

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 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 June 30, 2021

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 (g) of the Act:**

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, \$.01 par value	CPTP	OTCQX

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 every Interactive Data File required to be submitted 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 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	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		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 has filed a report on and attestation to it management's assessment of the effectiveness of its internal control over financial reporting under Section 404 (b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued it audit report.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

As of June 30, 2021, the Company had 6,599,912 shares of Class A Common Stock outstanding.

**CAPITAL PROPERTIES, INC.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED JUNE 30, 2021**

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**PART I**

**Item 1. Financial Statements**

**CAPITAL PROPERTIES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2021 (Unaudited)	December 31, 2020
<b>ASSETS</b>		
Properties and equipment (net of accumulated depreciation)	\$ 6,713,000	\$ 6,756,000
Cash and cash equivalents	1,788,000	1,642,000
Prepaid and other	112,000	101,000
Prepaid income taxes	-	48,000
Deferred income taxes associated with discontinued operations (Note 8)	110,000	132,000
	<u>\$ 8,723,000</u>	<u>\$ 8,679,000</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Property taxes	\$ 290,000	\$ 210,000
Other	709,000	563,000
Income taxes payable	12,000	-
Deferred income taxes, net	168,000	234,000
Liability associated with discontinued operations (Note 8)	408,000	490,000
	<u>1,587,000</u>	<u>1,497,000</u>
<b>Shareholders' equity:</b>		
Class A common stock, \$.01 par; authorized 10,000,000 shares; issued and outstanding 6,599,912 shares	66,000	66,000
Capital in excess of par	782,000	782,000
Retained earnings	6,288,000	6,334,000
	<u>7,136,000</u>	<u>7,182,000</u>
	<u>\$ 8,723,000</u>	<u>\$ 8,679,000</u>

See notes to condensed consolidated financial statements.

**CAPITAL PROPERTIES, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND SHAREHOLDERS' EQUITY**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Revenue and other income:</b>				
Leasing revenue	\$ 1,215,000	\$ 1,254,000	\$ 2,263,000	\$ 2,445,000
Other income, interest	1,000	2,000	1,000	6,000
	<u>1,216,000</u>	<u>1,256,000</u>	<u>2,264,000</u>	<u>2,451,000</u>
<b>Expenses:</b>				
Operating	163,000	120,000	327,000	240,000
General and administrative	371,000	375,000	724,000	688,000
	<u>534,000</u>	<u>495,000</u>	<u>1,051,000</u>	<u>928,000</u>
Income from operations before income taxes	<u>682,000</u>	<u>761,000</u>	<u>1,213,000</u>	<u>1,523,000</u>
<b>Income tax expense (benefit):</b>				
Current	209,000	260,000	401,000	474,000
Deferred	(22,000)	(51,000)	(66,000)	(66,000)
	<u>187,000</u>	<u>209,000</u>	<u>335,000</u>	<u>408,000</u>
Net income	495,000	552,000	878,000	1,115,000
Retained earnings, beginning	6,255,000	5,838,000	6,334,000	5,737,000
Dividends on common stock (\$.07 per share) based upon 6,599,912 shares outstanding	(462,000)	-	(924,000)	(462,000)
Retained earnings, ending	6,288,000	6,390,000	6,288,000	6,390,000
Class A common stock	66,000	66,000	66,000	66,000
Capital in excess of par	782,000	782,000	782,000	782,000
Shareholders' equity, ending	<u>\$ 7,136,000</u>	<u>\$ 7,238,000</u>	<u>\$ 7,136,000</u>	<u>\$ 7,238,000</u>
<b>Basic income per common share based upon 6,599,912 shares outstanding</b>				
	<u>\$ 0.08</u>	<u>\$ 0.08</u>	<u>\$ 0.13</u>	<u>\$ 0.17</u>

See notes to condensed consolidated financial statements.

