FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee Required)
For the quarterly period ended July 31, 1999

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)
For the transition period from to

Commission File No. 1-8709

Canal Capital Corporation and Subsidiaries
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	51-0102492 (I.R.S. Employer Identification No.)
717 Fifth Avenue, New York, NY (Address of principal executive offices)	10022 (Zip Code)

Registrant's telephone number, including area code (212) 826-6040

NONE
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 X NO

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the latest practical date:

Title of each class	Shares outstanding at August 31, 1999
Common stock, $0.01 par value	4,326,929

(This document contains 24 pages)

CANAL CAPITAL CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JULY 31, 1999 AND OCTOBER 31, 1998

	JULY 31, 1999 (UNAUDITED)	OCTOBER 31, 1998 (AUDITED)
ASSETS:		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	$ 476,922	$ 33,538
NOTES AND ACCOUNTS RECEIVABLE	211,353	211,070
ART INVENTORY, NET OF A VALUATION ALLOWANCE OF $ 1,500,000 AT JULY 31, 1999 AND OCTOBER 31, 1998, RESPECTIVELY	500,000	500,000
INVESTMENTS	270,950	278,175
PREPAID EXPENSES	226,387	173,938
TOTAL CURRENT ASSETS	1,685,612	1,196,721
NON-CURRENT ASSETS:		
PROPERTY ON OPERATING LEASES, NET OF ACCUMULATED DEPRECIATION OF $1,417,251 AND $ 1,671,222 AT JULY 31, 1999 AND OCTOBER 31, 1998, RESPECTIVELY	4,814,515	5,861,064
ART INVENTORY NON-CURRENT, NET OF VALUATION ALLOWANCE OF $ 1,278,700 AT JULY 31, 1999 AND $1,900,000 AT OCTOBER 31, 1998, RESPECTIVELY	734,907	949,125
OTHER ASSETS:		
PROPERTY HELD FOR DEV.OR RESALE	1,044,695	1,318,095

DEFERRED LEASING AND FINANCING COSTS	12,102	12,866
DEPOSITS AND OTHER	120,402	169,578
	1,177,199	1,500,539
	$ 8,412,233	$ 9,507,449
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CANAL CAPITAL CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JULY 31, 1999 AND OCTOBER 31, 1998

	JULY 31, 1999 (UNAUDITED)	OCTOBER 31, 1998 (AUDITED)
LIABILITIES & STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
CURRENT PORTION OF LONG-TERM DEBT	110,000	110,000
ACCOUNTS PAYABLE AND ACCRUED EXP	1,310,338	2,061,210
INCOME TAXES PAYABLE	10,444	14,314
TOTAL CURRENT LIABILITIES	1,430,782	2,185,524
LONG-TERM DEBT, LESS CURRENT PORTION	2,217,937	2,321,433
LONG-TERM DEBT, LESS CURRENT PORTION-RELATED PARTY	1,199,082	2,846,000
	3,417,019	5,167,433
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
PREFERRED STOCK, $0.01 PAR VALUE: 5,000,000 SHARES AUTHORIZED; 3,878,758 AND 3,411,681 SHARES ISSUED AND OUTSTANDING AT JULY 31, 1999 AND OCTOBER 31, 1998, RESPECTIVELY AND AGGREGATE LIQUIDATION PREFERENCE OF $ 38,787,580 AND $ 34,116,810 AT JULY 31, 1999 AND OCTOBER 31, 1998 RESPECTIVELY	38,793	34,117
COMMON STOCK, $0.01 PAR VALUE: 10,000,000 SHARES AUTHORIZED; 5,313,794 SHARES ISSUED AND 4,326,929 SHARES OUTSTANDING AT JULY 31, 1999 AND OCTOBER 31, 1998, RESPECTIVELY	53,138	53,138

PAID-IN CAPITAL	27,217,159	27,033,046
RETAINED EARNINGS (DEFICIT)	(10,579,667)	(11,808,043)
986,865 SHARES OF COMMON STOCK HELD IN TREASURY, AT COST	(11,003,545)	(11,003,545)
COMPREHENSIVE INCOME:		
VALUATION RESERVE	(1,896,838)	(1,896,838)
UNREALIZED LOSS ON INVESTMENTS AVAILABLE FOR SALE	(264,608)	(257,383)
	3,564,432	2,154,492
	$ 8,412,233	$ 9,507,449
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CANAL CAPITAL CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JULY 31, 1999 AND 1998

