



**MANHATTAN  
BRIDGE CAPITAL**

**A N N U A L  
R E P O R T**

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**DECEMBER 31, 2019**

60 Cutter Mill Road, Suite 205  
Great Neck, NY 11021

**TEL: 516-444-3400**

**FAX: 516-444-3404**

[www.manhattanbridgecapital.com](http://www.manhattanbridgecapital.com)

**NASDAQ:LOAN**

## Manhattan Bridge Capital 2019 Achievements

- **Record revenue of \$7,339,705; an increase of 1.6%**
- **Net earnings increased to \$4,494,510; an increase of 6.9%**
- **Total assets of \$54,443,026; a decrease of 2.6%**
- **Quarterly dividend of \$0.12 per share**
- **The Company maintained its no defaults track record**

Dear Shareholders,

I hope that this letter finds you and your loved ones healthy and well. From the intensity of the current events and market conditions, 2019 seems like the distant past, and the challenges we dealt with last year seem like a piece of cake versus what we are dealing with today. As you may recall, I anticipated a recession for some time. Money was too easy and too available in recent years, and our competition kept loosening underwriting standards and lowering interest rates.

In order to stay competitive, we lowered our rates from approximately 12% annually plus initiation fees to approximately 9-10%. However, I believe that we did not compromise our underwriting standards. The rate drop slowed our growth, but as we increased the line of credit with our banks (where I provided a personal guarantee again) and extended it to February 2023, I hoped to revive our growth.

2019 was another year of no defaults, and we maintained our \$0.12 quarterly and \$0.48 annual dividend from 2018. Yet in order to offset the lost income due to the reduction in interest rates, I forfeited two months of my salary (November and December 2019), and also asked the Compensation Committee not to award me an annual bonus.

Real estate markets were uncertain in the New York metropolitan area even before the recent crisis. Yet we managed to make the right decisions and experienced a healthy turnover of our capital. Despite the challenging markets, the average length of our loans declined, and our cash flow was strong.

We did not conduct any capital raises during 2019 as we try to only issue new shares at a higher price than the previous offering. Rather, we bought back shares both in 2019 and 2020 through our Board approved share buy-back programs.

As we face the new challenges that derive from COVID-19, we benefit from our low equity to debt leverage ratio, our strong personal relationships with the borrowers and what we believe to represent safe loan-to-value in our loan portfolio. The current crisis is unprecedented, and although I feel that our portfolio is strong and will prevail, we may face issues that we never faced before. At this point, unlike other REITs, we did not see a reason to pause the dividends.

I highly appreciate your trust, and rest assured that I align your interest with my own.

Stay safe,



Assaf Ran  
Chairman & CEO

## FORWARD-LOOKING STATEMENTS

This Annual Report (“Report”) contains forward-looking statements within the meaning of section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are typically identified by the words “believe,” “expect,” “intend,” “estimate” and similar expressions. Those statements appear in a number of places in this Report and include statements regarding our intent, belief or current expectations or those of our directors or officers with respect to, among other things, trends affecting our financial condition and results of operations and our business and growth strategies. For example, when we discuss the belief that we benefit from our low equity to debt leverage ratio, our strong personal relationships with borrowers and what we believe to represent safe loan-to-value in our loan portfolio, the belief that the current crisis is unprecedented and although we feel that our portfolio is strong and will prevail, we may face issues that we never faced before, we are using forward-looking statements. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors (such factors are referred to herein as “Cautionary Statements”), including but not limited to the following: (i) our loan origination activities, revenues and profits are limited by available funds; (ii) we operate in a highly competitive market and competition may limit our ability to originate loans with favorable interest rates; (iii) our Chief Executive Officer is critical to our business and our future success may depend on our ability to retain him; (iv) if we overestimate the yields on our loans or incorrectly value the collateral securing the loan, we may experience losses; (v) we may be subject to “lender liability” claims; (vi) our due diligence may not uncover all of a borrower’s liabilities or other risks to its business; (vii) borrower concentration could lead to significant losses; and (viii) we may choose to make distributions in our own stock, in which case you may be required to pay income taxes in excess of the cash dividends you receive. The accompanying information contained in this Report, including the information set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, identifies important factors that could cause such differences. The risk factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission, as well as our Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2020, identify important factors that could cause such differences. These forward-looking statements speak only as of the date of this Report, and we caution potential investors not to place undue reliance on such statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

## General

We are a New York-based real estate finance company that specializes in originating, servicing and managing a portfolio of first mortgage loans. We offer short-term, secured, non-banking loans (sometimes referred to as “hard money” loans), which we may renew or extend on, before or after their initial term expires, to real estate investors to fund their acquisition, renovation, rehabilitation or improvement of properties located in the New York metropolitan area, including New Jersey and Connecticut, and in Florida. We are organized and conduct our operations to qualify as a real estate investment trust for federal income tax purposes (“REIT”). We have qualified for taxation as a REIT beginning with our taxable year ended December 31, 2014.

We are organized as a New York corporation and operated as a fully-taxable C-corporation for federal and state income tax purposes through the end of our 2013 tax year. As a result, we were able to re-invest most of our net after-tax profits back into our business. In 2014, we concluded that it would be in the best interests of our shareholders if we operated as a REIT for U.S. federal income tax purposes. In July 2014, we completed a public offering of 1,754,386 common shares to the public. As a result of that offering, we met all the requirements to qualify as a REIT and elected REIT status starting with that year.

In order to maintain our qualification for taxation as a REIT, we are required to distribute at least 90% of our REIT taxable income to our shareholders each year. To the extent we distribute less than 100% of our taxable income to our shareholders (but more than 90%) we will maintain our qualification for taxation as a REIT, but the undistributed portion will be subject to regular corporate income taxes. As a REIT, we may also be subject to federal excise taxes and minimum state taxes. We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”). In addition, in order for us to qualify for taxation as a REIT, not more than 50% in value of our outstanding common shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code of 1986, as amended (the “Code”) to include certain entities) at any time during the last half of each taxable year, and at least 100 persons must beneficially own our stock during at least 335 days of a taxable year of 12 months, or during a proportionate portion of a shorter taxable year. To help ensure that we meet the tests, our restated certificate of incorporation restricts the acquisition and ownership of our capital stock. The ownership limitation is fixed at 4.0% of our outstanding shares of capital stock, by value or number of shares, whichever is more restrictive.

The properties securing the loans are generally classified as residential or commercial real estate and, typically, are not income producing. Each loan is secured by a first mortgage lien on real estate. In addition, each loan is personally guaranteed by the principal(s) of the borrower, which guarantee may be collaterally secured by a pledge of the guarantor’s interest in the borrower. The face amount of the loans we originated in the past seven years ranged from \$30,000 to a maximum of \$2.5 million. Our lending policy limits the maximum amount of any loan to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$3 million. Our loans typically have a maximum initial term of 12 months and bear interest at a fixed rate of 9% to 14% per year. In addition, we usually receive origination fees or “points” ranging from 0% to 2% of the original principal amount of the loan as well as other fees relating to underwriting and funding the loan. Interest is always payable monthly, in arrears. In the case of acquisition financing, the principal amount of the loan usually does not exceed 75% of the value of the property (as determined by an independent appraiser) and in the case of construction financing, it is typically up to 80% of construction costs.

Since commencing our business in 2007, we have never foreclosed on a property and none of our loans have ever gone into default, although sometimes we have renewed or extended the term of a loan to enable the borrower to avoid premature sale or refinancing of the property. When we renew or extend a loan we generally receive additional “points” and other fees.

Our executive officers are experienced in hard money lending under various economic and market conditions. Loans are originated, underwritten and structured by our Chief Executive Officer, assisted by our Chief Financial Officer, and then managed and serviced principally by our Chief Financial Officer and our internal team. A principal source of new transactions has been repeat business from prior customers and their referral of new business. We also receive leads for new business from real estate brokers and mortgage brokers and a limited amount of advertising.

Our primary business objective is to grow our loan portfolio while protecting and preserving capital in a manner that provides for attractive risk-adjusted returns to our shareholders over the long term through dividends. We intend to achieve this objective by continuing to selectively originate, fund loans secured by first mortgages on residential real estate held for

investment located in the New York metropolitan area, including New Jersey and Connecticut, and in Florida, and to carefully manage and service our portfolio in a manner designed to generate attractive risk-adjusted returns across a variety of market conditions and economic cycles. We believe that current market dynamics specifically the demand/supply imbalance for relatively small real estate loans, presents opportunities for us to selectively originate high-quality first mortgage loans and we believe that these market conditions should persist for a number of years. We have built our business on a foundation of intimate knowledge of the New York metropolitan area real estate market combined with a disciplined credit and due diligence culture that is designed to protect and preserve capital. We believe that our flexibility and ability to structure loans that address the needs of our borrowers without compromising our standards on credit risk, our expertise, our intimate knowledge of the New York metropolitan area real estate market and our focus on newly originated first mortgage loans, has defined our success until now and should enable us to continue to achieve our objectives.

### **The Market Opportunity**

Real estate investment is a capital-intensive business that relies heavily on debt capital to acquire, develop, improve, construct, renovate and maintain properties. We believe that the demand for relatively small loans to acquire, renovate or improve residential real estate held around the New York metropolitan area, including New Jersey and Connecticut, and in Florida markets presents a compelling opportunity to generate attractive returns for an established, well-financed, non-bank lender like us. We have competed successfully in these markets notwithstanding the fact that many traditional lenders, such as banks and other institutional lenders, also service this market. Our primary competitive advantage is our ability to approve and fund loans quickly and efficiently. In this environment, characterized by a supply-demand imbalance for financing and increasing asset values, we believe we are well positioned to capitalize and profit from these industry trends.

We believe there is a significant market opportunity for a well-capitalized “hard money” real estate finance company to originate attractively priced loans with strong credit fundamentals. Particularly around the New York metropolitan area where real estate values are relatively stable and substandard properties are being improved, rehabilitated and renovated, we believe there are many opportunities for a “hard money” lender providing capital for these purposes to small scale developers. We further believe that our flexibility to structure loans to suit the particular needs of our borrowers and our ability to close quickly make us an attractive alternative to banks and other large institutional lenders for small real estate developers and investors.

