



**MANHATTAN  
BRIDGE CAPITAL**

**ANNUAL  
REPORT**

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DECEMBER 31, 2015

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**NASDAQ:LOAN**



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Dear valued Shareholders,

2015 was a record year for our company. Revenue increased to over \$4 million and net earnings were over \$2.2 million or \$0.33 per share. In addition, our shareholders' net equity increased from approximately \$14 million to approximately \$18 million. We continued practicing our strict underwriting policies, as well as our rigorous portfolio management in order to maintain our impressive no-defaults track record since the beginning of this line of business in 2007. In February of 2015 we increased our line of credit with Webster Business Credit Corp to \$14,000,000, yet, our equity to leverage ratio is still lower than most mortgage lenders and reflects our conservative and responsible approach. The fact that I'm personally guarantying the credit line with Webster demonstrates my trust and confidence in the portfolio, as well as my commitment to the success of the company.

As the markets are now saturated with cash offered to real estate investors in our geographic area, our challenge is to stick to our principles and values and to avoid chasing the market. I personally believe that Brooklyn and Manhattan are deep in a bubble zone and are overwhelmed with inventory. Therefore, we stay away from deals that we find overpriced. Like always, although we finance investment properties, we insist on a personal guaranty from the principals, first mortgage position on the property, safe LTV, monthly interest payments and other unique measures to insure the quality of the loans. Given the short term of the loans and the relatively high interest we charge, we believe that our loans are safer than conventional mortgages.

As our national debt approaches the \$20 trillion threshold, our government debt might face additional credit rating downgrades or major government spending cuts. Those events could have a negative impact on interest rates and the real estate market. We feel that we are prepared to face a turbulent economic climate and may even benefit from it since usually money recklessly offered to real estate investors, based on light underwriting standards and inflated property evaluations, as now is available by some of our competitors, disappears in a slower economic environment.

These are just a few of the challenges and concerns we face in 2016. However, we are focused on the market dynamic conditions and are taking the necessary actions in order to continue to grow the company responsibly and steadily, in a strong or weak real estate market.

I appreciate your trust,

Assaf Ran

  
CEO and Chairman of the Board

## 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. We are organized and conduct our operations to qualify as a real estate investment trust (“REIT”) for federal income tax purposes. We have been taxed as a REIT, for U.S. federal income tax purposes beginning with our taxable year ending December 31, 2014.

We are organized as a New York corporation and operated as a fully-taxable C-corporation for federal, state and city 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 at a price to the public of \$2.85 per share. 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 REIT status, we are required to distribute at least 90% of our 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 REIT status 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.

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 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 originate historically ranged from \$14,000 to a maximum of \$1.475 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) \$1.5 million. Our loans typically have a maximum initial term of 12 months and bear interest at a fixed rate of 12% to 15% per year. In addition, we usually receive origination fees or “points” ranging from 1% to 3% 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 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 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. 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 newspaper 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 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 in this market, specifically the demand/supply imbalance for relatively small real estate loans, presents significant opportunities for us to selectively originate high-quality first mortgage loans on attractive terms and that these 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 in the New York metropolitan market, presents a compelling opportunity to generate attractive returns for an established, well-financed, non-bank lender like us. We have competed successfully in this market 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 in the New York metropolitan area, where real estate values continue to rise 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 borrower 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 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 to 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 lack of 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 as a REIT and for an exemption from registration under the Investment Company Act.

In furtherance of these strategies, on February 27, 2015, we obtained a three-year \$14 million revolving line of credit with Webster Business Credit Corporation (“Webster”) to replace our existing \$7.7 million credit facility with Sterling National Bank.

## **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. So 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 New York metropolitan area real estate market 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, the creditworthiness of the guarantors and the availability of other forms of collateral.
- **Vertically-integrated loan origination platform.** We manage and control the loan process from origination through closing with our own personnel or independent legal counsel and appraisers, with whom we have long relationships, who together constitute a team highly experienced in credit evaluation, underwriting and loan structuring. We also believe that our procedures and experience allows 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 in the New York metropolitan area 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, 2014, our unfunded commitment was approximately \$2.55 million.



At December 31, 2015, our unfunded commitment was approximately \$2.16 million. Advances under construction loans are funded against requests supported by all required documentation (including lien waivers) 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. All of our loans are secured by properties located in the New York metropolitan area, which is where we are based. We have no intention at this time to attempt to expand into any other geographic market. 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** - Historically, \$14,000 to \$1.475 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) \$1.5 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 12% to 15%.

**Term** - Generally, one year with early termination in the event of a sale of the property or a refinancing. More recently, the number of loans in our portfolio, both in absolute terms and as a percentage, with a term of greater than one year has grown. 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.

**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 make a payment when due; (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 1% to 3% 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 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, the cost of an environmental assessment report, if any, the cost of a credit report and all title, recording fees and legal fees.

### Operating Data

Our lending activities increased each year since 2007, the first year we started making real estate loans. We believe our business will continue to grow given the strength of the New York real estate market and our reputation among real estate investors as a reliable and reasonable financing source.

## 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>2015</u>	<u>2014</u>
Loans originated	\$ 21,609	\$22,586
Loans repaid	\$ 14,737	\$13,248
Mortgage lending revenues	\$ 4,001	\$ 2,904
Mortgage lending expenses	\$ 694	\$ 566
Number of loans outstanding	97	86
Principal amount of loans earning interest	\$ 30,904	\$ 24,032
Average outstanding loan balance	\$ 319	\$ 279
Percent of loans secured by New York area properties <sup>(1)</sup>	100.0%	100.0%
Weighted average contractual interest rate	12.3%	12.5%
Weighted average term to maturity (in months) <sup>(2)</sup>	5.40	5.57

(1) Calculated based on the number of loans.

(2) Without giving effect to extension options.

At December 31, 2015 and 2014, 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, 2015 and 2014, and the interest earned in each category (dollars in thousands):

	<u>2015</u>			<u>2014</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	93	\$2,289	93%	80	\$1,585	90%
Commercial	1	120	5%	4	172	10%
Mixed Use	3	46	2%	1	3	0%
Other	0	0	0%	1	3	0%
Total	97	\$2,455	100%	86	\$1,763	100%

## Our Origination Process and Underwriting Criteria

We primarily rely on our relationships with existing and former borrowers, real estate investors, real estate brokers 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 usually require a third party appraisal and a third party assessment report. 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 principles 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. Our principal capital raising transactions have consisted of the following:

*Credit line.* On February 27, 2015, we repaid and terminated the Sterling Credit Line, as described in “Liquidity and Capital Resources” below, and simultaneously entered into a Line of Credit Agreement with Webster pursuant to which we may borrow up to \$14 million during the next three years (the “Webster Credit Line”). The Webster Credit Line provides for an interest rate equal to (i) LIBOR plus 4.75% or (ii) Webster’s base commercial lending rate plus 3.25%, as chosen by us for each drawdown, and expires on February 27, 2018. The credit line is secured by assignment of mortgages and other collateral and is guaranteed by Assaf Ran, our chief executive officer. (See Note 8 to the financial statements included elsewhere in this report.)