	1999 (UNAUDITED)	1998 (UNAUDITED)
REAL ESTATE OPERATIONS:		
REAL ESTATE REVENUES:		
SALE OF REAL ESTATE	$ 423,000	$ 283,439
RENTAL INCOME	231,775	346,025
GROUND LEASE INCOME	161,600	231,000
VOLUME BASED RENTAL INCOME	0	30,903
OTHER INCOME	4,983	376,794
	821,358	1,268,161
REAL ESTATE EXPENSES:		
COST OF REAL ESTATE SOLD	200,694	150,680
LABOR, OPERATING AND MAINTENANCE	122,147	208,927
DEPRECIATION AND AMORTIZATION	29,590	53,087
TAXES OTHER THAN INCOME TAXES	46,800	50,400
GENERAL AND ADMINISTRATIVE	20,919	22,191
	420,150	485,285

INCOME FROM REAL ESTATE OPERATIONS	401,208	782,876
ART OPERATIONS:		
ART REVENUES:		
SALES	0	0
OTHER REVENUES	0	0
	0	0
ART EXPENSES:		
COST OF ART SOLD	740	0
VALUATION RESERVE	0	0
SELLING, GENERAL AND ADMINISTRATIVE	10,529	9,770
	11,269	9,770
LOSS FROM ART OPERATIONS	(11,269)	(9,770)

CANAL CAPITAL CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JULY 31, 1999 AND 1998
Continued ...

	1999 (UNAUDITED)	1998 (UNAUDITED)
GENERAL AND ADMINISTRATIVE EXPENSE	$ (244,132)	$ (283,281)
INCOME (LOSS) FROM OPERATIONS	145,807	489,825
OTHER INCOME (EXPENSE):		
INTEREST & OTHER INCOME	1,010	2
INTEREST EXPENSE	(60,212)	(64,571)
INTEREST EXPENSE-RELATED PARTY	(14,000)	(129,000)
OTHER EXPENSE	0	0

	(73,202)	(193,569)
(LOSS) GAIN BEFORE PROVISION FOR INCOME TAXES	72,605	296,256
PROVISION (BENEFIT) FOR INCOME TAXES	0	0
NET (LOSS)	72,605	296,256
OTHER COMPREHENSIVE INCOME (LOSS):		
UNREALIZED LOSS ON INVESTMENTS AVAILABLE FOR SALE	(90,317)	(361,267)
COMPREHENSIVE INCOME (LOSS)	$ (17,712)	$ (65,011)
INCOME (LOSS) PER COMMON SHARE	$ (0.02)	$ (0.03)

CANAL CAPITAL CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED JULY 31, 1999 AND 1998

	1999 (UNAUDITED)	1998 (UNAUDITED)
REAL ESTATE OPERATIONS:		
REAL ESTATE REVENUES:		
SALE OF REAL ESTATE	$ 3,568,000	$ 534,439
RENTAL INCOME	751,780	1,071,870
GROUND LEASE INCOME	600,400	693,000
VOLUME BASED RENTAL INCOME	21,645	96,394

OTHER INCOME	10,391	380,532
	4,952,216	2,776,235
REAL ESTATE EXPENSES:		
COST OF REAL ESTATE SOLD	1,690,796	210,751
LABOR, OPERATING AND MAINTENANCE	327,200	647,663
DEPRECIATION AND AMORTIZATION	126,242	164,406
TAXES OTHER THAN INCOME TAXES	141,193	151,200
GENERAL AND ADMINISTRATIVE	59,459	67,703
	2,344,890	1,241,723
INCOME FROM REAL ESTATE OPERATIONS	2,607,326	1,534,512
ART OPERATIONS:		
ART REVENUES:		
SALES	186,400	206,200
OTHER REVENUES	0	0
	186,400	206,200
ART EXPENSES:		
COST OF ART SOLD	839,986	761,453
VALUATION RESERVE	(621,300)	(380,000)
SELLING, GENERAL AND ADMINISTRATIVE	32,762	29,884
	251,448	411,337
LOSS FROM ART OPERATIONS	(65,048)	(205,137)

CANAL CAPITAL CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED JULY 31, 1999 AND 1998
Continued ...

	1999 (UNAUDITED)	1998 (UNAUDITED)

GENERAL AND ADMINISTRATIVE EXPENSE	$ (760,119)	$ (846,310)
INCOME (LOSS) FROM OPERATIONS	1,782,159	483,065
OTHER INCOME (EXPENSE):		
INTEREST & OTHER INCOME	10,514	933
INTEREST EXPENSE	(184,148)	(285,634)
INTEREST EXPENSE-RELATED PARTY	(202,000)	(331,000)
OTHER EXPENSE	0	0
	(375,634)	(615,701)
(LOSS) GAIN BEFORE PROVISION FOR INCOME TAXES	1,406,525	(132,636)
PROVISION (BENEFIT) FOR INCOME TAXES	0	0
NET (LOSS)	1,406,525	(132,636)
OTHER COMPREHENSIVE INCOME (LOSS):		
UNREALIZED LOSS ON INVESTMENTS AVAILABLE FOR SALE	(7,225)	(699,774)
COMPREHENSIVE INCOME (LOSS)	$ 1,399,300	$ (832,410)
INCOME (LOSS) PER COMMON SHARE	$ 0.28	$ (0.23)