### **Our Business and Growth Strategies**

Our objective is to protect and preserve capital in a manner that provides for attractive risk-adjusted returns to our shareholders over the long term, principally through dividends. We intend to achieve this objective by continuing to focus exclusively on selectively originating, servicing and managing a portfolio of short-term real estate loans secured by first mortgages on real estate located in the New York metropolitan area, including New Jersey and Connecticut, and in Florida, that are designed to generate attractive risk-adjusted returns across a variety of market conditions and economic cycles. We believe that our ability to react quickly to the needs of borrowers, our flexibility in terms of structuring loans to meet the needs of borrowers, our intimate knowledge of the New York metropolitan area real estate market, our expertise in “hard money” lending and our focus on newly originated first mortgage loans, should enable us to achieve this objective. Nevertheless, we will remain flexible in order to take advantage of other real estate related opportunities that may arise from time to time, whether they relate to the mortgage market or, if we determine that it is in our best interest, to make direct or indirect investments in real estate.

Our strategy to achieve our objective includes the following:

- capitalize on opportunities created by the long-term structural changes in the real estate lending market and the continuing demand for liquidity in the real estate market;
- take advantage of the prevailing economic environment as well as economic, political and social trends that may impact real estate lending currently and in the future as well as the outlook for real estate in general and particular asset classes;
- remain flexible in order to capitalize on changing sets of investment opportunities that may be present in the various points of an economic cycle; and

- operate so as to qualify for taxation as a REIT and for an exemption from registration under the Investment Company Act.

In furtherance of these strategies, we have a credit line agreement with Webster Business Credit Corporation (“Webster”), Flushing Bank (“Flushing”), and Mizrahi Tefahot Bank Ltd. (“Mizrahi”) whereby Webster, Flushing and Mizrahi have extended us a \$32.5 million credit line.

### **Our Competitive Strengths**

We believe our competitive strengths include:

- **Experienced management team.** Our management team has successfully originated and serviced a portfolio of real estate mortgage loans generating attractive annual returns under varying economic and real estate market conditions. We expect that the experience of our management team will provide us with the ability to effectively deploy our capital in a manner that we believe will provide for attractive risk-adjusted returns but with a focus on capital preservation and protection.
- **Long-standing relationships.** A significant portion of our business comes from repeat customers with whom we have long-standing relationships. These customers are also a referral source for new borrowers. As long as these customers remain active real estate investors they provide us with an advantage in securing new business and help us maintain a pipeline to attractive new opportunities that may not be available to many of our competitors or to the general market.
- **Knowledge of the market.** Our intimate knowledge of the real estate markets in the geographic areas in which we operate enhances our ability to identify attractive opportunities and helps distinguish us from many of our competitors.
- **Disciplined lending.** We seek to maximize our risk-adjusted returns, and preserve and protect capital, through our disciplined and credit-based approach. We utilize rigorous underwriting and loan closing procedures that include numerous checks and balances to evaluate the risks and merits of each potential transaction. We seek to protect and preserve capital by carefully evaluating the condition of the property, the location of the property, and the creditworthiness of the guarantors.
- **Vertically-integrated loan origination platform.** We manage and control the loan process from origination through closing with our own personnel and independent legal counsel and appraisers, with whom we have long relationships, who together constitute a highly experienced team in credit evaluation, underwriting and loan structuring. We also believe that our procedures and experience allow us to quickly and efficiently execute opportunities we deem desirable.
- **Structuring flexibility.** As a relatively small, non-bank real estate lender, we can move quickly and have much more flexibility than traditional lenders to structure loans to suit the needs of our clients. Our ability to customize financing structures to meet borrowers’ needs is one of our key business strengths.
- **No legacy issues.** Unlike many of our competitors, we are not burdened by distressed legacy real estate assets. We do not have a legacy portfolio of lower-return or problem loans that could potentially dilute the attractive returns we believe are available in the current liquidity-challenged environment and/or distract and monopolize our management team’s time and attention. We do not have any adverse credit exposure to, and we do not anticipate that our performance will be negatively impacted by, previously purchased assets.

### **Our Real Estate Lending Activities**

Our real estate lending activities involve originating, funding, servicing and managing short-term loans (i.e.: loans with an initial term of not more than one year), secured by first mortgage liens on real estate property located in the New York metropolitan area, including New Jersey and Connecticut, and in Florida, held for investment or resale. Generally, borrowers use the proceeds from our loans for one of three purposes: (i) to acquire and renovate existing residential (single, one or two family) real estate properties; (ii) to acquire vacant real estate and construct residential real properties; and (iii) to purchase and

hold income producing properties. Our mortgage loans are structured to fit the needs and business plans of the borrowers. Revenue is generated primarily from the interest borrowers pay on our loans and, to a lesser extent, loan fee income generated on the origination and extension of loans.

Most of our loans are funded in full at the closing. However, our loan portfolio includes a number of construction loans, which are only partially funded at closing. At December 31, 2018, our unfunded commitment was approximately \$7.27 million. At December 31, 2019, our unfunded commitment was approximately \$5.07 million. Advances under construction loans are funded against requests supported by all required documentation as and when needed to pay contractors and other costs of construction. In the case of construction loans, the borrower will either deliver multiple notes or one global note for the entire commitment. In either case, interest only accrues on the funded portion of the loan.

In general, our strategy is to service and manage the loans we originate until they are paid. However, there have been a few instances where we have either used loans as collateral, or sold participating interests in loans. At December 31, 2019, most of our loans are secured by properties located around the New York metropolitan area. Most of the properties we finance are residential, although on occasion they are classified as commercial. However, in all instances the properties are held only for investment by the borrowers. Most of these properties do not generate any cash flow.

The typical terms of our loans are as follows:

**Principal amount** – In the last seven years, a minimum of \$30,000 to a maximum of \$2.5 million. Our lending policy limits the maximum loan amount to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$3 million.

**Loan-to-Value Ratio** - Up to 75%, and/or up to 80% of construction costs.

**Interest rate** - Most of the loans in our portfolio have a fixed rate of typically 9% to 14%.

**Term** - Generally, one year with early termination in the event of a sale of the property or a refinancing. We entertain requests for granting extensions under certain conditions.

**Prepayments** - Borrower may prepay the loan at any time beginning three months after the funding date and in some instances, we waive prepayment fees.

**Covenants** - To timely pay all interest on the loan and to maintain hazard insurance with respect to the property.

**Events of default** - Include: (i) failure to comply with the loan terms; (ii) breach of a covenant.

**Payment terms** - Interest only is payable monthly in arrears. Principal is due in a “balloon” payment at the maturity date.

**Escrow** - None.

**Reserves** - None.

**Security** - The loan is evidenced by a promissory note, which is secured by a first mortgage lien on the real property owned by the borrower. In addition, each loan is guaranteed by the principals of the borrower, which may be collaterally secured by a pledge of the guarantor’s interest in the borrower.

**Fees and Expenses** - Borrowers generally pay an origination fee equal to 0% to 2% of the loan amount. If we agree to extend the term of the loan, we usually collect the same origination fee we charged on the initial funding of the loan. In addition, borrowers in some cases also pay a processing fee, wire fee, bounced check fee and, in the case of construction loans, check requisition fee for each draw from the loan. Finally, the borrower pays all expenses relating to obtaining the loan including the cost of a property appraisal, and all title, recording fees and legal fees.

### Operating Data

The decline in interest rates has adversely impacted our income and earnings notwithstanding an increase in lending activity. Recent market conditions, including interest rate reductions, intense competition and slowing real estate markets in the areas we operate, have caused a reduction in our margins.

## Our loan portfolio

The following table highlights certain information regarding our real estate lending activities for the periods indicated:

<u>(\$ in thousands)</u>	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Loans originated	\$ 48,054	\$ 51,859
Loans repaid	\$ 49,420	\$ 42,147
Mortgage lending revenues	\$ 7,340	\$ 7,225
Mortgage lending expenses	\$ 1,639	\$ 1,701
Number of loans outstanding	135	132
Principal amount of loans earning interest	\$ 53,485	\$ 54,836
Average outstanding loan balance	\$ 396	\$ 415
Percent of loans secured by New York metropolitan area properties, including in New Jersey and Connecticut <sup>(1)</sup>	99.26%	100%
Weighted average contractual interest rate	10.91%	11.38%
Weighted average term to maturity (in months) <sup>(2)</sup>	5.21	5.52

(1) Calculated based on the number of loans.

(2) Without giving effect to extension options.

At December 31, 2019 and 2018, no single loan, borrower or group of affiliated borrowers accounted for more than 10% of our loan portfolio.

The following table sets forth information regarding the types of properties securing our mortgage loans outstanding at December 31, 2019 and 2018, and the interest earned in each category (dollars in thousands):

	<u>2019</u>			<u>2018</u>		
	<u>Number of Loans</u>	<u>Interest Earned</u>	<u>Percentage</u>	<u>Number of Loans</u>	<u>Interest Earned</u>	<u>Percentage</u>
Residential	123	\$3,252	88%	113	\$3,262	86%
Commercial	6	187	5%	10	295	8%
Mixed Use	6	269	7%	9	247	6%
Total	135	\$3,708	100%	132	\$3,804	100%

## Our Origination Process and Underwriting Criteria

We primarily rely on our relationships with existing and former borrowers, real estate investors, real estate brokers, loan initiators, and mortgage brokers to originate loans. Many of our borrowers are “repeat customers.” When underwriting a loan, the primary focus of our analysis is the value of a property and the credit worthiness of the borrower and its principals. Prior to making a final decision on a loan application we conduct extensive due diligence of the borrower and its principals. In terms of the property, we require an assessment report and evaluation. We also order title, lien and judgment searches. In most cases, we will also make an on-site visit to evaluate not only the property but the neighborhood in which it is located. Finally, we analyze and assess financial and operational data provided by the borrower relating to its operation and maintenance of the property. In terms of the borrower and its principals, we usually obtain third party credit reports from one of the major credit reporting services as well as personal financial information provided by the borrower and its principals. We analyze all this information carefully prior to making a final determination. Ultimately, our decision is based on our conclusions regarding the value of the property, which takes into account factors such as the neighborhood in which the property is located, the current use and potential alternative use of the property, current and potential net income from the property, the local market, sales information of comparable properties, existing zoning regulations, the creditworthiness of the borrower and its principals and their experience in real estate ownership, construction, development and management. In conducting our due diligence we rely, in part, on third party professionals and experts including appraisers, engineers, title insurers and attorneys.

