

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, 2017**

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.)

**5 Steeple Street, Unit 303**

**Providence, Rhode Island**

(Address of principal executive offices)

**02903**

(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  
**Class A Common Stock, \$.01 par value**

Name of each exchange on which registered  
**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 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 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer a smaller reporting company or an emerging growth company. See the definitions of the "large accelerated filer," "accelerated filer," "non-accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if a smaller reporting company)		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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, 2017, the aggregate market value of the Class A voting stock held by non-affiliates of the Company was \$29,700,000, which excludes voting stock held by directors, executive officers and holders of 5% 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, 2018, the Company had 6,599,912 shares of Class A Common Stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2018 Annual Meeting of Shareholders to be held on April 24, 2018, are incorporated by reference into Part III of this Form 10-K.

**CAPITAL PROPERTIES, INC.  
FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**TABLE OF CONTENTS**

		<u>Page</u>
<b>PART I</b>		
Item 1	Business .....	4
Item 2	Properties .....	7
Item 3	Legal Proceedings.....	7
Item 4	Mine Safety Disclosure .....	7
<b>PART II</b>		
Item 5	Market for Registrant’s Common Equity and Related Stockholder Matters .....	8
Item 7	Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	9
Item 8	Financial Statements and Supplementary Data.....	12
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	25
Item 9A	Controls and Procedures .....	25
<b>PART III</b>		
Item 10	Directors, Executive Officers and Corporate Governance.....	26
Item 11	Executive Compensation .....	26
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	26
Item 13	Certain Relationships and Related Transactions and Director Independence.....	26
Item 14	Principal Accountant Fees and Services .....	26
<b>PART IV</b>		
Item 15	Exhibits and Financial Statement Schedules .....	27
	Signatures .....	28
Exhibit 10	Lease between Metropark and Issuer dated January 1, 2017.....	29
Exhibit 20	Map of the Company’s Parcels in Downtown Providence, Rhode Island .....	46
Exhibit 21	Subsidiaries of the Company .....	47
Exhibits 31	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 .....	48
Exhibits 32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 .....	50

## 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, contain forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and Sections 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including, without limitation, the following: the ability of the Company to generate adequate amounts of cash; the collectibility of the accrued leasing revenues when due over the terms of the long-term land leases and the early termination of the Parcel 6C land lease; 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 remediation costs associated with its former ownership of a 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**

##### **Organizational History**

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.

##### **Segments**

Prior to December 20, 2016, the Company operated in two segments: leasing and petroleum storage. On December 20, 2016, the Company's Board of Directors authorized the sale of the Company's petroleum storage facility and related assets, including the Wilkesbarre Pier and petroleum transmission pipelines owned or controlled by the Company's subsidiaries, Capital Terminal Company and Dunellen, LLC to Sprague Operating Resources, LLC, a subsidiary of Sprague Resources LP (collectively referred to as "Sprague"), for a purchase price of \$23 Million (subject to certain adjustments) resulting in the petroleum storage business (the "Petroleum Segment") being classified as discontinued operations for all periods presented. On January 24, 2017, the Company entered into a definitive purchase and sale agreement with Sprague (the "Sale Agreement") and the transaction was consummated on February 10, 2017. See Note 8 to the Consolidated Financial Statements.

The Board's decision to authorize the sale of the Petroleum Segment to Sprague, which had been exclusively leasing the petroleum storage facility and related assets since May 1, 2014, was based on an evaluation of the Petroleum Segment's economic future as solely a distillate terminal and the significant capital investment and substantial risk related to converting a significant portion of the petroleum storage facility to gasoline in order to increase revenue. The Board concluded that a sale to Sprague was in the best interest of the Company's shareholders. As a result of the sale of its petroleum storage and related assets, the Company's operations are limited to leasing its real estate interests.

##### **Leasing Business**

###### *Capital Center*

The Company's principal business is 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 13 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 line was relocated, a new Amtrak/commuter 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 (see Parcel 20 defined below), 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.

The Company first began offering parcels for lease in the Capital Center area in the late 1980's. As of December 31, 2017, nine parcels within the Capital Center area have been leased by the Company under long-term leases of 99 years or more. Of the nine parcels, eight have improvements constructed thereon or under construction as follows:

- Parcel 2 17-story and 19-story residential buildings containing 193 units (307,000 gross square feet) and a 13-story office building (325,000 gross square feet)
- Parcel 3S 13-story office building (235,000 gross square feet)
- Parcel 5 8-story 225-unit residential building (454,000 gross square feet)
- Parcel 6A 4-story 96-unit residential building (120,000 gross square feet)
- Parcel 6B 4-story 169-unit residential building (248,000 gross square feet), under construction
- Parcel 7A 330-car public parking garage
- Parcel 8 4-story office building (114,000 gross square feet)
- Parcel 9 10-story office building (210,000 gross square feet)

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, 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, together with the previously-owned land, now comprises Parcel 20, containing 26,600 square feet. The Steeple Street Building is on the State Registry of Historic Buildings. During 2010-2011, the Company substantially rehabilitated the Steeple Street Building. The Steeple Street Building has four commercial tenants with additional space available for lease.

On September 28, 2017 the Company entered into a long-term ground lease of Parcel 20. Under the terms of the lease, tenant possession will not occur until such time as the tenant has received all necessary approvals for construction of not less than 100,000 square feet of mixed use improvements. Prior to transfer of possession, no rent is being paid by the tenant and the Company receives all rents from existing tenants and parking lease revenue and remains responsible for all expenses, including real estate taxes, related to Parcel 20. Following tenant possession, tenant is obligated not only to pay ground rent for the parcel but also to pay the Company an additional amount for twenty years to compensate the Company for the building presently located on the premises.

All of the properties described above are shown on a map contained in Exhibit 20.

#### Lamar Lease

The Company, through a wholly-owned subsidiary, leases 23 outdoor advertising locations containing 44 billboard faces along interstate and primary highways in Rhode Island and Massachusetts to Lamar Outdoor Advertising, LLC ("Lamar") under a lease which expires in 2045. All but one of these locations are controlled by the Company through permanent easements granted to the Company pursuant to an agreement between the Company and Providence & Worcester Railroad Company ("Railroad"); the remaining location is leased by the Company from a third party with a remaining term of two years.

Although no new locations have been added since 2002, in 2013 Lamar converted billboards at two locations to electronic boards, which conversions extended the term of the lease for a total of twelve years to 2045. Lamar has a right of first refusal for additional billboard location sites acquired by the Company in New England and Metropolitan New York City.

The lease with Lamar provides, among other things, for the following: (1) the base rent increases 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. The Lamar lease contains other terms and conditions customary to such instruments.

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

Parcels in Capital Center Area								
Parcel Number	Description of Usage	Term of Lease (Years)	Termination Date	Options to Extend Lease	Current Annual Contractual Rent	Contingent Rent	Next Periodic Rent Adjustment	Annual Rent After Next Adjustment and/or Type of Next Adjustment
2	Residential/Office	103	2108	Two 75-Year	\$456,000	None	2018	Cost-of-Living Adjustment
3S	Office	99	2087	None	\$618,000	None	2019	Appraisal
5	Residential	149	2142	None	\$540,000	1% Gross Revenues	2033	Appraisal
6A	Residential	99	2107	Two 50-Year	\$334,000	None	2019	\$367,000
6B	Residential	99	2107	Two 50-Year	\$195,000	None	2019	\$214,000
6C	Residential/Office	99*	2107	Two 50-Year	\$200,000	None	2019	\$220,000
7A	Garage	99	2104	Two 75-Year	\$147,000	None	2022	Cost-of-Living Adjustment
8	Office	99	2090	None	\$290,000	1% Gross Revenues	2020	Appraisal
9	Office	149	2153	None	\$378,000	None	2021	\$397,000
Lamar								
Description of Usage	Term of Lease (Years)	Termination Date	Options to Extend Lease	Current Annual Contractual Rent	Contingent Rent	Next Periodic Rent Adjustment	Annual Rent After Next Adjustment and/or Type of Next Adjustment	
Billboard	39	2045	See Lamar Lease above	\$876,000	See Lamar Lease above	2018	\$900,000	

\* Cancellable. See Note 5 to the Consolidated Financial Statements.

*Major tenants:*

The following table sets forth those major tenants whose revenues exceed 10 percent of the Company's leasing revenues for the years ended December 31, 2017 and 2016:

	2017	2016
Lamar Outdoor Advertising, LLC .....	\$ 998,000	\$ 984,000
Metropark, Ltd.....	721,000	651,000
One Citizens Plaza Holdings LLC.....	618,000	618,000
AvalonBay Communities, Inc.....	615,000	615,000
	<u>\$ 2,952,000</u>	<u>\$ 2,868,000</u>

### 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

As of December 31, 2017, the Company has four employees.

### **Discontinued Operations**

#### Terminal and Pier Facility

Prior to February 10, 2017, the Company, through its wholly-owned subsidiaries, Dunellen, LLC ("Dunellen") and Capital Terminal Company, owned and operated a petroleum storage terminal containing 1,004,000 shell barrels (the "Terminal") and the Wilkesbarre Pier (the "Pier"), collectively referred to as the "Facility," located in East Providence, Rhode Island. The Terminal utilized the Pier and two 16" pipelines connecting the Pier to the Terminal. During 2016, the Facility was leased to Sprague pursuant to a lease dated May 1, 2014. Sprague paid an annual rent of \$3,500,000 and the Company paid substantially all of the operating costs related to the Facility. In April 2016, as permitted by the lease, Sprague gave Dunellen notice of its intention to terminate the lease effective May 1, 2017. In January 2017, the Company took title to the pipelines and the related easement from Getty Properties Corp. ("Getty"). Getty also conveyed to Dunellen all of its interest in and to the Pier. As noted above, on February 10, 2017, the Company sold the Terminal, the Pier and related facilities, including the pipelines, to Sprague. See Note 8 to the Consolidated Financial Statements.

#### Environmental

In 1994, a leak was discovered in a storage tank at the Terminal which allowed the escape of a small amount of fuel oil. Since that time, the Company and its consultants have continued to work with the Rhode Island Department of Environmental Management ("RIDEM") through the various phases of remediation and are now working to complete the final remediation plan. Pursuant to the Sale Agreement with Sprague and related documentation, the Company is required to secure an approved remediation plan and to remediate this contaminated site at its expense. At December 31, 2016, the Company accrued an additional \$385,000 to cover these costs, bringing the total accrual for the cost of remediation to \$459,000. During 2017, remediation costs of \$25,000 were incurred which reduced the total accrual to \$434,000. Any subsequent increases or decreases to the expected cost of remediation will be recorded in the Company's consolidated income statement as income or expense from discontinued operations.

### **Insurance**

The Company maintains what management believes to be adequate levels of insurance.

### **Item 2. Properties**

The Company owns approximately 18 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 Business. The Company also owns or controls 23 locations on which 44 billboard faces have been constructed. All but one of these locations are owned by the Company under permanent easements from the Railroad; the remaining location is leased from an unrelated third party with a remaining term of two years.