**CAPITAL PROPERTIES, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2021 AND 2020**  
**(Unaudited)**

	Six Months Ended June 30,	
	2021	2020
<b>Cash flows from operating activities:</b>		
Continuing operations:		
Income from continuing operations	\$ 878,000	\$ 1,115,000
Adjustments to reconcile income from continuing operations to net cash provided by operating activities, continuing operations:		
Depreciation	43,000	46,000
Deferred income taxes	(66,000)	(66,000)
Income taxes	60,000	20,000
Other, net changes in prepaids, property tax payable and other	161,000	93,000
Net cash provided by operating activities, continuing operations	<u>1,076,000</u>	<u>1,208,000</u>
<b>Cash flows from investing activities:</b>		
Continuing operations:		
Deferred revenue	<u>54,000</u>	<u>50,000</u>
Discontinued operations:		
Cash used to settle obligations	(82,000)	(72,000)
Noncash adjustment to gain on sale of discontinued operations	22,000	-
Net cash (used in) discontinued operations	<u>(60,000)</u>	<u>(72,000)</u>
Net cash (used in) investing activities	<u>(6,000)</u>	<u>(22,000)</u>
Cash flows used in financing activities, payment of dividends	<u>(924,000)</u>	<u>(462,000)</u>
Increase in cash and cash equivalents	146,000	724,000
Cash and cash equivalents, beginning	<u>1,642,000</u>	<u>1,262,000</u>
Cash and cash equivalents, ending	<u>\$ 1,788,000</u>	<u>\$ 1,986,000</u>
<b>Supplemental disclosure:</b>		
Cash paid for income taxes	<u>\$ 320,000</u>	<u>\$ 426,000</u>

See notes to condensed consolidated financial statements.

**CAPITAL PROPERTIES, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020**  
**(Unaudited)**

**1. Description of business:**

The operations of Capital Properties, Inc. and its wholly-owned subsidiary, Tri-State Displays, Inc. (collectively “the Company”) consist of the long-term leasing of certain of its real estate interests in and adjacent to the Capital Center area 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 20) 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 the Capital Center area will consist primarily of long-term ground leases. Pending this development, the Company leases these undeveloped parcels (other than Parcel 6C) for public parking to Metropark, Ltd.

**2. Basis of presentation and summary of significant accounting policies:**

*Principles of consolidation:*

The accompanying condensed consolidated financial statements include the accounts and transactions of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying condensed consolidated balance sheet as of December 31, 2020 has been derived from audited financial statements. 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 accounting principles generally accepted in the United States (“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 latest Form 10-K for the year ended December 31, 2020.

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 June 30, 2021 and the results of operations for the three and six months ended June 30, 2021 and 2020, and cash flows for the six months ended June 30, 2021 and 2020.

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

*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.

*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.

### 3. Properties and equipment:

Properties and equipment consist of the following:

	June 30, 2021	December 31, 2020
Properties on lease or held for lease:		
Land and land improvements	\$ 4,010,000	\$ 4,010,000
Steeple Street property (see Note 6)	3,011,000	\$ 3,011,000
Office equipment	67,000	67,000
	<u>7,088,000</u>	<u>7,088,000</u>
Less accumulated depreciation:		
Land improvements on lease or held for lease	93,000	93,000
Steeple Street property (see Note 6)	215,000	172,000
Office equipment	67,000	67,000
	<u>375,000</u>	<u>332,000</u>
	<u>\$ 6,713,000</u>	<u>\$ 6,756,000</u>

### 4. Liabilities, other:

Liabilities, other consist of the following:

	June 30, 2021	December 31, 2020
Deferred revenue, Steeple Street property (see Note 6)	\$ 253,000	\$ 199,000
Accrued professional fees	129,000	152,000
Deposits and prepaid rent	175,000	121,000
Accrued payroll and related costs	92,000	75,000
Other	60,000	16,000
	<u>\$ 709,000</u>	<u>\$ 563,000</u>

### 5. Note Payable - Revolving Credit Line:

In March 2021, the Company entered into a financing agreement (“Agreement”) with BankRI that provides for a revolving line-of-credit (“Line”) with a maximum borrowing capacity of \$2,000,000 through March 2024. Amounts outstanding under the Agreement bear interest at the rate of the one-month LIBOR plus 200 basis points but not less than 3.25% or, at the option of the Company, the Wall Street Journal Prime Rate. Borrowings under the Line are secured by a First Mortgage on Parcel 5 in the Capital Center District in Providence, Rhode Island (the “Property”). The Line requires the maintenance of a debt service coverage ratio of not less than 1.25 to 1.0 on the Property and 1.20 to 1.0 for the Company. The Agreement contains other restrictive covenants, including, among others, a \$250,000 limitation on the purchase of its outstanding capital stock in any twelve-month period. No advances have been made under the Line.