CANAL CAPITAL CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JULY 31, 1999 AND 1998

	1999 (UNAUDITED)	1998 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ 1,406,525	$ (132,636)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
PROVISION FOR LITIGATION SETTLEMENT	0	0
DEPRECIATION AND AMORTIZATION	137,289	182,127
GAIN ON SALES OF REAL ESTATE	(1,877,204)	(323,688)
CHANGES IN ASSETS AND LIABILITIES:		
NOTES AND ACCOUNTS RECEIVABLES, NET	(283)	(451,354)
ART INVENTORY, NET	214,218	380,294
PREPAID EXPENSES AND OTHER, NET	(268,590)	20,623
PAYABLES AND ACCRUED EXPENSES, NET	(754,742)	74,758
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(1,142,787)	(249,876)
CASH FLOWS FROM INVESTING ACTIVITIES:		
PROCEEDS FROM SALES OF REAL ESTATE	3,568,000	534,439
PROCEEDS FROM SALE OF INVESTMENTS	0	0
CAPITAL EXPENDITURES	(231,235)	(51,531)
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,336,765	482,908
CASH FLOWS FROM FINANCING ACTIVITIES:		
PROCEEDS FROM LONG-TERM DEBT-RELATED PARTIES	525,000	75,000
TRANSFERS TO LONG-TERM	337,082	0
REPAYMENT OF LONG-TERM DEBT OBLIGATIONS	(2,612,496)	(352,558)
NET CASH USED BY FINANCING ACTIVITIES	(1,750,414)	(277,558)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	443,564	(44,526)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,358	28,225
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 476,922	$ (16,301)
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NOTE: Canal made federal and state income tax payments of $20,000 and $17,000 and interest payments of $386,000 and $617,000 in the nine month periods ended July 31, 1999 and 1998, respectively.

CANAL CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED OCTOBER 31, 1998 (AUDITED) AND
FOR THE NINE MONTHS ENDED JULY 31, 1999 (UNAUDITED)

	COMMON STOCK		PREFERRED STOCK		
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	PAID-IN CAPITAL
BALANCE,10/31/97	5,313,794	$53,138	2,997,900	$29,979	$26,826,293
NET INCOME (LOSS)	0	0	0	0	0
PREFERRED STOCK DIV	0	0	413,781	4,138	206,753
MINIMUM PEN. LIAB. ADJ	0	0	0	0	0
UNREALIZED GAIN ON INV	0	0	0	0	0
BALANCE,10/31/98	5,313,794	53,138	3,411,681	34,117	27,033,046
NET INCOME (LOSS)	0	0	0	0	0
PREFERRED STOCK DIV	0	0	467,077	4,676	184,113
MINIMUM PEN. LIAB. ADJ	0	0	0	0	0
UNREALIZED GAIN ON INV	0	0	0	0	0
BALANCE,07/31/99	5,313,794	$53,138	3,878,758	$38,793	$27,217,159

	RETAINED EARNINGS DEFICIT	-COMPREHENSIVE (LOSS) INCOME- VALUATION RESERVE	UNREALIZED GAIN ON INV.	TREASURY STOCK AT COST
BALANCE,10/31/97	($10,194,335)	($1,485,641)	$ 615,800	($11,003,545)
NET INCOME (LOSS)	(1,413,470)	0	0	0
PREFERRED STOCK DIV	(200,238)	0	0	0
MINIMUM PEN. LIAB. ADJ.	0	(411,197)	0	0
UNREALIZED GAIN ON INV.	0	0	(873,183)	0
BALANCE,10/31/98	(11,808,043)	($1,896,838)	(257,383)	(11,003,545)
NET INCOME (LOSS)	1,406,525	0	0	0
PREFERRED STOCK DIV	(178,149)	0	0	0
MINIMUM PEN. LIAB. ADJ.	0	0	0	0
UNREALIZED GAIN ON INV.	0	0	(7,225)	0

BALANCE,07/31/99	($10,579,667)	($1,896,838)	$ (264,608)	($11,003,545)

CANAL CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JULY 31, 1999
(UNAUDITED)

1. GENERAL

Canal Capital Corporation (Canal), incorporated in the state of Delaware in 1964, commenced business operations through a predecessor in 1936. Canal was a wholly owned subsidiary of Canal-Randolph Corporation until June 1, 1984, when Canal-Randolph Corporation distributed to its stockholders all of the outstanding shares of Canal s common stock, under a plan of complete liquidation.

Canal is engaged in two distinct businesses - the management of its agribusiness related real estate properties located in the Midwest and art operations, consisting mainly of the acquisition of art for resale.