As of December 31, 2016, the Company also owned the Pier and an approximate 10-acre site in East Providence, Rhode Island on which there are located nine petroleum storage tanks, related distribution racks and a single-story office building which housed the Company's headquarters and other support operations. On December 20, 2016, the Board of Directors authorized the sale of these properties to Sprague. Accordingly, these properties were reclassified as "Assets held for sale" on the Consolidated Balance Sheets for the year ended December 31, 2016. The properties were sold to Sprague on February 10, 2017. See "Discontinued Operations" above and Note 8 to Consolidated Financial Statements.

### **Item 3. Legal Proceedings - None**

### **Item 4. Mine Safety Disclosure - Not applicable**

## 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 Declared
	High	Low	
<u>2017</u>			
1 <sup>st</sup> Quarter .....	\$ 14.19	\$ 12.62	--
2 <sup>nd</sup> Quarter .....	14.30	13.00	--
3 <sup>rd</sup> Quarter .....	14.00	13.05	--
4 <sup>th</sup> Quarter .....	14.35	13.25	\$0.07*
<u>2016</u>			
1 <sup>st</sup> Quarter .....	11.15	9.90	--
2 <sup>nd</sup> Quarter .....	10.30	9.50	--
3 <sup>rd</sup> Quarter .....	12.80	9.65	--
4 <sup>th</sup> Quarter .....	13.60	10.70	--

\* Declared on October 25, 2017, payable on January 3, 2018 to shareholders of record as of the close of business on December 15, 2017.

At March 1, 2018, there were 395 holders of record of the Company's Class A Common Stock.

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

**Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U. S. GAAP). The following discussion of our financial condition and results of operations excludes the results of our discontinued operations unless otherwise noted. See Note 8, Discontinued Operations and Subsequent Event in the accompanying consolidated financial statements for further discussion of these 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 to the Consolidated Financial Statements. 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 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 ("GAAP") 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 57<sup>th</sup> 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 56<sup>th</sup> 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 GAAP as it 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, 2017, the receivable on this lease has grown to \$23,885,000 (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 28 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 94<sup>th</sup> year of the lease. Through December 31, 2017, the receivable on this lease is \$30,844,000 (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 80 years away.

In 2006, the Company entered into an Amended and Restated Agreement of its lease with Lamar Outdoor Advertising LLC (“Lamar”). In 2013, the lease was extended to 2045 following the conversion of billboards at two locations to electronic boards, as required by the lease, resulting in a current remaining term of 30 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 23rd year of the extended lease. Through December 31, 2017, the receivable on this lease is \$2,788,000 (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 12 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, 2017, the receivable on these leases is \$16,120,000 and management has not been able to conclude that any portion is collectible as the turnaround dates are approximately 43 years away.

## **2. Liquidity and capital resources:**

Historically, the Company generates adequate liquidity to fund its operations.

### *Cash and cash commitments:*

At December 31, 2017, the Company had cash and cash equivalents of \$5,202,000. At December 31, 2017, cash equivalents consist of United States zero-coupon treasury bills due March 2018 totaling \$2,993,000. At December 31, 2016, the Company had no cash equivalents. The Company and its three subsidiary companies each maintain a checking account in the same bank; the aggregate of each Company’s accounts is insured by the Federal Deposit Insurance Corporation to a maximum of \$250,000. The Company periodically evaluates the financial stability of the financial institution at which the Company’s funds are held.

Under the terms of the long-term land lease on Parcel 2, the contractual rent will be adjusted in May 2018 by a cost of living adjustment as provided in the lease agreement.

On April 1, 2017, the scheduled annual contractual rent on Parcel 7A increased \$10,000 and will increase by a like amount over the following four years.

On April 1, 2016, under the terms of the long-term land lease on Parcel 9, the scheduled annual contractual rent increased \$18,000.

At December 31, 2017, the Company has four tenants occupying 49 percent of the Steeple Street Building under short-term leases (five years or less) at a current total annual rental of \$95,000. The Company is currently marketing the remaining portions of the building for lease.

On February 24, 2017, the Company issued a notice of mandatory redemption of the entire remaining outstanding balance of its Dividend Notes. The principal balance plus accrued interest to the date of redemption was \$10,764,000. The Company received \$19,794,000 from the sale of its petroleum storage business after giving effect to escrows, a credit to Sprague for the cost of constructing a turning dolphin adjacent to the Pier, and other customary closing costs. The cash outlay for federal and state income taxes arising from the sale totaled \$6,503,000. Most of the remaining proceeds from the sale were used to effect the redemption of the Dividend Notes on March 31, 2017.

Pursuant to the Sale Agreement and related documentation, the Company is required, at its expense, to secure an approved remediation plan and to remediate contamination caused by a 1994 leak in a 25,000 barrel storage tank at the Terminal. See Note 6, “Petroleum storage facility and environmental incident” to the Consolidated Financial Statements. At December 31, 2016, the Company accrued an additional \$385,000 to cover these costs, bringing the total accrual for the cost of remediation to \$459,000. During 2017, remediation costs of \$25,000 were incurred which reduced the total accrual to \$434,000. The Company is in the process of preparing a final remediation plan for submission to the Rhode Island Department of Environmental Management.

At its regularly scheduled quarterly Board meeting held October 25, 2017 and January 24, 2018, the Board of Directors voted to declare a regular quarterly dividend of \$.07 per share for shareholders of record on December 15, 2017 and March 1, 2018, payable January 3, 2018 and March 15, 2018, respectively.

The declaration of future dividends will depend on future earnings and financial performance.

At December 31, 2017, the Company has no non-cancellable contract obligations other than one operating lease for a billboard location for which the rent expense is not material.

### **3. Results of operations:**

#### **Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**

##### *Continuing operations:*

Revenues from continuing operations increased \$129,000 from 2016 due to scheduled increases in rent under long-term land leases and increases under short-term leases, offset in part by a decrease in contingent rent under the Lamar lease. Operating expenses increased \$479,000 due principally to a review of tenant compliance with the insurance requirements provided in the long-term land leases (\$187,000), legal costs associated with review of potential development opportunities on the Company's available parcels and the eviction of a Steeple Street tenant due to nonpayment of rent and common area charges (\$75,000), bad debt expense (\$64,000) in connection with the evicted tenant and an increase in repairs and maintenance at the Steeple Street Building (\$61,000).

General and administrative expense increased \$762,000 due principally to payroll and payroll related costs associated with severance paid to the Company's former Vice-President (\$193,000), a bonus related to the successful completion of the Sprague sale (\$50,000) to the Company's former treasurer along with a supplemental retirement benefit in recognition of her years of service (\$200,000) and the addition of two employees (\$273,000).

For the year ended December 31, 2017 and 2016, interest expense on the dividend notes was \$112,000 and \$578,000, respectively. In June 2016, the Company redeemed 10 percent of the face value of the Dividend Notes. Following the sale of the Company's petroleum storage business, the Company redeemed all of the outstanding Dividend Notes on March 31, 2017.

##### *Discontinued operations:*

The sale of the Petroleum Segment described above results in the segment being classified as discontinued operations for all periods presented. For 2017, revenues and operating expenses reflect the results of operations through the date of sale (February 10, 2017) versus a full year of activity in 2016. Revenues for 2017 are less than the revenue earned from the same time frame in 2016 due principally to an adjustment of \$50,000 related to the recognition of revenue on a straight-line basis over the term of the Sprague lease. Operating expenses for 2017 include bonuses totaling \$426,000 paid to the Company's former Vice President and Petroleum Segment employees for the successful completion of the sale to Sprague and for their dedicated service along with increased professional fees associated with the Sprague sale.

##### *Income Taxes:*

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (the "Act") which, among other things, lowered the U.S. Federal corporate tax rate from 35% to 21%. The Company recorded a net tax benefit to reflect the impact of the Act as of December 31, 2017, as it is required to reflect the change in the period in which the law is enacted. The benefits recorded in 2017 related to the revaluation of deferred tax assets and liabilities which resulted in a deferred tax benefit of \$406,000.

**Item 8. Financial Statements and Supplementary Data**

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firm – Stowe & Degon, LLC .....	13
Consolidated Balance Sheets as of December 31, 2017 and 2016 .....	14
Consolidated Statements of Income and Retained Earnings for the Years Ended December 31, 2017 and 2016 .....	15
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016.....	16
Notes to Consolidated Financial Statements.....	17-24

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Capital Properties, Inc.  
East Providence, Rhode Island

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Capital Properties, Inc. (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of income and retained earnings, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.



We have served as the Company's auditor since 2016.

Westborough, Massachusetts

March 19, 2018

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Properties and equipment (net of accumulated depreciation).....	\$ 8,953,000	\$ 9,127,000
Cash and cash equivalents .....	5,202,000	3,124,000
Funds on deposit with agent .....	462,000	--
Prepaid and other .....	434,000	184,000
Deferred income taxes associated with discontinued operations (Note 8)	108,000	--
Assets held for sale (Note 8).....	--	11,195,000
	<u>\$ 15,159,000</u>	<u>\$ 23,630,000</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Dividend notes payable .....	\$ --	\$ 10,608,000
Dividends payable .....	462,000	--
Property taxes .....	224,000	224,000
Other .....	536,000	164,000
Income tax payable.....	35,000	63,000
Deferred income taxes, net.....	803,000	1,078,000
Liabilities associated with discontinued operations (Note 8) .....	489,000	4,422,000
	<u>2,549,000</u>	<u>16,559,000</u>
Shareholders' equity:		
Class A common stock, \$.01 par; authorized 10,000,000 shares; issued and outstanding 6,559,912 shares .....	66,000	66,000
Capital in excess of par .....	782,000	782,000
Retained earnings .....	11,762,000	6,223,000
	<u>12,610,000</u>	<u>7,071,000</u>
	<u>\$ 15,159,000</u>	<u>\$ 23,630,000</u>

See accompanying notes to consolidated financial statements.

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

	December 31,	
	<u>2017</u>	<u>2016</u>
Revenues .....	\$ 5,247,000	\$ 5,118,000
Expenses:		
Operating .....	1,320,000	841,000
General and administrative .....	2,245,000	1,483,000
Interest on Dividend Notes .....	112,000	578,000
	<u>3,677,000</u>	<u>2,902,000</u>
Income from continuing operations before income taxes .....	<u>1,570,000</u>	<u>2,216,000</u>
Income tax expense (benefit):		
Current .....	673,000	963,000
Deferred .....	(275,000)	(96,000)
	<u>398,000</u>	<u>867,000</u>
Income from continuing operations .....	<u>1,172,000</u>	<u>1,349,000</u>
Discontinued operations:		
Income (loss) from discontinued operations before income taxes .....	(597,000)	783,000
Income tax expense (benefit) .....	(346,000)	307,000
Income (loss) from discontinued operations .....	<u>(251,000)</u>	<u>476,000</u>
Gain on sale of discontinued operations, net of \$3,560,000 of taxes ....	<u>5,080,000</u>	<u>--</u>
Net income .....	6,001,000	1,825,000
Retained earnings, beginning .....	6,223,000	4,398,000
Dividends on common stock (\$.07 per share) based upon 6,599,912 shares outstanding .....	<u>(462,000)</u>	<u>--</u>
Retained earnings, ending .....	<u>\$ 11,762,000</u>	<u>\$ 6,223,000</u>
Basic income (loss) per share, based on 6,599,912 shares outstanding:		
Continuing operations .....	\$ 0.18	\$ 0.20
Discontinued operations .....	(0.04)	0.08
Gain on sale of discontinued operations .....	0.77	--
Total basic income per common share .....	<u>\$ 0.91</u>	<u>\$ 0.28</u>

See accompanying notes to consolidated financial statements.