Before a loan commitment is issued, the loan must be reviewed and approved by our Chief Executive Officer. Our loan commitments are generally issued subject to receipt by us of title documentation and title report, in a form satisfactory to us, for the underlying property. We require a personal guarantee from the principal or principals of the borrower.

## Our Current Financing Strategies

Our financing strategies are critical to the success and growth of our business. Our financing strategies at this time are limited to equity and debt offerings, as well as lines of credit from banks. Our principal capital raising transactions have consisted of the following:

*Credit line.* Currently, we have a credit line with Webster, Flushing, and Mizrahi pursuant to which we are eligible to borrow up to \$32.5 million against assignments of mortgages and other collateral (the “Webster Credit Line”), as described in “Liquidity and Capital Resources” below. The current interest rates under the Webster Credit Line equal (i) LIBOR plus a premium, which rate aggregated 5.76%, including a 0.5% agency fee, as of December 31, 2019, or (ii) a Base Rate (as defined in the Amended and Restated Credit Agreement) plus 2.25% plus a 0.5% agency fee, as chosen by the Company for each drawdown. (See Note 5 to the financial statements included elsewhere in this Report.)

The following table shows our capitalization, including our financing arrangements, and our loan portfolio as of December 31, 2019:

### Capitalization (\$ in thousands):

<b>Debt:</b>	
Line of credit	\$ 15,233
Senior secured notes (net of deferred financing costs of \$472)	5,528
Total debt	\$ 20,761
Other liabilities	1,739
Capital (equity)	31,943
Total sources of capital	<u>\$ 54,443</u>
<b>Assets:</b>	
Loans	\$ 53,485
Other assets	958
Total assets	<u>\$ 54,443</u>

## **Competition**

The real estate finance market around the New York metropolitan area is highly competitive. We face competition for lending and investment opportunities from a variety of institutional lenders and investors and many other market participants, including specialty finance companies, mortgage/other REITs, commercial banks and thrift institutions, investment banks, insurance companies, hedge funds and other financial institutions as well as private equity funds, family offices and high net worth individuals. Many of these competitors enjoy competitive advantages over us, including greater name recognition, established lending relationships with customers, financial resources, and access to capital.

Notwithstanding the intense competition and some of our competitive disadvantages, we believe we have carved a niche for ourselves among small real estate developers, owners and contractors throughout the New York metropolitan area because of our ability to structure each loan to suit the needs of each individual borrower and our ability to act quickly. In addition, we believe we have developed a reputation among these borrowers as offering reasonable terms and providing outstanding customer service. We believe our future success will depend on our ability to maintain and capitalize on our existing relationships with borrowers and brokers and to expand our borrower base by continuing to offer attractive loan products, remain competitive in pricing and terms, and provide superior service.

In addition, we have also begun operating in the New Jersey, Connecticut and Florida markets. As we have not operated in those markets for an extended period of time, we have faced competition from more established lenders, as well as some smaller lenders, in those markets.

## **Sales and Marketing**

We do not engage any third parties for sales and marketing. Rather, we rely on our internal team to generate lending opportunities as well as referrals from existing or former borrowers, brokers and bankers and advertising to generate lending opportunities. A principal source of new transactions has been repeat business from prior customers and their referral of new leads.

## **Intellectual Property**

Our business does not depend on exploiting or leveraging any intellectual property rights. To the extent we own any rights to intellectual property, we rely on a combination of federal, state and common law trademarks, service marks and trade names, copyrights and trade secret protection. We have registered some of our trademarks and service marks in the United States Patent and Trademark Office including “Manhattan Bridge Capital”.

The protective steps we have taken may not deter misappropriation of our proprietary information. These claims, if meritorious, could require us to license other rights or subject us to damages and, even if not meritorious, could result in the expenditure of significant financial and managerial resources on our part.

## **Employees**

As of December 31, 2019, we employed five employees. In addition, during 2019 we used outside lawyers and other independent professionals to verify titles and ownership, to file liens and to consummate the transactions. Outside appraisers were used to assist management in evaluating the worth of collateral, when deemed necessary by management. We also used construction inspectors as well as mortgage brokers and deal initiators.

## **Regulation**

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions. In addition, we may rely on exemptions from various requirements of the Securities Act of 1933, as amended (the “Securities Act”), the Exchange Act, the Investment Company Act and ERISA. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third-parties who we do not control.

### *Regulation of Commercial Real Estate Lending Activities*

Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We also are required to comply with certain provisions of, among other statutes and regulations, certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans, The USA PATRIOT Act, regulations promulgated by the Office of Foreign Asset Control and federal and state securities laws and regulations.

### *Investment Company Act Exemption*

Although we reserve the right to modify our business methods at any time, we are not currently required to register as an investment company under the Investment Company Act. However, we cannot assure you that our business strategy will not evolve over time in a manner that could subject us to the registration requirements of the Investment Company Act.

Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis, which we refer to as the 40% test.

We rely on the exception set forth in Section 3(c)(5)(C) of the Investment Company Act which excludes from the definition of investment company "[a]ny person who is not engaged in the business of issuing redeemable securities, face-amount certificates of the installment type or periodic payment plan certificates, and who is primarily engaged in one or more of the following businesses... (C) purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exception generally requires that at least 55% of an entity's assets be comprised of mortgages and other liens on and interests in real estate, also known as "qualifying interests," and at least another 25% of the entity's assets must be comprised of real estate-type interests reduced by any amount of qualifying interests that the entity holds in excess of the 55% minimum limit (with no more than 20% of the entity's assets comprised of miscellaneous assets). At the present time, we qualify for the exception under this section and our current intention is to continue to focus on originating short term loans secured by first mortgages on real property. However, if, in the future, we do acquire non-real estate assets without the acquisition of substantial real estate assets, we may be deemed to be an "investment company" and be required to register as such under the Investment Company Act, which could have a material adverse effect on us.

If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

Qualification for exclusion from the definition of an investment company under the Investment Company Act will limit our ability to make certain investments. In addition, complying with the tests for such exclusion could restrict the time at which we can acquire and sell assets.

### *Environmental Laws*

Our borrowers, who own properties, may be subject to various environmental laws of federal, state and local governments. To the extent that an owner of a property underlying one of our debt instruments becomes liable for removal costs, the ability of the owner to make payments to us may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us and our ability to make distributions to our shareholders. To date, our borrowers' compliance with existing laws has not had a material adverse effect on our earnings and we do not have reason to believe it will have such an impact in the future. However, we cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on the properties owned by our borrowers.

### **Properties**

Our executive and principal operating office is located in Great Neck, New York. We use this space for all of our operations. This space is occupied under a lease, as amended, that expires September 30, 2021. The current monthly rent is \$4,314, including electricity. We believe this facility is adequate to meet our requirements at our current level of business activity.

*The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and notes thereto contained elsewhere in this Report. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements.*

### Overview

We are a New York-based real estate finance company taxed as a REIT that specializes in originating, servicing and managing a portfolio of first mortgage loans. We offer short-term, secured, non-banking loans (sometimes referred to as "hard money" loans), which we may renew or extend on, before or after their initial term expires, to real estate investors to fund their acquisition, renovation, rehabilitation or development of residential or commercial properties located in the New York metropolitan area, including New Jersey and Connecticut, and in Florida. As a REIT, we are required to distribute at least 90% of our REIT taxable income to our shareholders on an annual basis.

The properties securing the loans are generally classified as residential or commercial real estate and, typically, are not income producing. Each loan is secured by a first mortgage lien on real estate. In addition, each loan is personally guaranteed by the principal(s) of the borrower, which guarantee may be collaterally secured by a pledge of the guarantor's interest in the borrower. The face amount of the loans we originated in the past seven years ranged from \$30,000 to a maximum of \$2.5 million. Our lending policy limits the maximum amount of any loan to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$3 million. Our loans typically have a maximum initial term of 12 months bearing interest at a fixed rate of 9% to 14% per year. In addition, we usually receive origination fees or "points" ranging from 0% to 2% of the original principal amount of the loan as well as other fees relating to underwriting and funding the loan. Interest is always payable monthly, in arrears. In the case of acquisition financing, the principal amount of the loan usually does not exceed 75% of the value of the property (as determined by an independent appraiser) and in the case of construction financing, it is typically up to 80% of construction costs.

Since commencing this business in 2007, we have made over 860 loans and never foreclosed on a property and none of our loans have ever gone into default although sometimes we have renewed or extended our loans to enable the borrower to avoid premature sale or refinancing of the property. When we renew or extend a loan we receive additional "points" and other fees.

Our primary business objective is to grow our loan portfolio while protecting and preserving capital in a manner that provides for attractive risk-adjusted returns to our shareholders over the long term through dividends. We intend to achieve this objective by continuing to selectively originate loans and carefully manage our portfolio of first mortgage real estate loans in a manner designed to generate attractive risk-adjusted returns across a variety of market conditions and economic cycles. We believe that the demand for relatively small loans secured by residential and commercial real estate held for investment around the New York metropolitan market remains relatively strong, but not as robust as in the past several years, and that traditional lenders, including banks and other financial institutions, that usually address this market are unable to satisfy this demand. This demand/supply imbalance has created an opportunity for non-bank "hard money" real estate lenders like us to selectively originate high-quality first mortgage loans and this condition should persist for a number of years. However, we have observed more intense competition in our industry from both small and large lenders, which has resulted in more liquidity in the real estate markets in the geographic areas in which we operate.

We have built our business on a foundation of intimate knowledge of the New York metropolitan area real estate market combined with a disciplined credit and due diligence culture that is designed to protect and preserve capital. We believe that our flexibility in terms of meeting the needs of borrowers without compromising our standards on credit risk, our expertise, our intimate knowledge of the New York metropolitan area real estate market and our focus on newly originated first mortgage loans, has defined our success until now and should enable us to continue to achieve our objectives.