While the Company is currently operating as a going concern, certain significant factors raise substantial doubt about the Company s ability to continue as a going concern. The Company has suffered recurring losses from operations in eight of the last ten years. The accompanying financial statements do not include any adjustments relating to the recoverability a n d classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Canal continues to closely monitor and reduce where possible its overhead expenses and plans to continue to reduce the level of its art inventories to enhance current cash flows. Management believes that its income from operations combined with its cost cutting program and planned reduction of its art inventory will enable it to finance its current business activities. There can, however, be no assurance that Canal will be able to effectuate its planned art inventory reductions or that its income from operations combined with its cost cutting program in itself will be sufficient to fund operating cash requirements.

2. Reclassification

Certain prior year amounts have been reclassified to conform to the current year s presentation.

3. Interim Financial Statements

The interim consolidated financial statements included herein have been prepared by Canal without audit. In the opinion of Management, the a c c o mpanying unaudited financial statements of Canal contain all adjustments necessary to present fairly its financial position as of July 31, 1999 and the results of its operations and its cash flows for the nine month period ended July 31, 1999. All of the above referenced adjustments were of a normal recurring nature. Certain information and footnote d i s closures normally included in financial statements prepared in a c cordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements for the three years ended October 31, 1998 and the notes thereto which are contained in Canal s 1998 Annual Report on Form 10-K. The results of operations for the period presented is not necessarily indicative of the results to be expected for the remainder of fiscal 1999.

4. Property and Equipment

Included in property and equipment were the cost of buildings of approximately $2.5 million at July 31, 1999 and October 31, 1998.

5. Notes Receivable

Included in the notes and accounts receivable were the current portion of notes from real estate sales in the amount of $15,000 at July 31, 1999 and October 31, 1998.

6. INVESTMENTS AVAILABLE FOR SALE

At July 31, 1999 the investments available for sale consisted of the following:

($ 000's Omitted)	July 31, 1999	October 31, 1998
Aggregate market value.................	$ 271	$ 278
Aggregate carrying value...............	$ 271	$ 278

Canal has an investment in a company in which it, together with other affiliated entities, comprise a reporting group for regulatory purposes. It is important to note that it is the group (as defined) that can exercise

influence over this company, not Canal. Accordingly, this investment does not qualify for consolidation as a method of reporting. Certain of Canal s officers and directors also serve as officers and/or directors of this company. This investment (in which Canal s ownership interest is approximately 2%) is carried at market value and the realized gains or losses, if any, are recognized in operating results. Any unrealized gains or losses are reflected in Stockholders Equity.

For the nine months ended July 31, 1999 Canal recognized an unrealized loss on investments available for sale of $7,000. Additionally, in fiscal 1998 Canal recognized an unrealized loss on investments available for sale of $700,000, both of which are shown in a separate component of Stockholders Equity.

7. ART OPERATIONS

Canal established its art operations in October 1988 by acquiring a significant inventory for resale of antiquities primarily from the ancient Mediterranean cultures. In November 1989, Canal expanded its art operations by entering into a cost and revenue sharing agreement with a New York City gallery for the exclusive representation of Jules Olitski, a world renowned artist of contemporary paintings. As part of this agreement Canal purchased a number of Olitski paintings which it holds for resale with a book value of approximately $692,000 at July 31, 1999. The representation agreement expired December 1, 1994 and Canal now operates independently in the marketing of its contemporary art inventory.

Due to general economic conditions and the softness of the art markets, Canal has not purchased inventory in several years. However, Canal continues its marketing efforts to sell its existing art inventory through various consignment agreements and at public auctions. Antiquities and contemporary art represented 44% ($542,758) and 56% ($692,149) and 49% ($713,862) and 51% ($735,263) of total art inventory at July 31, 1999 and October 31, 1998, respectively. Substantially all of the contemporary art inventory held for resale is comprised of the work of Jules Olitski.

Management estimates it may take two to five years to dispose of its current art inventory. The Company s ability to dispose of its art inventory is dependent at least in part, on general economic conditions, including supply, demand, international monetary conditions and inflation. Additionally, the art market itself is very competitive. Accordingly, there can be no assurance that Canal will be successful in disposing of its art inventory within the time frame discussed above.

Canal has its art inventory appraised by an independent appraiser annually. The 1998 appraisal covered approximately 50% of the inventory value. The appraised values estimate the current market value of each piece giving consideration to Canal s practices of engaging in consignment, private

and public auction sales. The net realizable value of the remaining 50% of the inventory was estimated by management based in part on operating history and in part on the results of the independent appraisals done. In fiscal 1998 Canal recognized a $550,000 valuation allowance against its art inventory, thereby, increasing the total valuation allowance to $3,400,000 as of October 31, 1998 as compared to $2,850,000 and $2,500,000 at October 31, 1997 and 1996, respectively. These estimates were based in part on the Company s history of losses sustained on art sales in the current and previous years.

