | | |
| Land and land improvements | -- | 5,591,000 | 5,591,000 |
| Buildings and structures | 30 | 1,777,000 | 1,744,000 |
| Tanks and equipment | 15-20 | 14,589,000 | 14,600,000 |
| | | 21,957,000 | 21,935,000 |
| | | | |
| Equipment | 5-10 | 83,000 | 131,000 |
| | | 31,809,000 | 30,705,000 |
| | | | |
| Less accumulated depreciation: | | | |
| Properties on lease or held for lease | | 188,000 | 104,000 |
| Petroleum storage facility, on lease | | 9,060,000 | 8,430,000 |
| Equipment | | 61,000 | 102,000 |
| | | 9,309,000 | 8,636,000 |
| | | \$ 22,500,000 | \$ 22,069,000 |

In June 2009, the Company commenced the construction of the historic restoration and utility infrastructure of the Steeple Street Building, which was completed in December 2010 at a total cost of \$3,178,000 plus tenant improvements of \$191,000.

In 2010, the Company wrote off fully depreciated equipment no longer in service totaling \$60,000.

4. Note payable:

In April 2010, the Company borrowed \$6,000,000 from a bank. The loan bears interest 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). The loan matures April 26, 2020, contains the customary covenants, terms and conditions, and permits prepayment, in whole or in part, at any time without penalty if the prepayment is made from internally generated funds. As collateral for the loan, the Company granted the bank a mortgage on Parcels 3S and 5 in the Capital Center.

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

The following is a schedule of principal payments for the remaining term of the note payable:

Year ending December 31,

| | |
|--------------|--------------|
| 2011 | \$ 300,000 |
| 2012 | 300,000 |
| 2013 | 300,000 |
| 2014 | 300,000 |
| 2015 | 300,000 |
| 2016 to 2020 | 4,325,000 |
| | \$ 5,825,000 |

In connection with the borrowing, the Company incurred financing fees totaling \$55,000, which are included in prepaid and other assets on the accompanying consolidated balance sheet at December 31, 2010. These fees are being amortized on the straight-method over the 10-year term of the note, which approximates the effective interest rate method. The amortization expense is \$4,000 for the year ended December 31, 2010 and is included in interest

expense on the accompanying consolidated statement of income and retained earnings for the year ended December 31, 2010.

5. Description of leasing arrangements:

Long-term land leases:

As of December 31, 2010, the Company had entered into six long-term land leases for six separate parcels upon which the improvements have been completed (developed parcels). In addition, in 2005 a long-term land lease commenced on an undeveloped parcel on which two residential buildings were planned. One building was completed in September 2009. The other building has not progressed beyond the early stages of site preparation and the timing of its construction and completion is uncertain.

Under two of the long-term land leases, the Company receives contingent rentals (based upon a fixed percentage of gross revenue received by the tenants) which totaled \$55,000 and \$52,000 for the years ended December 31, 2010 and 2009, respectively.

Under the seven land leases, the tenants are required to negotiate any tax stabilization treaty or other arrangements, appeal any changes in real property assessments, and pay real property taxes assessed 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. For the years ended December 31, 2010 and 2009, the real property taxes attributable to the Company's land under these seven leases are \$1,109,000 and \$1,199,000, respectively.

Under the lease which commenced in 2005, the tenant is entitled to a credit for future rents equal to a portion of the real property taxes paid by the tenant through April 2007. In connection with Phase I of the tenant's project, commencing July 1, 2010, the annual rent increased from \$48,000 to \$300,000. As a result of the rent credit, the tenant will not be required to make cash payments for rent until May 2012. Commencing July 1, 2010, the Company is reclassifying each month \$25,000 of deferred leasing revenues to leasing revenues. At December 31, 2010, the remaining credit is \$370,000.

The Company also leases various parcels of land for outdoor advertising purposes to Lamar under a lease having a remaining term of 23 years. Effective June 1, 2006, the Company entered into an Amended and Restated Agreement with Lamar which among other things provides the following: (1) the base rent will increase annually in fixed increases of 2.75% for each leased billboard location commencing June 1, 2006 and on each June 1 thereafter; and (2) in addition to base rent, for each 12-month period commencing each June 1, Lamar must pay to the Company the difference between 30% of the gross revenues from each standard billboard and 20% of the gross revenues from each electronic billboard for such 12-month period reduced by the sum of (a) commissions paid to third parties and (b) the base monthly rent for each leased billboard display for such 12-month period (contingent revenue). For the years ended December 31, 2010 and 2009, contingent revenues totaled \$55,000 and \$61,000, respectively. In all other respects, the lease remains substantially unchanged.