*Short-term loans.* Over the last six years we have raised approximately \$8.7 million through the sale of short and medium-term promissory notes. Senior secured notes having an aggregate principal amount of \$500,000 were repaid in full in 2013. As of December 31, 2015, five short-term notes having an aggregate principal amount of approximately \$1.1 million and bearing interest from 8% to 12% are outstanding. All of these notes will mature on or before February 11, 2017. Pursuant to the Webster Credit Line, we may not renew or extend these notes when they become due.

In July 2014, we sold 1,754,386 common shares in a registered public offering for an aggregate of \$5.0 million or approximately \$4.3 million, after deducting our underwriting discounts and commissions and offering expenses.

On May 29, 2015, we completed another public offering of 1,015,000 common shares. In June 2015, the underwriter partially exercised its over-allotment option for an additional 105,000 common shares. The gross proceeds from the offering, including the partial exercise of the over-allotment option, were approximately \$4.9 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

The following table shows our sources of capital, including our financing arrangements, and our loan portfolio as of December 31, 2015:

#### Sources of Capital (\$ in thousands):

Debt:	
Short-term loans	\$ 1,096
Line of credit	11,821
Total debt	<u>\$ 12,917</u>
Other liabilities	996
Capital (equity)	17,743
Total sources of capital	<u><u>\$ 31,656</u></u>
Assets:	
Loans:	
Short-term loans	\$ 20,199
Long-term loans	10,705
Total loans	<u>\$ 30,904</u>
Other assets	752
Total assets	<u><u>\$ 31,656</u></u>

## **Competition**

The real estate finance market in 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, 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.

## **Sales and Marketing**

We do not engage any third parties for sales and marketing. Rather, we rely on our chief executive officer to generate lending opportunities as well as referrals from existing or former borrowers, brokers, and bankers and newspaper advertising and direct mail 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 (USPTO) including the following marks relating to our current business:

Manhattan Bridge Capital

DAG Funding Solutions

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, 2015, we employed four full-time employees. In addition, during 2015 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 independent 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.

### *Regulatory Reform*

The Dodd-Frank Act, which went into effect on July 21, 2010, is intended to make significant structural reforms to the financial services industry. For example, pursuant to the Dodd-Frank Act, various federal agencies have promulgated, or are in the process of promulgating, regulations with respect to various issues that may affect us. Certain regulations have already been adopted and others remain under consideration by various governmental agencies, in some cases past the deadlines set in the Dodd-Frank Act for adoption. At the present time, we do not believe any regulations adopted under the Dodd-Frank Act apply to us. However, it is possible that regulations that will be adopted in the future will apply to us or that existing regulations will apply to us as our business evolves.

### *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 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. Real estate mortgages are excluded from the term "investment securities."

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." The U.S. Securities and Exchange Commission (the "SEC") generally requires that, for the exception provided by Section 3(c)(5)(C) to be available, 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 additional qualifying interests or real estate-type interests (with no more than 20% of the entity's assets comprised of miscellaneous assets). At the present time, we qualify for the exemption 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 qualify as 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.

### **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 that expires August 31, 2016. The current monthly rent is \$3,535, 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 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. We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. We elected to be taxed as a REIT commencing with our taxable year ended December 31, 2014. As a REIT, we are required to distribute at least 90% of our taxable income to our shareholders on an annual basis.

The properties securing our loans are generally classified as residential or commercial real estate and, typically, are held for resale or investment 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 guaranty, which guaranty may be collaterally secured by a pledge of the guarantor's interest in the borrower. The face amounts of the loans we originate historically have ranged from \$14,000 to a maximum of \$1,475,000. Our Board 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) \$1.5 million. Our loans typically have a maximum initial term of 12 months and bear interest at a fixed rate of 12% to 15% per year. In addition, we usually receive origination fees, or "points," ranging from 1% to 3% 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.

Since commencing this business in 2007, we have made over 410 loans, have 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 in the New York metropolitan market is significant and growing 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 on attractive terms and that this condition 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 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 newspaper advertising and direct mail. 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 independent construction inspectors.

At December 31, 2015, we were committed to an additional \$2,155,000 in construction loans that can be drawn by the borrower when certain conditions are met.

In July 2014, we completed a public offering of 1,754,386 common shares. The gross proceeds from the offering were \$5.0 million and the net proceeds were approximately \$4.3 million, after deducting our underwriting discounts and commissions and offering expenses. As a result of this offering, we satisfied all of the requirements to be taxed as a REIT. We elected to be taxed as a REIT commencing with our taxable year ended December 31, 2014. In order to maintain our qualification as a REIT and avoid any excise tax on our net taxable income, we are required to distribute each year at least 90% of our taxable income. If we distribute less than 100% of our taxable income (but more than 90%), the undistributed portion will be taxed at the regular corporate income tax rates. As a REIT, we may also be subject to federal excise taxes and minimum state taxes.

On May 29, 2015, we completed another public offering of 1,015,000 common shares. In June 2015, the underwriter partially exercised its over-allotment option for an additional 105,000 common shares. The gross proceeds from the offering, including the partial exercise of the over-allotment option, were approximately \$4.9 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

On February 27, 2015, we repaid and terminated our Sterling Credit Line, as described in "Liquidity and Capital Resources" below, and replaced it with the Webster Credit Line, as described in "Liquidity and Capital Resources" below, pursuant to which we may borrow up to \$14 million during the next three years. The Webster Credit Line provides for an interest rate of either LIBOR plus 4.75% or Webster's base commercial lending rate plus 3.25%, as chosen by us for each drawdown, and expires on February 27, 2018. The credit line is secured by assignment of mortgages and other collateral and is guaranteed by Assaf Ran, our chief executive officer.

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 generally accepted accounting principles 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.

We recognize revenues in accordance with ASC 605, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. ASC 605 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. In general, we recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred or services have been rendered, (iii) the sales price charged is fixed or determinable, and (iv) collectability is reasonably assured.

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 and goodwill, 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 Annual Report on Form 10-K, which contain accounting policies and other disclosures required by generally accepted accounting principles in the United States of America.



## Results of operations

### Years ended December 31, 2015 and 2014

#### *Total revenue*

Total revenue for the year ended December 31, 2015 was approximately \$4,001,000 compared to approximately \$2,904,000 for the year ended December 31, 2014, an increase of \$1,097,000, or 37.8%. The increase in revenue represents an increase in lending operations. In 2015, approximately \$3,356,000 of our revenue represents interest income on secured, real estate loans that we offer to small businesses compared to approximately \$2,401,000 in 2014, and approximately \$645,000 represents origination fees on such loans compared to approximately \$503,000 in 2014. The loans are principally secured by collateral consisting of real estate and, generally, accompanied by personal guarantees from the principals of the businesses.

#### *Interest and amortization of debt service costs*

Interest and amortization of debt service costs for the year ended December 31, 2015 were approximately \$691,000 compared to approximately \$563,000 for the year ended December 31, 2014, an increase of \$128,000 or 22.7%. The increase in interest and amortization of debt service costs was primarily attributable to the establishment and use of the Webster Credit Line (See Note 8 to the financial statements included elsewhere in this report) in order to increase our ability to make loans.