As of October 31, 1998 the valuation allowance of $3,400,000 represented a 70% reduction in the carrying value of the Company s art inventory which management believes approximates its net realizable value. Accordingly, the Company will, on a prospective basis, use the adjusted carrying value for sales, thereby, reducing the valuation reserve (proportionately) as the inventory is sold. This policy resulted in a reduction in the valuation allowance of $621,000 on sales of art with an historic cost of $840,000 in the first nine months of fiscal 1999.

The Company s plan to sell inventory at auction is contemplated in the normal course of business. Auction in this context is one of the usual channels used for disposal of its art inventory. The proceeds from these sales will be used to reduce the Company s outstanding debt. If these sales are not made, the Company has alternate means of raising cash such as sales of investments, sale of real estate, raising of new capital and rescheduling of debt. Some of these measures were successfully implemented in fiscal 1998.

Canal s art operations have generated operating losses of $65,000 and $205,000 (net of decreases in the valuation allowance of $621,000 and $380,000 for the nine month periods ended July 31, 1999 and 1998, respectively) on revenues of $186,000 and $206,000 for the nine months ended July 31, 1999 and 1998, respectively. Art sales have resulted primarily through activities in conjunction with sales of antiquities. Canal s management believes that through its consignment agreements as well as other potential distribution outlets Canal will continue to deal in antiquities and contemporary art.

Inventory on Consignment - The Company had approximately $214,000 of art inventory on consignment with third party dealers at July 31, 1999 and October 31, 1998, respectively.

8. BORROWINGS

At July 31, 1999, substantially all of Canal s real properties, the stock of certain subsidiaries, the investments and a substantial portion of its art inventories are pledged as collateral to secure the following obligations:

(Thousands of Dollars)	July 31, 1999 (Unaudited)	October 31, 1998 (Audited)
Variable rate mortgage notes due May 15, 2003 - related party............	$ 1,199	$ 2,846

11% mortgage note; original principal amount $1,697; due April 1, 2011; payable in monthly installments (including interest) of $14..............	1,170	1,210
9.5% mortgage note; original principal amount $472; due November 1, 2012, payable in monthly installments (including interest) of $5...............	381	393
10 1/2% mortgage note (adjusted periodically to prime plus 1 3/4%); original principal amount $556 due January 15, 2013; payable in monthly installments (including interest) of $6..	458	466
Other Note................................	319	362
Total	3,527	5,277
Less -- current maturities	110	110
Long-term debt	$ 3,417	$ 5,167

On January 8, 1998, the Company issued $3,700,000 of variable rate mortgage notes due May 15, 2001, the proceeds of which were used to repay in full the Company s variable rate mortgage notes due May 15, 1998 ($2,605,000), its variable rate mortgage notes due September 15, 1998 ($700,000) and two notes which were due December 31, 1997 ($320,000) plus accrued interest thereon. The purchasers of these notes included certain entities controlled by the Company s Chairman, the Company s Chief Executive Officer and members of their families. The variable rate mortgage notes issued have essentially the same terms and conditions as the variable rate mortgage notes which were repaid. These notes carry interest at the highest of four variable rates, determined on a quarterly basis. These notes, among other things, prohibits Canal from becoming an investment company as defined by the Investment Company Act of 1940; requires Canal to maintain minimum net worth; restricts Canal s ability to pay cash dividends or repurchase stock; requires principal prepayments to be made only out of the proceeds from the sale of certain assets and requires the accrual of additional interest (to be paid at maturity) of approximately three percent per annum. As discussed below, the balance due these notes has been repaid in full as of July 31, 1999.

On July 29, 1999, the Company issued 1,199,082 of variable rate mortgage notes due May 15, 2003, the proceeds of which were used to repay in full the Company s variable rate mortgage notes due May 15, 2001 (including all additional and accrued interest thereon) and to provide the working capital for the Company s reentry into the stockyard business. The purchasers of these notes included the Company s Chief Executive Officer and members of his family. The variable rate mortgage notes issued carry interest at a rate of 10% per annum. These notes, among other things, prohibits Canal from becoming an investment company as defined by the Investment Company Act of 1940; requires Canal to maintain minimum net worth; restricts Canal s ability to pay cash dividends or repurchase stock; requires principal prepayments to be made only out of the proceeds from the sale of certain assets. At July 31, 1999, the balance due under these notes was $1,199,082.

9. VALUATION RESERVE

The valuation reserve represents the excess of the additional minimum pension liability required under the provisions of SFAS No. 87 over the unrecognized prior service costs of former stockyard employees. Such excess arose due to the decline in the market value of pension assets available for the pension benefits of the former employees, which benefits were frozen at
the time the stockyard operations were sold in 1989. The excess will effectively be expensed over time as actuarial computations of annual pension cost (made in accordance with SFAS No. 87) recognize the deficiency that exists.