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

	December 31,	
	2017	2016
Cash flows from operating activities:		
Continuing operations:		
Income from continuing operations.....	\$ 1,172,000	\$ 1,349,000
Adjustments to reconcile net income to net cash.....		
provided by operating activities:		
Deprecation .....	185,000	204,000
Deferred income taxes .....	(275,000)	(96,000)
Changes in assets and liabilities:		
Increase in:		
Prepaid and other .....	(250,000)	--
Property taxes and other .....	372,000	3,000
Decrease in:		
Prepaid and other .....	--	207,000
Income tax payable.....	(28,000)	(3,000)
Net cash provided by operating activities, continuing operations .....	1,176,000	1,664,000
Net cash provided by (used in) operating activities, discontinued operations .....	(7,693,000)	543,000
Net cash provided by (used in) operating activities.....	(6,517,000)	2,207,000
Cash flows from investing activities:		
Continuing operations, purchase of properties and equipment.....	(11,000)	(12,000)
Discontinued operations:		
Purchase of properties and equipment .....	(118,000)	(117,000)
Proceeds from sale of assets .....	19,794,000	--
Net cash provided by (used in) investing activities .....	19,676,000	(117,000)
	19,665,000	(129,000)
Cash flows from financing activities:		
Redemption of dividend notes payable .....	(10,608,000)	(1,179,000)
Funds on deposit with agent .....	(462,000)	--
Net cash used in financing activities .....	(11,070,000)	(1,179,000)
Increase in cash and cash equivalents.....	2,078,000	899,000
Cash and cash equivalents, beginning .....	3,124,000	2,225,000
Cash and cash equivalents, ending .....	\$ 5,202,000	\$ 3,124,000
Supplemental disclosures:		
Cash paid for income taxes:		
Continuing operations .....	\$ 923,000	\$ 1,642,000
Discontinued operations, sale of assets .....	6,503,000	--
	\$ 7,426,000	\$ 1,642,000
Cash paid for interest on Dividend Notes payable .....	\$ 156,000	\$ 560,000
Capital expenditures, discontinued operations financed through accounts payable.....	\$ --	\$ 118,000

See accompanying notes to consolidated financial statements.

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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”) for many years operated in two segments, leasing and petroleum storage. On December 20, 2016, the Company’s Board of Directors authorized the sale of the Company’s petroleum storage facility and related assets, including the Wilkesbarre Pier and petroleum transmission pipelines owned or controlled by the Company’s subsidiaries Capital Terminal Company and Dunellen, LLC to Sprague Operating Resources, LLC, a subsidiary of Sprague Resources, LP (collectively referred to as “Sprague”) for \$23 Million subject to certain adjustments. The Company concluded that the sale of the petroleum storage facility met the criteria of a discontinued operation in conformity with United States generally accepted accounting principles (“GAAP”) and therefore the petroleum storage segment is reported as a discontinued operation for all periods presented. On January 24, 2017, the Company and Sprague entered into a definitive purchase and sale agreement (the “Sale Agreement”). The sale closed on February 10, 2017. See Note 8.

The Board’s decision to authorize the sale to Sprague, which had been exclusively leasing the petroleum storage facility and related assets since May 1, 2014, was based on an evaluation of the facility’s economic future as solely a distillate terminal and the significant capital investment and substantial risk related to converting the facility to gasoline in order to increase revenue. The Board concluded that a sale to Sprague was in the best interest of the Company’s shareholders. As a result of the sale of its petroleum storage and related assets, the Company’s operations are limited to leasing its real estate interests.

The Company’s continuing operations consist 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 the parking garage and Parcel 6C), 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.

**2. Summary of significant accounting policies:**

*Principles of consolidation:*

The accompanying consolidated financial statements include the accounts and transactions of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of estimates:*

The preparation of consolidated financial statements in conformity with GAAP 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 cash and payables, approximate their respective book values because of their short-term nature. Upon review of current market conditions and other factors, the Company believes that the fair value of the Dividends Notes payable at December 31, 2016 approximated their book value. The fair values described herein were determined using significant other observable inputs (Level 2) as defined by GAAP.

*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 reviews properties and equipment 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, 2017, cash equivalents consist of United States zero-coupon treasury bills due March 2018 totaling \$2,993,000. At December 31, 2016, the Company had no cash equivalents. The Company and its three subsidiary companies each maintain a checking account in the same bank; the aggregate of each Company's accounts is insured by the Federal Deposit Insurance Corporation to a maximum of \$250,000. The Company has not experienced any losses in such accounts.

*Initial direct agreement costs:*

Initial direct agreement costs associated with the execution of a rental agreement are capitalized and amortized on a straight-line basis over the non-cancellable portion of the agreement term.

*Environmental incidents:*

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

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

*Revenues:*

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 (28 to 136 years). The Company follows GAAP 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.

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

The Company reported revenue from the petroleum storage facility included in discontinued operations when earned and reports as revenue the tenant's portion of the real property taxes and certain other items as required by the lease.

*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.

In December 2017, the Tax Cuts and Jobs Act (the “Act”) was enacted. The Act includes a number of changes to existing U.S. federal tax laws that impact the Company, most notably a reduction of the U.S. federal corporate income tax rate from a maximum of 35 percent to a flat 21 percent for tax years effective January 1, 2018.

The Company has elected to recognize the income tax effects of the Act in its financial statements in accordance with Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance for the application of ASC Topic 740 *Income Taxes*, in the reporting period in which the Act was signed into law. Under SAB 118 when the Company does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act it will recognize provisional amounts if a reasonable estimate can be made. If a reasonable estimate cannot be made, then no impact is recognized for the effect of the Act. SAB 118 permits an up to one year measurement period to finalize the measurement of the impact of the Act.

Based on its evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the consolidated financial statements. The Company will report any tax-related interest and penalties related to uncertain tax positions as a component of income tax expense. The Company’s federal and state income tax returns are generally open for examination for the past three years.

*Legal fees:*

The Company recognizes legal fees as incurred.

*Basic earnings per common share:*

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period.

*Recent accounting pronouncements:*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). The ASU requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee and lessor will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is still assessing the impact of adopting the ASU but expects that its leases where it is the lessor will be accounted for as operating leases similar to its current accounting. For additional information on the Company’s leases, see Note 5 herein.

**3. Properties and equipment:**

Properties and equipment (exclusive of assets held for sale) consist of the following:

	Estimated Useful Life in Years	December 31,	
		2017	2016
Properties on lease or held for lease:			
Land and land improvements .....	--	\$ 4,701,000	\$ 4,701,000
Building and improvements, Steeple Street.....	39	5,831,000	5,820,000
		<u>10,532,000</u>	<u>10,521,000</u>
Office equipment.....	5-10	95,000	95,000
		<u>10,627,000</u>	<u>10,616,000</u>
Less accumulated depreciation:			
Properties on lease or held for lease .....		1,593,000	1,413,000
Office equipment.....		81,000	76,000
		<u>1,674,000</u>	<u>1,489,000</u>
		<u>\$ 8,953,000</u>	<u>\$ 9,127,000</u>

In 2016, the Company wrote off fully depreciated equipment no longer in service totaling \$17,000.

#### 4. Dividend notes payable:

In 2012, the Company issued \$11,787,000 in principal face amount of 5% dividend notes due December 26, 2022 (the "Dividend Notes"). The Dividend Notes were unsecured general obligations of the Company bearing interest at the annual rate of 5% payable semi-annually on June 15 and December 15 to note holders of record on June 1 and December 1 of each year.

On June 15, 2016, the Company redeemed 10 percent of the face value of its outstanding Dividend Notes (\$1,179,000) to note holders of record on June 2, 2016. At December 31, 2016, the remaining principal balance of the Dividend Notes was \$10,608,000.

On February 24, 2017, following the sale of the Company's petroleum storage business (see Note 8 herein), the Company issued a notice of mandatory redemption of 100% of the remaining Dividend Notes for a redemption price equal to the outstanding principal face amount of \$10,608,000 plus accrued interest of \$156,000. The Notes were redeemed on March 31, 2017.

#### 5. Description of leasing arrangements:

##### *Long-term land leases:*

As of December 31, 2017, the Company had entered into nine long-term land leases. The various tenants have completed construction of improvements on seven of the parcels. On Parcel 6B, construction of a 169-unit residential complex commenced in November 2016 and is not yet complete. Parcel 6C is being used as a construction staging area for the construction on Parcel 6B. On September 28, 2017, the Company entered into a long term ground lease of Parcel 20. Under the terms of the lease, tenant possession will not occur until such time as the tenant has received all necessary approvals for construction of not less than 100,000 square feet of mixed use improvements. Prior to transfer of possession, no rent is being paid by the tenant and the Company receives all rents from existing tenants and parking lease revenue and remains responsible for all expenses, including real estate taxes, related to Parcel 20. Following tenant possession, tenant is obligated not only to pay ground rent for the parcel but also to pay the Company an additional amount for twenty years to compensate the Company for the building presently located on the premises.

Under the nine 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, with the exception of Parcel 20, 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, 2017 and 2016, the real property taxes attributable to the Company's land under these nine leases were \$1,230,000 and \$1,212,000, respectively.

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 \$101,000 and \$105,000 for the years ended December 31, 2017 and 2016, respectively.

With respect to the Parcel 6B and 6C leases, each lessee has the right to terminate its lease at any time during the remaining term of that lease upon thirty days' notice. To date, no notice of termination has been received by the Company. The current annual rents on Parcels 6B and 6C are \$195,000 and \$200,000, respectively.

##### *Lamar lease:*

The Company, through a wholly-owned subsidiary, leases 23 outdoor advertising locations containing 44 billboard faces along interstate and primary highways in Rhode Island and Massachusetts to Lamar under a lease which expires in 2045. All but one of these locations are controlled by the Company through permanent easements granted to the Company pursuant to an agreement between the Company and Providence & Worcester Railroad Company; the remaining location is leased by the Company from a third party with a remaining term of two years.

In 2013, Lamar converted billboards at two locations to electronic billboards, which conversions extended the term of the lease for a total of twelve years to 2045. The Lamar lease also provides, among other things, for the following: (1) the base rent increases annually at the rate of 2.75% for each leased billboard location on June 1 of each year, and (2) in addition to base rent, for each 12-month period commencing each June 1, Lamar must pay to the Company within thirty days after the close of the lease year 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) base monthly rent for each leased billboard display for each 12-month period. For the lease years ended May 31, 2017 and 2016, the contingent rents totaled \$108,000 and \$117,000, respectively, which amounts are included in revenues on the accompanying consolidated statements of

income and retained earnings for the years ended December 31, 2017 and 2016. The Lamar lease contains other terms and conditions customary to such instruments.

Minimum future contractual rental payments to be received from non-cancellable long-term leases as of December 31, 2017 are:

Year ending December 31.