At December 31, 2010, there are 24 locations under lease with 46 billboard faces. Of these locations, 22 are controlled through permanent easements and two are leased from third parties under operating leases with remaining terms of five years or less.

Minimum future contractual rental payments to be received from noncancellable long-term leases as of December 31, 2010 are:

Year ending December 31,

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| | |
|--------------|----------------|
| 2011 | \$ 2,964,000 |
| 2012 | 3,253,000 |
| 2013 | 3,350,000 |
| 2014 | 3,427,000 |
| 2015 | 3,606,000 |
| 2016 to 2153 | 753,558,000 |
| | \$ 770,158,000 |

For those leases with presently known scheduled rent increases at December 31, 2010 and 2009, the cumulative excess of straight-line over contractual rentals (considering scheduled rent increases over the 30 to 149 year terms of

the leases) and the portion of the excess of straight-line over contractual rentals which management has concluded is realizable when payable over the terms of the leases are as follows:

| | 2010 | 2009 |
|---|---------------|---------------|
| Cumulative excess of straight-line over contractual rentals | \$ 45,150,000 | \$ 40,171,000 |
| Amount management has not been able to conclude is collectible | 45,107,000 | 40,128,000 |
| Accrued leasing revenues, which are included in prepaid and other on the accompanying consolidated balance sheets | \$ 43,000 | \$ 43,000 |

In the event of tenant default, the Company has the right to reclaim its leased land together with any improvements thereon, subject to the right of any leasehold mortgagee to enter into a new lease with the Company with the same terms and conditions as the lease in default.

Short-term leases:

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

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

At December 31, 2010, the Company has two tenants in a portion of the Steeple Street Building (including the new tenant who assumed the lease) under short-term leases of five years or less at a current annual rental of \$88,000. The Company is presently marketing the remaining portions of the building for lease.

6. Petroleum storage facility:

Current operations:

The Company and Global are parties to a lease agreement whereby the Company operates the entire Facility for Global. The Company is responsible for labor, insurance, property taxes and other operating expenses, as well as certain capital improvements.

The lease provides as follows:

- The lease expires April 30, 2013, but will continue thereafter on a year-to-year basis unless terminated by either party upon ninety days written notice;
- Global may terminate the lease on the anniversary date (April 30) provided it gives at least one year s written notice;
- Global will pay a monthly rent subject to annual cost-of-living adjustments;
- Global will reimburse the Company for real property taxes in excess of \$106,000 annually; and
- The Company will receive an additional \$.10 per barrel for every barrel in excess of 4,000,000 barrels of throughput in any lease year (contingent revenue).

For the year ended December 31, 2009, the Company earned contingent revenue of \$2,000; however, no contingent revenue was earned in 2010.

The monthly rent at January 1, 2009 was \$296,000; due to a decrease in the cost-of-living index, there was no rent adjustment in May 2009. In May 2010, the monthly rent increased to \$303,000 as a result of the annual cost-of-living adjustment.

Effective May 2003, Global has an option to purchase the Facility at any time during the term of the lease (other than the last year thereof) on the terms and conditions set forth in a separate option agreement. Under a companion agreement, Global agreed to make certain improvements at the Pier which totaled \$77,000 in 2010. No improvements were made in 2009. [See *Wilkesbarre Pier* below].

Environmental incident (2010):

On August 30, 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 Environmental Protection Agency and the United States Coast Guard. It also notified its insurance carriers of the release and the damage to the tank.

The tank was emptied of product and the cleaning of the tank bottom was completed by September 11, 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 indicates that the corrosion was caused by microbial contamination, which was affirmed by a corrosion specialist.

The total cost of the cleanup, inspection and repair of the tank was \$550,000 (of which \$273,000 has been paid through December 31, 2010), which amount is included in petroleum storage facility expenses on the accompanying consolidated statement of income and retained earnings for the year ended December 31, 2010. The tank was placed back in service in February 2011.

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 for approximately one month for a complete inspection of the tank bottom.