#### *General and administrative expenses*

General and administrative expenses for the year ended December 31, 2015 were approximately \$1,039,000 compared to approximately \$877,000 for the year ended December 31, 2014, an increase of \$162,000 or 18.5%. The increase is primarily attributable to the increased annual bonus to officers, a special bonus to officers for establishing the Webster Credit Line (See Note 8 to the financial statements included elsewhere in this report), and increases in banking, consulting, accounting, travel and meal expenses.

#### *Other income*

Other income for the years ended December 31, 2015 and 2014, was \$0 and approximately \$21,000, respectively, which represents the fees generated from the remaining seller buy back option in 2014. This option was fully exercised by the option holder in October 2014. (See Note 5 to the financial statements included elsewhere in this report.)

#### *Other loss*

Other loss for the years ended December 31, 2015 and 2014, was approximately \$29,000 and \$0, respectively. The loss in 2015 was primarily attributable to our termination of the use of a computer software, resulting in an impairment loss of approximately \$14,000 and our write down of the value of our investment in a privately held company, resulting in a loss on write-down of investment in privately held company of \$15,000. (See Note 6 and Note 7 to the financial statements included elsewhere in this report.)

#### *Income before income tax expense*

Income before provision for income tax for the year ended December 31, 2015 was approximately \$2,239,000 compared to approximately \$1,482,000 for the year ended December 31, 2014, an increase of \$757,000 or 51.1%. This increase is primarily attributable to the increase in revenue, offset by the increase in interest and payroll expenses.

#### *Income tax expense*

We elected to be taxed as a REIT commencing with our taxable year ended December 31, 2014. For the years ended December 31, 2015 and 2014, we had income tax expenses of approximately \$2,000 and \$28,000, respectively. In 2015, the income tax expense represents the minimum state taxes. In 2014, the income tax expense was primarily due to our determination that we under accrued 2013 income tax expense.

## Liquidity and Capital Resources

At December 31, 2015, we had cash and cash equivalents of approximately \$107,000 and working capital of approximately \$6.8 million compared to cash and cash equivalents of approximately \$48,000 and working capital of approximately \$8.8 million at December 31, 2014. The decrease in working capital is primarily attributable to the reclassification of a portion of short-term loans to long-term loans receivable. At December 31, 2015, our long-term loans receivable represents 34.64% of our loan portfolio, compared to 20.36% at December 31, 2014.

For the years ended December 31, 2015 and 2014, net cash provided by operating activities was approximately \$2.1 million and \$1.3 million, respectively. The increase in net cash provided by operating activities primarily results from increases in net income, offset by an increase in interest receivable on loans and a decrease in accounts payable and accrued expenses.

For the year ended December 31, 2015 net cash used in investing activities was approximately \$6.9 million, compared to approximately \$9.2 million for the year ended December 31, 2014. Net cash used in investing activities for the year ended December 31, 2015, consisted of the issuance of our short term real estate loans in the amount of approximately \$21.6 million and the purchase of fixed assets of approximately \$10,000, offset by collection of our real estate loans in the amount of approximately \$14.7 million. Net cash used in investing activities for the year ended December 31, 2014, consisted of the issuance of our short term real estate loans in the amount of approximately \$22.6 million and the purchase of fixed assets of approximately \$19,000, offset by collection of our real estate loans in the amount of approximately \$13.2 million and the proceeds from exercise of option of approximately \$147,000 (See Note 5 to the financial statements included elsewhere in this report).

For the year ended December 31, 2015 net cash provided by financing activities was approximately \$4.8 million, compared to approximately \$7.0 million for the year ended December 31, 2014. Net cash provided by financing activities for the year ended December 31, 2015 reflects the net proceeds from the public offering of approximately \$4.2 million, the proceeds from lines of credit and short-term loans in the net amount of approximately \$2.7 million and the proceeds from the exercise of stock options and warrants of approximately \$135,000, offset by the dividend payment of approximately \$2.1 million, and the deferred financing costs in the aggregate of approximately \$172,000 of which approximately \$112,000 was attributable to the Webster Credit Line and approximately \$60,000 was attributable to the proposed public offering of our securities. Net cash provided by financing activities for the year ended December 31, 2014 reflects the proceeds from Sterling Credit Line and short-term loans in the net amount of \$3.5 million, the net proceeds from the public offering of approximately \$4.3 million, and the proceeds from exercise of stock options of approximately \$55,000, offset by the dividend payments of approximately \$853,000 and the deferred financing costs in the amount of approximately \$33,000.

On February 27, 2015, we entered into a Credit and Security Agreement with Webster Business Credit Corporation ("Webster") pursuant to which we may borrow up to \$14 million until February 27, 2018 (the "Webster Credit Line") against assignments of mortgages and other collateral. The Webster Credit Line provides for an interest rate of either LIBOR plus 4.75% or the base commercial lending rate of Webster plus 3.25% as chosen by us for each drawdown. The Webster Credit Line contains various covenants and restrictions, including limiting the amount that we can borrow relative to the value of the underlying collateral, maintaining various financial ratios and limitations on the terms of loans we make to our customers. Mr. Ran, has personally guaranteed all of our obligations to Webster.

The Webster Credit Line replaced the \$7.7 million credit facility (the "Sterling Credit Line") with Sterling National Bank ("Sterling"). We paid off the entire balance due to Sterling with proceeds from the Webster Credit Line and terminated the Sterling Credit Line on February 27, 2015. In addition, we utilized the Webster Credit Line to repay in full loans from Mr. Ran in the aggregate amount of \$1,100,000, as well as two short-term loans, outstanding at December 31, 2014, in the aggregate amount of \$1,000,000, bearing interest at the rate of 12% per annum. At December 31, 2015, the outstanding amount under the Webster Credit Line was \$11.8 million. The interest rate on the amount outstanding fluctuates daily. The rate for December 31, 2015 was 5.1739%.

Until our initial public offering in 1999, our principal source of funds was cash flow from operations, which funded both our working capital needs and capital expenditures. In May 1999 we completed our initial public offering in which we raised net proceeds of approximately \$6.4 million.

In July 2014, we completed a public offering of 1,754,386 common shares, which raised gross proceeds of \$5.0 million and the net proceeds of approximately \$4.3 million, after deducting our underwriting discounts and commissions and offering expenses. As a result of this offering, we satisfied all of the requirements to be taxed as a REIT and elected to be taxed as a REIT commencing with our taxable year ended December 31, 2014.

In order to maintain our qualification as a REIT and avoid any excise tax on our net taxable income, we are required to distribute each year at least 90% of our taxable income. If we distribute less than 100% of our taxable income (but more than 90%), the undistributed portion will be taxed at the regular corporate income tax rates. As a REIT, we may also be subject to federal excise taxes and minimum state taxes. For the 2015 tax year, our total distributions included non-qualified dividends equal to 100% of our taxable income and a return of capital equal to 1.4% of our total distributions.