2018 .....	\$ 4,077,000
2019 .....	4,144,000
2020 .....	4,189,000
2021 .....	4,211,000
2022 .....	4,243,000
2023 to 2153 .....	788,894,000
	<u>\$ 809,758,000</u>

For those leases with presently known scheduled rent increases at December 31, 2017 and 2016, 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 at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cumulative excess of straight-line over contractual rentals.....	\$ 73,637,000	\$ 67,301,000
Amount management has not been able to conclude is collectible....	<u>(73,592,000)</u>	<u>(67,261,000)</u>
Accrued leasing revenues, which are included in prepaid and other on the accompanying consolidated balance sheets .....	<u>\$ 45,000</u>	<u>\$ 40,000</u>

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 under a short-term cancellable lease.

At December 31, 2017 and 2016, the Company had four and three tenants, respectively, occupying 49 percent and 54 percent of the Steeple Street Building, respectively, under short-term leases of five years or less at a current total annual rental of \$95,000. The Company is recognizing the revenue from these leases on a straight-line basis over the terms of the leases. At December 31, 2017 and 2016, the excess of straight-line over contractual rentals is \$1,000 for both years, which is included in prepaid and other on the accompanying consolidated balance sheets. The Company also reports as revenue from tenants' reimbursements for common area costs and real property taxes. The Company is currently marketing the remaining portions of the building for lease.

The following table sets forth those major tenants whose revenues exceed 10 percent of the Company's revenues for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Lamar Outdoor Advertising, LLC .....	\$ 998,000	\$ 984,000
Metropark, Ltd.....	721,000	651,000
One Citizens Plaza Holdings LLC.....	618,000	618,000
AvalonBay Communities, Inc.....	615,000	615,000
	<u>\$ 2,952,000</u>	<u>\$ 2,868,000</u>

**6. Petroleum storage facility and environmental incident:**

*Terminal and Pier Facility*

On December 20, 2016, the Company’s Board of Directors authorized the sale of the Company’s petroleum storage facility and related assets to Sprague, which sale was completed on February 10, 2017. See Note 8 below.

The Facility was leased by Sprague under a Petroleum Storage Services Agreement (the “Services Agreement”) since May 1, 2014. The base rent under the Services Agreement was \$3,500,000, subject to annual cost-of-living adjustments on May 1 of each year. On May 1, 2016, the annual rent increased \$39,000. Commencing April 1, 2016 and on each April 1 thereafter during the initial term and any extension term of the Services Agreement, either party during the following thirty days had the right to terminate the Services Agreement as of April 30 of the year next following the year in which notice of termination is given. On April 28, 2016, the Company received a notice from Sprague that, effective April 30, 2017, Sprague would terminate the Services Agreement.

The Company incurred \$108,000 in fees in connection with the execution of the Services Agreement, which amounts were amortized on the straight-line method over the three-year non-cancellable portion of the term of the Services Agreement and have been deducted in calculating “Income from discontinued operations before income taxes” on the accompanying consolidated statements of income and retained earnings for the years ended December 31, 2017 and 2016.

*Environmental remediation:*

In 1994, a leak was discovered in a storage tank at the Terminal which allowed the escape of a small amount of fuel oil. Since that time, the Company and its consultants have continued to worked with the Rhode Island Department of Environmental Management (“RIDEM”) through the various phases of remediation and are now working to complete the final remediation plan. Pursuant to the Sale Agreement with Sprague and related documentation, the Company is required to secure an approved remediation plan and to remediate this contaminated site at its expense. At December 31, 2016, the Company accrued an additional \$385,000 to cover these costs, bringing the total accrual for the cost of remediation to \$459,000. During 2017, remediation costs of \$25,000 were incurred which reduced the total accrual to \$434,000. Any subsequent increases or decreases to the expected cost of remediation will be recorded in the Company’s consolidated income statement as income or expense from discontinued operations.

**7. Income taxes, continuing operations:**

For the years ended December 31, 2017 and 2016, income tax expense (benefit) for continuing operations is comprised of the following components:

	2017	2016
Current:		
Federal .....	\$ 542,000	\$ 770,000
State .....	131,000	193,000
	673,000	963,000
Deferred:		
Federal .....	(302,000)	(74,000)
State .....	27,000	(22,000)
	(275,000)	(96,000)
	\$ 398,000	\$ 867,000

For the years ended December 31, 2017 and 2016, a reconciliation of the income tax provision for continuing operations as computed by applying the United States income tax rate (35% in 2017 and 34% in 2016) to income before income taxes is as follows:

	2017	2016
Computed “expected” tax .....	\$ 548,000	\$ 753,000
Increase in “expected” tax resulting from state income tax, net of federal income tax benefit .....	103,000	114,000
Effect of federal rate reduction .....	(406,000)	--
Nondeductible expenses and other.....	153,000	--
	\$ 398,000	\$ 867,000

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 for continuing operations which give rise to deferred tax assets and liabilities were as follows:

	December 31,	
	2017	2016
Gross deferred tax liabilities:		
Property having a financial statement basis in excess of tax basis:		
Cost differences .....	\$ 898,000	\$ 1,122,000
Depreciation differences .....	(73,000)	18,000
	825,000	1,140,000
Insurance premiums and accrued leasing revenues .....	14,000	28,000
	839,000	1,168,000
Deferred tax assets .....	(36,000)	(90,000)
	<u>\$ 803,000</u>	<u>\$ 1,078,000</u>

The Company has reviewed all of its tax positions and has determined that no reserves are required.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (the "Tax Act"). Beginning January 1, 2018, the Company will be taxed at a 21% federal corporate tax rate. The Company has reflected the impact of this rate in its deferred tax assets and liabilities at December 31, 2017, as it is required to reflect the change in the period in which the law is enacted. The impact of this change was a net benefit of \$406,000 in the income tax provision for the period ended December 31, 2017.

The Tax Act is a comprehensive tax reform bill containing a number of other provisions that either currently or in the future could impact the Company. The net benefit of the Act as recorded at December 31, 2017 represent the Company's best estimate using information available to the Company as of March 19, 2018. The Company anticipates U.S. regulatory agencies will issue further regulations over the next year which may alter this estimate. The Company will refine its estimates to incorporate new or better information as it comes available.

#### 8. Discontinued operations and subsequent event:

On December 20, 2016, the Company's Board of Directors voted to authorize the sale of its East Providence petroleum storage facility and related assets, including the Pier and petroleum transmission pipelines owned or controlled by its wholly-owned subsidiaries, Capital Terminal Company ("CTC") and Dunellen, LLC ("Dunellen") ("Petroleum Segment") to Sprague Operating Resources, LLC ("Sprague") for \$23 Million (the "Sale Price"), subject to certain adjustments. On January 24, 2017, the Company and Sprague entered into the Sale Agreement. The sale closed on February 10, 2017.

Pursuant to the Sale Agreement, the Sale Price was reduced by \$1,040,000, the estimated cost of a turning dolphin to be constructed by Sprague adjacent to the Pier in order that the Pier can berth Panamax sized vessels; \$1,725,000 of the Sale Price was placed in escrow to secure the Company's indemnity obligations under the Sale Agreement and \$441,000 in normal closing adjustments, transfer taxes, investment banking and other fees, other than federal and state income taxes. The net proceeds delivered to the Company amounted to \$19.8 Million.

In accordance with the Sale Agreement, the Company has agreed to retain and pay for the environmental remediation costs associated with a 1994 storage tank fuel oil leak. This obligation and the estimated cost are disclosed in Note 6 herein.

Provided there are no breaches, the aforementioned escrow will be returned to the Company, 50 percent after 12 months and the remainder after 24 months. As the release of the funds held in escrow is contingent on no breaches in the Company's representations, warranties and covenants, the Company will report as income the escrow funds when received. In February 2018, the Company received 50 percent of the aforementioned escrow or \$862,500.

In accordance with ASC 205-20, *Presentation of Financial Statements – Discontinued Operations* the Petroleum Segment is accounted for as a discontinued operation. Accordingly, the Petroleum Segment assets and liabilities that were sold are recorded as held for sale in 2016. The liabilities associated with the discontinued operations are separately identified on the Company's consolidated balance sheets. These liabilities were not assumed by Sprague and remain obligations of the Company until settled. The Petroleum Segment discontinued operations are reported after income from continuing operations.

A reconciliation of the major classes of assets reported held for sale as of December 31, 2017 and 2016 is as follows:

	December 31,	
	2017	2016
Carrying amounts of major classes of assets included as part of discontinued operations:		
Properties and equipment, net.....	\$ --	\$ 10,116,000
Prepaid and other, including deferred income taxes .....	108,000	1,079,000
Total assets of the disposed group classified as held for sale on the consolidated balance sheets .....	<u>\$ 108,000</u>	<u>\$ 11,195,000</u>

A reconciliation of the major classes of liabilities associated with the discontinued operations as of December 31, 2017 and 2016 is as follows:

	December 31,	
	2017	2016
Carrying amounts of major classes of liabilities included as part of discontinued operations:		
Property taxes .....	\$ --	\$ 71,000
Accounts payable and other.....	55,000	715,000
Environmental remediation.....	434,000	459,000
Deferred income taxes, net .....	--	3,177,000
Total liabilities of the disposed group classified as associated with discontinued operations on the consolidated balance sheets .....	<u>\$ 489,000</u>	<u>\$ 4,422,000</u>

The operating results of the Petroleum Segment have been adjusted from continuing operations in the accompanying consolidated statements of income. Revenue and income before income taxes attributable to discontinued operations for the years ended December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
Revenue .....	\$ 365,000	\$ 3,558,000
Operating expenses.....	(962,000)	(2,775,000)
Income (loss) from discontinued operations before income tax .....	(597,000)	783,000
Income tax benefit .....	(346,000)	(307,000)
Income (loss) from discontinued operations, net of taxes.....	<u>(251,000)</u>	<u>\$ 476,000</u>

The net gain from sale of discontinued operations as of December 31, 2017, was calculated as follows:

Gain from sale of discontinued operations before income taxes .....	<u>\$ 8,640,000</u>
Less income tax expense:	
Current.....	6,870,000
Deferred.....	(3,310,000)
	<u>3,560,000</u>
Net gain from sale of discontinued operations.....	<u>\$ 5,080,000</u>

## **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 United States 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 "2013 Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") as of December 31, 2017.

Based on this assessment, the principal executive officer and principal financial officer believe that as of December 31, 2017, the Company's internal control over financial reporting was effective based on criteria set forth by COSO in "2013 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, 2017, 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**

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 2018 Annual Meeting of Shareholders to be filed with the SEC.

