

# ANNUAL REPORT

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DECEMBER 31, 2011



**MANHATTAN  
BRIDGE CAPITAL**

60 Cutter Mill Road, Suite 205  
Great Neck, NY 11021  
TEL: 516-444-3400 • FAX: 516-444-3404

**NASDAQ:LOAN**

Dear Valued Shareholders,

In 2011, Manhattan Bridge Capital has continued its path of growth and prosperity. We have further secured our position as a hard money lender to small real estate investors in the NY Metropolitan area.

Even though we significantly increased our scale of operations, we have managed to maintain our high standards of screening & underwriting, thereby avoiding defaults on our loans and problematic situations.

We have also made significant increases in our leverage, both from private lenders and conventional banks. This, of course, is a key factor in our future growth in revenue and net earnings.

On July 1, we moved our headquarters from Manhattan to Great Neck, NY. The move did not adversely effect our operations but it did allow us to lower our operating expenses. We now save more than 50% on our rent and in addition, we save immensely on city taxes, transportation and parking.

During 2011, the Board of Directors converted my stock options to a package of restricted shares. The details of this transaction are available in the Company's public filings. I would like to take this opportunity to state that this transaction was important, among many other reasons, in order for me to feel comfortable about giving my personal guarantee on the Company's loans. Without my personal guarantee, in today's financial environment, leveraging our portfolio would be very difficult and expensive. In fact, in most cases it would be impossible.

I would like to express my sincere appreciation to our shareholders, investors and lenders as well as to our team of employees, consultants and advisors with whom we have been fortunate to work.

Sincerely,



Assaf Ran

CEO and Chairman of the Board of Directors  
Manhattan Bridge Capital, Inc.

## Business

### **General**

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.

### **Products and services**

- ***Manhattan Bridge Capital, DAG Funding and MBC Funding***

The Company offers short-term, secured, non-banking loans to real estate investors (also known as hard money) to fund their acquisition 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. 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, 2011 and 2010 the total amounts of \$8,512,537 and \$6,141,593, respectively, have been lent, offset by collections received from borrowers, under the commercial loans in the amount of \$7,254,478 and \$4,461,921, respectively. Loans ranging in size from \$50,000 to \$1,100,000 were concluded at stated interest rates of 12% to 16%, but often at higher effective rates based upon points or other up-front fees. 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 used to assist the Company's officials in evaluating the worth of collateral, when deemed necessary by management. The Company also uses independent construction inspectors as well as mortgage brokers and deal initiators.

The Company generally grants loans for a term of one year. In certain situations the Company and its borrowers have mutually agreed to the extension of the loans as a result of the downturn in the economy and the real estate industry in the New York metropolitan area. Potential buyers of the real estate serving as collateral for the short-term loans may have difficulty securing financing due to restrictions imposed by financial institutions resulting from the recent mortgage crisis. In addition, the Company's borrowers may be having difficulty securing permanent financing. Prior to the Company granting an extension of any loan, it reevaluates the underlying 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, 2011, the Company is committed to an additional \$1,833,000 in construction loans that can be drawn by the borrower when certain conditions are met.

- ***DAG Interactive***

On June 21, 2010 the board of directors of the Company decided to dissolve DAG Interactive. Upon dissolution, all of DAG Interactive's assets including, the rights to its proprietary software, were distributed to its shareholders in the same proportion as their percentage ownership in DAG Interactive.

### **Growth strategy**

The immediate focus of our expansion plans is to increase the volume of our short-term, secured commercial loans to small businesses. As we gain experience in these operations we believe we will be able to do so. If we develop a successful track record in our lending operations, we will seek additional loans from a commercial bank which, if obtained, will enable us to maintain higher outstanding loan balances to our customers.

### **Sales and Marketing**

The Company offers its loans primarily through the Company's officers and independent loan brokers. Leads have been generated through a limited amount of newspaper advertising and direct mail. A principal source of new transactions has been repeat business from prior customers and their referral of new business.

## **Government regulation**

We are subject to laws and regulations relating to business corporations generally, such as the Occupational Safety and Health Act, Fair Employment Practices and minimum wage standards. In addition, we are subject to laws and regulations imposing various requirements and restrictions, which among other things establish maximum interest rates, finance charges and charges we can impose for credit and our right to repossess and sell collateral.

We believe that we are in compliance with all laws and regulations affecting our business and we do not have any material liabilities under these laws and regulations. In addition, compliance with all of these laws and regulations does not have a material adverse effect on our capital expenditures, earnings, or competitive position.