On May 29, 2015, we completed another public offering of 1,015,000 common shares. In June 2015, the underwriter partially exercised its over-allotment option for an additional 105,000 common shares. The gross proceeds from the offering, including the partial exercise of the over-allotment option, were approximately \$4.9 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

We anticipate that our current cash balances and the Webster Credit Line, as described above, together with our cash flows from operations will be sufficient to fund our operations for the next 12 months. However, we expect our working capital requirements to increase over the next 12 months as we continue to strive for growth.

**Contractual Obligations**

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Operating Lease Obligations (*)	\$28,100	\$28,100	\$---	\$---	\$---

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

**Recent Technical Accounting Pronouncements**

In January 2015, the FASB issued ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." This ASU eliminates the separate presentation of extraordinary items but does not change the requirement to disclose material items that are unusual or infrequent in nature. The ASU is effective for fiscal years beginning after December 15, 2015, as well as interim periods within those fiscal years. The ASU may be applied retrospectively to all prior periods presented in the financial statements, and early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs". Under the ASU, an entity presents debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The ASU is effective for public entities for fiscal years beginning after December 15, 2015, and interim periods therein. For private companies and not-for-profit organizations, the ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the Emerging Issues Task Force)". The ASU provides reporting entities with an option to measure the fair value of certain investments using net asset value instead of fair value. The ASU is effective for public entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting". The ASU incorporates the SEC staff's announcement that clarifies the exclusion of line-of-credit arrangements from the scope of ASU 2015-03. Therefore, debt issuance costs related to line-of-credit arrangements can be deferred and presented as an asset that is subsequently amortized over the time of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The ASU should be adopted concurrent with adoption of ASU 2015-03. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The ASU simplifies the presentation of deferred income taxes by requiring deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. This Update will align the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards (IFRS). For public business entities, the ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the ASU is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". The ASU intends to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for certain provisions. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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

### FORWARD-LOOKING STATEMENTS

*This 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. 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) we have limited operating history as a REIT; (ii) our loan origination activities, revenues and profits are limited by available funds (iii) we operate in a highly competitive market and competition may limit our ability to originate loans with favorable interest rates; (iv) our chief executive officer is critical to our business and our future success may depend on our ability to retain him; (v) if we overestimate the yields on our loans or incorrectly value the collateral securing the loan, we may experience losses; (vi) we may be subject to "lender liability" claims; (vii) our loan portfolio is illiquid; (viii) our due diligence may not uncover all of a borrower's liabilities or other risks to its business; (ix) borrower concentration could lead to significant losses; (x) our management has no experience managing a REIT; and (xi) 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. 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 update or revise any forward-looking statements. 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.*

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 106,836	\$ 47,676
Short term loans receivable	20,199,000	19,138,426
Interest receivable on loans	382,572	213,766
Other current assets	32,865	26,995
Total current assets	<u>20,721,273</u>	<u>19,426,863</u>
Long term loans receivable	10,705,040	4,894,050
Property and equipment, net	8,771	19,088
Security deposit	6,816	6,816
Investment in privately held company	50,000	65,000
Deferred financing costs	164,510	32,500
Total assets	<u>\$ 31,656,410</u>	<u>\$ 24,444,317</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Line of credit	\$ 11,821,099	\$ 7,700,000
Short term loans	1,095,620	2,469,465
Accounts payable and accrued expenses	99,643	163,622
Deferred origination fees	279,682	244,776
Dividends payable	617,443	---
Total liabilities, all current	<u>13,913,487</u>	<u>10,577,863</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred shares - \$.01 par value; 5,000,000 shares authorized; no shares issued	---	---
Common shares - \$.001 par value; 25,000,000 authorized; 7,441,039 and 6,260,689 issued; 7,264,039 and 6,083,689 outstanding	7,441	6,260
Additional paid-in capital	18,500,524	14,116,183
Treasury stock, at cost - 177,000	(369,335)	(369,335)
(Accumulated deficit) Retained earnings	(395,707)	113,346
Total stockholders' equity	<u>17,742,923</u>	<u>13,866,454</u>
Total liabilities and stockholders' equity	<u>\$ 31,656,410</u>	<u>\$ 24,444,317</u>
The accompanying notes are an integral part of these consolidated financial statements.		

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Interest income from loans	\$ 3,355,920	\$ 2,401,150
Origination fees	644,706	502,515
Total Revenue	<u>4,000,626</u>	<u>2,903,665</u>
Operating costs and expenses:		
Interest and amortization of debt service costs	691,392	563,368
Referral fees	2,356	2,244
General and administrative expenses	1,038,849	876,906
Total operating costs and expenses	<u>1,732,597</u>	<u>1,442,518</u>
Income from operations	<u>2,268,029</u>	<u>1,461,147</u>
Other income (Note 5)	---	21,197
Impairment loss on property and equipment (Note 6)	(13,863)	---
Loss on write-down of investment in privately held company (Note 7)	(15,000)	---
Total other (loss) income, net	<u>(28,863)</u>	<u>21,197</u>
Income before income tax expense	2,239,166	1,482,344
Income tax expense	(1,595)	(27,839)
Net income	<u>\$ 2,237,571</u>	<u>\$ 1,454,505</u>
Basic and diluted net income per common share		
--Basic	<u>\$ 0.33</u>	<u>\$ 0.29</u>
--Diluted	<u>\$ 0.33</u>	<u>\$ 0.29</u>
Weighted average number of common shares outstanding		
--Basic	<u>6,759,219</u>	<u>5,028,645</u>
--Diluted	<u>6,786,610</u>	<u>5,058,421</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, 2015 and 2014**

	Common Stock		Additional Paid-in Capital	Treasury Stock		(Accumulat ed Deficit) / Retained Earnings	Totals
	Shares	Amount		Shares	Cost		
Balance, January 1, 2014	4,433,190	\$4,433	\$ 9,745,249	177,000	\$(369,335)	\$(487,660)	\$ 8,892,687
Non cash compensation			28,767				28,767
Exercise of stock options	66,887	67	55,163				55,230
Exercise of warrants	6,226	6	(6)				0
Public offering	1,754,386	1,754	4,287,010				4,288,764
Dividends paid						(853,499)	(853,499)
Net income for the year ended December 31, 2014						1,454,505	1,454,505
Balance, December 31, 2014	<b>6,260,689</b>	<b>6,260</b>	<b>14,116,183</b>	<b>177,000</b>	<b>(369,335)</b>	<b>113,346</b>	<b>13,866,454</b>
Non cash compensation			13,664				13,664
Exercise of stock options	40,000	40	61,150				61,190
Exercise of warrants	20,350	21	73,449				73,470
Public offering	1,120,000	1,120	4,236,078				4,237,198
Dividends paid						(2,129,181)	(2,129,181)
Dividends declared and payable						(617,443)	(617,443)
Net income for the year ended December 31, 2015						2,237,571	2,237,571
Balance, December 31, 2015	<b><u>7,441,039</u></b>	<b><u>\$7,441</u></b>	<b><u>\$18,500,524</u></b>	<b><u>177,000</u></b>	<b><u>\$(369,335)</u></b>	<b><u>\$(395,707)</u></b>	<b><u>\$17,742,923</u></b>