The following are (were) 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	85	Chairman, Capital Properties, Inc.	1995
P. Scott Conti	60	President, Capital Properties, Inc.	2017
Barbara J. Dreyer	79	Treasurer, Capital Properties, Inc.	1997
Susan R. Johnson	58	Treasurer, Capital Properties, Inc.	2017
Stephen J. Carlotti	75	Secretary, Capital Properties, Inc.	1998

All officers hold their respective offices until their successors are duly elected and qualified. Mr. Conti served as President and Chief Operating Officer of the Providence and Worcester Railroad from 2005 to 2017. Ms. Dreyer served as President and Treasurer of the Registrant from 1995 to 1997 and as Treasurer since that date. Effective December 31, 2017, Ms. Dreyer retired from the company and Susan R. Johnson became her successor. 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 2018 Annual Meeting of 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 2018 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 2018 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 2018 Annual Meeting of 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 2018 Annual Meeting of 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:**
- 2.1** Asset Purchase Agreement, dated January 24, 2017, by and among Capital Properties, Inc., Dunellen, LLC, Capital Terminal Company and Sprague Operating Resources LLC, incorporated by reference to Exhibit 2.1 to the registrant's report on Form 8-K filed on January 26, 2017. \*
  - 3.1** Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant's report on Form 8-K filed on April 24, 2013)
  - 3.2** By-laws, as amended April 25, 2017 (incorporated by reference to Exhibit 3.2 to the registrant's report on Form 8-K filed October 25, 2017)
  - 10** Material contracts:
    - Lease between Metropark, Ltd. and Company dated January 1, 2017.
  - 20** Map of the Company's parcels in Downtown 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
  - 101** The following financial information from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission on March 19, 2018, formatted in eXtensible Business Reporting Language:
    - (i) Consolidated Balance Sheets as of December 31, 2017 and December 31, 2016
    - (ii) Consolidated Statements of Income and Retained Earnings for the Years ended December 31, 2017 and 2016
    - (iii) Consolidated Statements of Cash Flows for the Years ended December 31, 2017 and 2016
    - (iv) Notes to Consolidated Financial Statements

\* Pursuant to Item 601(b)(2) of Regulation S-K promulgated by the SEC, certain schedules to the Asset Purchase Agreement have been omitted. The registrant hereby agrees to furnish supplementally to the SEC, upon its request, any or all omitted schedules.

**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  
Chairman and Principal Executive Officer

DATED: March 14, 2018

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.

<u>/s/ Robert H. Eder</u> Robert H. Eder Chairman and Director Principal Executive Officer	March 19, 2018
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<u>/s/ P. Scott Conti</u> P. Scott Conti President	March 19, 2018
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<u>/s/ Susan R. Johnson</u> Susan R. Johnson Treasurer, Principal Financial Officer and Principal Accounting Officer	March 19, 2018
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<u>/s/ Alfred J. Corso</u> Alfred J. Corso, Director	March 19, 2018
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<u>/s/ Steven G. Triedman</u> Steven G. Triedman, Director	March 19, 2018
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**Exhibit 10**

**LEASE BETWEEN METROPARK, LTD AND ISSUER DATED JANUARY 1, 2017**

**LEASE**

This Indenture of Lease, effective as of the first day of January, 2017, by and between Capital Properties, Inc., a Rhode Island corporation (hereinafter referred to as “Landlord”) and Metropark, Ltd., a Rhode Island corporation (hereinafter referred to as “Tenant”).

**WITNESSETH:**

WHEREAS, Landlord is the owner of those certain tracts or parcels of land located in, or adjacent to, the Capital Center District in the City of Providence, Rhode Island, known as Lots 3E, 3W, 4E, 4W and a portion of Lot 20, as described on the plan attached hereto as Exhibit A (collectively, such parcels being hereinafter referred to as the “Premises”); and

WHEREAS, Landlord is prepared to lease the Premises to Tenant for use for surface parking; and

WHEREAS, Tenant desires to lease the Premises for surface parking from the Landlord.

NOW, THEREFORE, in consideration of the promises and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, Landlord and Tenant agree as follows:

1. Premises. For and in consideration of the rents hereinafter reserved by Landlord and the covenants, terms and agreements hereinafter contained on the part of Tenant, its legal representatives, successors and assigns to be paid, kept and performed, Landlord does hereby demise, lease, rent and let to Tenant and Tenant does hereby take and hire the Premises from Landlord upon and subject to the terms and conditions hereinafter contained. The term “Premises” refers to all the lots described above. The term “Particular Parking Lot” refers to, respectively, each of the following parking lots/areas: (a) Lots 3E and 4E (Park Row East), (b) Lots 3W and 4W (Park Row West), and (c) above-described portion of Lot 20 (Steeple Street).

2. Term and Termination.

2.1 Term. To have and to hold the Premises unto Tenant, its successors and assigns, for an initial term beginning on January 1, 2017 and ending on December 31, 2026, with the right to extend the term for an additional five (5) years (from January 1, 2027 to December 31, 2031) provided that Tenant gives Landlord written notice of such election not later than nine (9) months prior to the expiration of the initial term, and provided that

Tenant is not in default under this Lease (beyond any applicable notice and cure periods) at the time such notice is given or at the time the extension term would otherwise begin. Such extension term, if any, shall be on the same terms and provisions of this Lease, including without limitation the Base Rent (which will continue to escalate as provided in Section 3.2 hereof) and Percentage Rent, but there would be no further extension right.

2.2 Landlord's Right to Terminate. Landlord at any time and from time to time shall have the right to terminate this Lease as to the whole or any part of the Premises for purposes of selling or otherwise leasing all or any part of the Premises for development by giving Tenant thirty (30) days prior written notice specifying the portion of the Premises to which Landlord is exercising its right of termination, and this Lease shall terminate as to the portion of the Premises described in such notice on last to occur of (a) the termination date as set forth in such notice and (b) the date of transfer of title or possession to the Premises. Landlord shall not have the right to terminate this Lease in whole or in part in order for Landlord to develop, own or operate any portion of Premises solely for commercial parking not part of or integral to any further development in the Capital Center District in Providence or with respect to Lot 20. Further, Landlord agrees that it will not give Tenant notice of termination for any Particular Parking Lot (or any portion thereof) for sale or ground lease to an unaffiliated third party the intended use of which is solely the construction of a parking structure unrelated to and not part of the construction of other improvements on any other portion of the Premises without first complying with the provisions of Section 30 hereof. Upon such termination, the Base Rent shall be adjusted as provided in Section 3.4. To be clear, Landlord may not terminate this Lease (as to a whole or any portion of the Premises) without complying with the provisions of Section 30 hereof if the purpose of such termination is to have any third party, engage in a commercial surface parking operation (i.e., a parking operation the same as, or similar to, that of Tenant unrelated and not part of the construction of other improvements on any other portion of the Premises) on the applicable terminated area.

2.3 Temporary Surrender. In addition to the Landlord's right to terminate as contained in Section 2.2, Landlord shall have the right to take temporary repossession of a portion of a Particular Parking Lot in order to support construction on adjacent property, regardless of whether such adjacent property is owned by the Landlord. No such temporary possession shall be effective unless the remainder of the Particular Parking Lot(s) that is affected continues to have the same, or reasonably comparable, access to the same public streets that existed prior to any such temporary surrender. Access will be considered "reasonably comparable" if the change in access does not cause a material adverse effect on Tenant's ability to perform its parking business at the applicable Particular Parking Lot(s). Tenant acknowledges that a portion of Lot 20 is temporarily being used to support construction on

the northerly side of Elizabeth Street (“Lot 20 Construction Area”). Landlord shall give Tenant thirty (30) days’ notice of such temporary possession which shall become effective on the last to occur (a) the date specified in such notice and (b) the provision of the required access to public streets. During the period of such temporary possession, the Base Rent shall be adjusted as provided in Section 3.4. Landlord may return any such withdrawn portion of the Premises, including, without limitation, the Lot 20 Construction Area, to Tenant at any time, but Tenant shall not be required to accept possession until all construction equipment has been removed and the returned area has been restored to at least its former condition, including where necessary repaving and restriping.

3. Rent.

3.1 Definition. As used herein, the term Rent includes Base Rent, Percentage Rent and all other monetary obligations of the Tenant under this Lease.

3.2 Base Rent. For the first year of this Lease, Tenant shall pay to Landlord in good funds representing lawful currency of the United States for the payment of debts monthly in advance on the first day of each month unless a different period of time and method of payment is hereinafter provided Base Rent of \$51,776 per month. The first twelve-month period in which rent is herein payable and each twelve-month period thereafter is hereinafter referred to as a “Lease Year”. The first Lease Year shall commence on the first day of the term of this Lease, January 1, 2017, and shall end on December 31, 2017. For the second Lease Year and for each Lease Year thereafter, the monthly Base Rent shall be adjusted so that it is equal to the monthly Base Rent in effect at the end of the immediately preceding Lease Year multiplied by a fraction, the numerator of which shall be the Consumer Price Index (CPI-U) (1982-1984 = 100) for the immediately preceding December, and the denominator of which shall be the Consumer Price Index for the month of December immediately preceding the beginning of the prior Lease Year. As used herein, the Consumer Price Index means the Consumer Price Index – All Cities Average Urban Wage Earners as published by the Bureau of Labor Statistics of the Department of Labor of the United States, or if no longer published, that index as determined by Landlord which most closely reflects the components of the Consumer Price Index (CPI-U). The Base Rent, as adjusted, shall remain in effect until the next adjustment period and shall be paid in twelve equal monthly installments. In no event shall the monthly Base Rent, as adjusted, be less than the monthly Base Rent for the period immediately prior to such adjustment period. In the event that the amount of such adjustment cannot be calculated prior to the effective date thereof, the monthly Base Rent for the period prior to the effective date of such adjustment shall continue to be paid by Tenant. As soon as Tenant shall be notified of the amount of the adjustment, Tenant shall, within thirty (30) days, pay to the Landlord the difference between the

monthly Base Rent, as adjusted, for all monthly periods occurring in whole or in part after the date such adjustment was to be effective and the monthly Base Rent actually paid. Thereafter the monthly Base Rent, as adjusted, shall be payable by the Tenant as herein provided.

3.3 Percentage Rent. For each Lease Year during the term of this Lease, Tenant shall pay to Landlord Percentage Rent equal to the positive difference, if any, between (a) 50% of Tenant's gross receipts derived from all of Tenant's activities on the Premises and (b) the Base Rent paid by Tenant for such Lease Year. Within forty-five (45) days following the end of each Lease Year, Tenant shall provide to Landlord a statement certifying the amount of total gross receipts derived by Tenant from all of its activities on the Premises and the amount, if any, due as Percentage Rent. If such statement shall show that an amount of Percentage Rent is due hereunder, the statement shall be accompanied by Tenant's payment of such amount. Landlord shall have the right to examine in Providence, Rhode Island Tenant's books and records at Tenant's principal place of business on reasonable prior notice during regular business hours to determine the accuracy of any such statement provided by Tenant. In the event of any dispute concerning whether any amount is due hereunder, the matter shall be submitted for determination to a regional or national accounting firm that does no business with either Landlord or Tenant selected by Tenant within fifteen (15) days of the provision of a list prepared by Landlord containing not more than three firms. In the event Tenant fails to make a selection within said fifteen (15) day period, Landlord may select a firm from such list and such selection shall be binding on Tenant. If such accounting firm determines that Tenant understated its gross receipts by 5% or more, then Tenant shall bear the full cost of such accounting firm. Otherwise, Landlord and Tenant shall each pay 50% of the cost thereof.