### 6. Description of leasing arrangements:

*Long-term land leases:*

Through June 30, 2021, excluding the Parcel 6C lease, the Company had entered into nine long-term land leases. On July 30, 2020 the tenant of Parcel 6C exercised its right to terminate its lease effective August 29, 2020. As of June 30, 2021, eight of the nine parcels under lease have completed construction of improvements thereon. The leases generally have a term of 99 years or more, are triple net and provide for periodic adjustment in rent of various types depending on the particular lease, and otherwise contain terms and conditions normal for such instruments

The Parcel 20 Steeple Street Building (“Building”) lease was accounted for as a sales-type lease due to the transfer of the Building to the tenant. The land directly under the Building was allocated in the determination of the value of the property transferred in accordance with ASC 360-20, *Property, Plant and Equipment - Real Estate Sales*. Since the initial investment by the tenant is and continues to be insufficient to recognize the transaction as a sale, in accordance with ASC 360-20, the Company will report the acquisition period rent and an allocable portion of the ground rent collected as deferred revenue on its consolidated balance sheet and will continue to include the property transferred in properties and equipment. When the Company determines that the tenant’s investment is sufficient or payments can be reasonably assured, the sale of the Building will be recognized in accordance with GAAP. The long-term ground lease of the land on Parcel 20 (exclusive of the Building) is accounted for as an operating lease, consistent with the Company’s other long-term ground leases.

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, real property taxes payable by the tenants are excluded from both leasing revenues and leasing expenses on the accompanying condensed consolidated statements of income and shareholders' equity. For the three and six months ended June 30, 2021, real property taxes attributable to the Company's land leases totaled \$263,000 and \$527,000, respectively and were \$341,000 and \$682,000 for the same periods in 2020.

With respect to Parcel 6C lease, on the termination date the annual rent was \$220,000 and annual real estate taxes paid by the tenant equaled \$311,000. The Company believes that the assessed value of Parcel 6C as agreed to by the City of Providence ("City") and the former tenant of Parcel 6C is much greater than similar parcels in the Capital Center area and accordingly, the Company has commenced negotiations with the City to reduce the assessment.

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 \$21,000 and \$42,000 for the three and six months ended June 30, 2021 and were \$27,000 and \$52,000 for the same periods in 2020.

*Lamar lease:*

Tri-State Displays Inc. 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 2049. 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 (each 12-month period a "Lease Year"), 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 Lease Year, reduced by the sum of (a) commissions paid to unrelated third parties and (b) base rent paid to the Company for each leased billboard location ("percentage rent"). Leasing revenue includes \$136,000 and \$139,000 for both the three and six months ended June 30, 2021 and 2020, respectively, related to this agreement.

*Parking lease:*

The Company leases the undeveloped parcels of land in the Capital Center area (other than Parcel 6C) for public parking purposes to Metropark under a ten-year lease (the "Parking Lease"). The lease is cancellable as to all or any portion of the leased premises at any time on thirty days' written notice in order for the Company or any new tenant of the Company to develop all or any portion of the leased premises. The Parking Lease provides for contingent rentals (based on a fixed percentage of gross revenue in excess of the base rent). There was no contingent rent for the three months and six months ended June 30, 2021 nor was there contingent rent for the three months ended June 30, 2020. Revenue for the six months ended June 30, 2020 was reduced by \$34,000 due to the revision of the estimate of 2019's contingent rent.

The COVID-19 pandemic and stay-at-home orders have had a significant adverse impact on Metropark's parking operations. On July 31, 2020, Metropark and the Company entered into an agreement for revenue sharing at various percentages until parking revenues received by Metropark equal or exceed \$70,000 per month whereupon Metropark would be obligated to resume regularly scheduled rental payments under its lease. Upon resumption of regularly scheduled rent payments, Metropark and the Company will share fifty (50) percent of the revenue in excess of \$70,000 until the arrearage has been paid in full. If prior to payment in full of the arrearage one or more of the lots is removed from the Metropark lease for development, the amount of the then unpaid arrearage in the ratio of the number of parking spaces on the removed lot to the total parking spaces on all lots prior to such lot's removal shall be deemed paid in full.