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

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net income	\$ 2,237,571	\$ 1,454,505
Adjustments to reconcile net income to net cash provided by operating activities -		
Amortization of deferred financing costs	39,542	---
Depreciation	5,714	---
Non cash compensation expense	13,664	28,767
Impairment loss on property and equipment (Note 6)	13,863	---
Loss on write-down of investment in privately held company (Note 7)	15,000	---
Changes in operating assets and liabilities		
Interest receivable on loans	(168,806)	(42,283)
Other current and non current assets	(5,871)	(8,634)
Accounts payable and accrued expenses	(63,979)	106,556
Deferred origination fees	34,906	112,758
Income taxes payable	---	(373,219)
Net cash provided by operating activities	<u>2,121,604</u>	<u>1,278,450</u>
Cash flows from investing activities:		
Issuance of short term loans	(21,609,000)	(22,585,990)
Collections received from loans	14,737,436	13,248,464
Proceeds from exercise of option (Note 5)	---	146,821
Purchase of fixed assets	(9,260)	(19,088)
Net cash used in investing activities	<u>(6,880,824)</u>	<u>(9,209,793)</u>
Cash flows from financing activities:		
Proceeds from loans and line of credit, net	2,747,254	3,500,000
Proceeds from exercise of stock options and warrants	134,660	55,230
Proceeds from public offering, net	4,237,198	4,288,765
Dividends paid	(2,129,181)	(853,499)
Deferred financing costs incurred	(171,551)	(32,500)
Net cash provided by financing activities	<u>4,818,380</u>	<u>6,957,996</u>
Net increase (decrease) in cash and cash equivalents	59,160	(973,347)
Cash and cash equivalents, beginning of year	<u>47,676</u>	<u>1,021,023</u>
Cash and cash equivalents, end of year	<u>\$ 106,836</u>	<u>\$ 47,676</u>
Supplemental Cash Flow Information:		
Taxes paid during the year	<u>\$ 56</u>	<u>\$ 416,083</u>
Interest paid during the year	<u>\$ 596,187</u>	<u>\$ 563,368</u>
Supplement Information – Noncash Information:		
Dividend declared and payable	<u>\$ 617,443</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 SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2015 and 2014

### 1. The Company

Manhattan Bridge Capital, Inc. (“MBC”) and its wholly-owned subsidiaries DAG Funding Solutions, Inc. and MBC Funding II Corp. (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.

### 2. Significant Accounting Policies

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Manhattan Bridge Capital, Inc., and its wholly-owned subsidiaries DAG Funding Solutions, Inc. (“DAG Funding”) and MBC Funding II Corp. (“MBC Funding”). All significant intercompany balances and transactions have been eliminated in consolidation.

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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 condition. Actual amounts could differ from those estimates.

#### *Cash and Cash Equivalents*

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

#### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and marketable securities. The Company maintains its cash and cash equivalents with one major financial institution. Accounts at the financial institution 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 entitled Commercial Loans.

#### *Impairment of long-lived assets*

The Company continually monitors events or changes in circumstances that could indicate carrying amounts of long lived assets, may not be recoverable. When such events or changes in circumstances occur, the Company assesses 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, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets.

# Notes to Consolidated Financial Statements

## *Income Taxes*

The Company accounts for income taxes under the provisions of FASB ASC 740, "Income Taxes". Under the provisions of FASB ASC 740, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rate is recognized in income in the period that includes the enactment date.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considers all available evidence including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that the Company changes its determination as to the amount of deferred tax assets that can be realized, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

The Company follows ASC 740 rules governing tax positions which provide guidance for recognition and measurement. This prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. It also provides accounting guidance on derecognition, classification and disclosure of these uncertain tax positions.

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 our 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 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 tax on such income. The Company may be subject to federal excise tax and minimum state taxes.

## *Revenue Recognition*

The Company recognizes revenues in accordance with ASC 605, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. ASC 605 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. In general, the Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred or services have been rendered, (iii) the sales price charged is fixed or determinable, and (iv) collectability is reasonably assured.

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*

Deferred financing costs at December 31, 2015 include costs incurred in connection with MBC Funding II Corp's proposed public offering of the Company's securities and costs incurred in connection with the Company's Webster Credit Line, as discussed in Note 8, which are being amortized over three years using the straight-line method.

## *Earnings Per Share ("EPS")*

Basic and diluted earnings per share 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 earnings per share include the potential dilution from the exercise of stock options and warrants for common shares using the treasury stock method.

## Notes to Consolidated Financial Statements

The numerator in calculating both basic and diluted earnings per common share 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,	
	2015	2014
Basic weighted average common shares outstanding	6,759,219	5,028,645
Incremental shares for assumed exercise of options	27,391	29,776
Diluted weighted average common shares outstanding	6,786,610	5,058,421

77,778 and 51,224 vested options and warrants were not included in the diluted earnings per share calculation for the years ended December 31, 2015 and 2014, respectively, because their effect would have been anti-dilutive.

### *Stock-Based Compensation*

The Company measures and recognizes 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”, 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 cash and cash equivalents, short term loans, the line of credit and accounts payable, 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.

### *Recent Accounting Pronouncements*

In January 2015, the FASB issued ASU 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This ASU eliminates the separate presentation of extraordinary items but does not change the requirement to disclose material items that are unusual or infrequent in nature. The ASU is effective for fiscal years beginning after December 15, 2015, as well as interim periods within those fiscal years. The ASU may be applied retrospectively to all prior periods presented in the financial statements, and early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”. Under the ASU, an entity presents debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The ASU is effective for public entities for fiscal years beginning after December 15, 2015, and interim periods therein. For private companies and not-for-profit organizations, the ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

## Notes to Consolidated Financial Statements

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the Emerging Issues Task Force)". The ASU provides reporting entities with an option to measure the fair value of certain investments using net asset value instead of fair value. The ASU is effective for public entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting". The ASU incorporates the SEC staff's announcement that clarifies the exclusion of line-of-credit arrangements from the scope of ASU 2015-03. Therefore, debt issuance costs related to line-of-credit arrangements can be deferred and presented as an asset that is subsequently amortized over the time of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The ASU should be adopted concurrent with adoption of ASU 2015-03. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The ASU simplifies the presentation of deferred income taxes by requiring deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. This Update will align the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards (IFRS). For public business entities, the ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the ASU is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". The ASU intends to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for certain provisions. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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

### 3. Cash and Cash Equivalents

Effective January 1, 2008, the Company adopted ASC 820, Fair Value Measurements, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC 820-10 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1—Quoted prices in active markets.

Level 2—Observable inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3—Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.



## Notes to Consolidated Financial Statements

Cash equivalents and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy. The Company's Level 1 investments are valued using quoted market prices in active markets. As of December 31, 2015 and 2014 the Company's Level 1 investments consisted of cash and money market accounts in the amount of approximately \$107,000 and \$48,000, respectively, and were recorded as cash and cash equivalents in the Company's consolidated balance sheets.

