

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2018**

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)

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 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

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging Growth Company

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.

As of March 31, 2018, the Company had 6,599,912 shares of Class A Common Stock outstanding.

**CAPITAL PROPERTIES, INC.  
FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2018**

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## PART I

### Item 1. Financial Statements

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

	March 31, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Properties and equipment (net of accumulated depreciation).....	\$ 8,907,000	\$ 8,953,000
Cash and cash equivalents .....	3,850,000	5,202,000
Investments.....	2,000,000	--
Funds on deposit with agent .....	--	462,000
Prepaid and other .....	458,000	434,000
Deferred income taxes associated with discontinued operations (Note 7)	107,000	108,000
	<u>\$ 15,322,000</u>	<u>\$ 15,159,000</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Dividends payable.....	\$ --	\$ 462,000
Property taxes.....	224,000	224,000
Other .....	283,000	536,000
Income tax payable .....	153,000	35,000
Deferred income taxes, net.....	810,000	803,000
Liabilities associated with discontinued operations (Note 7).....	611,000	489,000
	<u>2,081,000</u>	<u>2,549,000</u>
 <b>Shareholders' equity:</b>		
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.....	12,393,000	11,762,000
	<u>13,241,000</u>	<u>12,610,000</u>
	<u>\$ 15,322,000</u>	<u>\$ 15,159,000</u>

See notes to consolidated financial statements.

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**  
**THREE MONTHS ENDED MARCH 31, 2018 AND 2017**  
**(Unaudited)**

	<u>2018</u>	<u>2017</u>
Revenue and other income:		
Revenue, leasing .....	\$ 1,272,000	\$ 1,251,000
Other income, interest .....	13,000	--
	<u>1,285,000</u>	<u>1,251,000</u>
Expenses:		
Operating.....	282,000	263,000
General and administrative .....	370,000	709,000
Interest on dividend notes .....	--	112,000
	<u>652,000</u>	<u>1,084,000</u>
Income from continuing operations before income taxes .....	<u>633,000</u>	<u>167,000</u>
Income tax expense (benefit):		
Current .....	162,000	215,000
Deferred .....	7,000	(149,000)
	<u>169,000</u>	<u>66,000</u>
Income from continuing operations.....	<u>464,000</u>	<u>101,000</u>
Loss from discontinued operations, net .....	<u>(35,000)</u>	<u>(267,000)</u>
Gain on sale of discontinued operations, net of taxes.....	<u>664,000</u>	<u>5,210,000</u>
Net income.....	1,093,000	5,044,000
Retained earnings, beginning.....	11,762,000	6,223,000
Dividends on common stock (\$.07 per share) based upon 6,599,912 shares outstanding .....	<u>(462,000)</u>	<u>--</u>
Retained earnings, ending.....	<u>\$ 12,393,000</u>	<u>\$ 11,267,000</u>
Basic income (loss) per share, based on 6,599,912 shares outstanding:		
Continuing operations.....	\$ 0.07	\$ 0.01
Discontinued operations.....	(0.01)	(0.04)
Gain on sale of discontinued operations .....	0.10	0.79
Total basic income per common share.....	<u>\$ 0.16</u>	<u>\$ 0.76</u>

See notes to consolidated financial statements.

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2018 AND 2017**  
**(Unaudited)**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Continuing operations:		
Income from continuing operations.....	\$ 464,000	\$ 101,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation .....	46,000	46,000
Deferred income taxes.....	7,000	(149,000)
Income taxes payable .....	118,000	(23,000)
Other, principally net changes in prepaids, accounts payable and accrued expenses.....	(277,000)	105,000
	<u>358,000</u>	
Net cash provided by operating activities, continuing operations.....		80,000
Net cash used in operating activities, discontinued operations .....	(110,000)	(1,536,000)
Net cash provided by (used in) operating activities .....	<u>248,000</u>	<u>(1,456,000)</u>
Cash flows from investing activities:		
Continuing operations, purchases of:		
Properties and equipment .....	--	(11,000)
Investments.....	(2,000,000)	--
	<u>(2,000,000)</u>	<u>(11,000)</u>
Discontinued operations, sale of assets.....	862,000	19,794,000
Net cash provided by (used in) investing activities.....	<u>(1,138,000)</u>	<u>19,783,000</u>
Cash flows from financing activities:		
Redemption of dividend notes payable .....	--	(10,608,000)
Payment of dividends.....	(462,000)	--
Cash used in financing activities .....	<u>(462,000)</u>	<u>(10,608,000)</u>
Increase (decrease) in cash and cash equivalents.....	(1,352,000)	7,719,000
Cash and cash equivalents, beginning .....	5,202,000	3,124,000
Cash and cash equivalents, ending .....	<u>\$ 3,850,000</u>	<u>\$ 10,843,000</u>
Supplemental disclosures:		
Cash paid for:		
Income taxes:		
Continuing operations.....	\$ --	\$ --
Discontinued operations, sale of assets.....	--	655,000
	<u>\$ --</u>	<u>\$ 655,000</u>
Interest .....	<u>\$ --</u>	<u>\$ 156,000</u>

See notes to consolidated financial statements.