At this time, management does not know which costs, if any, will be recovered under its insurance policies; however, the Company has put its insurance carrier on notice under the property policy with its insurance carrier to recover the repair costs. The deductibles on the Company's insurance policies are \$50,000 for environmental and \$75,000 for property. In addition, the Company is reviewing all of the facts and circumstances to determine if it has a claim against third parties for costs of cleanup, inspection and repair. The Company cannot determine with any certainty what amount may be recovered from a third party and, accordingly, has not recorded any receivable at December 31, 2010.

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, on October 20, 2008, a RIDEM Hearing Officer determined that Power Test is responsible for the discharge of the petroleum product under the Rhode Island Oil Pollution Control Act, R.I.G.L. Section 46-12.5.1-3 and Rule 6(a) and 12(b) of the Oil Pollution Control Regulations. The RIDEM Decision and Order requires Power Test to remediate the contamination as directed by RIDEM 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. On October 2, 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 on December 23, 2009. On January 20, 2010, Power Test appealed that decision to Superior Court. There can be no assurance that the Superior Court will affirm the final RIDEM

decision.

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. In February 2011, the Company was notified by the United States District Court for the District of Rhode Island that the case was being transferred to the United States District Court for the District of New Hampshire due to a backlog of cases in Rhode Island.

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. RIDEM has not taken any action on the Company's proposed plan. As designed, the system will pump out the contaminants which will be disposed of in compliance with applicable regulations. After a period of time, the groundwater will be tested to determine if sufficient contaminants have been removed. While the Company and its consulting engineers believe that the proposed active remediation system will correct the situation, it is possible that RIDEM could require the Company to expand remediation efforts, which could result in the Company incurring additional costs.

Wilkesbarre Pier:

The Pier is a deep-water pier in East Providence, Rhode Island owned by the Company which is integral to the operation of the Terminal. The Pier and the Terminal are connected by two petroleum pipelines which the Company has a permanent right to use. In 1995, the Company and Providence and Worcester Railroad Company (the Railroad) (the then owner of the Pier) entered into an agreement which, among other things, gave the Company the right to acquire the Pier for One Dollar (\$1.00). The Company acquired the Pier from the Railroad in 1998. The Company and the Railroad have a common controlling shareholder.

7. Income taxes:

Income tax expense is comprised of the following components:

| | 2010 | 2009 |
|-----------|------------|------------|
| Current: | | |
| Federal | \$ -- | \$ 710,000 |
| State | 142,000 | 226,000 |
| | 142,000 | 936,000 |
| Deferred: | | |
| Federal | 185,000 | 34,000 |
| State | 62,000 | 2,000 |
| | 247,000 | 36,000 |
| | \$ 389,000 | \$ 972,000 |

For the year ended December 31, 2010, the income tax provision does not bear the customary relationship between tax expense and pretax accounting income. The Company has determined that certain expenditures in

connection with the historic restoration of the Steeple Street Building qualify for federal historic income tax credits in 2010 of \$588,000, which credits were used in determining the Company's current federal income tax provision for 2010 in the accompanying consolidated financial statements. Of the total amount, \$556,000 was used to reduce the current provision and the remaining \$32,000 was used to reduce the deferred tax provision. For the years ended December 31, 2010 and 2009, a reconciliation of the income tax provision as computed by applying the United States income tax rate (34%) to income before income taxes is as follows:

| | 2010 | 2009 |
|--|------------|------------|
| Computed expected tax | \$ 643,000 | \$ 818,000 |
| Increase in expected tax resulting from state income tax, net of federal income tax benefit | 131,000 | 154,000 |
| Net effect of historic tax credit | (385,000) | -- |
| | \$ 389,000 | \$ 972,000 |

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:

| | December 31, | |
|---|--------------|--------------|
| | 2010 | 2009 |
| Gross deferred tax liabilities: | | |
| Property having a financial statement basis in excess of tax basis: | | |
| Cost differences | \$ 3,752,000 | \$ 3,517,000 |
| Depreciation differences | 2,027,000 | 2,064,000 |
| | 5,779,000 | 5,581,000 |
| Insurance premiums and accrued leasing revenues | 82,000 | 69,000 |
| | 5,861,000 | 5,650,000 |
| Gross deferred tax assets | (309,000) | (345,000) |
| | \$ 5,552,000 | \$ 5,305,000 |

The Company's federal and various state income tax returns for the years 2007, 2008 and 2009 remain subject to examination.