At June 30, 2021 the receivable from Metropark equaled \$589,000 and was fully reserved. The Company will continue to recognize Metropark's rent on a cash basis.

Historically, the Company has made financial statement footnote disclosure of the excess of straight-line rentals over contractual payments and its determination of collectability of such excess. Included in the amount of the excess were payments which under ASC 842 are deemed variable payments. As part of its ongoing review of the requirements of ASC 842, the Company has concluded that under ASC 842 variable rental payments should not be included in the straight-line rental amount. To the extent the Company determines that, with respect to any of its leases, the excess of straight-line rentals over contractual payments is not collectible, such excess is not recognized as revenue. Consistent with prior conclusions, the Company has determined that, at this time, the excess of straight-line rentals over contractual payments is not probable of collection. Accordingly, the Company has not included any part of that amount in revenue. As a matter of information only, as of June 30, 2021 the excess of straight-line rentals (calculated by excluding variable payments) over contractual payments was \$84,648,000.



## 7. 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 for continuing operations which give rise to deferred tax assets and liabilities are as follows:

	June 30, 2021	December 31, 2020
Gross deferred tax liabilities:		
Property having a financial statement basis in excess of tax basis	\$ 361,000	\$ 361,000
Accounts receivable	167,000	98,000
Deferred income - conversion to cash basis of accounting for tax purposes	47,000	56,000
Insurance premiums and accrued leasing revenues	20,000	19,000
	595,000	534,000
Gross deferred tax assets:		
Allowance for doubtful accounts	(158,000)	(91,000)
Prepaid rent	(38,000)	(24,000)
Accounts payable and accrued expenses	(85,000)	(75,000)
Accrued property taxes	(78,000)	(56,000)
Deferred income, Parcel 20	(68,000)	(54,000)
	(427,000)	(300,000)
	<u>\$ 168,000</u>	<u>\$ 234,000</u>

## 8. Discontinued operations:

Prior to February 2017, the Company operated a petroleum storage facility (“Terminal”) through two wholly owned subsidiaries. On February 10, 2017, the Terminal was sold to Sprague Operating Resources, LLC (“Sprague”). In accordance with ASC 205-20, *Presentation of Financial Statements – Discontinued Operations*, the sale of the Terminal was accounted for as a discontinued operation.

Pursuant to the Terminal Sale Agreement, the Sale Price was reduced by \$1,040,000, the estimated cost of a breasting dolphin to be constructed by Sprague adjacent to the Terminal’s Pier in order that the Pier can berth Panamax sized vessels. The Terminal Sale Agreement contained a cost sharing provision for the breasting dolphin whereby any cost incurred in connection with the construction of the breasting dolphin in excess of the initial estimate of \$1,040,000 will be borne equally by Sprague and the Company subject to certain limitations, including, in the Company’s opinion, a 20% cap on the increase from the initial estimate, subject to a sharing arrangement. In November 2019, the Company received a demand letter from Sprague asserting that it is owed \$427,000, which amount represents 50% of the actual costs incurred (\$1,894,008) in excess of \$1,040,000. The Company asserts that its obligation cannot exceed \$104,000. On June 17, 2021 the Company and Sprague met with a mediator to review Sprague’s claim. On July 15, 2021, Sprague commenced an action against the Company in the Rhode Island Superior Court seeking monetary damages of \$427,000, interest and attorney’s fees. The Company intends to vigorously defend against the claims being asserted by Sprague.

As part of the Terminal 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. In February 2020, the Company filed a revised Remediation Action Work Plan (“RAWP”) with the Rhode Island Department of Environmental Management (“RIDEM”) to describe the technical details associated with the preferred remedial activities and to update the previously filed RAWP. In 2019, the Company incurred remediation costs of \$293,000 and, as a result of the revised remedial activities included in the 2020 RAWP, the remediation accrual was increased by \$846,000 primarily due to design changes necessary to meet the requirements of applicable life safety codes resulting in an environmental remediation liability of \$1,043,000 at December 31, 2019. In 2020, the Company incurred costs of \$553,000 which reduced the remediation liability to \$490,000 at December 31, 2020. For the three and six months ended June 30, 2021, the Company incurred costs of \$29,000 and \$82,000, respectively which reduced the remediation liability to \$408,000 at June 30, 2021. Any subsequent increases or decreases to the expected cost of remediation will be recorded in gain (loss) on sale of discontinued operations, net of taxes in the Company’s condensed consolidated income statement.