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED MARCH 31, 2018 AND 2017**  
**(Unaudited)**

**1. Description of business:**

Capital Properties, Inc. and its wholly-owned subsidiaries, Tri-State Displays, Inc., Capital Terminal Company and Dunellen, LLC (collectively referred to as “the Company”) 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 7 herein.

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 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 to Metropark, Ltd.

**2. Principles of consolidation and basis of presentation:**

The accompanying condensed 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.

The accompanying condensed consolidated balance sheet as of December 31, 2017, has been derived from audited financial statements and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Form 10-K for the year ended December 31, 2017. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position as of March 31, 2018 and the results of operations and cash flows for the three months ended March 31, 2018 and 2017.

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

*Environmental incidents:*

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

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

*Cash and cash equivalents:*

For purposes of the statements of cash flows, the Company considers all highly liquid deposits purchased with a maturity of three months or less to be cash equivalents.

*Investments:*

Investments consist of certificates of deposit that bear interest at 2.5 percent per annum with an original maturity of March 15, 2023. Each certificate of deposit (\$1,000,000) provides for a one-time penalty free withdrawal after September 16, 2018 and March 16, 2019.

*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 6 herein.

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

**4. Properties and equipment:**

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

	March 31, 2018	December 31, 2017
Properties on lease or held for lease:		
Land and land improvements .....	\$ 4,701,000	\$ 4,701,000
Building and improvements, Steeple Street .....	5,831,000	5,831,000
	<u>10,532,000</u>	<u>10,532,000</u>
Office equipment .....	95,000	95,000
	<u>10,627,000</u>	<u>10,627,000</u>
Less accumulated depreciation:		
Properties on lease or held for lease .....	1,638,000	1,593,000
Office equipment .....	82,000	81,000
	<u>1,720,000</u>	<u>1,674,000</u>
	<u>\$ 8,907,000</u>	<u>\$ 8,953,000</u>

## 5. Description of leasing arrangements:

### *Long-term land leases:*

As of March 31, 2018, 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 may negotiate tax stabilization treaties or other arrangements, appeal any changes in real property assessments, and pay real property taxes assessed on land and improvements under these arrangements. Accordingly, 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 three months ended March 31, 2018 and 2017, the real property taxes attributable to the Company's land under these leases totaled \$308,000 and \$304,000, respectively.

Under two of the long-term land leases, the Company receives contingent rentals (based on a fixed percentage of gross revenue received by the tenants) which totaled \$29,000 and \$27,000 for the three months ended March 31, 2018 and 2017, 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. The Lamar lease provides, among other things, for the following: (1) the base rent will increase 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.

### *Parking lease:*

The Company leases the undeveloped parcels of land in or adjacent to the Capital Center area for public parking purposes to Metropark under a ten year lease. The lease is cancellable as to all or any portion of the leased premises at any time and from time to time on thirty day's written notice in order for the Company or any new tenant of the Company to develop all or any portion of the leased premises.

### *Steeple Street:*

At March 31, 2018, the Company has four tenants occupying 49 percent of the Steeple Street Building under short-term leases of five years or less at a current 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 March 31, 2018 and 2017, there was no excess of straight-line over contractual rentals. The Company also reports as revenue tenant reimbursements for common area costs and real property taxes. The Company is currently marketing the remaining portions of the building for lease.



## 6. Income taxes, continuing operations:

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

	March 31, 2018	December 31, 2017
Gross deferred tax liabilities:		
Property having a financial statement basis in excess of tax basis .....	\$ 838,000	\$ 825,000
Insurance premiums and accrued leasing revenues .....	27,000	14,000
	<u>865,000</u>	<u>839,000</u>
Less deferred tax assets .....	(55,000)	(36,000)
	<u>\$ 810,000</u>	<u>\$ 803,000</u>

## 7. Discontinued operations:

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 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 (Dolphin Project) 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.

Following receipt of the net proceeds, 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.