Management s Discussion and Analysis
Of Results of Operations and Financial Condition
For the Nine Months Ended July 31, 1999

Results of Operations - General

While the Company is currently operating as a going concern, certain significant factors raise substantial doubt about the Company s ability to continue as a going concern. The Company has suffered recurring losses from operations in eight of the last ten years. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Canal recognized net income of $1,407,000 and $73,000 for the nine and three month periods ended July 31, 1999 as compared to net losses of $133,000 and net income of $296,000 for the same periods in fiscal 1998. After recognition of unrealized losses on investments held for sale of $7,000 and $90,000 for the nine and three month periods ended July 31, 1999 the Company recognized comprehensive income of $1,399,000 and a comprehensive loss of $18,000 for the nine and three month periods ended July 31, 1999 as compared to comprehensive losses of $832,000 and $65,000 for the same periods in fiscal 1998. Further, after recognition of preferred stock dividend payments of $178,000 and $82,000 for the nine and three month periods ended July 31, 1999, the Company recognized income applicable to common stockholders of $1,221,000 ($0.28 per common share) and a loss available to common shares of $100,000 ($0.02 per common share)for the nine and three month periods ended July 31, 1999 as compared to losses applicable to common stockholders of $985,000 ($0.23 per common share)and $121,000 ($0.03 per common share) for the same periods in fiscal 1998. Included in the 1999 results are gains of approximately $1,877,000 on sales from real estate offset to a certain extent by a $65,000 loss from real estate operations. The 1998 results included a $700,000 unrealized loss on investments held for sale and a $205,000 loss from art operations.

Canal s revenues from continuing operations consist of revenues from its real estate and art operations. Due to general economic conditions and more specifically a depressed national art market, Canal s aggregate revenues from art sales and the prices at which sales were made have significantly declined in recent years. Revenues increased by $2,156,000 or 72.3% to $5,139,000 and decreased by $447,000 or 35.2% to $821,000 for the nine and three month periods ended July 31, 1999, as compared to the revenues for the same periods in fiscal 1998. The 1999 nine month increase is due primarily to a $3,034,000 increase from the sale of real estate which included Canal s sale of the St. Paul, Minnesota stockyard property which had been part of the stockyards master lease. The 1999 three month decrease is due primarily to the inclusion in the 1998 revenues of a $375,000 gain on insurance proceeds to the fire at the Sioux City Exchange Building.

Capital Resources and Liquidity

While the Company is currently operating as a going concern, certain significant factors raise substantial doubt about the Company s ability to continue as a going concern. The Company has suffered recurring losses from operations in eight of the last ten years. The accompanying financial statements do not include any adjustments relating to the recoverability a n d classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

On January 8, 1998, the Company issued $3,700,000 of variable rate mortgage notes due May 15, 2001, the proceeds of which were used to repay in full the Company s variable rate mortgage notes due May 15, 1998 ($2,605,000), its variable rate mortgage notes due September 15, 1998 ($700,000) and two notes which were due December 31, 1997 ($320,000) plus accrued interest thereon. The purchasers of these notes included certain entities controlled by the Company s Chairman, the Company s Chief Executive Officer and members of their families. The variable rate mortgage notes issued have essentially the same terms and conditions as the variable rate mortgage notes which were repaid. These notes carry interest at the highest of four variable rates, determined on a quarterly basis. These notes, among other things, prohibits Canal from becoming an investment company as defined by the Investment Company Act of 1940; requires Canal to maintain minimum net worth; restricts Canal s ability to pay cash dividends or repurchase stock; requires principal prepayments to be made only out of the proceeds from the sale of certain assets and requires the accrual of additional interest (to be paid at maturity) of approximately three percent per annum. As discussed below, the balance due under these notes has been repaid in full as of July 31, 1999.

On July 29, 1999, the Company issued 1,199,082 of variable rate mortgage notes due May 15, 2003, the proceeds of which were used to repay in full the Company s variable rate mortgage notes due May 15, 2001 (including all additional and accrued interest thereon) and to provide the working capital for the Company s reentry into the stockyard business. The purchasers of these notes included the Company s Chief Executive Officer and members of his family. The variable rate mortgage notes issued carry interest at a rate of 10% per annum. These notes, among other things, prohibits Canal from becoming an investment company as defined by the Investment Company Act of 1940; requires Canal to maintain minimum net worth; restricts Canal s ability to pay cash dividends or repurchase stock; requires principal prepayments to be made only out of the proceeds from the sale of certain assets. At July 31, 1999, the balance due under these notes was $1,199,082.

Cash and cash equivalents of $477,000 at July 31, 1999 increased $443,000 from $34,000 at October 31, 1998. Net cash used by operations so far in fiscal 1999 was $1,143,000. Substantially all of the 1999 net proceeds from the sale of real estate and the proceeds from the sale of art was used to reduce outstanding debt and accrued expenses. During fiscal 1999 Canal reduced its long-term debt by $1,750,000.