**9. Fair value of financial instruments:**

The Company believes that the fair values of its financial instruments, including cash and cash equivalents, 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.

**10. Subsequent events:**

On July 15, 2021, Sprague commenced an action against the Company in the Rhode Island Superior Court in connection with the construction of the breasting dolphin at the Terminal's Pier seeking monetary damages of \$427,000, interest and attorney's fees. The Company intends to vigorously defend against the claims being asserted by Sprague.

At its July 28, 2021 regularly scheduled quarterly Board meeting, the Board of Directors voted to declare a quarterly dividend of \$.07 per share for shareholders of record on August 13, 2021, payable August 27, 2021.

## 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 excess of straight-line over contractual rents when due over the terms of the long-term leases; tenant default under one or more of the leases; the commencement of additional long-term land leases; changes in economic conditions that may affect either the current or future development on the Company's parcels; the impact of the COVID-19 pandemic on the economy, parking operations, and the Company's financial performance; exposure to remediation costs associated with its former operation of the petroleum storage facility and resolution of the Sprague action against the Company in connection with the construction of the breasting dolphin at the Terminal's Pier. 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, 2020. There have been no changes to the application of this accounting policy since December 31, 2020.

#### 2. Liquidity and capital resources:

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

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

At June 30, 2021, the Company had cash and cash equivalents of \$1,788,000. The Company and its subsidiary each maintain checking accounts in two banks and a money market account in one bank, all of which accounts are insured by the Federal Deposit Insurance Corporation to a maximum of \$250,000. The Company periodically evaluates the financial stability of the financial institutions at which the Company's funds are held.

On July 30, 2020, the Company received notice that the tenant of Parcel 6C exercised its right to terminate the ground lease effective August 29, 2020. On the termination date, the annual rent on Parcel 6C was \$220,000 and the annual real estate taxes paid by the tenant equaled \$311,000. Upon termination, the real estate taxes became an obligation of the Company effective with the taxes assessed as of December 31, 2020. The Company believes that the assessed value of Parcel 6C as contained in a treaty between the City of Providence ("City") and the tenant is much greater than similar parcels in the Capital Center area. The Company is not a party to the tax treaty. Accordingly, the Company has commenced negotiations with the City for a lower assessment.

As of August 4, 2021, all tenants have paid their monthly rent in accordance with their lease agreements except for Metropark. The coronavirus (COVID-19) pandemic has had a significant adverse impact on Metropark. At June 30, 2021 its total rent arrearage is \$589,000 and has been fully reserved by the Company. The Company does not know when or if Metropark's operations will return to normal. Until parking revenues received by Metropark equal or exceed \$70,000 per month whereupon Metropark is obligated to resume regularly scheduled rental payments under its lease, the company will continue to recognize revenue from Metropark on a cash basis.

For the three and six months ended June 30, 2021 rent collected from Metropark equaled \$21,000 and \$23,000 respectively and was \$32,000 and \$131,000 for the same periods in 2020.

The Company does not expect to receive contingent rent from Metropark in 2021.

The Terminal Sale Agreement and related documentation provides that the Company is required to secure an approved remediation plan and to remediate contamination caused by a leak in 1994 from a storage tank at the Terminal. At June 30, 2021, the Company's accrual for the remaining cost of remediation was \$408,000 of which \$60,000 is expected to be incurred in the second half of 2021. Any subsequent increases or decreases to the expected cost of remediation will be recorded in gain (loss) on sale of discontinued operations, net of taxes.