## **Competition**

As a commercial lender, we face intense competition in our business from numerous bank and non-bank providers of commercial loans. Our competitors include bank and institutional commercial lenders in the mortgage lending businesses, such as lending institutions and non-depository institutions that are able to offer the same products and services. Some of these companies are substantially larger and have more resources than we do. In addition, such larger competitors may have a larger customer base, operational efficiencies and more versatile technology platforms than we do. Competitors will continue to increase pressures on both us and other companies in our industry. Industry competitors have continuously solicited our customers with varied loan programs and interest rate strategies. Management believes the competition has put, and will continue to put pressure on our pricing.

We believe that we are able to compete effectively in our current markets. There can be no assurance, however, that our ability to market products and services successfully or to obtain adequate returns on our products and services will not be impacted by the nature of the competition that now exists or may later develop.

## **Website access to Company's reports and governance documents**

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on the Company's website at [www.manhattanbridgecapital.com](http://www.manhattanbridgecapital.com) as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Copies of the Company's annual report are also available, on the Company's website. Charters of the Company's Audit Committee, Compensation Committee, and Nominating Committee, along with the Company's Code of Ethics, are available for viewing on the Company's website.

## **Intellectual property**

To protect our rights to our 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 be inadequate to 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 and independent contractors**

As of December 31, 2011, we employed two employees. In addition, during 2011 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 the Company's officials in evaluating the worth of collateral, when deemed necessary by management. The Company also used independent construction inspectors as well as mortgage brokers and deal initiators.

### Property

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 \$3,174 including electricity. We believe this facility is adequate to meet our requirements at our current level of business activity.

### Legal Proceedings

On November 7, 2011, the Company was sued as a nominal defendant in a stockholder derivative action, Alan R. Kahn v. Assaf Ran, et al., Supreme Court of the State of New York, County of Nassau, filed against the members of its Board of Directors (the "Board"). The plaintiff, who states that he was a stockholder of the Company at all pertinent times, alleges wrongdoing by the Board in a transaction in which Mr. Ran, our CEO and a director, was granted one million shares of the Company's restricted stock in exchange for giving up his rights to options covering 490,000 shares of the Company's common stock that he had held at the time of the transaction, as well as to seek future stock option grants from the Company. The plaintiff asserts that the Company was harmed by the transaction. The Board disagrees with the plaintiff's allegations, has moved to dismiss the complaint, and if the case goes forward after the court rules on that motion, intends to defend vigorously against the plaintiff's claims. The directors are insured under an officers' and directors' liability insurance policy which has a \$75,000 self-insured retention that must be satisfied by the Company before the insurance policy will begin to pay defense costs. Because the action is a derivative claim alleging harm to the Company, any award would be paid to the Company, not by the Company, in the event that the plaintiff was successful on the merits of his claims.

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

*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

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. 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, 2011 and 2010 the total amounts of \$8,512,537 and \$6,141,593, respectively, have been lent, offset by collections received from borrowers, under the commercial loans in the amount of \$7,254,478 and \$4,461,921, respectively. Loans ranging in size from \$50,000 to \$1,100,000 were concluded at stated interest rates of 12% to 16%, but often at higher effective rates based upon points or other up-front fees.

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 used to assist the Company's officials in evaluating the worth of collateral, when deemed necessary by management. The Company also uses independent construction inspectors as well as mortgage brokers and deal initiators.

The Company generally grants loans for a term of one year. In certain situations the Company and its borrowers have mutually agreed to the extension of the loans as a result of the downturn in the economy and the real estate industry in the New York metropolitan area. Potential buyers of the real estate serving as collateral for the short-term loans may have difficulty securing financing due to restrictions imposed by financial institutions resulting from the recent mortgage crisis. In addition, the Company's borrowers may be having difficulty securing permanent financing. Prior to the Company granting an extension of any loan, it reevaluates the underlying collateral.

At December 31, 2011, the Company's commercial loans include loans in the amount of \$521,700, \$1,702,200 and \$955,000, originally due in 2009, 2010 and 2011, 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, 2011 and 2010, 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 \$580,000 of short term extended loans outstanding at December 31, 2011 were paid off.

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-collectable in the future.

At December 31, 2011, the Company was committed to an additional \$1,833,000 in construction loans that can be drawn by the borrower when certain conditions are met.

### 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.

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.

The Company continually monitors 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, 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.

*There are also areas in which 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 10 of this Annual Report 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, 2011 and 2010**

##### *Total revenue*

Total revenue for the year ended December 31, 2011 was \$1,400,000 compared to \$1,210,000 for the year ended December 31, 2010 an increase of \$190,000 or 15.7%. The increase in revenue represents an increase in lending operations. In 2011, \$1,142,000 of the Company's revenue represents interest income on secured, commercial loans that the Company offers to small businesses compared to \$994,000 in 2010, and \$259,000 represents origination fees on such loans compared to \$216,000 in 2010. 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, 2011 were \$157,000 compared to \$29,000 for the year ended December 31, 2010. The increase in interest and amortization of debt service costs is primarily attributable to the issuance of senior secured notes and the Company's receipt of short term loans in order to increase our ability to make loans. (See also Notes 7 and 8 to the financial statements included elsewhere in this report)

##### *Referral fees*

Referral fees for the year ended December 31, 2011 were \$8,000 compared to \$12,000 for the year ended December 31, 2010. The referral fees represent fees paid on such loans which amortize over the life of the loan.