### 4. Commercial Loans

#### *Short Term 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. The loans are principally secured by collateral consisting of real estate and, generally, accompanied by personal guarantees from the principals of the businesses. 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, 2015 and 2014 the total amounts of \$21,609,000 and \$22,585,990, respectively, have been lent, offset by collections received from borrowers, under the commercial loans in the amount of \$14,737,436 and \$13,248,464, respectively. The face amounts of the loans we originate historically have ranged from \$14,000 to a maximum of \$1,475,000. Our 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) \$1.5 million. Our loans typically have a maximum initial term of one year and bear interest at a flat rate of 12% to 15% per year. In addition, we usually receive origination fees, or "points," ranging from 1% to 3% 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.

The Company uses its own employees, outside lawyers and other independent professionals to verify titles and ownership, to file liens and to consummate the transactions. Outside appraisers are also used to assist the Company's officials in evaluating the worth of collateral. To date, the Company has 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.

At December 31, 2015, the Company was committed to an additional \$2,155,000 in construction loans that can be drawn by the borrower when certain conditions are met.

At December 31, 2015 and 2014, no one entity has loans outstanding representing more than 10% of the total balance of the loans outstanding.

At December 31, 2015, two of the loans in the Company's portfolio were jointly funded by the Company and unrelated entities, for aggregate loans of \$1,835,000. The accompanying balance sheet includes the Company's portion of the loans in the amount of \$1,230,000.

At December 31, 2014, eight of the loans in the Company's portfolio were jointly funded by the Company and unrelated entities, for aggregate loans of \$5,105,000. The accompanying 2014 balance sheet includes the Company's portion of the loans in the amount of \$2,665,000.

The Company generally grants loans for a term of one year. When a performing loan reaches its maturity and the borrower requests an extension we may extend the term of the loan beyond one year and reclassify it as part of long term loans receivable. Prior to granting an extension of any loan, we reevaluate the underlying collateral.

## Notes to Consolidated Financial Statements

### *Long Term Loans Receivable*

Long term loans receivable comprise the loans that were extended beyond the original maturity dates, unless it is clear that the loan will be paid back by December 31, 2016. At December 31, 2015, the Company's loan portfolio consists of \$20,199,000 short term loans receivable and approximately \$10,705,000 long term loans receivable. At December 31, 2014, the Company's loan portfolio consists of approximately \$19,138,000 short term loans receivable and approximately \$4,894,000 long term loans receivable.

### *Credit Risk*

Credit risk profile based on loan activity as of December 31, 2015 and 2014:

Performing loans	Developers-Residential	Developers-Commercial	Developers-Mixed Used	Other	Total outstanding loans
December 31, 2015	<u>\$ 28,801,540</u>	<u>\$ 1,000,000</u>	<u>\$1,102,500</u>	<u>\$ ---</u>	<u>\$ 30,904,040</u>
December 31, 2014	<u>\$ 22,360,040</u>	<u>\$ 1,635,000</u>	<u>\$ 20,000</u>	<u>\$ 17,436</u>	<u>\$ 24,032,476</u>

At December 31, 2015, the Company's long term loans receivable consists of loans in the amount of \$179,050, \$100,000, \$225,000, \$2,525,000 and \$7,675,990, originally due in 2009, 2010, 2013, 2014 and 2015, respectively. At December 31, 2014, the Company's long term loans receivable consists of loans in the amount of \$179,050, \$100,000, \$120,000, \$570,000 and \$3,925,000, originally due in 2009, 2010, 2011, 2013 and 2014, 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. Accordingly, at December 31, 2015 and 2014, no loan impairments exist and there are no provisions for impairments of loans or recoveries thereof included in operations for the years then ended.

Subsequent to the balance sheet date, \$6,155,000 of the loans receivable at December 31, 2015 were paid off.

### **5. Investment in Real Estate**

Other income for the year ended December 31, 2014 in the amount of \$21,197 represents the aggregate monthly option fees paid to the Company by the option holder for the right to buy back the one remaining 2-family building located in the Bronx, New York then owned by the Company (the "Buy back Option"). On October 2, 2014, the option holder exercised the Buy Back Option at the exercise price of \$146,821.

### **6. Impairment Loss on Property and Equipment**

During the year ended December 31, 2015, the Company determined to terminate the use of a computer software, resulting in an impairment loss in the amount of \$13,863.

### **7. Investment in Privately Held Company**

The Company had an original investment in a privately held Israeli-based company in the amount of \$100,000. The privately held company offers surgeons and radiologists the ability to detect cancer in real time. Due to the fact that the privately held company has experienced delays in executing its business plan, the Company determined to write down the value of its investment to \$65,000 at December 31, 2013. The Company further wrote down the value of its investment to \$50,000 at June 30, 2015, resulting in a charge to the statement of operations of \$15,000 for the year ended December 31, 2015.

## 8. Loans and Lines of Credit

### *Short Term Loans*

At December 31, 2014, the Company owed an aggregate of \$2,419,465 under eight separate short-term loans, bearing interest at rates ranging from 8% to 12% per annum. One of the loans in the amount of \$160,000, bearing interest at the rate of 10% per annum, is from a parent of a former member of the board of directors. Interest expense on this loan amounted to \$16,000 for the year ended December 31, 2014. The loans are secured by certain of the Company's assets pursuant to a security agreement and two of the loans were also personally guaranteed by Mr. Ran, the Company's CEO. In addition, Company also owed \$50,000 to Mr. Ran pursuant to a short-term loan from him in 2014 bearing interest at a rate of 6% per annum.

At December 31, 2015, the Company owed an aggregate of \$1,095,620 under five separate short-term loans, bearing interest at rates ranging from 8% to 12% per annum. Two of the loans in the aggregate amount of \$335,000, bearing interest at the rate of 10% per annum, are from a parent of a former member of the board of directors. Interest expense on these two loans amounted to \$31,118 for the year ended December 31, 2015. The loans are secured by certain of the Company's assets pursuant to a security agreement, and one of the loans is also personally guaranteed by Mr. Ran. These short-term loans are required to be paid at maturity and may not be renewed or extended. However, its credit line lender has allowed the Company to extend these loans in the past and may, in its discretion, allow further extensions.

During 2014, the Company received four separate short-term loans from three different entities in the aggregate amount of \$2,100,000, bearing interest at rates ranging from 12% to 14% per annum, and seven separate loans from Mr. Ran in amounts ranging from \$50,000 to \$250,000, bearing interest at a rate of 6% per annum. In addition, the Company modified one of its existing short-term loans to increase the principal amount borrowed from \$100,000 to \$200,000. By the end of December 31, 2014, the Company fully repaid two of the loans in the aggregate amount of \$1,100,000 and all of the loans from Mr. Ran with the exception of \$50,000. The aggregate interest expense attributable to the loans from Mr. Ran was \$5,867.