A principal source of new transactions has been repeat business from prior customers and their referral of new business. We also receive leads for new business from banks, brokers and a limited amount of advertising. Finally, our Chief Executive Officer also spends a significant portion of his time on new business development. We rely on our own employees, independent legal counsel, and other independent professionals to verify titles and ownership, to file liens and to consummate the transactions. Outside appraisers are used to assist us in evaluating the worth of collateral, when deemed necessary by management. We also use construction inspectors.

At December 31, 2019, we were committed to \$5,072,035 in construction loans that can be drawn by our borrowers when certain conditions are met.

To date, we have not experienced any defaults and none of the loans previously made have been non-collectable, although no assurances can be given that existing or future loans may not go into default or prove to be non-collectible in the future.

### **Critical Accounting Policies and Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Management will base the use of estimates on (a) a preset number of assumptions that consider past experience, (b) future projections, and (c) general financial market conditions. Actual amounts could differ from those estimates.

Interest income from commercial loans is recognized, as earned, over the loan period.

Origination fee revenue on commercial loans is amortized over the term of the respective note.

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of long lived assets, including intangible assets, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted cash flows is less than the carrying amount of these assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

There are also areas in which in management's judgment in selecting any available alternative would not produce a materially different result. See our audited consolidated financial statements and notes thereto which begin on page F-1 of this Report, which contain accounting policies and other disclosures required by accounting principles generally accepted in the United States of America.

### **Results of operations**

#### **Years ended December 31, 2019 and 2018**

##### *Total revenue*

Total revenue for the year ended December 31, 2019 was approximately \$7,340,000 compared to approximately \$7,225,000 for the year ended December 31, 2018, an increase of \$115,000, or 1.6%. The increase in revenue was primarily attributable to an increase in origination fees resulting from an increase in the rate of loan turnover. In 2019, approximately \$6,186,000 of our revenue represents interest income on secured, real estate loans that we offer to small businesses compared to approximately \$6,168,000 in 2018, and approximately \$1,154,000 represents origination fees on such loans compared to approximately \$1,057,000 in 2018. The loans are principally secured by collateral consisting of real estate and, generally, accompanied by personal guarantees from the principals of the borrowers.

##### *Interest and amortization of deferred financing costs*

Interest and amortization of deferred financing costs for the year ended December 31, 2019 were approximately \$1,635,000 compared to approximately \$1,699,000 for the year ended December 31, 2018, a decrease of \$64,000 or 3.8%. The decrease in interest and amortization of deferred financing costs was primarily attributable to decreased interest expense due to lower LIBOR rates (See Note 5 to the financial statements included elsewhere in this Report).

### *General and administrative expenses*

General and administrative expenses for the year ended December 31, 2019 were approximately \$1,203,000 compared to approximately \$1,322,000 for the year ended December 31, 2018, a decrease of \$119,000 or 9%. The decrease is primarily attributable to an annual bonus paid to officers in 2018 which was not repeated in 2019, a voluntary waiver from the Company's CEO forgoing his base salary for the months of November and December 2019, and a decrease in travel and meal expenses, offset by increases in insurance expenses and in compensation to members of our board of directors.

### *Other loss*

Other loss for the years ended December 31, 2019 in the amount of \$15,000 is due to our write off of the value of our investment in a privately held company.

### *Net income*

Net income for the year ended December 31, 2019 was approximately \$4,495,000 compared to approximately \$4,204,000 for the year ended December 31, 2018, an increase of \$291,000, or 6.9%. The increase is primarily attributable to the increase in revenue and decreases in interest and payroll expenses.

## **Liquidity and Capital Resources**

At December 31, 2019, we had cash of approximately \$118,000 compared to cash of approximately \$204,000 at December 31, 2018 (not including restricted cash, which mainly represents collections received, pending check clearance, from the Company's commercial loans and is primarily dedicated to the reduction of the Webster Credit Line).

For the years ended December 31, 2019 and 2018, net cash provided by operating activities was approximately \$4,432,000 and \$4,361,000, respectively. The increase in net cash provided by operating activities primarily results from the increase in net income, offset by the decrease in deferred origination fees.

For the year ended December 31, 2019, net cash provided by investing activities was approximately \$1,366,000, compared to net cash used in investing activities of approximately \$9,713,000 for the year ended December 31, 2018. Net cash provided by investing activities for the year ended December 31, 2019 primarily consisted of collection of our commercial loans of approximately \$49,420,000, offset by the issuance of our short term commercial loans of approximately \$48,054,000. Net cash used in investing activities for the year ended December 31, 2018 primarily consisted of the issuance of our short term commercial loans of \$51,859,000, offset by collection of our commercial loans of approximately \$42,147,000.

For the year ended December 31, 2019, net cash used in financing activities was approximately \$6,034,000, compared to net cash provided by financing activities of approximately \$5,571,000 for the year ended December 31, 2018. Net cash used in financing activities for the year ended December 31, 2019 reflects repayments of the Webster Credit Line of approximately \$1,389,000, dividend payments of approximately \$4,636,000 and the purchase of treasury shares of approximately \$29,000, offset by the proceeds from the exercise of warrants and options of approximately \$20,000. Net cash provided by financing activities for the year ended December 31, 2018 reflects the net proceeds from the public offering, as described below, of approximately \$9,883,000 and the proceeds from the exercise of warrants of approximately \$49,000, offset by (i) dividend payments of approximately \$3,999,000, (ii) repayments of the Webster Credit Line of approximately \$292,000, (iii) the purchase of treasury shares of approximately \$49,000 and (iv) deferred financing costs of approximately \$20,000.

We maintain the Webster Credit Line which currently provides us with a credit line of \$32.5 million in the aggregate secured by assignments of mortgages and other collateral. On August 8, 2017, we entered into the Amended and Restated Credit Agreement.

Effective July 11, 2018, we entered into a Waiver and Amendment No. 1 to the Amended and Restated Credit Agreement ("Amendment No. 1") with Webster, Flushing and Mr. Ran, as guarantor. In conjunction with the execution of Amendment No. 1, we also entered into an Amended and Restated Revolving Credit Note in the principal aggregate amount of \$10,000,000 with Flushing (the "Amended Flushing Note") and a Second Amended and Restated Fee Letter with Webster and Flushing, each dated July 11, 2018. Pursuant to the terms of Amendment No. 1, the Company's existing Webster Credit Line was

increased by \$5 million to \$25 million in the aggregate. In addition, the interest rates relating to Webster Credit Line were amended such that the interest rates now equal (i) LIBOR plus a premium, which rate aggregated approximately 5.76%, including a 0.5% agency fee, as of December 31, 2019, or (ii) a Base Rate (as defined in the Amended and Restated Credit Agreement) plus 2.25% plus a 0.5% agency fee, as chosen by the Company for each drawdown. Amendment II also permits the Company to repurchase, redeem or otherwise retire its equity securities in an amount not to exceed ten percent of our annual net income from the prior fiscal year. In addition, Mr. Ran has provided a personal guaranty to the Webster Credit Line, which shall not exceed the sum of \$500,000 plus any costs relating to the enforcement of the personal guaranty. Furthermore, on December 31, 2019, we entered into Amendment No. 2 to the Amended and Restated Credit and Security Agreement ("Amendment No. 2") with Webster and Flushing to amend certain required fixed charge coverage requirements.

We were in compliance with all covenants of the Webster Credit Line, as amended, as of December 31, 2019. At December 31, 2019, the outstanding amount under the Amended and Restated Credit Agreement was \$15,232,993. The interest rate on the amount outstanding fluctuates daily. The rate, including a 0.5% agency fee, for December 31, 2019 was approximately 5.76%.

On February 25, 2020, we entered into Amendment No. 3 to the Amended and Restated Credit and Security Agreement ("Amendment No. 3") with Webster, Flushing, Mizrahi, and Mr. Ran, as guarantor. In conjunction with the execution of Amendment No. 3, we also entered into an Amended and Restated Revolving Credit Note in the principal aggregate amount of \$7,500,000 with Mizrahi and a Third Amended and Restated Fee Letter with Webster each dated February 25, 2020. Pursuant to the terms of Amendment No. 3, our existing Webster Credit Line was increased by \$7.5 million to \$32.5 million in the aggregate and the term of the Webster Credit Line was extended to February 28, 2023. Amendment No. 3 also provides that the Company may issue up to \$20 million in bonds through its subsidiary, of which not more than \$10 million of such notes may be secured by mortgage notes receivable, and provided that the terms and conditions of such bonds are approved by Webster, subject to its reasonable discretion.

In the beginning of 2018, Mr. Ran made three short term bridge loans to the Company in the aggregate amount of \$950,000, at an interest rate of 6% per annum. All loans were repaid in full on February 9, 2018. During the second quarter of 2018, Mr. Ran and entities he controls, made seven short term loans to the Company in the aggregate amount of \$2,741,227, at an interest rate of 6% per annum. Two of the loans in the aggregate amount of \$311,227 were repaid in full in May 2018. The remaining loans, in the aggregate amount of \$2,430,000 were repaid in full as of July 11, 2018. We also received a short-term loan from a third party lender in the amount of \$1,000,000, at an interest rate of 12% per annum, and such short term loan was repaid in full as of July 12, 2018. The aggregate interest expense for these loans was \$20,509, of which \$10,509 was paid to Mr. Ran and entities he controls.

MBC Funding II has \$6,000,000 of outstanding principal amount of Notes. The Notes mature on April 22, 2026, unless redeemed earlier, and accrue interest at a rate of 6% per annum commencing on May 16, 2016 and will be payable monthly, in arrears, in cash, on the 15th day of each calendar month, commencing June 2016.