##### *General and administrative expenses*

General and administrative expenses for the year ended December 31, 2011 were \$867,000 compared to \$783,000 for the year ended December 31, 2010, an increase of \$84,000 or 10.7%. This increase is primarily attributable to net increases in payroll expenses of approximately \$54,000 primarily resulting from the restoration of our CEO's salary in June 2010 and an increase in legal fees of approximately \$22,000, offset by the decrease in office rent of approximately \$20,000. (See also Note 14 to the financial statements included elsewhere in this report)



### *Other income*

For the year ended December 31, 2011, we had other income of approximately \$79,000, which represents fees from the sale of buy back options to the seller of certain real property we purchased in March 2011 (See also Note 5 to the financial statements included elsewhere in this report). For the year ended December 31, 2010, we had other income of approximately \$156,000 consisting of realized gains on marketable securities that were previously marked down of approximately \$151,000, and dividend and interest income of \$5,000.

### *Income from operations before income tax expense*

Income from operations before provision for income tax for the year ended December 31, 2011 was \$448,000 compared to \$542,000 for the year ended December 31, 2010. This decrease is primarily attributable to an increase in operating costs and expenses and a decrease in other income, offset by an increase in revenue.

### *Income tax expense*

In the year ended December 31, 2011 we had income tax expense (including interest and penalties) of approximately \$192,000 and for the year ended December 31, 2010 we had income tax expense of approximately \$223,000.

## **Liquidity and Capital Resources**

At December 31, 2011, we had cash and cash equivalents of \$222,000 and working capital of \$5,763,000 compared to cash and cash equivalents of \$386,000 and working capital of \$8,034,000 at December 31, 2010. The decrease in cash and cash equivalents primarily reflects an increase in lending operations and our investment in real estate in the amount of \$675,000, which was offset by the proceeds of approximately \$528,000 upon the partial exercises of options by the option holder (See also Note 5 to the financial statements included elsewhere in this report), offset by the proceeds from the Company's receipt of short term loans in the amount of approximately \$859,000. The decrease in working capital is primarily attributable to the reclassification of certain short term loans to long term loans receivable.

For the years ended December 31, 2011 and 2010, net cash provided by operating activities was approximately \$381,000 and \$224,000, respectively. The increase in net cash provided by operating activities primarily results from an improvement in loan activities that resulted in an increase of approximately \$93,000 in origination fees collected in 2011 over 2010, and the collection of approximately \$79,000 of fees, included in other income, generated from the issuance of seller buy back options (See Note 5).

For the year ended December 31, 2011 net cash used in investing activities was \$1,405,000, compared to \$1,248,000 for the year ended December 31, 2010. Net cash used in investing activities for the year ended December 31, 2011, consisted primarily of the issuance of our short term commercial loans in the amount of approximately \$8,513,000, offset by collection of these loans in the amount of approximately \$7,254,000, and the investment in real estate in the amount of approximately \$675,000, which was offset by the proceeds of approximately \$528,000 upon the partial exercises of options by the option holder. Net cash used in investing activities for the year ended December 31, 2010, consisted primarily of the issuance of our short term commercial loans in the amount of approximately \$6,142,000, offset by collection of these loans in the amount of approximately \$4,462,000, and the proceeds from the sale of marketable securities in the amount of \$432,000.

For the year ended December 31, 2011 net cash provided by financing activities was \$859,000, compared to \$703,000 for the year ended December 31, 2010. Net cash provided by financing activities for the year ended December 31, 2011 reflects the Company's receipt of the proceeds of short term loans. Net cash provided by financing activities for the year ended December 31, 2010 reflects the use of a line of credit and the issuance of senior secured notes, offset by deferred financing costs on the issuance of the senior secured notes.

Until our initial public offering in 1999, our only source of funds was cash flow from operations, which funded both our working capital needs and capital expenditures. As a result of our initial public offering in May 1999, we received proceeds of approximately \$6.4 million, which has increased our ability to pay operating expenses. Our credit facilities are limited. As of December 31, 2011, our funds were invested in money market funds and commercial loans.