At July 31, 1999 the Company s current assets exceeded current liabilities by $0.2 million, as compared to current liabilities exceeding current assets by $1.0 million at October 31, 1998. The only required principal repayments under Canal s debt agreements for fiscal 1999 will be from the proceeds of the sale of certain assets (if any) and approximately $0.1 million on various fixed mortgages.

Canal continues to closely monitor and reduce where possible its overhead expenses and plans to continue to reduce the level of its art inventories to enhance current cash flows. Management believes that its income from operations combined with its cost cutting program and planned reduction of its art inventory will enable it to finance its current business activities. There can, however, be no assurance that Canal will be able to effectuate its planned art inventory reductions or that its income from operations combined with its cost cutting program in itself will be sufficient to fund operating cash requirements.

Real Estate Revenues

Real estate revenues for the nine months ended July 31, 1999 of $4,952,000 accounted for 96.4% of the year to date revenues as compared to real estate revenues of $2,776,000 or 93.1% for the same period in 1998. Real estate revenues are comprised of rental income from Exchange Building (commercial office space) rentals and other lease income from the rental of vacant land and certain structures (15.7% and 38.6%), ground lease income (12.1% and 25.0%), volume based rental income (0.1% and 3.5%) and sale of real estate and other income (72.2% and 32.9%) for the nine months ended July 31, 1999 and 1998, respectively. The 1999 revenue increase is due primarily to a $2,034,000 increase in revenues from the sale of real estate offset by a reduction in rental incomes of $487,000. The decrease in rental income is due primarily to the closing of the Fargo, North Dakota packing plant, as well as the continued consolidation of other stockyards related tenants. The changes in percentages in the year to year comparisons are due primarily to the significant increase in real estate sales for fiscal 1999.

Real estate revenues for the three months ended July 31, 1999 of $821,000 accounted for 100.0% of the third quarter revenues as compared to real estate revenues of $1,268,000 or 100.0% for the same period in 1998. Real estate revenues are comprised of rental income from Exchange Building (commercial office space) rentals and other lease income from the rental of vacant land and certain structures (28.2% and 27.3%), ground lease income (19.7% and 18.2%), volume based rental income (0.0% and 2.4%) and sale of real estate and other income (52.1% and 52.1%) for the three months ended July 31, 1999 and 1998, respectively. The percentage variations in the year to year comparisons are due primarily to the increase in real estate sales for fiscal 1999.

Real Estate Expenses

Real estate expenses for the nine months ended July 31, 1999 of $2,345,000 increased by $1,103,000 (88.8%) from $1,242,000 for the same period in 1998. Real estate expenses were comprised of labor, operating and maintenance (14.0% and 52.2%), depreciation and amortization (5.4% and
13.2%), taxes other than income taxes (6.0% and 12.2%), cost of real estate sold (72.1% and 17.0%) and general and administrative expenses (2.5% and 5.4%) for the nine months ended July 31, 1999 and 1998, respectively. The 1999 increase in real estate expenses is due primarily to the $1,480,000 increase in cost of real estate sales. The percentage variations in year to year comparison is also due primarily to the decrease in the cost of real estate sold for fiscal 1999.

Real estate expenses for the three months ended July 31, 1999 of $420,000 decreased by $65,000 (13.4%) from $485,000 for the same period in 1999. Real estate expenses were comprised of labor, operating and maintenance (29.1% and 43.1%), depreciation and amortization (7.0% and 10.9%), taxes other than income taxes (11.1% and 10.4%), cost of real estate sold (47.8% and 31.1%) and general and administrative expenses (5.0% and 4.5%) for the three months ended July 31, 1999 and 1998, respectively. The percentage variations in year to year comparisons are also due to the increase in the cost of real estate sold for fiscal 1999.

Art Operations

Management estimates it may take two to five years to dispose of its current art inventory. The Company s ability to dispose of its art inventory is dependent at least in part, on general economic conditions, including supply, demand, international monetary conditions and inflation. Additionally, the art market itself is a very competitive market. Accordingly, there can be no assurance that Canal will be successful in disposing of its art inventory within the time frame discussed above.

Canal has its art inventory appraised by an independent appraiser annually. The fiscal 1998 appraisal covered approximately 50% of the inventory value. The appraised values estimate the current market value of each piece giving consideration to Canal s practices of engaging in consignment, private and public auction sales. The net realizable value of the remaining 50% of the inventory was estimated by management based in part on operating history and in part on the results of the independent appraisals done. In fiscal 1998 Canal recognized a $550,000 valuation allowance against its art inventory, thereby, increasing the total value allowance to $3,400,000 as of October 31, 1998 compared to $2,850,000 and $2,500,000 at October 31, 1997 and 1996, respectively. These estimates are based in part on the Company s history of losses sustained on art sales in the current and previous years.