Under the terms of the Indenture, the aggregate outstanding principal balance of the mortgage loans held by MBC Funding II, together with its cash on hand, must always equal at least 120% of the aggregate outstanding principal amount of the Notes at all times. To the extent the aggregate principal amount of the mortgage loans owned by MBC Funding II plus its cash on hand is less than 120% of the aggregate outstanding principal balance of the Notes, MBC Funding II is required to repay, on a monthly basis, the principal amount of the Notes equal to the amount necessary such that, after giving effect to such repayment, the aggregate principal amount of all mortgage loans owned by it plus, its cash on hand at such time is equal to or greater than 120% of the outstanding principal amount of the Notes. For this purpose, each mortgage loan is deemed to have a value equal to its outstanding principal balance, unless the borrower is in default of its obligations.

The Notes are secured by a first priority lien on all of MBC Funding II's assets, including, primarily, mortgage notes, mortgages and other transaction documents entered into in connection with first mortgage loans originated and funded by us, which Funding acquired from MBC pursuant to an asset purchase agreement. MBC Funding II may redeem the Notes, in whole or in part, at any time after April 22, 2019 upon at least 30 days prior written notice to the noteholders. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest thereon up to, but not including, the date of redemption, without penalty or premium; provided that (i) if the Notes are redeemed on or after April 22, 2019 but prior to April 22, 2020, the redemption price will be 103% of the principal amount of the Notes redeemed and (ii) if the Notes are redeemed on or after April 22, 2020 but prior to April 22, 2021, the redemption price will be 101.5% of the

principal amount of the Notes redeemed plus, in either case, the accrued but unpaid interest on the Notes redeemed up to, but not including, the date of redemption. Each Noteholder has the right to cause MBC Funding II to redeem his, her, or its Notes on April 22, 2021. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest up to, but not including, the date of redemption, without penalty or premium. In order to exercise this right, the Noteholder must notify MBC Funding II, in writing, no earlier than November 22, 2020 and no later than January 22, 2021. All Notes that are subject to a proper and timely notice will be redeemed on April 22, 2021. Any Noteholder who fails to make a proper and timely election will be deemed to have waived his, her or its right to have his, her or its Notes redeemed prior to the maturity date. In addition, MBC Funding II is obligated to offer to redeem the Notes if there occurs a "change of control" with respect to us or MBC Funding II or if we or MBC Funding II sell any assets unless, in the case of an asset sale, the proceeds are reinvested in the business of the seller. The redemption price in connection with a "change of control" will be 101% of the principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption. The redemption price in connection with an asset sale will be the outstanding principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption.

We guarantee MBC Funding II's obligations under the Notes, which are secured by our pledge of 100% of the outstanding common shares of MBC Funding II that we own.

On July 24, 2018, we completed a public offering of 1,428,572 common shares. In addition, the underwriter partially exercised its over-allotment option for an additional 117,214 common shares. The gross proceeds from the offering, including the partial exercise of the over-allotment option, were approximately \$10.8 million and the net proceeds were approximately \$9.9 million, after deducting our underwriting discounts and commissions and offering expenses.

On November 1, 2018, our Board of Directors authorized a share buy back program for the repurchase of up to 100,000 shares of the Company's common stock. The Company purchased a total of 13,112 common shares under this repurchase program, at an aggregate cost of approximately \$78,000, before the program expired on October 31, 2019. No repurchases were made by us pursuant to this buy back program during the fourth quarter of 2019.

On February 26, 2020, our Board of Directors authorized another share buy back program, pursuant to which we may, from time to time, purchase up to 100,000 of our common shares. This program does not obligate the Company to purchase any shares and expires on February 25, 2021. The authorization for the program is able to be terminated, increased or decreased by the Company's Board of Directors in its discretion at any time. As of March 12, 2020, the Company has purchased a total of 18,786 common shares under this share buy back program, at an aggregate cost of approximately \$102,000.

We anticipate that our current cash balances and the Amended and Restated Credit Agreement, as described above, together with our cash flows from operations will be sufficient to fund our operations for the next 12 months. In addition, from time to time, we receive short term unsecured loans from our executive officers and others in order to provide us with the flexibility necessary to maintain a steady deployment of capital. However, we expect our working capital requirements to increase over the next 12 months as we continue to strive for growth.

### ***Off-Balance Sheet Arrangements***

We have not entered into any off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons that are likely to affect liquidity or the availability of our requirements for capital resources.

**Contractual Obligations**

Set forth below is a summary of our current obligations as of December 31, 2019 to make future payments due by the period indicated below, excluding payables and accruals. We expect to be able to meet our obligations in the ordinary course.

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Operating Lease Obligations (*)	\$ 97,316	\$ 52,180	\$ 44,536	\$ 600	\$ ---
Senior Secured Notes	\$6,000,000	\$ ---	\$ ---	\$ ---	\$6,000,000
Amounts due under Amended and Restated Credit Agreement at December 31, 2019	\$15,232,993	\$ ---	\$15,232,993	\$ ---	\$ ---

(\*) Operating lease obligations include utilities payable to the landlord under the lease.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Manhattan Bridge Capital, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Manhattan Bridge Capital, Inc. and Subsidiary (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### Basis of Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Hoberman & Lesser, LLP*

We have served as the Company's auditors since 2007.

New York, New York  
March 16, 2020

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Loans receivable	\$ 53,485,014	\$ 54,836,127
Interest receivable on loans	675,996	596,777
Cash	118,407	203,682
Cash - restricted	---	151,375
Other assets	53,218	73,131
Operating lease right-of-use asset, net	87,754	---
Deferred financing costs	22,637	42,040
Total assets	<u>\$ 54,443,026</u>	<u>\$ 55,903,132</u>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Line of credit	\$ 15,232,993	\$ 16,622,147
Senior secured notes (net of deferred financing costs of \$472,413 and \$547,499)	5,527,587	5,452,501
Deferred origination fees	322,119	404,676
Accounts payable and accrued expenses	151,823	183,716
Operating lease liability	91,025	---
Other liabilities	15,000	---
Dividends payable	1,159,061	1,158,717
Total liabilities	<u>22,499,608</u>	<u>23,821,757</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred shares - \$.01 par value; 5,000,000 shares authorized; none issued	---	---
Common shares - \$.001 par value; 25,000,000 shares authorized; 9,882,058 and 9,874,191 issued, respectively; 9,658,844 and 9,655,977 outstanding, respectively	9,882	9,874
Additional paid-in capital	33,144,032	33,110,536
Treasury stock, at cost - 223,214 and 218,214 shares	(619,688)	(590,234)
Accumulated deficit	(590,808)	(448,801)
Total stockholders' equity	<u>31,943,418</u>	<u>32,081,375</u>
Total liabilities and stockholders' equity	<u>\$ 54,443,026</u>	<u>\$ 55,903,132</u>
The accompanying notes are an integral part of these consolidated financial statements.		

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Interest income from loans	\$ 6,185,764	\$ 6,167,600
Origination fees	1,153,941	1,056,962
Total Revenue	<u>7,339,705</u>	<u>7,224,562</u>
Operating costs and expenses:		
Interest and amortization of deferred financing costs	1,635,134	1,699,064
Referral fees	3,750	1,708
General and administrative expenses	1,202,739	1,321,724
Total operating costs and expenses	<u>2,841,623</u>	<u>3,022,496</u>
Income from operations	4,498,082	4,202,066
Other income	12,000	3,000
Loss on write-off of investment in privately held company	(15,000)	---
Income before income tax expense	<u>4,495,082</u>	<u>4,205,066</u>
Income tax expense	(572)	(642)
Net income	<u>\$ 4,494,510</u>	<u>\$ 4,204,424</u>
Basic and diluted net income per common share outstanding:		
--Basic	<u>\$0.47</u>	<u>\$0.48</u>
--Diluted	<u>\$0.47</u>	<u>\$0.48</u>
Weighted average number of common shares outstanding		
--Basic	<u>9,658,147</u>	<u>8,792,207</u>
--Diluted	<u>9,659,285</u>	<u>8,799,044</u>
The accompanying notes are an integral part of these consolidated financial statements		

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>		<u>Accumulated Deficit</u>	<u>Totals</u>
	<u>Shares</u>	<u>Amount</u>		<u>Shares</u>	<u>Cost</u>		
<b>Balance, January 1, 2018</b>	8,319,036	\$8,319	\$23,167,511	210,102	\$(541,491)	\$(387,666)	\$22,246,673
Public offering	1,545,786	1,546	9,881,234				9,882,780
Exercise of warrants	9,369	9	48,726				48,735
Non cash compensation			13,065				13,065
Purchase of treasury shares				8,112	(48,743)		(48,743)
Dividends paid						(3,106,842)	(3,106,842)
Dividends declared and payable						(1,158,717)	(1,158,717)
Net income for the year ended December 31, 2018						4,204,424	4,204,424
<b>Balance, December 31, 2018</b>	<b>9,874,191</b>	<b>9,874</b>	<b>33,110,536</b>	<b>218,214</b>	<b>(590,234)</b>	<b>(448,801)</b>	<b>32,081,375</b>
Exercise of warrants and options	7,867	8	20,432				20,440
Non cash compensation			13,064				13,064
Purchase of treasury shares				5,000	(29,454)		(29,454)
Dividends paid						(3,477,456)	(3,477,456)
Dividends declared and payable						(1,159,061)	(1,159,061)
Net income for the year ended December 31, 2019						4,494,510	4,494,510
<b>Balance, December 31, 2019</b>	<b>9,882,058</b>	<b>\$9,882</b>	<b>\$33,144,032</b>	<b>223,214</b>	<b>\$(619,688)</b>	<b>\$(590,808)</b>	<b>\$31,943,418</b>

The accompanying notes are an integral part of these consolidated financial statements.