During 2015, the Company received two separate short-term loans in the aggregate amount of \$410,000, bearing interest at rates ranging from 10% to 12% per annum. One of the loans in the amount of \$175,000, bearing interest at the rate of 10% per annum, is from a parent of a former member of the board of directors. In addition, Mr. Ran made three loans in the aggregate amount of \$1,050,000 to the Company in January 2015, at an interest rate of 6% per annum. On February 27, 2015, the Company fully repaid the outstanding balance of the loans from Mr. Ran in the aggregate amount of \$1,100,000, including the \$50,000 outstanding balance remaining from 2014. The aggregate interest expense attributable to the loans from Mr. Ran was \$8,817. In addition, the Company also fully repaid the outstanding balances on five other short term loans in the aggregate amount of \$1,733,845. Such loans bore interest at rates ranging from 8% to 12% per annum.

Subsequent to the balance sheet date, the Company fully repaid the outstanding balance on one of its short-term loans in the amount of \$235,000. Such loan bore interest at a rate of 12% per annum. As a result, the remaining outstanding principal balance of its short-term loans is currently \$860,620.

### *Lines of Credit*

On February 27, 2015, the Company entered into a Line of Credit Agreement with Webster Business Credit Corporation ("Webster") pursuant to which it may borrow up to \$14 million until February 27, 2018 (the "Webster Credit Line") against assignments of mortgages and other collateral. The Webster Credit Line provides for an interest rate of either LIBOR plus 4.75% or the base commercial lending rate of Webster plus 3.25% as chosen by the Company for each drawdown. 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. Mr. Ran has personally guaranteed all of the Company's obligations to Webster. Total costs to establish the Webster Credit Line were approximately \$144,000. These costs are being amortized over three years, using the straight-line method. The amortization costs for the year ended December 31, 2015 were \$39,542.

## Notes to Consolidated Financial Statements

The Webster Credit Line replaced the \$7.7 million credit facility (the “Sterling Credit Line”) with Sterling National Bank (“Sterling”). The Company paid off the entire balance due to Sterling with proceeds from the Webster Credit Line and terminated the Sterling Credit Line on February 27, 2015. In addition, the Company utilized the Webster Credit Line to repay in full loans from Mr. Ran in the aggregate amount of \$1,100,000, as well as two short-term loans, outstanding at December 31, 2014, in the aggregate amount of \$1,000,000, which bore interest at the rate of 12% per annum. At December 31, 2015, the outstanding amount under the Webster Credit Line was \$11,821,099. The interest rate on the amount outstanding fluctuates daily. The rate for December 31, 2015 was 5.1739%.

### 9. Income Taxes

Income tax expense consists of the following:

	<u>2015</u>	<u>2014</u>
Current Taxes:		
Federal (refund)	\$ (1,137)	\$ 8,539
State	2,732	19,300
Income tax expense	<u>\$ 1,595</u>	<u>\$ 27,839</u>

The income tax expense for the year ended December 31, 2014, represents the under accrual of the prior year's income tax expense.

The Company had a capital loss carryover of \$390,609, a portion of which it utilized to offset its other income in the amount of \$21,197, in connection with the filing of its income tax returns for the year ended December 31, 2014. The remaining capital loss carryover expired in 2015.

The Company evaluates tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are “more likely than not” of being sustained by the applicable tax authorities. Tax positions not deemed to meet the more likely than not threshold are recorded as tax benefits or expenses in the current year. Management has analyzed the Company's tax positions taken on Federal, state and local tax returns for all open tax years, and has concluded that no provision for Federal income tax is required in the Company's financial statements.

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 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 tax on such income. The Company may be subject to federal excise tax and minimum state taxes.

The Company is no longer subject to U.S. federal and state and local income tax examinations by tax authorities for years prior to 2012, as these tax years are closed.

### 10. 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 (\$12,500 for 2015) 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, 2015 and 2014 the Company contributed \$10,500 and \$9,734, respectively, as matching contributions to the IRA Plan.

### 11. Stock-Based Compensation

On June 23, 2009 the Company adopted the 2009 Stock Option Plan (the "Plan") and replaced the 1999 Stock Option Plan as amended (the "Prior Plan"), which expired in May of 2009. All options granted under the Prior Plan were expired, exercised or cancelled.

The purpose of the Plan is to align the interests of officers, other key employees, consultants and non-employee directors of the Company and its subsidiary with those of the stockholders of the Company, to afford an incentive to such officers, employees, consultants and directors to continue as such, to increase their efforts on behalf of the Company and to promote the success of the Company's business. The availability of additional shares will enhance the Company's ability to achieve these goals. The basis of participation in the Plan is discretionary grants by the board of directors. The board of directors may at any time, and from time to time, suspend or terminate the Plan in whole or in part or amend it from time to time.

A maximum of 400,000 common shares were reserved for the grant of awards under the Plan, subject to adjustment as provided in Section 9 of the Plan. As of December 31, 2015, an aggregate of 376,000 options were granted under the Plan of which 224,000 options were cancelled or expired, and 248,000 are available for future grants under the Plan.

The exercise price of options granted under the Plan may not be less than the fair market value on the date of grant. Stock options under the Plan may be awarded to officers, key-employees, consultants and non-employee directors of the Company. Historically, until the year ended December 31, 2014, each non-employee director of the Company was granted an option for 7,000 common shares upon first taking office, and received an annual option grant for an additional 7,000 common shares for each additional year in office. Generally, options outstanding vest over periods not exceeding four years and are exercisable for up to five years from the grant date.

Share based compensation expense recognized under ASC 718 for the years ended December 31, 2015 and 2014 were \$13,664 and \$28,767, respectively.

The share based compensation expense for each of the years ended December 31, 2015 and 2014 includes \$13,065 of amortization of the fair value of 1,000,000 restricted shares granted to the Company's CEO 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 will be amortized over 15 years.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average share assumptions used for grants in 2014: (1) expected life of 5 years; (2) annual dividend yield of 9.59%; (3) expected volatility 59.5%; (4) risk free interest rate of 1.71%.

## Notes to Consolidated Financial Statements

The following summarizes stock option activity for the years ended December 31, 2015 and 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	285,000	\$ 0.97	1.43	\$ 147,656
Granted in 2014	21,000	2.92		
Exercised in 2014	(77,000)	1.18		
Forfeited or expired in 2014	(147,000)	0.75		
Outstanding at December 31, 2014	82,000	\$ 1.68	2.68	\$ 59,115
Exercised in 2015	(40,000)	1.53		
Forfeited or expired in 2015	(7,000)	1.34		
Outstanding at December 31, 2015	35,000	\$ 1.92	2.35	\$ 24,876
Vested and exercisable at December 31, 2014	81,000	\$ 1.69	2.69	\$ 58,515
Vested and exercisable at December 31, 2015	35,000	\$ 1.92	2.35	\$ 24,876

The weighted-average fair value of options granted during the year ended December 31, 2014, estimated as of the grant date using the Black-Scholes option-pricing model, were \$0.72 per option. There was no grant of options during the year ended December 31, 2015. All outstanding options at December 31, 2015 are vested and exercisable.