As of October 31, 1998 the valuation allowance of $3,400,000 represented a 70% reduction in the carrying value of the Company s art inventory which management believes approximates its net realizable value. Accordingly, the Company will, on a prospective basis, use the adjusted carrying value for the cost of sales, thereby, reducing the valuation reserve (proportionately) as the inventory is sold. This policy resulted in a first half reduction in the valuation allowance of $621,000 on sales of art with an historic cost of $840,000.

The Company s plan to sell inventory at auction is contemplated in the normal course of business. Auction in this context is one of the usual channels used by the Company for disposal of its art inventory. The proceeds from these sales are used to reduce the Company s outstanding debt and finance current operations. If these sales are not made the Company has alternate means of raising cash such as sales of investments, sale of real estate, raising of new capital and further rescheduling of debt. Some of these measures were successfully implemented in fiscal 1998.

Art Revenues

Art revenues for the nine months ended July 31, 1999 of $186,000 decreased $20,000 from $206,000 for the same period in 1998. Art revenues are comprised of proceeds from the sale of antiquities and contemporary art (100.0% and 100.0%) and commission income on sale of art owned by third parties (0.0% and 0.0%) for the nine month periods ended July 31, 1999 and 1998, respectively. The Company s art inventory was reduced through sales by $840,000 in the first half of fiscal 1999.

There were no art revenues for the three month periods ended July 31, 1999 and 1998.

Art Expenses

Art expenses for the nine months ended July 31, 1999 of $251,000 decreased by $160,000 from $411,000 for the same period in 1998. Art expenses (net of a valuation allowance of $621,000 in fiscal 1999 and $380,000 in fiscal 1998) consisted of the cost of art sold (96.2% and 96.3%) and selling, general and administrative expenses (3.8% and 3.9%) for the nine month periods ended July 31, 1999 and 1998, respectively. It is the Company s policy to use the adjusted carrying value for sales, thereby reducing the valuation reserve proportionately as the inventory is sold.

Art expenses for the three months ended July 31, 1999 of $11,000 increased by $1,000 from $10,000 for the same period in 1998. Art expenses consisted of the cost of art sold (93.4% and 00.0%) and selling, general and administrative expenses (6.6% and 100.0%) for the three month periods ended July 31, 1999 and 1998, respectively.

General and Administrative

General and administrative expenses for the nine months ended July 31, 1999 of $760,000 decreased $86,000 (10.2%) from $846,000 for the same period in 1998. The major components of general and administrative expenses are officers salaries (42.6% and 38.2%) rent (4.0% and 8.7%), legal and professional fees (7.1% and 8.5%), insurance (11.8% and 12.2%), and office salaries (11.0% and 9.9%) for the nine month periods ended July 31, 1999 and 1998, respectively. The percentage changes in the year to year comparisons are due primarily to the aggregate decrease in general and administrative expenses in fiscal 1998.

General and administrative expenses for the three months ended July 31, 1999 of $244,000 decreased $39,000 (13.8%) from $283,000 for the same period in 1999. The major components of general and administrative expenses are officers salaries (42.9% and 38.1%), rent (0.1% and 9.0%), legal and professional fees (7.1% and 8.5%), insurance (12.0% and 12.2%) and office salaries (11.2% and 9.9%) for the three month periods ended July 31, 1999 and 1998, respectively. The decrease in rent expense is due to the Company relocating its New York office space in a deal that provided for a period of eight months free rent.

Interest and Other Income

Interest and other income for the nine months ended July 31, 1999 increased to $11,000 from $1,000 for the same period in 1998. Interest and other income for the three months ended July 31, 1999 of $1,000 increased $1,000 from zero for the same period in 1998. Interest and other income is comprised primarily of interest income.

Interest Expense

Interest expense for the nine months ended July 31, 1999 decreased 37.4% to $386,000 as compared to $617,000 for the same period in 1998. The 1999 decrease is due primarily to a reduction in aggregate debt outstanding at July 31, 1999 as compared to the same period in 1998. For the most part interest rates on Canal s debt have remained unchanged for the past 12 months.

Interest expense for the three months ended July 31, 1999 decreased 61.7% to $74,000 as compared to $194,000 for the same period in 1998. The 1999 decrease is due primarily to the decrease in aggregate debt outstanding.

PART II

OTHER INFORMATION

Item 1: Legal Proceedings:

See Item 3 of Canal s October 31, 1998 Form 10-K.

Item 2 and 3:

Not applicable.

Item 4: Submission of Matters to a Vote of Security Holders:

None.

Item 5: Other Information:

None.

Item 6: Exhibits and Reports on Form 8-K:

(A) Not applicable.
(b) No reports on Form 8-K have been filed during the quarter for which the report is filed.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Canal Capital Corporation
Registrant

/s/ Reginald Schauder
Reginald Schauder
Vice President-Finance &
Chief Financial Officer

Date: September 10, 1999

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