3.4 Rent Adjustments.

a. In any case where Landlord exercises its right of termination as provided in Section 2.2 hereof, or temporary repossession as provided in Section 2.3 hereof, as to a portion of the Premises, the Base Rent after the effective date of such termination shall be the product of (a) the Base Rent immediately prior to the withdrawal or temporary repossession and (b) a fraction the numerator of which shall be the number of usable parking spaces located on the Premises immediately after the effective date of the partial termination or temporary repossession and the denominator shall be the number of parking spaces located on the Premises immediately before such partial termination or temporary repossession. A "usable" parking space is a space that continues to be reasonably usable in Tenant's ordinary course of business, as opposed to a space that, for example, but without limitation, is functionally cut off and not reasonably usable, whether due to the particular configuration of the space

re-taken by

Landlord, or otherwise. Further, in the case of the termination of this Lease as to only a portion of a Particular Parking Lot, it shall nonetheless be deemed that no Base Rent is due as to the remainder of such Particular Parking Lot if “reasonably comparable” (as defined in Section 2.3) access does not continue to exist to the same public streets that existed prior to such partial termination. Such Base Rent as so adjusted to reflect a permanent termination of a portion of the Premises shall remain in effect (but, to be clear, shall still be subject to the annual increases discussed in Section 3.2) until the end of the Term of this Lease. Such Base Rent as so adjusted to reflect a temporary repossession shall remain in effect (but, to be clear, shall still be subject to annual increases discussed in Section 3.2) until the portion of the Premises so repossessed is returned to Tenant, at which time the reduction in Base Rent due to such temporary repossession shall end. For avoidance of doubt, when the temporary repossession ends, the Base Rent shall return to being, on a going forward basis, what it would have been had the temporary repossession never occurred. Landlord and Tenant agree that upon return of the Lot 20 Construction Area, the Base Rent shall be increased by \$2,800 per month, adjusted for any increase as required by Section 3.2 hereof

4. Utilities and Other Charges. Tenant will pay directly before the same become delinquent all charges, duties, rates, license and permit fees and other amounts of every description to which the Premises or any part thereof or any improvement thereon erected or used by Tenant may, during the term hereof, be assessed or become liable for electricity, refuse collection, telephone or any other utilities or services or any connection or meters therefor, whether assessed to or payable by Landlord or Tenant. Tenant will, within ten (10) days after receipt of written demand by Landlord, furnish Landlord with receipts or other evidence indicating that all such amounts have been paid. Provided, however, that Tenant shall only be responsible for those charges and assessments which are for the period of its occupancy of the Premises.

5. Taxes and Assessments. Landlord will pay and keep current the real estate taxes assessed against the Premises.

6. Compliance with Laws and Regulations. Tenant will at all times during the term hereof keep the Premises in good order and a strictly sanitary condition and observe and perform all laws, ordinances, orders, rules and regulations now or hereafter made by any governmental authority for the time being applicable to the Premises or any improvement thereon or use thereof, and orders, rules and regulations of the National Board of Fire Underwriters or similar organization, all the foregoing in so far as the same may relate to the use of the Premises by Tenant, and will indemnify Landlord against all actions, suits, damages and claims by whomsoever brought or made

by reason of the nonobservance or nonperformance of such laws, ordinances, orders, rules and regulations, or of this covenant. Nothing herein shall obligate the Tenant to construct any additional improvements on the Premises. In the event the application of any such rule shall require the construction of additional improvements, Landlord may (a) construct such improvements at its sole cost and expense without any adjustment in Base Rent or (b) terminate the Lease as to that portion of the Premises affected by such order and thereupon the Base Rent shall be adjusted as specified in Section 3.4 hereof.

7. Inspection. Tenant will permit Landlord and its agents at all reasonable times during the term hereof to enter the Premises and examine the state of repair and condition thereof, and the use being made of the same. Landlord may also enter upon the Premises (i) pursuant to Section 12 of this Lease, to perform any repairs or maintenance which Tenant has failed to perform hereunder, and (ii) to show the Premises to prospective purchasers, tenants and mortgagees. Further, in the event that same is reasonably required in connection with the investigation and/or remediation of (potential) Hazardous Materials at the Premises, Landlord shall have the right to have test borings done on the Premises, and in connection therewith will use reasonable, good faith effort to avoid unreasonable interference with the Tenant's business thereon.

8. Repair and Maintenance. Tenant will, at its own expense, from time to time and at all times during the term hereof, maintain and keep the Premises, together with all fixtures and items of personal property used or useful in connection therewith, in as good order and condition as they now are or may be put in, reasonable wear and tear and damage by the elements and such casualty (unless caused by Tenant) against which insurance is not required of Tenant hereunder excepted. Landlord acknowledges that Tenant is not required to carry casualty insurance for damage to the Premises. Tenant will maintain the signs on the Premises and fix all potholes that may develop. Tenant will have the benefit of all warranties pertaining thereto. Tenant will remove snow and ice from the Premises and keep adjacent sidewalks clean and free from ice and snow.

9. Use. Tenant shall use the Premises only for the operation of a surface parking lot open to the public and other accessory use related to a surface parking lot which are approved by Landlord, which approval shall not be unreasonably withheld or delayed.

10. Notices re Premises. Landlord will forthwith furnish Tenant copies of any notices it receives regarding the Premises from any third parties which relate to the Tenant's use and occupancy of the Premises.

11. Insurance. Tenant agrees to maintain at all times public liability insurance on an occurrence basis against all claims and demands for personal injury liability (including, without limitation, bodily injury, sickness,

disease, and death) and damage to property which may be claimed to have occurred on the Premises in the event of injury to any number of persons or damage to property, arising out of any one occurrence, which shall, at the beginning of the Term, be at least equal to \$2,000,000, and to name Landlord and any mortgagees designated by Landlord as additional insureds and furnish Landlord and any Landlord mortgagee with the proof thereof; such insurance shall contain a provision that the Landlord, and each such mortgagee although named as an insured, shall nevertheless be entitled to recovery under said policy for any loss occasioned to it, its servants, agents and employees by reason of the negligence of the Tenant; all insurance required under the terms of this Lease shall be effected with insurers having a general policyholders rating of not less than A in AM Best's latest rating guide and shall not be canceled or modified without at least thirty (30) days' prior written notice to each insured or additional insured named therein. Tenant shall provide Landlord with certificates of all insurance required to be carried by Tenant under the Lease at or prior to the Commencement Date and at least thirty (30) days prior to the expiration of each such policy. At the expiration of the fifth Lease Year, Landlord shall have the right to engage a recognized insurance consultant at Landlord's expense to determine whether the amount and types of coverage required of Tenant under this Lease continue to be commercially reasonable adequate to protect the interests of Landlord (it being agreed that such insurance requirements are adequate as of the date of this Lease). In the event such consultant recommends changes in coverage and/or amounts pursuant to the foregoing, Tenant will use commercially reasonable efforts to procure insurance reflecting the consultant's recommendations.

12. Landlord's Costs and Expenses. If Tenant shall fail to comply with any of its obligations hereunder, Landlord may, upon ten (10) days' prior written notice to Tenant (or without notice in case of emergency), take any such action as may be reasonably required to cure any such default by Tenant. Tenant will pay to Landlord, on demand, all costs and expenses, including reasonable attorneys' fees, incurred by Landlord arising out of any such Landlord self-help following a default, or other charges payable by Tenant hereunder, or in connection with any litigation commenced by Tenant or by a third party against Tenant (other than condemnation proceedings) to which Landlord, without any fault on its part, shall be made a party. All such amounts owing to Landlord shall constitute additional Rent hereunder.

13. Indemnification of Landlord.

13.1 Tenant shall indemnify and save harmless Landlord (regardless of Tenant's covenant to insure) against and from any and all claims by or on behalf of any person or persons, firm or firms, corporation or corporations, arising from the Tenant's use, occupancy, conduct or management of the Premises, and shall further

indemnify and save Landlord harmless against and from any and all claims arising during the term hereof from any condition of the Premises caused by Tenant, or arising from any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of Tenant to be performed pursuant to the terms of this Lease, or arising from any act of Tenant or any of its agents, contractors, servants or employees to any person, firm or corporation occurring during the term hereof in or about the Premise or upon or under said areas, and from and against all costs, reasonable counsel fees, expenses or liabilities incurred in or about any such claim or action or proceeding brought thereon. All the foregoing is only to the extent not caused by the gross negligence or willful misconduct of Landlord or its agents, contractors, servants, or employees.

13.2 Tenant shall pay and indemnify Landlord against all reasonable legal costs and charges incurred in obtaining possession of the Premises after a default of Tenant or upon expiration or earlier termination of the term hereof, other than by reason of any default of Landlord. In addition, and more generally, Tenant shall reimburse Landlord for its reasonable legal costs and charges incurred in enforcing any other covenant or agreement of Tenant herein contained (i.e. a covenant or agreement other than one that relates to Tenant delivering possession back to Landlord upon the expiration or termination of this Lease) provided that Tenant shall be obligated to make such payments only if Landlord prevails in such proceeding.

14. Liens.

14.1 Tenant will not commit, suffer any act or neglect whereby the Premises or any improvements thereon or the estate of Landlord therein shall at any time during the term hereof become subject to any attachment, judgment, lien, charge or encumbrance whatsoever, except as herein expressly provided, and will indemnify and hold Landlord harmless from and against all loss, costs and expenses, including reasonable attorneys' fees, with respect thereto.

14.2 If due to any act or neglect of Tenant, any mechanic's, laborer's or materialmen's lien shall at any time be filed against the Premises or any part hereof, Tenant, within thirty (30) days after notice of the filing thereof shall cause the same to be discharged of record by payment, bonding or otherwise, and if Tenant shall fail to cause the same to be discharged, then Landlord may, in addition to any other right or remedy, cause the same to be discharged, either by paying the amount claimed to be due, or by procuring the discharge of such lien by deposit or by bonding proceedings, and all amounts so paid by Landlord, together with all reasonable costs and expenses incurred in connection therewith, and together with interest thereon at the rate of ten percent (10%) per

annum from the respective dates of payment, shall be paid by Tenant to Landlord, on demand, as additional Rent hereunder.

14.3 Nothing in this Lease contained shall be deemed or construed in any way as constituting the consent or request of Landlord, express or implied by inference or otherwise, to any contractor, subcontractor, laborer, materialmen, architect or engineer for the performance of any labor or the furnishing of any materials or services for or in connection with the Premises or any part thereof. Notice is hereby given that Landlord shall not be liable for any labor or materials or services furnished or to be furnished to Tenant upon credit, and that no mechanic's or other lien for any such labor, materials, or services shall attach to or affect the fee or reversionary or other estate or interest of Landlord in the Premises and in this Lease.

15. Default.

15.1 In the event that during the term hereof any of the following events shall occur (each of which shall be an "Event of Default")-

a. Tenant shall default in the payment of any installment of Rent or additional Rent for ten (10) days after the same shall become due, without any requirement of notice by the Landlord except for the first (if any) default in the payment of Rent and such first default in the payment of Rent shall be an Event of Default only if Tenant fails to pay the Rent then due within ten (10) days after notice from Landlord;

b. Tenant or any permitted assignee of Tenant shall (i) apply for or consent to an appointment of a receiver, a trustee or liquidator of it or of all or a substantial part of its assets; (ii) make a general assignment for the benefit of creditors; (iii) be adjudicated a bankrupt or insolvent; (iv) file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors to take advantage of any insolvency law or an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding or corporation action shall be taken by it for the purpose of effecting any of the foregoing.

c. An order, judgment or decree shall be entered, without the application, approval or consent of Tenant or any permitted assignee of Tenant by any court of competent jurisdiction, approving a petition seeking reorganization of Tenant or such assignee or appointing a receiver, trust or liquidator of Tenant or such assignee or of all or a substantial part of its assets and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) consecutive days; or

d. Any other default by Tenant in performing any of its other obligations hereunder shall continue uncorrected for ten (10) days after receipt of written notice thereof from Landlord (unless the cure reasonably requires more than ten (10) days, in which event Tenant shall have such further time as may be reasonably required, provided that Tenant commences its efforts to cure within such ten (10) day period and prosecutes such cure diligently to completion), during which period Tenant or such assignee may cure the default; then in each such event Landlord may, by giving written notice to Tenant, either

- (a) terminate this Lease
- (b) re-enter the Premises by summary proceedings or otherwise, expelling Tenant and removing all of Tenant's property therefrom, and relet the Premises and receive the rent therefrom, or
- (c) exercise any other remedies permitted by law.