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 which allowed the escape of a small amount of fuel oil. Since 1994, 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. At December 31, 2017 the total accrual for the cost of remediation was \$434,000. During 2018, remediation costs of \$8,000 were incurred which reduced the total accrual to \$426,000. Any subsequent increases or decreases to the expected cost of remediation will be recorded in the Company's consolidated income statement and retained earnings as income or expense from discontinued operations.

The Sales Agreement also contains a cost sharing provision for the Dolphin Project whereby any variance from the initial estimate of \$1,040,000 will be borne equally by Sprague and the Company.

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 \$862,000, which amount is reported net of income taxes as "Gain on sale of discontinued operations, net of taxes."

In accordance with ASC 205-20, *Presentation of Financial Statements – Discontinued Operations* the Petroleum Segment is accounted for as a discontinued operation.

A reconciliation of the major classes of liabilities associated with the discontinued operations as of March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018	December 31, 2017
Carrying amounts of major classes of liabilities included as part of discontinued operations:		
Accounts payable, income taxes and other .....	\$ 185,000	\$ 55,000
Environmental remediation.....	426,000	434,000
Total liabilities of the Terminal classified as associated with discontinued operations on the consolidated balance sheets.....	<u>\$ 611,000</u>	<u>\$ 489,000</u>

Revenue and income before income taxes attributable to discontinued operations for the three months ended March 31, 2018 and 2017 are as follows:

	March 31,	
	2018	2017
Revenue .....	\$ --	\$ 474,000
Operating expenses .....	47,000	917,000
Loss from discontinued operations before income tax.....	(47,000)	(443,000)
Less income tax (benefit) .....	(12,000)	(176,000)
Loss from discontinued operations, net of taxes .....	<u>\$ (35,000)</u>	<u>\$ (267,000)</u>

The net gain from sale of discontinued operations as of March 31, 2018 and 2017, was calculated as follows:

	March 31,	
	2018	2017
Gain from sale of discontinued operations before income taxes.....	\$ 862,000	\$ 8,640,000
Less income tax expense (benefit):		
Current.....	198,000	6,607,000
Deferred.....		(3,177,000)
	<u>198,000</u>	<u>3,430,000</u>
Net gain from sale of discontinued operations.....	<u>\$ 664,000</u>	<u>\$ 5,210,000</u>

#### 8. Fair value of financial instruments:

The Company believes that the fair values of its financial instruments, including cash and cash equivalents, investments, receivables and payables, approximate their respective book values because of their short-term nature. The fair values described herein were determined using significant other observable inputs (Level 2) as defined by GAAP.

#### 9. Subsequent event:

At its April 24, 2018 regularly scheduled quarterly Board meeting, the Board of Directors voted to declare a quarterly dividend of \$.07 per share for shareholders of record on May 10, 2018, payable May 25, 2018.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### FORWARD LOOKING STATEMENTS

Certain portions of this report, and particularly the Management's Discussion and Analysis of Financial Condition and Results of Operations, contain forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and Sections 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including, without limitation, the following: the ability of the Company to generate adequate amounts of cash; the collectability of the accrued leasing revenues when due over the terms of the long-term land leases 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 the petroleum storage facility. The Company does not undertake the obligation to update forward-looking statements in response to new information, future events or otherwise.

#### 1. Overview:

##### *Critical accounting policies:*

The Company believes that its revenue recognition policy for long-term leases with scheduled rent increases meets the definition of a critical accounting policy which is discussed in the Company's Form 10-K for the year ended December 31, 2017. There have been no changes to the application of this accounting policy since December 31, 2017.

#### 2. Liquidity and capital resources:

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

##### *Cash and cash commitments:*

At March 31, 2018, the Company had cash and cash equivalents of \$3,850,000. The Company and its three subsidiary companies each maintain a checking account in the same bank, each of which 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.

The Company also has \$2,000,000 in certificates of deposit that bear interest at 2.5 percent per annum with an original maturity of March 15, 2023. Each certificate of deposit (\$1,000,000) provides for a one-time penalty free withdrawal after September 16, 2018 and March 16, 2019. The Company will continue to evaluate other investment options for any funds in excess of amounts needed for ordinary business operations.

Under the terms of a long-term land lease on Parcel 7A, the land was appraised which resulted in a rent increase in excess of 20 percent. The lease provides that an increase in excess of 20 percent will be effective ratably over four years, beginning April 1, 2018.