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income	\$ 4,494,510	\$ 4,204,424
Adjustments to reconcile net income to net cash provided by operating activities -		
Amortization of deferred financing costs	94,489	98,695
Depreciation	1,414	3,711
Non cash compensation expense	13,064	13,065
Loss on write-off of investment in privately held company	15,000	---
Adjustment to operating lease right-of-use asset and liability	3,271	---
Changes in operating assets and liabilities		
Interest receivable on loans	(79,219)	(61,732)
Other assets	3,499	(19,753)
Accounts payable and accrued expenses	(31,893)	16,157
Deferred origination fees	(82,557)	106,205
Net cash provided by operating activities	<u>4,431,578</u>	<u>4,360,772</u>
Cash flows from investing activities:		
Issuance of short term loans	(48,053,965)	(51,859,000)
Collections received from loans	49,420,078	42,146,873
Purchase of fixed assets	---	(1,148)
Net cash provided by (used in) investing activities	<u>1,366,113</u>	<u>(9,713,275)</u>
Cash flows from financing activities:		
Repayments of proceeds from line of credit, net	(1,389,154)	(292,447)
Proceeds from public offering, net	---	9,882,780
Dividends paid	(4,636,173)	(3,998,825)
Proceeds from exercise of stock options and warrants	20,440	48,735
Purchase of treasury shares	(29,454)	(48,743)
Deferred financing costs incurred	---	(20,381)
Net cash (used in) provided by financing activities	<u>(6,034,341)</u>	<u>5,571,119</u>
Net (decrease) increase in cash and restricted cash	(236,650)	218,616
Cash and restricted cash, beginning of year	<u>355,057</u>	<u>136,441</u>
Cash and restricted cash, end of year	<u>\$ 118,407</u>	<u>\$ 355,057</u>
Supplemental Cash Flow Information:		
Taxes paid during the year	<u>\$ 572</u>	<u>\$ 642</u>
Interest paid during the year	<u>\$ 1,560,644</u>	<u>\$ 1,584,508</u>
Operating leases paid during the year	<u>\$ 52,571</u>	<u>\$ 50,096</u>
Supplemental Information – Noncash Information:		
Dividend declared and payable	<u>\$ 1,159,061</u>	<u>\$ 1,158,717</u>
Establishment of right-of-use asset and operating lease liability	<u>\$ 135,270</u>	<u>\$ ---</u>
Loan holdback relating to mortgage receivable	<u>\$ 15,000</u>	<u>\$ ---</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

## MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

### 1. The Company

Manhattan Bridge Capital, Inc. (“MBC”) and its wholly-owned subsidiary, MBC Funding II Corp. (“MBC Funding”) (collectively the “Company”), offer short-term, secured, non-banking loans (sometimes referred to as “hard money” loans) to real estate investors to fund their acquisition, renovation, rehabilitation or development of residential or commercial properties located in the New York metropolitan area, including New Jersey and Connecticut, and in Florida.

### 2. Significant Accounting Policies

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Manhattan Bridge Capital, Inc. and its wholly-owned subsidiary, MBC Funding. All significant intercompany balances and transactions have been eliminated in consolidation.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Management will base the use of estimates on (a) a preset number of assumptions that consider past experience, (b) future projections, and (c) general financial market conditions. Actual amounts could differ from those estimates.

#### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and short term commercial loans.

The Company maintains its cash with two major financial institutions. Accounts at the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Credit risks associated with short term commercial loans the Company makes to small businesses and related interest receivable are described in Note 4.

#### *Allowance for Loan Loss*

The Company reviews each loan on a quarterly basis and evaluates the borrower’s ability to pay the monthly interest, the borrower’s likelihood of executing the original exit strategy, as well as the loan-to-value (LTV) ratio. Based on the analysis, management determines if any provisions for impairment of loans should be made and whether any loan loss reserves are required. At December 31, 2019 and 2018, no loan impairments exist and there are no provisions for impairment of loans included in operations for the years then ended.

#### *Income Taxes*

The Company follows Accounting Standards Codification (“ASC”) 740-10, “Accounting for Uncertainty in Income Taxes” (“ASC 740”), which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. As of December 31, 2019 and 2018, the Company has no material uncertain tax positions to be accounted for in the financial statements. The Company recognizes interest and penalties related to uncertain tax positions, if any, as part of income tax expense.

## Notes to Consolidated Financial Statements

The Company is organized and conducts its operations to qualify as a real estate investment trust (“REIT”) for federal income tax purposes. The Company elected to be taxed as a REIT commencing with its taxable year ended December 31, 2014. A REIT calculates taxable income similar to other domestic corporations, with the major difference being a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90% of its REIT taxable income. If it chooses to retain the remaining 10% of taxable income, it may do so, but it will be subject to a corporate income tax on such income. The Company may be subject to federal excise tax and minimum state taxes.

### *Revenue Recognition*

Interest income from commercial loans is recognized, as earned, over the loan period.

Origination fee revenue on commercial loans is amortized over the term of the respective note.

### *Deferred Financing Costs*

The Company presents deferred financing costs, excluding those incurred in connection with its line of credit, in the balance sheet as a direct reduction from the related debt liability rather than an asset, in accordance with Accounting Standards Update (“ASU”) 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”. These costs, incurred in connection with the issuance of the Company’s senior secured notes, are being amortized over ten years, using the straight-line method, as the difference between use of the effective interest method is not material.

Deferred financing costs in connection with the Company’s Amended and Restated Credit and Security Agreement, as amended (the “Amended and Restated Credit Agreement”), with Webster Business Credit Corporation (“Webster”) and Flushing Bank (“Flushing”) which established the Company’s credit line (the “Webster Credit Line”), as discussed in Note 5, are presented as an asset in the balance sheet, in accordance with ASU 2015-15, “Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line of Credit Arrangements”. These costs are being amortized over the term of the respective agreement, using the straight-line method.

### *Earnings Per Share (“EPS”)*

Basic and diluted EPS are calculated in accordance with ASC 260, “Earnings Per Share”. Under ASC 260, basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS include the potential dilution from the exercise of stock options and warrants for common shares using the treasury stock method.

The numerator in calculating both basic and diluted EPS for each year is the reported net income. The denominator is based on the following weighted average number of common shares:

	Years ended December 31,	
	2019	2018
Basic weighted average common shares outstanding	9,658,147	8,792,207
Incremental shares for assumed exercise of options and warrants	1,138	6,837
Diluted weighted average common shares outstanding	9,659,285	8,799,044

42,124 and 46,425 vested options and warrants were not included in the diluted EPS calculation for the years ended December 31, 2019 and 2018, respectively, because their effect would have been anti-dilutive.

# Notes to Consolidated Financial Statements

## *Stock-Based Compensation*

The Company measured and recognized compensation awards for all stock option grants made to employees and directors, based on their fair value in accordance with ASC 718, “Compensation - Stock Compensation” (“ASC 718”), which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. A key provision of this statement is to measure the cost of employee services received in exchange for an award of equity instruments (including stock options) based on the grant-date fair value of the award. The cost will be recognized over the service period during which an employee is required to provide service in exchange for the award (i.e., the requisite service period or vesting period). The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 718 and ASC 505-50, “Equity-Based Payment to Non-Employees”. All transactions with non-employees in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more appropriately measurable.

## *Fair Value of Financial Instruments*

For the line of credit, as well as interest bearing commercial loans held by the Company, the carrying amount approximates fair value due to the relative short-term nature of such instruments. The Company determines the fair value of its senior secured notes using market prices which currently approximate their carrying amount.

## *Recent Accounting Pronouncements*

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-02, “Leases (Topic 842),” which amends the existing accounting standards for leases. This ASU requires lessees to record a right-of-use asset and a corresponding lease liability on the balance sheet for the obligation to make payments for all leases, with the exception of those leases with a term of 12 months or less. This ASU also requires expanded disclosures regarding leasing arrangements. The Company adopted the ASU effective January 1, 2019, and concluded that the adoption did not have a material impact on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, “Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief.” This ASU allows entities to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost upon adoption of ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.” The Company plans to adopt both ASU 2016-13 and ASU 2019-05 effective January 1, 2020. The Company believes that the adoption of this guidance will not have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.” This ASU modifies ASC 740 to remove certain exceptions and also add guidance to reduce complexity in certain areas. For companies that file with the Securities and Exchange Commission, the standard is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted but requires simultaneous adoption of all provisions of the new standard. The Company believes that the adoption of this guidance will not have a material impact on its consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the Company’s consolidated financial statements.

### **3. Cash - Restricted**

Restricted cash mainly represents collections received, pending check clearance, from the Company’s commercial loans and is primarily dedicated to the reduction of the Company’s Webster Credit Line established pursuant to the Amended and Restated Credit Agreement (see Note 5).

## Notes to Consolidated Financial Statements

### 4. Commercial Loans

#### *Loans Receivable*

The Company offers short-term secured non-banking loans to real estate investors (also known as hard money) to fund their acquisition and construction of properties located in the New York metropolitan area, including New Jersey and Connecticut, and in Florida. The loans are principally secured by collateral consisting of real estate and, generally, accompanied by personal guarantees from the principals of the borrowers. The loans are generally for a term of one year. The short term loans are initially recorded, and carried thereafter, in the financial statements at cost. Most of the loans provide for receipt of interest only during the term of the loan and a balloon payment at the end of the term.

For the years ended December 31, 2019 and 2018, the total amounts of \$48,053,965 and \$51,859,000, respectively, have been lent, offset by collections received from borrowers, under the commercial loans in the amount of \$49,420,078 and \$42,146,873, respectively. The face amounts of the loans the Company originated in the past seven years have ranged from a minimum of \$30,000 to a maximum of \$2,500,000. The Company's board of directors established a policy limiting the maximum amount of any loan to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$3 million. The Company's loans typically have a maximum initial term of 12 months and bear interest at a fixed rate of 9% to 14% per year. In addition, the Company usually receives origination fees, or "points," ranging from 0% to 2% of the original principal amount of the loan as well as other fees relating to underwriting, funding and managing the loan. Interest is always payable monthly, in arrears. In the case of acquisition financing, the principal amount of the loan usually does not exceed 75% of the value of the property (as determined by an independent appraiser), and in the case of construction financing, up to 80% of construction costs.

At December 31, 2019, the Company was committed to \$5,072,035 in construction loans that can be drawn by the borrowers when certain conditions are met.

At December 31, 2019 and 2018, no one entity has loans outstanding representing more than 10% of the total balance of the loans outstanding.

The Company generally grants loans for a term of one year. When a performing loan reaches its maturity and the borrower requests an extension, the Company may extend the term of the loan beyond one year. Prior to granting an extension of any loan, the Company reevaluates the underlying collateral.