The Terminal Sale Agreement also contained a cost sharing provision for a breasting dolphin whereby any costs incurred in connection with the construction of the breasting dolphin in excess of the initial estimate of \$1,040,000 would be borne equally by Sprague and the Company subject to certain limitations, including, in the Company's opinion, a 20% cap on the increase from the initial estimate subject to the sharing arrangement. In November 2019, the Company received a demand letter from Sprague asserting that it is owed \$427,000, which amount represents 50% of the actual costs incurred (\$1,894,000) in excess of \$1,040,000. The Company asserts that its obligation cannot exceed \$104,000. On June 17, 2021 the Company and Sprague met with a mediator to review Sprague's claim. On July 15, 2021, Sprague commenced an action against the Company in the Rhode Island Superior Court seeking monetary damages of \$427,000, interest and attorney's fees. The Company intends to vigorously defend against the claims being asserted by Sprague.

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

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

#### **Three months ended June 30, 2021 compared to three months ended June 30, 2020:**

Revenue, leasing decreased \$39,000 from 2020 due principally to a decrease in rent associated with Metropark (\$11,000) and the termination of the Parcel 6C lease (\$55,000) offset by a net increase of \$27,000 in long-term land leases.

Operating expenses increased \$43,000 due principally to increased property tax expense due to the tenant's termination of the Parcel 6C lease and maintenance expenses.

General and administrative expense decreased \$4,000 due principally to decreased professional fees related to lease accounting matters (\$58,000) offset by increased legal costs (\$54,000) associated with the Sprague breasting dolphin matter and the property tax matter associated with Parcel 6C.

For the three and six months ended June 30, 2021 and 2020, the Company's effective income tax rate is approximately 27% of income before income taxes.

#### **Six months ended June 30, 2021 compared to six months ended June 30, 2020:**

Leasing revenue decreased \$182,000 from 2020 due to a net decline in lease revenue from Parcel 6C and Metropark of \$110,000 and \$108,000, respectively offset by a net increase of \$36,000 in long-term land leases.

Operating expenses increased \$87,000 due principally to increased property tax expense due to the tenant's termination of the Parcel 6C lease (\$80,000) and increased maintenance costs (\$7,000) as a result of more snow events in 2021.

General and administrative expenses increased \$36,000 due principally to increased legal costs (\$74,000) associated with the Sprague breasting dolphin matter, bank line-of-credit and the property tax matter associated with Parcel 6C offset by a decrease in accounting costs (\$51,000) related to lease accounting matters along with other net increases of \$13,000.

#### **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 the Company's auditors.

## **PART II – OTHER INFORMATION**

### **Item 6. Exhibits**

#### **(b) Exhibits:**

- 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 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)
    - (ii) Letter agreement dated July 31, 2020 between the Company and Metropark, LTD modifying the rental obligations of Metropark.
  - (b)** Loan Agreement between Bank Rhode Island and Company dated March 30, 2021.
- 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 June 30, 2021, filed with the Securities and Exchange Commission on August 4, 2021 formatted in eXtensible Business Reporting Language:
  - (i) Condensed Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020
  - (ii) Condensed Consolidated Statements of Income and Shareholders’ Equity for the Three and Six Months ended June 30, 2021 and 2020
  - (iii) Condensed Consolidated Statements of Cash Flows for the Six Months ended June 30, 2021 and 2020
  - (iv) Notes to Condensed Consolidated Financial Statements.
- 104** Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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: August 4, 2021

**Exhibit 31.1**

**CAPITAL PROPERTIES, INC. AND SUBSIDIARY**  
**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 Subsidiary;
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: August 4, 2021

/s/ Robert H. Eder

Robert H. Eder

Chairman and Principal Executive Officer



**Exhibit 31.2**

**CAPITAL PROPERTIES, INC. AND SUBSIDIARY**  
**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 Subsidiary;
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:
  - (e) 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;
  - (f) 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;
  - (g) 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
  - (h) 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):
  - (c) 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
  - (d) 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: August 4, 2021

/s/ Susan R. Johnson

Susan R. Johnson

Treasurer and Principal Financial Officer

**Exhibit 32.1**

**CAPITAL PROPERTIES, INC. AND SUBSIDIARY**  
**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 June 30, 2021, 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*

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Robert H. Eder  
Chairman and Principal Executive Officer  
August 4, 2021

**Exhibit 32.2**

**CAPITAL PROPERTIES, INC. AND SUBSIDIARY**  
**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 June 30, 2021, 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

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Susan R. Johnson, Treasurer  
and Principal Financial Officer  
August 4, 2021