8. Shareholders equity:

In November 2008, the Company restated its Articles of Incorporation:

To create a new class of common stock of the Company to be designated Class B Common Stock consisting of 3,500,000 shares, \$.01 par value per share;

To increase the number of authorized shares of Class A Common Stock from 6,000,000 to 10,000,000 shares; and

To provide for certain transfer and ownership restrictions as set forth therein.

In December 2008, the Company issued (in the form of a stock dividend) 3,299,956 shares of Class B Common Stock on a one-for-one basis for each share of Class A Common Stock held.

The holders of Class A and Class B Common Stock vote together as a single class on all matters submitted to the shareholders of the Company except for the election of the Board of Directors and except in connection with certain major corporate actions, including a sale of the Company. The holders of Class A Common Stock, voting as a separate class, elect one-third of the Board of Directors. The holders of Class B Common Stock, voting as a separate class, elect the remainder of the Board of Directors.

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 years ended December 31, 2010 and 2009, the number of shares converted were 74,860 shares and 354,783 shares, respectively.

The Class A Common Stock is listed on the Premier QX Tier of the OTCQX. The Class B Common Stock is not listed on any national or regional stock exchange, or on the National Association of Securities Dealers Automated Quotation National Market System or on the OTCQX.

The holders of Class A and Class B Common Stock share equally in the earnings of the Company and in dividends declared by the Company.

The Company's Restated Articles of Incorporation prohibits any shareholder from acquiring more than a 5% interest in the Company's classes of common stock and prohibits any shareholder or any beneficial owner who, at the time of the filing of the Restated Articles of Incorporation owned 5% or more of the Company's classes of common stock from increasing their aggregate percentage ownership of both classes of common stock. Should a

shareholder acquire a number of shares that results in the limitation being exceeded, shares in excess of the limitation would be automatically converted into an equal number of shares of Excess Stock, which class was authorized pursuant to the 2001 Amendment to the Company's Articles of Incorporation. Excess Stock is non-voting and is not entitled to dividends. However, the shareholder may designate a qualifying transferee for shares of Excess Stock, at which time such shares would be converted and reissued as Class A or Class B Common shares as the case may be.

The purpose for creating the Class B Common Stock was to put the Company in the position to qualify to be taxed as a real estate investment trust (REIT). One of the qualifications to be taxed as a REIT is that no more than 50%

of the shares of a company can be held by five or fewer individuals during the last half of each taxable year. Currently, the majority shareholder controls 52.3% of the Company's outstanding common stock and three other shareholders each own more than 5% of the Company's outstanding common stock. In order for the Company to qualify to be taxed as a REIT, the major shareholders' ownership of the Company's issued and outstanding common stock would need to be reduced below the 50% level.

9. Operating segment disclosures:

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

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

Inter-segment revenues are immaterial in amount.

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

| | December 31, | |
|--|--------------|--------------|
| | 2010 | 2009 |
| <i>Leasing:</i> | | |
| Revenues: | | |
| Long-term leases: | | |
| Contractual | \$ 2,379,000 | \$ 2,140,000 |
| Contingent | 110,000 | 113,000 |
| Excess of contractual over straight-line rentals | -- | 1,000 |
| Short-term leases | 646,000 | 654,000 |
| | \$ 3,135,000 | \$ 2,908,000 |
| | | |
| Property tax expense | \$ 534,000 | \$ 486,000 |
| | | |
| Depreciation | \$ 84,000 | \$ 44,000 |
| | | |
| Income before income taxes | \$ 2,137,000 | \$ 1,926,000 |
| | | |
| Assets | \$ 9,850,000 | \$ 8,726,000 |
| | | |
| Properties and equipment, additions | \$ 1,130,000 | \$ 2,246,000 |
| | | |
| <i>Petroleum storage:</i> | | |
| Revenues: | | |
| Contractual | \$ 3,808,000 | \$ 3,754,000 |
| Contingent | -- | 2,000 |
| | | |
| Total revenues | \$ 3,808,000 | \$ 3,756,000 |