Tenant shall also be liable for the reasonable cost of obtaining possession of and reletting the Premises and of any reasonable repairs and alterations or other payments necessary to prepare them for reletting. Any and all such amounts shall be payable to Landlord upon demand. Notwithstanding anything contained herein to the contrary, no termination of this Lease prior to the last day of the term hereof, except as provided in Section 16 hereof, shall relieve Tenant of its liability and obligations under this Lease, and such liability and obligations shall survive any such termination.

15.2 In the event of any breach by Tenant of any of the covenants, agreements, terms or conditions contained in this Lease, Landlord shall be entitled to enjoin such breach of threatened breach and shall have the right to invoke any right and remedy allowed at law or in equity, or by statute or otherwise, as though reentry, summary proceedings and other remedies were not provided for in this Lease.

15.3 Each right and remedy of Landlord provided for in this Lease shall be cumulative and shall be in addition to every other right or remedy provided for in this Lease or now or hereafter existing, at law or in equity, or by statute or otherwise, and the exercise or beginning of the exercise by Landlord of any one or more of the rights or remedies provided for in this Lease, or now or hereafter existing at law or in equity, or by statute or otherwise, shall not preclude the simultaneous or later exercise by Landlord of any or all other rights or remedies provided for in this Lease, or now or hereafter existing at law or in equity, or by statute or otherwise.

16. Eminent Domain. If the whole or any part of the Premises shall be condemned or acquired by eminent domain for any public or quasi-public use or purpose, then the term of this Lease shall cease and terminate as to the portion of the Premises so condemned as of the date of vesting of title in such proceeding and all rentals

shall be paid up to the date of the vacating of the Premises (or part thereof as the case may be) by Tenant and Tenant shall have no claim against Landlord nor the condemning authority for the value of any unexpired term of this Lease.

In the event of any condemnation or taking as aforesaid, whether whole or partial, Tenant shall not be entitled to any part of the award paid for such condemnation and Landlord is to receive the full amount of such award, Tenant hereby expressly waiving any right or claim to any part thereof. If only a portion of the Premises shall be taken in any such eminent domain proceeding, there shall be a proportionate adjustment of the Base Rent applying the provisions of Subsection 3.4 (a), as though (for purposes of applying Subsection 3.4(a)) the condemnation/taking were a Landlord termination of the Lease as to the area condemned/taken.

17. Condition of Premises. Tenant represents that the Premises, the sidewalks and structures adjoining the same, and any subsurface conditions thereof, and the present uses and non-uses thereof, have been examined by Tenant, and Tenant agrees that it will accept the same in the condition or state in which they, or any of them, now are, without representation or warranty, express or implied in fact or by law, by Landlord, and without recourse to Landlord as to the nature, condition or usability thereof, or the use or uses to which the Premises, or any part thereof, may be put.

18. Independent Covenants – No Waiver.

18.1 Each and every of the covenants and agreements contained in this Lease shall be for all purposes construed to be separate and independent covenants and the waiver of the breach of any covenant contained hereby by Landlord shall in no way or manner discharge or relieve Tenant from Tenant's obligation to perform each and every of the covenants contained herein.

18.2 If any term or provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and shall be enforced to the fullest extent permitted by law.

18.3 The failure of either party to insist in any one or more cases upon the strict performance of any of the covenants of this Lease shall not be construed as a waiver or a relinquishment for the future of such covenant. A receipt by Landlord of rent with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made

unless expressed in writing and signed by Landlord. All remedies to which Landlord may resort under the terms of this Lease or by law provided shall be cumulative.

19. Landlord's Mortgages; Landlord's Right to Sell or Assign Rents.

19.1 Landlord shall have the right from time to time to mortgage its interest in the Premises, provided that except as hereinafter specifically provided, all such mortgages executed and delivered after the date of this Agreement shall be subject and subordinate to this Lease. Landlord represents and warrants that there are no mortgages on the Premises as of the date of this Agreement. All such mortgages and any increases, renewals, modifications, consolidations, replacements and extensions thereof are hereinafter collectively called "Landlord's Mortgages". However, upon the written request of Landlord and subject to the satisfaction of the conditions hereinafter set forth in this Subsection 19.1, this Lease shall be subject and subordinate to any Landlord's Mortgages. In confirmation of such subordination, Tenant shall execute promptly any instrument in recordable form requested by Landlord confirming such subordination. Provided, however, that no such instrument shall modify or alter the covenants, terms and conditions contained herein or Landlord's obligations hereunder. Tenant hereby appoints Landlord as Tenant's attorney-in-fact, coupled with an interest, to execute any such document for and on behalf of Tenant if Tenant shall fail to execute and deliver the same to Landlord within ten (10) business days after being requested in writing to do so by Landlord. Provided further, however, that with respect to any Landlord's Mortgages placed upon the Property after the date of this Agreement, such subordination shall be required only in the event that (and any such execution of such subordination document by Landlord as attorney in fact for Tenant shall occur only in the event that) the holder of such mortgage is a financial institution and shall be conditioned upon Landlord first delivering to Tenant a non-disturbance agreement signed by Landlord's Mortgagee, in form and substance reasonably satisfactory to Tenant and the holder of any leasehold mortgage, providing that such Landlord's Mortgagee will give Tenant and any leasehold mortgagee notice of default under such Landlord's Mortgage, and upon any foreclosure of such Landlord's Mortgage, Tenant's possession of the Property shall not be affected by such foreclosure if Tenant is not in default under the terms, conditions and covenants of this Lease, and that such Landlord's Mortgagee shall recognize this Lease (if Tenant is not then in default hereunder) and each of Tenant and Landlord's Mortgagees shall attorn one to the other. It is understood and agreed that wherever in this Lease Tenant may be required to obtain the approval of Landlord or to make any policies of insurance payable to Landlord, such requirements may, at the election of Landlord delivered in a written notice to Tenant, apply with like force to the holder of any Landlord's Mortgage of which Landlord gives Tenant notice. In the case of approvals, the

holder of Landlord's Mortgage shall be subject to the same consent standard (if any) as applies to Landlord under the terms of this Lease. In no event shall Tenant be required to pay any installment of principal or interest or other sums at any time due under any Landlord's Mortgage.

19.2 Nothing contained in this Lease shall be deemed in any way to limit, restrict or otherwise affect Landlord's absolute right at any time or times to convey its interest in the Premises, subject to this Lease, or to assign its interest in this Lease, or to assign from time to time the whole or any portion of the Rent or other sums and charges at any time paid or payable hereunder by Tenant to Landlord, to a transferee designated by Landlord in a notice to Tenant, and in any such case, Tenant shall pay the Rent and the other sums and charges payable by Tenant to Landlord, or the portion thereof so assigned, subject to the terms of this Lease, to Landlord's said designee at the address mentioned in any such notice. Provided, however, that any such conveyance or assignment shall require the grantee or assignee to assume the obligations of Landlord under this Lease, unless Landlord elects to remain liable under this Lease, in which event, such conveyance or assignment shall not require the grantee or assignee to assume the obligations of Landlord under this Lease. If, in the case of any assignment or conveyance of Landlord's entire reversionary interest in the Premises, the grantee or assignee shall assume the obligations of Landlord under this Lease, and Landlord shall be released from all liabilities and obligations under this Lease accruing after such conveyance or assignment.

20. Quiet Enjoyment. Landlord covenants that Tenant, upon paying the Rent and performing the covenants hereof on the part of Tenant to be performed, shall and may peaceably and quietly have, hold and enjoy the Premises and all related appurtenances, rights, privileges and easements throughout the term hereof without any lawful (or unlawful) hindrance by Landlord and any person claiming by, through or under it. Landlord shall not be deemed to have breached its covenant of quiet and enjoyment if Tenant is unable to secure the necessary permits to conduct surface parking on the Premises, or any renewals or extensions of any such permits.

21. Return of Premises. At the expiration or sooner termination of the term hereof, Tenant will remove from the Premises its property and that of all claiming under it and will peaceably yield up to Landlord the Premises in as good condition in all respects as the same were at the commencement of this Lease, ordinary wear and tear, damage by the elements, by any exercise of the right of eminent domain or by public or other authority, and by any casualty excepted.

22. Holdover. Tenant agrees to pay to Landlord twice the total of all Base Rent then applicable for each month or portion thereof (in the event of a portion of a month, the Base Rent shall be pro-rated on a per diem

basis) that Tenant shall retain possession of the Premises or any part thereof after the termination of this Lease (unless and to the extent such holding over shall be pursuant to a written agreement between Landlord and Tenant), whether by lapse of time or otherwise, and also to pay all damages sustained by Landlord on account thereof; the provisions of this subsection shall not operate as a waiver by Landlord of any right of re-entry provided in this Lease or under law. Tenant shall also pay all reasonable legal fees and damages incurred by Landlord as a result of such holdover.

23. Limitation of Liability. Tenant shall neither assert nor seek to enforce any claim for breach of this Lease against any of Landlord's assets other than Landlord's interest in the Premises, and Tenant agrees to look solely to such interest for the satisfaction of any liability of Landlord under this Lease, it being specifically agreed that in no event shall Landlord (which term shall include, without limitation, any of the officers, employees, agents, attorneys, trustees, directors, partners, beneficiaries, joint ventures, members, stockholders or other principals or representatives, disclosed or undisclosed, thereof) ever be personally liable for any such liability.

24. No Recording of Lease. Tenant hereby acknowledges and agrees that it shall not record this Lease or any notice or memorandum of this Lease in any land evidence records or any other public record without the express prior written consent of Landlord. Landlord hereby consents to Tenant recording a short form notice of lease, provided that it is reasonably acceptable to Landlord's counsel, and provided that Tenant provides Landlord with an executed termination of notice of lease, which Landlord may record upon the expiration or sooner termination of this Lease. In the event of any such unauthorized recording, Tenant shall be in default of this Agreement and Landlord shall have all rights and remedies available under law or in equity as a result of such recordation including, without limitation, the right to terminate this Lease. In addition to the foregoing, Tenant hereby appoints Landlord as its attorney in fact to record any and all documents necessary to clear record title to the Premises in the event Tenant breaches the provisions of this Section 24 by recording a memorandum of lease or other similar document in the Records of Land Evidence in the City of Providence.

25. Assignment and subletting. Tenant will not assign this Lease, in whole or in part, nor sublet or permit any use of the Premises, other than for off-street parking of automobiles, nor license, nor pledge or encumber by mortgage or other instruments its interest in this Lease without Landlord's prior written consent, which consent may be withheld by Landlord in its sole and absolute discretion. This prohibition includes any subletting or assignment which would otherwise occur by operation of law, merger, consolidation, reorganization, transfer or other change of Tenant's corporate or trustee in any federal or state bankruptcy, insolvency, or other proceedings.