At March 31, 2018, the Company has four tenants occupying 49 percent of the Steeple Street Building under short-term leases (five years or less) at a current 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 equaled

\$6,870,000. The balance of the proceeds from the sale was 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 7. At December 31, 2017 the total accrual for the cost of remediation was \$434,000. During 2018, remediation costs of \$8,000 were incurred which reduced the total accrual to \$426,000. 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.

The Sales Agreement also contains a cost sharing provision for the Dolphin Project whereby any variance from the initial estimate of \$1,040,000 will be borne equally by Sprague and the Company. Sprague has received preliminary responses to their request for proposal and it is anticipated that construction will commence in June 2018 and be completed by October 2018. Fifty percent of any subsequent increases or decreases to the cost of the Dolphin Project as compared to the estimate will be recorded in the Company's consolidated income statement and retained earnings as income or expense from discontinued operations.

At its regularly scheduled quarterly Board meetings held October 25, 2017, January 30, 2018 and April 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, March 1, 2018 and May 10, 2018 payable January 3, 2018, March 15, 2018 and May 25, 2018, respectively.

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

### 3. Results of operations:

Three months ended March 31, 2018 compared to three months ended March 31, 2017:

Revenues increased \$21,000 due principally to scheduled increases in rents under long-term land leases and increases under short-term leases associated with public parking, offset in a decrease in income associated with the Steeple Street building as a result of lower occupancy. Operating expenses increased \$19,000 due to the continued review of tenant compliance with the insurance requirements provided in the long-term land leases (\$58,000) offset by a decrease in insurance (\$26,000) and lower costs associated with Steeple Street building (\$13,000).

General and administrative expense decreased \$339,000 principally due to 2017 bonuses for officers totaling \$245,000 and a decrease in professional fees associated with the sale of the Terminal.

For the three months ended March 31, 2017, the interest expense on the Dividend Notes was \$112,000. Following the sale of the Company's petroleum storage business, the Company redeemed all of the outstanding Dividend Notes on March 31, 2017.

For information relating to the sale of the petroleum storage facility and related assets to Sprague, see Note 7. Any further expenses and increases or reduction in retained liabilities relating to the petroleum storage facility and related assets will be recognized within discontinued operations.

#### **Item 4. Controls and Procedures**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's principal executive officer and the Company's principal financial officer. Based upon that evaluation, the principal executive officer and the principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

There was no significant change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting. The Company continues to enhance its internal controls over financial reporting, primarily by evaluating and enhancing process and control documentation. Management discusses with and discloses these matters to the Audit Committee of the Board of Directors and to the Company's auditors.

## **PART II – OTHER INFORMATION**

### **Item 6. Exhibits**

#### **(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, October 25, 2017 (incorporated by reference to Exhibit 3.2 to the registrant's report on Form 8-K filed on October 25, 2017)
- 10** Material contracts:
  - (a) Lease between Metropark, Ltd. and Company:**
    - (i) Dated January 1, 2017 (incorporated by reference to Exhibit 10 to the registrant's annual report on Form 10-K for the year ended December 31, 2017)
- 31.1** Rule 13a-14(a) Certification of Chairman and Principal Executive Officer
- 31.2** Rule 13a-14(a) Certification of Treasurer and Principal Financial Officer
- 32.1** Certification of Chairman and Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2** Certification of Treasurer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101** The following financial information from the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2018, filed with the Securities and Exchange Commission on May 1, 2018, formatted in eXtensible Business Reporting Language:
  - (i) Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017
  - (ii) Consolidated Statements of Income for the Three Months ended March 31, 2018 and 2017
  - (iii) Consolidated Statements of Cash Flows for the Three Months ended March 31, 2018 and 2017
  - (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.

SIGNATURE

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

CAPITAL PROPERTIES, INC.

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

By /s/ Susan R. Johnson  
Susan R. Johnson  
Treasurer and Principal Financial Officer

DATED: May 1, 2018

## Exhibit 31.1

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

I, Robert H. Eder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Properties, Inc. and Subsidiaries;
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 we 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: May 1, 2018

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



## Exhibit 31.2

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

I, Susan R. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Properties, Inc. and Subsidiaries;
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's 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 we 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: May 1, 2018

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

**Exhibit 32.1**

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES**  
**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 Quarterly Report of Capital Properties, Inc. (the Company) on Form 10-Q for the quarterly period ended March 31, 2018, 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  
May 1, 2018

**Exhibit 32.2**

**CAPITAL PROPERTIES, INC. AND SUBSIDIARIES**  
**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 Quarterly Report of Capital Properties, Inc. (the Company) on Form 10-Q for the quarterly period ended March 31, 2018, 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  
and Principal Financial Officer  
May 1, 2018