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| | | |
|---|---------------|---------------|
| Property tax expense | \$ 234,000 | \$ 212,000 |
| Depreciation | \$ 642,000 | \$ 641,000 |
| Income before income taxes | \$ 941,000 | \$ 1,431,000 |
| Assets | \$ 13,328,000 | \$ 13,917,000 |
| Properties and equipment: | | |
| Additions to properties and equipment | \$ 33,000 | \$ 67,000 |
| Write-off of fully depreciated equipment no longer in service | \$ 12,000 | \$ -- |

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The following is a reconciliation of the segment information to the amounts reported in the accompanying consolidated financial statements:

| | 2010 | 2009 |
|---|--------------|--------------|
| Revenues for operating segments: | | |
| Leasing | \$ 3,135,000 | \$ 2,908,000 |
| Petroleum storage | 3,808,000 | 3,756,000 |
| Total consolidated revenues | \$ 6,943,000 | \$ 6,664,000 |
| Property tax expense: | | |
| Property tax expense for operating segments: | | |
| Leasing | \$ 534,000 | \$ 486,000 |
| Petroleum storage | 234,000 | 212,000 |
| | 768,000 | 698,000 |
| Unallocated corporate property tax expense | 2,000 | 2,000 |
| Total consolidated property tax expense | \$ 770,000 | \$ 700,000 |
| Depreciation: | | |
| Depreciation for operating segments: | | |
| Leasing | \$ 84,000 | \$ 44,000 |
| Petroleum storage | 642,000 | 641,000 |
| | 726,000 | 685,000 |
| Unallocated corporate depreciation | 7,000 | 6,000 |
| Total consolidated depreciation | \$ 733,000 | \$ 691,000 |
| Income before income taxes: | | |
| Income for operating segments: | | |
| Leasing | \$ 2,137,000 | \$ 1,926,000 |
| Petroleum storage | 941,000 | 1,431,000 |
| | 3,078,000 | 3,357,000 |
| Unallocated corporate expenses | (939,000) | (951,000) |
| Interest expense | (248,000) | -- |
| Total consolidated income before income taxes | \$ 1,891,000 | \$ 2,406,000 |
| Assets: | | |
| Assets for operating segments: | | |
| Leasing | \$ 9,850,000 | \$ 8,726,000 |
| Petroleum storage | 13,328,000 | 13,917,000 |

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| | | |
|--|---------------|---------------|
| | 23,178,000 | 22,643,000 |
| Corporate cash and cash equivalents | 2,190,000 | 2,043,000 |
| Other unallocated amounts | 792,000 | 76,000 |
| Total consolidated assets | \$ 26,160,000 | \$ 24,762,000 |
| Properties and equipment: | | |
| Additions to properties and equipment: | | |
| Leasing | \$ 1,130,000 | \$ 2,246,000 |
| Petroleum storage | 33,000 | 67,000 |
| Total consolidated additions | \$ 1,163,000 | \$ 2,313,000 |
| Write-off of fully depreciated equipment no longer in service: | | |
| Operating segment, petroleum storage | \$ 12,000 | \$ -- |
| Unallocated | 48,000 | -- |
| Total consolidated write-off of fully depreciated equipment no longer in service | \$ 60,000 | \$ -- |

The following table sets forth those customers whose revenues exceed 10% of the Company's segment revenues:

| | 2010 | 2009 |
|--|--------------|--------------|
| Leasing segment: | | |
| Lamar Outdoor Advertising, LLC | \$ 810,000 | \$ 793,000 |
| Metropark, Ltd. | 558,000 | 543,000 |
| Gramercy Capital Corp. | 485,000 | 472,000 |
| AvalonBay Communities, Inc. | 398,000 | 397,000 |
| | \$ 2,251,000 | \$ 2,205,000 |
| Petroleum storage segment: Global Companies, LLC | \$ 3,808,000 | \$ 3,756,000 |

10. Fourth quarter transactions in 2010 (unaudited):

During the fourth quarter of 2010, the Company increased its estimate for the repair of Tank 153 by \$343,000. Unexpected changes in construction methods and procedures were required due to site and tank conditions not originally identifiable. Inclement weather caused further delay and expense.

Also during the fourth quarter of 2010, the Company's annual effective income tax rate decreased 9.4 percent from that used in the quarterly periods in 2010, due to the lower pre-tax income than projected and a higher historic tax credit than was previously estimated. As a result, the income tax provision as previously reported for the nine months ended September 30, 2010, was overstated by \$142,000.