**Contractual Obligations**

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 years</u>
Long-Term Debt Obligations	\$ 500,000	\$ ---	\$ 500,000	\$ ---	\$ ---
Operating Lease Obligations (*)	<u>188,000</u>	<u>38,500</u>	<u>121,300</u>	<u>28,200</u>	<u>---</u>
Total	<u>\$ 688,000</u>	<u>\$ 38,500</u>	<u>\$ 621,300</u>	<u>\$ 28,200</u>	<u>\$ ---</u>

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

We anticipate that our current cash balances together with our cash flows from operations will be sufficient to fund the operations for the next 12 months.

**Recent Technical Accounting Pronouncements**

In July 2010, FASB issued ASU 2010-20, entitled “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” which is effective for public entities interim and annual financial statements ending after December 15, 2010. The objective of this amended guidance is for an entity to provide disclosures that facilitate financial statement users’ evaluation of; the nature of credit risk inherent in the entity’s portfolio of financing receivables; how risk is analyzed and assessed in arriving at the allowance for credit losses; and the changes and reasons for those changes in the allowance for credit losses. Existing guidance has been amended to provide enhanced disaggregated disclosures in situations involving impairments or troubled loan restructurings, with the guidance for troubled debt restructuring disclosures delayed pursuant to ASU 2011-01. Company disclosures herein are based on the Company’s adoption of ASU 2010-20, and providing disclosures there under that apply to its loan portfolio in the current circumstances.

In April 2011, FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 provides amendments to Topic 310 to clarify which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. For public companies, the new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Early adoption is permitted. The Company believes that the adoption of ASU 2011-02 will not have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income”. This guidance requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. This guidance also requires reclassification adjustments between net income and other comprehensive income to be shown on the face of the financial statements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2011 and for interim periods within the fiscal year, with full retrospective application. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financials statements.

In December 2011, the FASB issued ASU 2011-12, “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.” The update defers the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. To defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments, ASU 2011-12 supersedes only those paragraphs that pertain to how and where reclassification adjustments are presented. The amendments are effective at the same time as ASU 2011-05. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financials 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 conditions 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) the successful integration of new businesses that we may acquire; (ii) the success of new operations which we have commenced and of our new business strategy; (iii) our limited operating history in our new business; (iv) potential fluctuations in our quarterly operating results; and (v) challenges facing us relating to our growth. 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. - Consolidated Balance Sheets

## MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011 and 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 221,905	\$ 386,023
Short term loans receivable	6,916,090	8,156,293
Interest receivable on loans	109,905	91,593
Other current assets	16,463	13,427
Total current assets	7,264,363	8,647,336
Investment in real estate	146,821	---
Long term loans receivable	2,498,262	---
Property and equipment, net	588	2,425
Security deposit	6,349	17,515
Investment in privately held company, at cost	100,000	100,000
Deferred financing costs	72,788	109,183
Total assets	\$ 10,089,171	\$ 8,876,459
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short term loans and line of credit	\$ 1,159,465	\$ 300,000
Accounts payable and accrued expenses	60,072	56,405
Deferred origination fees	112,780	76,428
Income taxes payable	168,786	180,513
Total current liabilities	1,501,103	613,346
Long term liabilities:		
Senior secured notes	500,000	500,000
Total liabilities	2,001,103	1,113,346
Commitments and contingencies		
Shareholders' equity:		
Preferred shares - \$.01 par value; 5,000,000 shares authorized; no shares issued	---	---
Common shares - \$.001 par value; 25,000,000 authorized; 4,405,190 and 3,405,190 issued and 4,324,459 and 3,324,459 outstanding	4,405	3,405
Additional paid-in capital	9,656,280	9,588,849
Treasury stock, at cost- 80,731 shares	(241,400)	(241,400)
Accumulated deficit	(1,331,217)	(1,587,741)
Total shareholders' equity	8,088,068	7,763,113
Total liabilities and shareholders' equity	\$ 10,089,171	\$ 8,876,459
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, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Interest income from loans	\$ 1,141,531	\$ 993,601
Origination fees	258,917	216,058
Total Revenue	<u>1,400,448</u>	<u>1,209,659</u>
Operating costs and expenses:		
Interest and amortization of debt service costs	156,769	28,527
Referral fees	7,897	11,981
General and administrative expenses	866,705	783,231
Total operating costs and expenses	<u>1,031,371</u>	<u>823,739</u>
Income from operations	<u>369,077</u>	<u>385,920</u>
Interest and dividend income	---	4,972
Realized gain on marketable securities that were previously marked down	---	151,419
Other income (Note 5)	79,329	---
Total other income	<u>79,329</u>	<u>156,391</u>
Income from operations before income tax expense	448,406	542,311
Income tax expense	(191,882)	(222,847)
Net income	<u>\$ 256,524</u>	<u>\$ 319,464</u>
Basic and diluted net income per common share outstanding:		
--Basic	<u>\$0.07</u>	<u>\$0.10</u>
--Diluted	<u>\$0.07</u>	<u>\$0.09</u>
Weighted average number of common shares outstanding		
--Basic	<u>3,634,048</u>	<u>3,324,459</u>
--Diluted	<u>3,646,074</u>	<u>3,372,289</u>
The accompanying notes are an integral part of these consolidated financial statement		