The following table summarizes information about stock options outstanding at December 31, 2015:

Range of Exercise Prices	Stock Option Outstanding			Exercisable	
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Number of Shares	Weighted Average Exercise Price
\$ 1.01- \$ 2.00	21,000	\$ 1.25	1.58	21,000	\$ 1.25
\$ 2.01- \$ 3.00	14,000	2.92	3.50	14,000	2.92
	35,000	\$ 1.92	2.35	35,000	\$ 1.92

In connection with the Company's private placement of senior secured notes, the Company issued 20,000 warrants, at an exercise price of \$2.50 per warrant, to the Placement Agent on December 28, 2010. The warrants are exercisable into the same number of common shares and exercisable over a five-year period. In December 2014, the Placement Agent exercised the warrant for all 20,000 common shares using the cashless exercise option under the warrant in lieu of paying cash in satisfaction of the exercise price, pursuant to which the Placement Agent received a lesser number of common shares. As a result, the Company issued 6,226 common shares to the Placement Agent.

On July 31, 2014, in connection with the Company's public offering in July 2014, the Company issued warrants to purchase 87,719 common shares, with an exercise price of \$3.5625 per common share, to the representative of the underwriters of the offering. The warrants are exercisable at any time, and from time to time, in whole or in part, commencing on July 28, 2015 and 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. In November 2015, the representative partially exercised the warrants to purchase 17,550 common shares.



## Notes to Consolidated Financial Statements

On May 29, 2015, in connection with the Company's public offering in May 2015, the Company issued warrants to purchase 50,750 common shares, with an exercise price of \$5.4875 per common share, to the representative of the underwriters of the offering. The 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.

### 12. Stockholders' Equity

On July 31, 2014, the Company completed a public offering of 1,754,386 common shares at a price to the public of \$2.85 per share, which raised gross proceeds of \$5,000,000 and the net proceeds of approximately \$4,289,000, after deducting the Company's underwriting discounts and commissions and offering expenses payable in connection with the offering. The Company also granted the underwriters a 45-day option to purchase up to 263,157 additional common shares to cover over-allotments, if any. The option expired unexercised in September 2014.

On May 29, 2015, the Company completed another public offering of 1,015,000 common shares at a price to the public of \$4.39 per share. The gross proceeds raised by the Company from the offering were approximately \$4,460,000, before deducting underwriting discounts and commissions and other offering expenses. The Company also granted the underwriter a 45-day option to purchase up to 152,250 additional common shares to cover over-allotments, if any. In June 2015, the underwriter partially exercised its over-allotment option for an additional 105,000 common shares. The gross proceeds raised by the Company from the sale of the over-allotment option shares were approximately \$460,000, resulting in total gross proceeds from the offering of approximately \$4,920,000. The remaining over-allotment option of 47,250 shares expired unexercised in July 2015. The total net proceeds from the offering, including the sale of the over-allotment option shares, were approximately \$4,240,000, after deducting underwriting discounts and commissions and offering expenses payable by us.

### 13. Commitments and Contingencies

#### *Operating Leases*

On June 9, 2011, the Company entered into a new lease agreement (the "Lease") to relocate its corporate headquarters to 60 Cutter Mill Road, Great Neck, New York. The Lease is for a term of five years and two months commencing June 2011 and ending August 2016. The rent increases annually during the term and ranges from approximately \$2,800 per month during the first year to approximately \$3,200 per month during the fifth year.

At December 31, 2015, approximate future minimum rental, including utilities, payments under these commitments are \$28,100.

Rent expense, including utilities, was approximately \$42,000 in each of the years 2015 and 2014.

#### *Employment Agreements*

In March 1999, we entered into an employment agreement with Assaf Ran, our President and Chief Executive Officer 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 an annual base salary of \$225,000 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.

Mr. Ran's annual base compensation was \$225,000 for each of the years 2015 and 2014, and a bonus of \$65,000 and \$35,000, respectively, for the years 2015 and 2014 which was approved by the Compensation Committee. In 2015, the Compensation Committee also approved a special bonus of \$30,000 to Mr. Ran for establishing the Webster Credit Line.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Manhattan Bridge Capital, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. Manhattan Bridge Capital, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Manhattan Bridge Capital, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Hoberman & Lesser, CPA's, LLP

New York, New York  
March 8, 2016

# 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*

Michael J. Jackson (1)(2)

Eran Goldshmit (1)

Mark Alhadeff

Lyron Bentovim (3)

- (1) Member of the Compensation Committee, Audit Committee and Nominating Committee
- (2) Chairman of the Audit Committee
- (3) Member of the Audit Committee

## SHAREOWNER SERVICES

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

American Stock Transfer and Trust Company, LLC  
6201 15th Avenue  
Brooklyn, NY 11219  
Phone: 800-937-5449  
Email: info@amstock.com

## COUNSEL

Morse, Zelnick, Rose & Lander, LLP  
825 Third Avenue, 16th Floor  
New York, NY 10022

## INDEPENDENT PUBLIC ACCOUNTANTS

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

## OTHER INFORMATION

A copy of the Company's annual report on Form 10-K, for the year ended December 31, 2015, 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

(a) The high and low sales prices for our common stock as reported by the NASDAQ Capital Market for the quarterly periods indicated were as follows:

2014	High	Low
First Quarter	\$2.14	\$1.58
Second Quarter	\$3.39	\$1.80
Third Quarter	\$4.00	\$2.35
Fourth Quarter	\$4.10	\$2.61
2015		
First Quarter	\$4.44	\$3.28
Second Quarter	\$4.78	\$3.87
Third Quarter	\$4.64	\$2.98
Fourth Quarter	\$4.60	\$4.00
2016		
First Quarter	\$4.47	\$3.80

### (b) Holders

As of May 16, 2016, the number of record holders of our common shares was 17 and the estimated number of beneficial owners of our common shares was approximately 3,400. American Stock Transfer & Trust Company serves as transfer agent for our common shares.

### (c) 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).

In February 2014, our board of directors (the "Board") approved and declared a quarterly cash dividend of \$.02 per common share payable on each of May 20, 2014, August 20, 2014, November 20, 2014 and February 20, 2015. Subsequently, on June 9, 2014, the Board approved and declared a new quarterly cash dividend of \$.07 per common share payable on each of July 15, 2014, October 15, 2014, January 15, 2015 and April 15, 2015, which replaced the three remaining unpaid quarterly dividends originally declared in February 2014.

In December 2014 and March 2015, the Board approved and declared a \$.01 increase, from \$.07 to \$.08 per common share, in the quarterly cash dividends payable on January 15, 2015 and April 15, 2015, respectively. In May 2015 and August 2015, the Board approved and declared a quarterly cash dividend of \$.08 per common share payable on July 15, 2015 and October 15, 2015, respectively. In November 2015 and in February 2016, the Board approved and declared a quarterly cash dividend of \$.085 per common share payable on January 15, 2016 and April 15, 2016, respectively.

As a REIT, our distributions generally will be taxable as ordinary income to our shareholders, 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 US individual taxpayers on Form 1099 DIV.



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