11. Subsequent event:

The Company evaluated subsequent events through the date the financial statements were issued.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There were no changes in, or disagreements with, accountants on accounting or financial disclosure as defined by Item 304 of Regulation S-K.

Item 9A. Controls and Procedures

Under the supervision of the Company's management, including its principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and principal financial officer have concluded that, as of such date, the Company's disclosure controls and procedures were effective in making them aware on a timely basis of the material information relating to the Company required to be included in the Company's periodic filings with the Securities and Exchange Commission.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with policies may deteriorate.

Management conducted its evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of December 31, 2010.

Based on this assessment, the principal executive officer and principal financial officer believe that as of December 31, 2010, the Company's internal control over financial reporting was effective based on criteria set forth by COSO in *Internal Control-Integrated Framework*.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2010, there has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III**Item 10. Directors, Executive Officers and Corporate Governance of the Registrant**

The information concerning directors required by this item, including the Audit Committee and the Audit Committee financial expert, is incorporated by reference to the Sections entitled Election of Directors,

Section 16(a) Beneficial Ownership Reporting Compliance, Security Ownership of Certain Beneficial Owners and Management and Audit Committee Report in the Company's Definitive Proxy for the 2011 Annual Meeting of the Shareholders to be filed with the SEC.

The following are the executive officers of the Registrant:

| <u>Name</u> | <u>Age</u> | <u>Office Held</u> | <u>Date of First Election to Office</u> |
|---------------------|------------|--|---|
| Robert H. Eder | 78 | President, Capital Properties, Inc. | 1995 |
| Barbara J. Dreyer | 72 | Treasurer, Capital Properties, Inc. | 1997 |
| Stephen J. Carlotti | 68 | Secretary, Capital Properties, Inc. | 1998 |
| Todd D. Turcotte | 39 | Vice President, Capital Properties, Inc. | 2008 |

All officers hold their respective offices until their successors are duly elected and qualified. Ms. Dreyer served as President and Treasurer of the Registrant from 1995 to 1997 and as Treasurer since that date. Mr. Carlotti is a partner in the law firm, Hinckley, Allen & Snyder LLP, which firm provides legal services to the Company.

Code of Ethics:

The Company has adopted a Code of Ethics which applies to all directors, officers and employees of the Company and its subsidiaries including the Principal Executive Officer and the Treasurer (who is both the principal accounting and financial officer), which meets the requirement of a code of ethics as defined in Item 406 of Regulation S-K. The Company will provide a copy of the Code to shareholders pursuant to any request directed to the Treasurer at the Company's principal offices. The Company intends to disclose any amendments to, or waiver of, any provisions of the Code for the Principal Executive Officer or Treasurer, or any person performing similar functions.

The additional information required by this item is incorporated by reference to the Section entitled

Corporate Governance in the Company's Definitive Proxy Statement for the 2011 Annual Meeting of the Shareholders to be filed with the Securities and Exchange Commission.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the Sections entitled Compensation of Directors, Compensation Discussion and Analysis, and Executive Compensation in the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the Section entitled Security Ownership of Certain Beneficial Owners and Management in the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated by reference to the Sections entitled Election of Directors and Transactions with Management in the Company's Definitive Proxy Statement for the 2011 Annual Meeting of the Shareholders to be filed with the Securities and Exchange Commission.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the Section entitled Independent Registered Public Accountants in the Company's Definitive Proxy Statement for the 2011 Annual Meeting of the Shareholders to be filed with the Securities and Exchange Commission.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) and (c) The consolidated financial statements are included in Item 8.

(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.

20.1 Map of the Company's parcels in Downtown Providence, Rhode Island

20.2 Map of the Company's petroleum storage facility in East Providence, Rhode Island

21 Subsidiaries of the Company

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

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Company has 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

DATED: March 17, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Company and on the dates indicated.

/s/ Robert H. Eder March 17, 2011

Robert H. Eder
President and Director
Principal Executive Officer

/s/ Barbara J. Dreyer March 17, 2011

Barbara J. Dreyer
Treasurer, Principal Financial Officer
and Principal Accounting Officer

/s/ Alfred J. Corso March 17, 2011

Alfred J. Corso, Director

/s/ Harris N. Rosen March 17, 2011

Harris N. Rosen, Director