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>		<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Totals</u>
	<u>Shares</u>	<u>Amount</u>		<u>Shares</u>	<u>Cost</u>			
Balance, January 1, 2010	<b>3,405,190</b>	<b>\$3,405</b>	<b>\$9,476,762</b>	<b>80,731</b>	<b>\$(241,400)</b>	<b>\$123,823</b>	<b>\$(1,907,205)</b>	<b>\$7,455,385</b>
Non cash compensation			72,443					<u>72,443</u>
Warrants granted			11,683					<u>11,683</u>
Forgiveness of debt			27,961					<u>27,961</u>
Effect of sale of remaining marketable securities						(123,823)		<u>(123,823)</u>
Net income for the year ended December 31, 2010							319,464	<u>319,464</u>
Total comprehensive income								<u>195,641</u>
Balance, December 31, 2010	<b>3,405,190</b>	<b>3,405</b>	<b>9,588,849</b>	<b>80,731</b>	<b>(241,400)</b>	<b>---</b>	<b>(1,587,741)</b>	<b>7,763,113</b>
Non cash compensation			68,431					<u>68,431</u>
Grant of restricted shares	1,000,000	1,000	(1,000)					
Net income for the year ended December 31, 2011							256,524	<u>256,524</u>
Balance, December 31, 2011	<b><u>4,405,190</u></b>	<b><u>\$4,405</u></b>	<b><u>\$9,656,280</u></b>	<b><u>80,731</u></b>	<b><u>\$(241,400)</u></b>	<b><u>\$---</u></b>	<b><u>\$(1,331,217)</u></b>	<b><u>\$8,088,068</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, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net income	\$ 256,524	\$ 319,464
Adjustments to reconcile net income to net cash provided by operating activities -		
Amortization of deferred financing costs	36,395	---
Depreciation	1,837	3,033
Non cash compensation expense	68,431	72,443
Realized gain on marketable securities that were previously marked down	---	(151,419)
Changes in operating assets and liabilities		
Interest receivable on loans	(18,312)	(31,386)
Other current and non current assets	8,1301	3,141
Accounts payable and accrued expenses	3,667	6,598
Deferred origination fees	36,352	(26,323)
Income taxes payable	(11,727)	18,331
Net cash provided by operating activities	<u>381,297</u>	<u>223,882</u>
Cash flows from investing activities:		
Proceeds from sale of marketable securities	---	431,864
Investment in real estate (net of proceeds of \$528,179 from partial exercises of options - see Note 5)	(146,821)	---
Issuance of short term loans	(8,512,537)	(6,141,593)
Collections received from loans	7,254,478	4,461,921
Net cash used in investing activities	<u>(1,404,880)</u>	<u>(1,247,808)</u>
Cash flows from financing activities:		
Proceeds from loans and line of credit, net	859,465	300,000
Proceeds from issuance of senior secured notes	---	500,000
Deferred financing costs on senior secured notes	---	(97,500)
Net cash provided by financing activities	<u>859,465</u>	<u>702,500</u>
Net decrease in cash and cash equivalents	(164,118)	(321,426)
Cash and cash equivalents, beginning of year	<u>386,023</u>	<u>707,449</u>
Cash and cash equivalents, end of year	<u>\$ 221,905</u>	<u>\$ 386,023</u>
Supplemental Cash Flow Information:		
Taxes paid during the year	<u>\$ 203,727</u>	<u>\$ 203,669</u>
Interest paid during the year	<u>\$ 120,375</u>	<u>\$ 28,527</u>
Non-cash investing and financing activities:		
Forgiveness of debt by related party	<u>---</u>	<u>\$ 27,961</u>
Warrants issued in connection with issuance of senior secured notes	<u>---</u>	<u>\$ 11,683</u>
The accompanying notes are an integral part of these consolidated financial statements.		

## MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

### 1. The Company

Manhattan Bridge Capital, Inc. (“MBC”) and its wholly-owned subsidiaries DAG Funding Solutions, Inc. and MBC Funding I, Inc. (collectively the “Company”), offer 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.

On June 21, 2010 the board of directors of the Company decided to dissolve DAG Interactive, Inc. (“DAG Interactive”), its 80% owned subsidiary. (See Note 15).

In March 2011, MBC established a one member limited liability company, 1490-1496 Hicks, LLC, for the purpose of investing in real estate (See Note 5).