#### *Credit Risk*

Credit risk profile based on loan activity as of December 31, 2019 and 2018:

Performing loans	Developers-Residential	Developers-Commercial	Developers-Mixed Used	Total outstanding loans
December 31, 2019	<u>\$ 48,395,014</u>	<u>\$ 1,975,000</u>	<u>\$ 3,115,000</u>	<u>\$ 53,485,014</u>
December 31, 2018	<u>\$ 47,301,127</u>	<u>\$ 3,660,000</u>	<u>\$ 3,875,000</u>	<u>\$ 54,836,127</u>

At December 31, 2019, the Company's loans receivable consisted of loans in the amount of \$360,000, \$1,960,000, \$3,190,000 and \$11,877,515, originally due in 2016, 2017, 2018 and 2019, respectively. At December 31, 2018, the Company's loans receivable consisted of loans in the amount of \$2,060,000, \$4,470,000 and \$8,837,000, originally due in 2016, 2017 and 2018, respectively. In all instances the borrowers are currently paying their interest and, generally, the Company receives a fee in connection with the extension of the loans.

Subsequent to the balance sheet date, \$10,643,515 of the loans receivable at December 31, 2019 were paid off, including \$3,697,515 originally due in or before 2019.

## 5. Line of Credit and Loans

### *Line of Credit*

The Company maintains the Webster Credit Line which currently provides it with a credit line of \$32.5 million in the aggregate secured by assignments of mortgages and other collateral. The Webster Credit Line contains various covenants and restrictions including, among other covenants and restrictions, limiting the amount that the Company can borrow relative to the value of the underlying collateral, maintaining various financial ratios and limitations on the terms of loans the Company makes to its customers, limiting the Company's ability to pay dividends under certain circumstances, and limiting the Company's ability to repurchase its common shares, sell assets, engage in mergers or consolidations, grant liens, and enter into transactions with affiliates. In addition, the Webster Credit Line contains a cross default provision which will deem any default under any indebtedness owed by us or our subsidiary, MBC Funding, as a default under the credit line.

Effective July 11, 2018, the Company entered into a Waiver and Amendment No. 1 to the Amended and Restated Credit Agreement ("Amendment No. 1") with Webster, Flushing and Mr. Assaf Ran, the Company's President and Chief Executive Officer, as guarantor. In conjunction with the execution of Amendment No. 1, the Company also entered into an Amended and Restated Revolving Credit Note in the principal aggregate amount of \$10,000,000 with Flushing (the "Amended Flushing Note") and a Second Amended and Restated Fee Letter with Webster and Flushing, each dated July 11, 2018. Pursuant to the terms of Amendment No. 1, the Company's existing Webster Credit Line was increased by \$5 million to \$25 million in the aggregate. In addition, the interest rates relating to Webster Credit Line were amended such that the interest rates now equal (i) LIBOR plus a premium, which rate aggregated approximately 5.76%, including a 0.5% agency fee, as of December 31, 2019, or (ii) a Base Rate (as defined in the Amended and Restated Credit Agreement) plus 2.25% plus a 0.5% agency fee, as chosen by the Company for each drawdown. Amendment No. 1 also permits the Company to repurchase, redeem or otherwise retire its equity securities in an amount not to exceed ten percent of our annual net income from the prior fiscal year. In addition, Mr. Ran has provided a personal guaranty to the Webster Credit Line, which shall not exceed the sum of \$500,000 plus any costs relating to the enforcement of the personal guaranty. Furthermore, on December 31, 2019, the Company entered into Amendment No. 2 to the Amended and Restated Credit and Security Agreement with Webster and Flushing to amend certain required fixed charge coverage requirements.

The costs to establish and amend the Webster Credit Line are being amortized over the term of the respective agreement, using the straight-line method. The amortization costs for the years ended December 31, 2019 and 2018 were \$19,403 and \$23,609, respectively.

The Company was in compliance with all covenants of the Webster Credit Line, as amended, as of December 31, 2019. At December 31, 2019, the outstanding amount under the Amended and Restated Credit Agreement was \$15,232,993. The interest rate on the amount outstanding fluctuates daily. The rate, including a 0.5% agency fee, for December 31, 2019 was approximately 5.76%.

On February 25, 2020, the Company entered into Amendment No. 3 to the Amended and Restated Credit and Security Agreement ("Amendment No. 3") with Webster, Flushing, Mizrahi Tefahot Bank Ltd ("Mizrahi"), and Mr. Ran, as guarantor. In conjunction with the execution of Amendment No. 3, the Company also entered into an Amended and Restated Revolving Credit Note in the principal aggregate amount of \$7,500,000 with Mizrahi and a Third Amended and Restated Fee Letter with Webster, each dated February 25, 2020. Pursuant to the terms of Amendment No. 3, the Company's existing Webster Credit Line was increased by \$7.5 million to \$32.5 million in the aggregate and the term of the Webster Credit Line was extended to February 28, 2023. Amendment No. 3 also provides that the Company may issue up to \$20 million in bonds through its subsidiary, of which not more than \$10 million of such notes may be secured by mortgage notes receivable, and provided that the terms and conditions of such bonds are approved by Webster, subject to its reasonable discretion.

### *Short-Term Loans*

In the beginning of 2018, Mr. Ran, the Chief Executive Officer of the Company, made three short term bridge loans to the Company in the aggregate amount of \$950,000, at an interest rate of 6% per annum. All loans were repaid in full on February 9, 2018. During the second quarter of 2018, Mr. Ran and entities he controls, made seven short term loans to the Company in the aggregate amount of \$2,741,227, at an interest rate of 6% per annum. Two of the loans in the aggregate amount of \$311,227 were repaid in full in May 2018. The remaining loans, in the aggregate amount of \$2,430,000 were repaid in full as of July 11,

## Notes to Consolidated Financial Statements

2018. The Company also received a short-term loan from a third party lender in the amount of \$1,000,000 at the rate of 12% per annum, and such short term loan was repaid in full as of July 12, 2018. The aggregate interest expense for these loans was \$20,509, of which \$10,509 was paid to Mr. Ran and entities he controls.

### 6. Senior Secured Notes

On April 25, 2016, in an initial public offering, MBC Funding issued 6% senior secured notes, due April 22, 2026 (the “Notes”) in the aggregate principal amount of \$6,000,000 under the Indenture, dated April 25, 2016, among MBC Funding, as Issuer, the Company, as Guarantor, and Worldwide Stock Transfer LLC, as Indenture Trustee (the “Indenture”). The Notes, having a principal amount of \$1,000 each, are listed on the NYSE American and trade under the symbol “LOAN/26”. Interest accrues on the Notes commencing on May 16, 2016. The accrued interest is payable monthly in cash, in arrears, on the 15th day of each calendar month commencing June 2016.

Under the terms of the Indenture, the aggregate outstanding principal balance of the mortgage loans held by MBC Funding, together with MBC Funding’s cash on hand, must always equal at least 120% of the aggregate outstanding principal amount of the Notes at all times. To the extent the aggregate principal amount of the mortgage loans owned by MBC Funding plus MBC Funding’s cash on hand is less than 120% of the aggregate outstanding principal balance of the Notes, MBC Funding is required to repay, on a monthly basis, the principal amount of the Notes equal to the amount necessary such that, after giving effect to such repayment, the aggregate principal amount of all mortgage loans owned by MBC Funding plus, MBC Funding’s cash on hand at such time is equal to or greater than 120% of the outstanding principal amount of the Notes. For this purpose, each mortgage loan is deemed to have a value equal to its outstanding principal balance, unless the borrower is in default of its obligations.

MBC Funding may redeem the Notes, in whole or in part, at any time after April 22, 2019 upon at least 30 days prior written notice to the Noteholders. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest thereon up to, but not including, the date of redemption, without penalty or premium; provided that (i) if the Notes are redeemed on or after April 22, 2019 but prior to April 22, 2020, the redemption price will be 103% of the principal amount of the Notes redeemed and (ii) if the Notes are redeemed on or after April 22, 2020 but prior to April 22, 2021, the redemption price will be 101.5% of the principal amount of the Notes redeemed plus, in either case, the accrued but unpaid interest on the Notes redeemed up to, but not including, the date of redemption.

Each Noteholder has the right to cause MBC Funding to redeem his, her or its Notes on April 22, 2021. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest up to, but not including, the date of redemption, without penalty or premium. In order to exercise this right, the Noteholder must notify MBC Funding, in writing, no earlier than November 22, 2020 and no later than January 22, 2021. All Notes that are subject to a properly and timely notice will be redeemed on April 22, 2021. Any Noteholder who fails to make a proper and timely election will be deemed to have waived his, her or its right to have his, her or its Notes redeemed prior to the maturity date.

MBC Funding is obligated to offer to redeem the Notes if there occurs a “change of control” with respect to MBC Funding or the Company or if MBC Funding or the Company sell any assets unless, in the case of an asset sale, the proceeds are reinvested in the business of the seller. The redemption price in connection with a “change of control” will be 101% of the principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption. The redemption price in connection with an asset sale will be the outstanding principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption.

### 7. Stockholders’ Equity

The Company adopted a share buy back program on November 1, 2018 for the repurchase of up to 100,000 shares of the Company’s common stock. The Company purchased an aggregate of 13,112 common shares under this repurchase program, at an aggregate cost of approximately \$78,000, before the program expired on October 31, 2019.

## Notes to Consolidated Financial Statements

### 8. Income Taxes

Income tax expense consists of the following:

	<b>2019</b>	<b>2018</b>
Current Taxes:		
Federal	\$ ---	\$ ---
State	572	642
Income tax expense	\$ 572	\$ 642

### 9. Simple IRA Plan

On October 26, 2000, the board of directors approved a Simple IRA Plan (the "IRA Plan") for the purpose of attracting and retaining valuable executives. The IRA Plan allows for participation by up to 100 eligible employees of the Company. Under the IRA Plan, eligible employees may contribute a portion of their pre-tax yearly salary, up to the maximum contribution limit for Simple IRA Plans as set forth under the Internal Revenue Code of 1986, as amended, with the Company matching on a dollar-for-dollar basis up to 3% of the employees' annual pre-tax compensation. These thresholds are subject to change under notice by the trustee for the IRA Plan. The Company is not responsible for any other costs under the IRA Plan. For the years ended December 31, 2019 and 2018 the Company contributed \$11,945 and \$13,260, respectively, as matching contributions to the IRA Plan.