Notwithstanding the foregoing, Landlord hereby consents to an assignment or subletting to an affiliate of Tenant, meaning an entity controlling, controlled by, or under common control with, Tenant, but Tenant shall remain liable notwithstanding any such assignment or subletting. Consent by Landlord to any assignment or subletting shall not constitute a waiver of the foregoing prohibition with respect to any subsequent assignment or subletting.

In the event the Premises are sublet, in whole or in part, with Landlord's approval, any rents received by Tenant (less reasonable expenses) shall be split equally between Tenant and Landlord. Rents due to Landlord shall be paid to Landlord within fifteen (15) days after receipt of such rents by Tenant.

26. Use of Hazardous Material. Tenant shall not cause or permit any Hazardous Material to be brought upon, kept or used in or about the Premises by Tenant, its agents, employees, contractors or invitees without the prior written consent of Landlord. If Tenant breaches the obligations stated in the preceding sentence, or if contamination of the Premises by Hazardous Material otherwise occurs unless caused by Landlord, its agents, employees, contractors, or invitees or by migration from an adjacent or nearby site through no fault of Tenant, Tenant shall indemnify, protect, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Premises, damages for the loss or restriction on use of rentable Premises or usable space or of any amenity of the Premises, damages arising from any adverse impact on marketing of Premises space, and sums paid in settlement of claims, reasonable attorneys' fees, consultant fees and expert fees) which arise during or after the Term as a result of such contamination. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any clean-up, remedial, removal or restoration work required by any federal, state or local government agency or political subdivision because of Hazardous Material present in the soil, surface water or groundwater on, near or under the Premises unless such Hazardous Material was present at the beginning of this Lease, was caused by Landlord, its employees, agents, contractors or invitees, or migrated to the Premises from some adjacent or nearby site through no fault of Tenant. As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste, including, but not limited to, those substances, materials, and wastes listed in the United States Department of Transportation Hazardous materials Table (49 CFR 172.101) or by the Environmental Protection Agency as hazardous substances (40CFR part 302) and amendments thereto, or such substances, materials and wastes that are or become regulated under any applicable local, state or federal law. Landlord and its agents shall have the right, but not the duty, to inspect the Premises at any time to determine whether Tenant is complying with the terms of this Lease.



terms and conditions on which it would be willing to purchase or ground lease the portion of the Premises designated in Landlord's notice. If Tenant fails to respond to Landlord within said thirty (30) day period, then Landlord may sell or ground lease without restriction that portion of Premises specified in Landlord's notice to a non-affiliated third party and may withdraw such portion from this Lease effective as provided in Subsection 2.2. If Tenant makes a proposal to Landlord within said thirty (30) day period, Landlord may either accept the proposal or negotiate with Tenant. If Landlord and Tenant do not enter into a definitive agreement within forty-five (45) days following Tenant's response, then Landlord shall be free to enter in a sale transaction or a ground lease with a non-affiliated third party provided that the terms and conditions of such sale or ground lease are no more advantageous to Landlord than Tenant's last proposal (specifically, Tenant's last sale proposal if Landlord intends to sell, or Tenant's last ground lease proposal if Landlord intends to ground lease) prior to the expiration of such forty-five (45) day period. If as part of its proposal Tenant does not offer both a ground lease and sale option and Landlord and Tenant does not enter into a definitive agreement within said forty-five (45) day period, then Landlord will be free to sell or ground lease to a non-affiliated third party, as the case may be (i.e., whichever of the two [sale or ground lease] Tenant did not include in its proposal), the portion of the Premises specified in Landlord's notice without limitation if Tenant failed to include such alternative in its proposal to Landlord. To be clear, in such event Landlord would still be subject to the "no more advantageous" provision set forth above as to the type of transaction (sale or ground lease) that Tenant did propose.

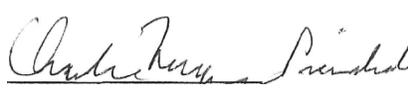
31. Counterparts; ".pdf" Signatures. This Lease may be signed in counterparts. Facsimile or ".pdf" signatures to this Lease shall be binding.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed in duplicate as of the day and year first above written.

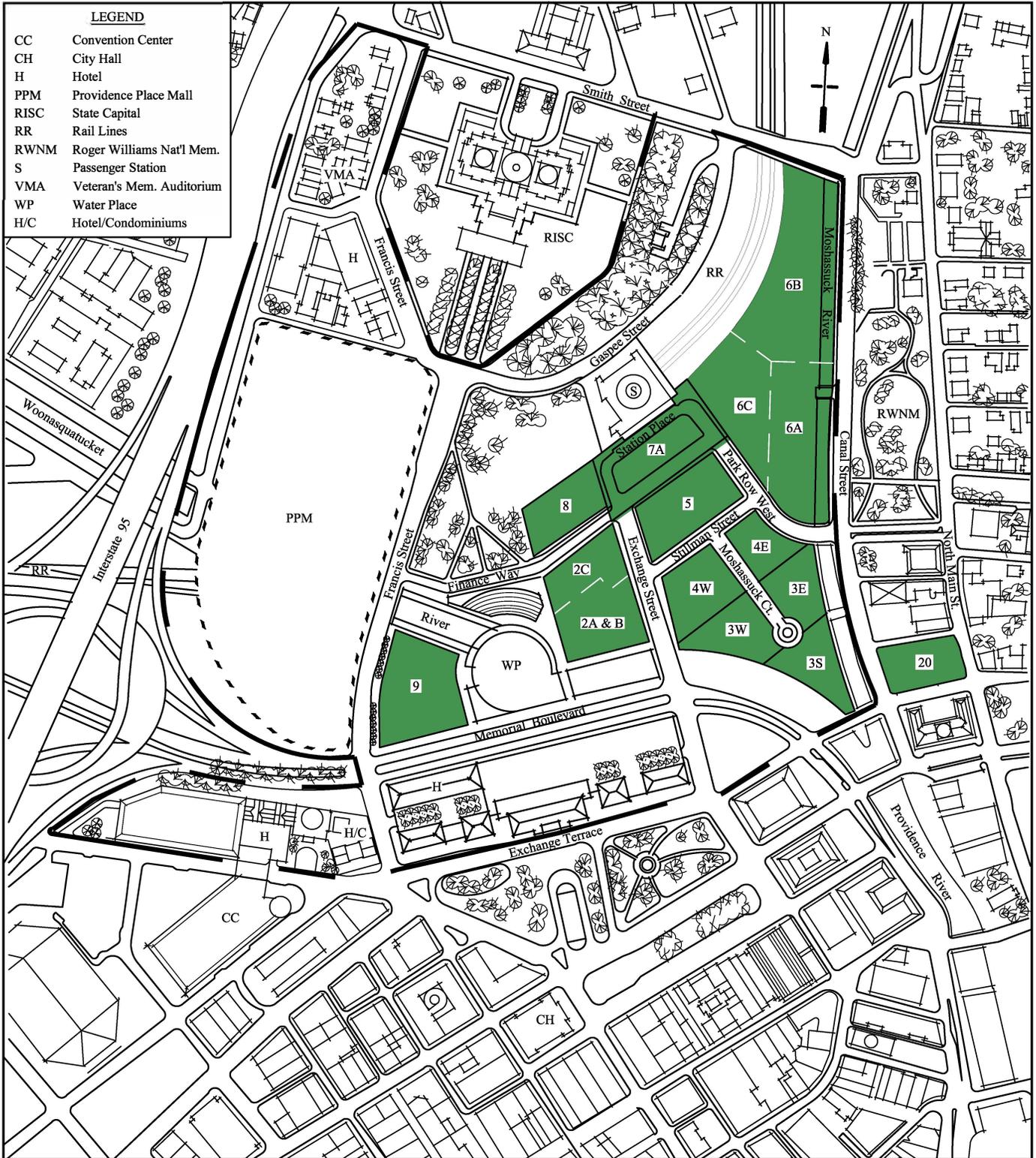
CAPITAL PROPERTIES, INC.

METROPARK, LTD.

By:   
P. Scott Conti, President

By:   
Charles Meyers, President

# Exhibit 20



## CAPITAL PROPERTIES, INC. - Parcels in Downtown Providence

Parcel #	Square Feet (sq. ft.)	DEVELOPMENT ON PARCELS
<b>CAPITAL CENTER:</b>		
2A & B	56,700	17 and 19 Story Residential Buildings - 307,000 gross sq. ft.
2C	35,300	13 Story Office Building - 325,000 gross sq. ft.
3S	48,000	13 Story Office Building - 235,000 gross sq. ft.
3W	35,000	---
3E	24,000	---
4W	46,000	---
4E	22,000	---
5	54,000	8 Story Residential Building - 454,000 gross sq. ft.
6A	87,200	4 Story Residential Building - 120,000 gross sq. ft.
6B	124,300	4 Story Residential Building - Under Construction - 248,000 gross sq. ft.
6C	64,500	---
7A	76,000	330 Car Public Parking Garage
8	36,000	4 Story Office Building - 114,000 gross sq. ft.
9	72,000	10 Story Office Building - 210,000 gross sq. ft.
<b>OUTSIDE CAPITAL CENTER:</b>		
20	26,600	3-4 Story Historic Building in southwest corner of lot - 18,000 gross sq. ft.

**Exhibit 21**

**Capital Properties, Inc. and Subsidiaries**

Subsidiaries of the Company

<b><u>Subsidiary</u></b>	<b><u>State of Incorporation or Formation</u></b>
Capital Terminal Company	Rhode Island
Dunellen, LLC	Delaware
Tri-State Displays, Inc.	Rhode Island

**Exhibit 31.1**

**CAPITAL PROPERTIES, INC. AND CONSOLIDATED AFFILIATES  
Certification Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert H. Eder, certify that:

1. I have reviewed this annual report on Form 10-K of Capital Properties, Inc. and Consolidated Affiliates;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 19, 2018

/s/ Robert H. Eder  
Robert H. Eder  
Chairman and Principal Executive Officer

## Exhibit 31.2

### CAPITAL PROPERTIES, INC. AND CONSOLIDATED AFFILIATES Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Susan R. Johnson certify that:

1. I have reviewed this annual report on Form 10-K of Capital Properties, Inc. and Consolidated Affiliates;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that was materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 19, 2018

/s/ Susan R. Johnson  
Susan R. Johnson  
Treasurer, Principal Financial Officer and Principal  
Accounting Officer

**Exhibit 32.1**

**CAPITAL PROPERTIES, INC. AND CONSOLIDATED AFFILIATES**  
**Certification Pursuant to**  
**18 U.S.C. Section 1350,**  
**as Adopted Pursuant to**  
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Capital Properties, Inc. (the Company) on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Robert H. Eder, Chairman and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert H. Eder  
Robert H. Eder  
Chairman and Principal Executive Officer  
March 19, 2018

**Exhibit 32.2**

**CAPITAL PROPERTIES, INC. AND CONSOLIDATED AFFILIATES**  
**Certification Pursuant to**  
**18 U.S.C. Section 1350,**  
**as Adopted Pursuant to**  
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Capital Properties, Inc. (the Company) on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Susan R. Johnson, Treasurer and Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Susan R. Johnson  
Susan R. Johnson  
Treasurer, Principal Financial Officer and Principal  
Accounting Officer  
March 19, 2018