### 2. Significant Accounting Policies

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Manhattan Bridge Capital, Inc., its wholly-owned subsidiaries DAG Funding Solutions, Inc. (“DAG Funding”), MBC Funding I, Inc. (“MBC Funding”) and 1490-1496 Hicks, LLC (“Hicks LLC”), and its 80% owned subsidiary, DAG Interactive, which was dissolved in June 2010. 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.

#### *Marketable Securities*

Marketable securities are reported at fair value and are classified as available-for-sale. Unrealized gains and losses from those securities are reported as a separate component of shareholders’ equity, net of the related tax effect. Realized gains and losses are determined on a specific identification basis. Additionally, the Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. Declines in fair value that are considered other than temporary, if any, are recorded as charges in the Consolidated Statements of Operations. As of December 31, 2010, the Company had sold all of its marketable securities.

#### *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.



## Notes to Consolidated Financial Statements

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

### *Property and Equipment*

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful economic lives of the assets, ranging from three to five years.

### *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. There was no impairment to the carrying value of property and equipment during the years ended December 31, 2011 or 2010.

### *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.

### *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*

Costs incurred in connection with the Company's senior secured notes, as discussed in Note 8, are being amortized over the term of the notes using the straight-line method.

## Notes to Consolidated Financial Statements

### *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 shareholders 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.

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,	
	<u>2011</u>	<u>2010</u>
Basic weighted average common shares outstanding	3,634,048	3,324,459
Incremental shares for assumed exercise of options	<u>12,026</u>	<u>47,830</u>
Diluted weighted average common shares outstanding	<u>3,646,074</u>	<u>3,372,289</u>

331,974 and 486,837 vested options were not included in the diluted earnings per share calculation for the years ended December 31, 2011 and 2010, respectively, either because their effect would have been anti-dilutive, or because they are being held in escrow (See Note 12).

### *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.

The stock based compensation expense for the year ended December 31, 2011 also included the amortization of the fair value of the restricted shares granted on September 9, 2011, 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 (See Note 12).

### *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. The senior secured notes approximate fair value due to the relative short term of the notes and the prevailing interest rate.

### *Other Comprehensive Loss*

Other comprehensive income consists of the Company’s net income and net unrealized income (loss) on marketable securities. The Company’s comprehensive income for the years ended December 31, 2011 and 2010 amounted to \$0 and \$195,641, respectively.

# Notes to Consolidated Financial Statements

## *Recent Accounting Pronouncements*

In July 2010, FASB issued ASU 2010-20, entitled “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” which is effective for public entities interim and annual financial statements ending after December 15, 2010. The objective of this amended guidance is for an entity to provide disclosures that facilitate financial statement users’ evaluation of; the nature of credit risk inherent in the entity’s portfolio of financing receivables; how risk is analyzed and assessed in arriving at the allowance for credit losses; and the changes and reasons for those changes in the allowance for credit losses. Existing guidance has been amended to provide enhanced disaggregated disclosures in situations involving impairments or troubled loan restructurings, with the guidance for trouble debt restructuring disclosures delayed pursuant to ASU 2011-01. Company disclosures herein are based on the Company’s adoption of ASU 2010-20, and providing disclosures there under that apply to its loan portfolio in the current circumstances.

In April 2011, FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 provides amendments to Topic 310 to clarify which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. For public companies, the new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Early adoption is permitted. The Company believes that the adoption of ASU 2011-02 will not have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income”. This guidance requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. This guidance also requires reclassification adjustments between net income and other comprehensive income to be shown on the face of the financial statements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2011 and for interim periods within the fiscal year, with full retrospective application. 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 December 2011, the FASB issued ASU 2011-12, “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.” The update defers the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. To defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments, ASU 2011-12 supersedes only those paragraphs that pertain to how and where reclassification adjustments are presented. The amendments are effective at the same time as ASU 2011-05. 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. The Company's Level 2 investments are valued using broker or dealer quotations for similar assets and liabilities. As of December 31, 2011 and 2010 the Company's Level 1 investments consisted of cash and money market accounts in the amount of approximately \$222,000 and \$386,000, 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, 2011 and 2010 the total amounts of \$8,512,537 and \$6,141,593, respectively, have been lent, offset by collections received from borrowers, under the commercial loans in the amount of \$7,254,478 and \$4,461,921, respectively. Loans ranging in size from \$50,000 to \$1,100,000 were concluded at stated interest rates of 12% to 16%, but often at higher effective rates based upon points or other up-front fees.

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, 2011, the Company was committed to an additional \$1,833,000 in construction loans that can be drawn by the borrower when certain conditions are met.