### 10. Stock-Based Compensation

Stock based compensation expense recognized under ASC 718 for each of the years ended December 31, 2019 and 2018 of \$13,064 and \$13,065, respectively, reflects the amortization of the fair value of 1,000,000 restricted shares granted to the Company's Chief Executive Officer on September 9, 2011 of \$195,968, after adjusting for the effect on the fair value of the stock options related to this transaction. The fair value is being amortized over 15 years.

On June 23, 2009, the Company adopted the 2009 Stock Option Plan (the "Plan"), which expired in June 2019. The following summarizes stock option activity for the years ended December 31, 2019 and 2018:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2018	<u>14,000</u>	<u>\$ 2.23</u>	<u>1.00</u>	<u>\$ 10,513</u>
Expired in 2018	<u>(7,000)</u>	<u>1.53</u>		
Outstanding at December 31, 2018 (All vested and exercisable)	<u>7,000</u>	<u>\$ 2.92</u>	<u>0.50</u>	<u>\$ 5,034</u>
Exercised in 2019	<u>(7,000)</u>	<u>2.92</u>		
Outstanding at December 31, 2019	<u>0</u>	<u>\$ 0.00</u>	<u>0.00</u>	<u>\$ 0</u>

## Notes to Consolidated Financial Statements

On July 31, 2014, in connection with the Company’s public offering in July 2014, the Company issued warrants to purchase up to 87,719 common shares, with an exercise price of \$3.5625 per common share, to the representative of the underwriters of the offering (the “July 2014 Representative Warrants”). These warrants were exercisable at any time, and from time to time, in whole or in part, commencing on July 28, 2015 and were to expire on July 28, 2019. The fair value of these warrants, using the Black-Scholes option pricing model, on the date of issuance was \$42,224. As of December 31, 2019, all of the July 2014 Representative Warrants were exercised or expired.

On May 29, 2015, in connection with the Company’s public offering in May 2015, the Company issued warrants to purchase up to 50,750 common shares, with an exercise price of \$5.4875 per common share, to the representative of the underwriters of the offering (the “May 2015 Representative Warrants”). These warrants are exercisable at any time, and from time to time, in whole or in part, commencing on May 22, 2016 and expire on May 22, 2020. The fair value of these warrants, using the Black-Scholes option pricing model, on the date of issuance was \$54,928. At December 31, 2019, May 2015 Representative Warrants to purchase up to 9,650 common shares were outstanding.

On August 15, 2016, in connection with a public offering of the Company’s common stock, the Company issued warrants to purchase up to 33,612 common shares, with an exercise price of \$7.4375 per common share, to the representative of the underwriters of the offering (the “August 2016 Representative Warrants”). The warrants are exercisable at any time, and from time to time, in whole or in part, commencing on August 9, 2017 and expire on August 9, 2021. The fair value of these warrants, using the Black-Scholes option pricing model, on the date of issuance was \$47,020. At December 31, 2019, all of the August 2016 Representative Warrants were outstanding.

### 11. Public Offering

On July 24, 2018, the Company completed a public offering of 1,428,572 common shares at a public offering price of \$7.00 per share (the “Offering”). The gross proceeds raised by the Company from the Offering were approximately \$10,821,000 (including approximately \$821,000 from the sale of 117,214 additional common shares upon the partial exercise of the over-allotment option by the underwriter on August 1, 2018), before deducting underwriting discounts and commissions and other offering expenses. The total net proceeds from the Offering were approximately \$9,883,000.

### 12. Commitments and Contingencies

#### *Operating Leases*

On July 21, 2016, the Company amended its existing lease (the “Lease Amendment”) for its corporate headquarters located at 60 Cutter Mill Road, Great Neck, New York, to extend the term of the lease for an additional five years, through September 30, 2021. Among other things, the Lease Amendment provides for gradual annual rent increases from approximately \$3,500 per month during the first year to \$3,900 per month during the fifth year of the extension term. In addition, on March 15, 2019, the Company entered into a sixty (60) month equipment rental agreement with a monthly payment of \$200.

As a result of the adoption of ASU 2016-02 effective January 1, 2019, the Company recorded a right-of-use asset and corresponding operating lease liability in an aggregate amount of \$135,270, not including its share of its variable real estate taxes. The Company used a discount rate of 6.5% which it believes to be its incremental borrowing rate at the time. The adoption did not have a material impact on the Company’s consolidated financial statements.

At December 31, 2019, approximate future minimum lease payments, including mandatory fixed electricity charges, are as follows:

2020.....	\$ 52,180
2021.....	39,736
2022.....	2400
2023.....	2400
2024.....	<u>600</u>
Total minimum lease payments	97,316
Less: amount representing interest	<u>(6,291)</u>
<b>Present Value of Net Minimum Lease Payments</b>	<b><u>\$ 91,025</u></b>

## Notes to Consolidated Financial Statements

Rent expense, including fixed electricity charges, in the years 2019 and 2018 was approximately \$52,000 and \$50,000, respectively.

### *Employment Agreements*

In March 1999, we entered into an employment agreement with Mr. Ran, pursuant to which: (i) Mr. Ran's employment term renews automatically on June 30th of each year for successive one-year periods unless either party gives to the other written notice at least 180 days prior to June 30th of its intention to terminate the agreement; (ii) Mr. Ran receives a current annual base salary of \$305,000 and annual bonuses as determined by the Compensation Committee of the board of directors, in its sole and absolute discretion, and is eligible to participate in all executive benefit plans established and maintained by us; and (iii) Mr. Ran agreed to a one-year non-competition period following the termination of his employment.

In October 2019, Mr. Ran voluntarily agreed to forgo his base salary in an aggregate amount of \$50,833 for the months of November and December 2019, and therefore Mr. Ran's annual base compensation for the years 2019 and 2018 were \$254,167 and \$305,000, respectively. In addition, the Compensation Committee approved an annual bonus of \$78,000 to Mr. Ran in 2018.

### **13. Subsequent Events**

On February 26, 2020, the Company adopted a share buy back program for the repurchase of up to 100,000 shares of the Company's common stock. The share buy back program does not obligate the Company to purchase any shares and expires in 12 months. As of March 12, 2020, the Company has purchased a total of 18,786 common shares under this share buy back program, at an aggregate cost of approximately \$102,000.

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# Corporate Information

## EXECUTIVE OFFICERS

Assaf Ran  
*Chief Executive Officer and President*

Vanessa Kao  
*Chief Financial Officer, Vice President, Treasurer and Secretary*

## BOARD OF DIRECTORS

Assaf Ran, *Chairman of the Board*

Lyron Bentovim (1)

Eran Goldshmit (1)(2)(3)

Michael J. Jackson (1)(2)(3)

Phillip Michals (1)(2)(3)

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance and Nominating Committee.

## SHAREOWNER SERVICES

Questions about stock-related matters may be directed to our transfer agent:

ASTfinancial  
6201 15th Avenue  
Brooklyn, NY 11219  
Phone: 800-937-5449  
Email: [help@astfinancial.com](mailto:help@astfinancial.com)

## COUNSEL

Sullivan & Worcester LLP  
1633 Broadway, 32nd Floor  
New York, NY 10019

## INDEPENDENT PUBLIC ACCOUNTANTS

Hoberman & Lesser CPA's, LLP  
252 West 37th Street, Suite 600E  
New York, NY 10018

## OTHER INFORMATION

A copy of the Company's annual report on Form 10-K, for the year ended December 31, 2019, filed with the Securities and Exchange Commission may be obtained without charge by any shareholder by sending a written request to:

Manhattan Bridge Capital Inc.  
Investor Relations Department  
60 Cutter Mill Road, Suite 205  
Great Neck, NY 11021  
(516) 444-3400  
or at [www.manhattanbridgecapital.com](http://www.manhattanbridgecapital.com)

Additional information can be received by contacting our investor relations department at the telephone number above.

## STOCK MARKET INFORMATION

2018	Common Stock		Cash dividends declared
	High	Low	
First Quarter	\$7.20	\$5.70	\$0.1200
Second Quarter	\$7.70	\$6.36	\$0.1200
Third Quarter	\$8.00	\$5.95	\$0.1200
Fourth Quarter	\$6.50	\$5.34	\$0.1200
2019			
First Quarter	\$6.62	\$5.52	\$0.1200
Second Quarter	\$6.73	\$5.89	\$0.1200
Third Quarter	\$6.72	\$6.00	\$0.1200
Fourth Quarter	\$6.60	\$6.08	\$0.1200
2020			
First Quarter	\$6.48	\$2.54	\$0.1100

## Holdings

As of May 1, 2020, the number of registered holders of our common shares was 12 and the estimated number of beneficial owners of our common shares was approximately 4,700. American Stock Transfer & Trust Company serves as transfer agent for our common shares.

## Dividends

We elected to be taxed as a REIT commencing with our year ended December 31, 2014. From and after the effective date of our REIT election, we intend to pay regular quarterly distributions to holders of our common shares in an amount not less than 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gains). As a REIT, our distributions generally will be taxable as ordinary income to our shareholders (subject to the lower effective tax rates applicable to qualified REIT dividends via the deduction-without-outlay mechanism of Section 199A of the Code, which is available to our noncorporate U.S. shareholders for taxable years before 2026), although we may designate a portion of the distributions as qualified dividend income or capital gain or a portion of the distributions may constitute a return of capital. For tax reporting purposes, taxable income dividends/distributions and non-taxable return of capital distributions may result and will be reported as such to U.S. individual taxpayers on Form 1099-DIV. For the tax year of 2019, 99.05% of our total distributions are characterized as non-qualified dividends and 0.95% are characterized as return of capital.



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## **MANHATTAN BRIDGE CAPITAL**

60 Cutter Mill Road, Suite 205  
Great Neck, NY 11021

**Tel: 516-444-3400**

**Fax: 516-444-3404**

[www.manhattanbridgecapital.com](http://www.manhattanbridgecapital.com)