At December 31, 2011, the Company has made loans to four different entities in the aggregate amount of \$1,470,000, of which \$155,000 is included in long-term loans receivable. One individual holds at least a fifty percent interest in each of the different entities. The Company also has made loans to six different entities in the aggregate amount of \$1,376,500, none of which are long term loans receivable. One individual holds a fifty percent interest in each of the entities. The Company also has made loans to five different entities in the aggregate amount of \$1,600,000, none of which are long term loans receivable. One individual holds at least a fifty percent interest in each of the entities. All individuals have no relationship to any of the officers or directors of the Company.

At December 31, 2010, approximately \$885,000 of the loans outstanding is due from three different entities that are all owned by the same individual.

At December 31, 2011 and 2010, no one entity has loans outstanding representing more than 10% of the total balance of the loans outstanding.

Some of the loans in the Company's portfolio at December 31, 2010, were jointly funded by the Company and unrelated entities during the year ended December 31, 2010, for aggregate loans of \$1,980,000. The accompanying balance sheet includes the Company's portion of the loans in the amount of \$1,000,000. There were no jointly funded loans at December 31, 2011.

The Company generally grants loans for a term of one year. In certain situations the Company and its borrowers have mutually agreed to the extension of the loans as a result of the downturn in the economy and the real estate industry in the New York metropolitan area. Potential buyers of the real estate serving as collateral for the short-term loans may have difficulty securing financing due to restrictions imposed by financial institutions resulting from the recent mortgage crisis. In addition, the Company's borrowers may be having difficulty securing permanent financing. Prior to the Company granting an extension of any loan, it reevaluates the underlying collateral.

## Notes to Consolidated Financial Statements

### *Long Term Loans Receivable*

During the year ended December 31, 2011, management determined to reclassify a portion of the Company's short term loans to 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, 2012. At December 31, 2011, the Company's loan portfolio consists of approximately \$6,916,000 short term loans and approximately \$2,498,000 loan term loans receivable.

Of the long term loans receivable, approximately \$131,000 have repayment terms, extending through the year ended December 31, 2017, while the remainder of the loans, by their terms, are due through December 31, 2012.

### *Credit Risk*

Credit risk profile based on loan activity as of December 31, 2011:

	Developers-Residential	Developers-Commercial	Developers Mixed Used	Total outstanding loans
Performing loans	<u>\$ 8,725,367</u>	<u>\$ 78,985</u>	<u>\$ 610,000</u>	<u>\$ 9,414,352</u>

At December 31, 2011, the Company's commercial loans include loans in the amount of \$521,700, \$1,702,200 and \$955,000, originally due in 2009, 2010 and 2011, 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, 2011 and 2010, 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 \$580,000 of short term extended loans outstanding at December 31, 2011 were paid off.

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

On March 21, 2011, the Company purchased three 2-family buildings located in the Bronx, New York for \$675,000, including related costs, and sold to the seller a one year option to buy back the properties for the same price. The buy back option was sold for \$3,900, plus a monthly fee of \$10,530 payable to the Company by the option holder for the life of the option. On September 28, 2011, the option holder exercised the option to buy back one of the properties for \$380,679. The Company had received an aggregate of \$70,590 from the sale of the option prior to the partial exercise and, on October 1, 2011, has issued a new one year option for the two remaining properties at an exercise price of \$294,321 with a monthly option fee of \$4,591 (the "New Option".) The New Option supersedes the buy back option issued in March 2011. On October 21, 2011, the option holder partially exercised the New Option to buy back one of the two remaining properties for \$147,500. After the partial exercise of the New Option, the option holder has a continuing option to purchase the one remaining property at an exercise price of \$146,821 with a monthly option fee of \$2,296.

Other income for the year ended December 31, 2011, in the amount of \$79,329, represents the fees generated from the seller buy back options.

## **6. Property and Equipment**

Property and equipment, at cost, consist of the following:

	<b>December 31</b>	
	<u>2011</u>	<u>2010</u>
Office equipment	\$ 20,744	\$ 20,744
Less: Accumulated depreciation	<u>(20,156)</u>	<u>(18,319)</u>
Property and equipment, net	<u>\$ 588</u>	<u>\$ 2,425</u>

Depreciation expense was \$1,837 and \$3,033 for the years ended December 31, 2011 and 2010, respectively.

## **7. Loans and Lines of Credit**

In September 2009 the Company established a secured line of credit with Valley National Bank. The line of credit provided for maximum borrowings in the amount of up to \$300,000, which may be repaid by the Company at any time without penalty. The line required monthly payments of interest only at the rate of 9%, per annum, with borrowings still outstanding due in October, 2012. Pursuant to a security agreement, the line of credit was secured by certain of the Company's short term loans. As of December 31, 2010, \$300,000 is outstanding under this line. In October 2011, the Company repaid the outstanding borrowings in full and closed the line of credit.

## Notes to Consolidated Financial Statements

In March 2011, the Company received three separate short-term loans from three different entities, in the aggregate amount of \$603,845, bearing interest at rates ranging from 8% to 14%, per annum. On April 18, 2011, one of the loans in the amount of \$170,000 was repaid in full by the Company. In June 2011, the Company received two additional short-term loans from two different entities, in the aggregate amount of \$525,620, bearing interest at rates ranging from 8% to 10%, per annum. In July 2011, the Company received another short-term loan in the amount of \$200,000, bearing interest at the rate of 10%, per annum. At December 31, 2011, the five outstanding short-term loans payable totaling \$1,159,465 are secured by certain of the Company's short term loans, pursuant to a security agreement, and three of the loans are also personally guaranteed by our CEO.

Subsequent to the balance sheet date, one of the short-term loans in the amount of \$200,000 was repaid in full by the Company.

### 8. Senior Secured Notes

On December 28, 2010, MBC Funding completed a \$500,000 private placement of three-year 6.63% senior secured notes. In connection therewith, MBC assigned approximately \$775,000 of its short-term loans to MBC Funding to use as collateral for the notes. Pursuant to the agreement, MBC has also guaranteed the repayment of the notes. The notes require quarterly payments of interest only through the expiration date in December 2013, at which time the notes become due. The private placement was the initial tranche of a \$5,000,000 offering which expired on March 31, 2011, which is no longer being marketed by the underwriter (Paulson).

Financing costs incurred in connection with the agreement totaled \$109,183, including five year warrants (the "warrants") to purchase 20,000 shares of the Company's Common Stock issued to the underwriter at \$2.50 per share, which were valued at \$11,683. These costs are amortized over the life of the senior secured notes. The amortization costs for the year ended December 31, 2011 were \$36,395.

### 9. Income Taxes

Income tax expense (benefit) consists of the following:

	<u>2011</u>	<u>2010</u>
Current Taxes:		
Federal	\$ 129,136	\$ 176,205
State	<u>62,746</u>	<u>46,642</u>
	191,882	222,847
Deferred taxes:		
Federal	---	---
State	<u>---</u>	<u>---</u>
	---	---
Income tax expense	<u>\$ 191,882</u>	<u>\$ 222,847</u>

Deferred tax assets consist of the following:

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Unrealized loss on marketable securities (*)	\$ ---	\$ ---
Realized losses on marketable securities (*)	---	160,822
Compensation expenses - other	27,982	31,150
Compensation expenses - restricted stocks	<u>84,266</u>	<u>---</u>
Deferred tax assets	112,248	191,972
Less: valuation allowance	<u>\$ (112,248)</u>	<u>\$ (191,972)</u>
	---	---

(\*) Unrealized losses on marketable securities are not deductible for federal and state income tax purposes unless the underlying security giving rise to the loss is actually sold or has no market, at which time the resulting loss is only deductible to the extent of capital gains, if any.

## Notes to Consolidated Financial Statements

The Company has a capital loss carryover of \$469,524, a portion of which it expects to utilize to offset its other income in the amount of \$79,329, in connection with the filing of its income tax returns for the year ended December 31, 2011. The remaining capital loss carryover expires through 2016.

The income tax expense (benefit) differs from the amount computed using the federal statutory rate of 34% as a result of the following:

<b>Year Ended December 31,</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Federal Statutory Rate	34%	34%
State and local income tax expense (benefit), net of federal tax effect	14%	10%
Valuation allowance	---	---
State and local franchise taxes	---	---
Other	<u>(5%)</u>	<u>(3%)</u>
Income tax expense (benefit)	<u>43%</u>	<u>41%</u>

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 reports interest and penalties as income tax expense, which amounted to approximately \$12,000 and \$22,000 for the years ended December 31, 2011 and 2010, respectively.

The Company is no longer subject to U.S. federal and state and local income tax examinations by tax authorities for years prior to 2008, 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 was effective August 2000 with a trustee, which allows up to 100 eligible executives to participate. It is a "Matching Contribution" plan under which eligible executives may contribute up to 6% of their yearly salary, on a pre-tax basis (with a cap of \$11,500), with the Company matching on a dollar-for-dollar basis up to 3% of the executives' compensation (with a cap of \$11,500). These thresholds are subject to change under notice by the trustee. The Company is not responsible for any other costs under this plan. For the years ended December 31, 2011 and 2010 the Company contributed \$6,750 and \$5,019, 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. Options granted under the Prior Plan remain outstanding until 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 subsidiaries 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 upon discretionary grants of the Board. The Board 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.

The maximum number of Common Shares reserved for the grant of awards under the Plan is 400,000, subject to adjustment as provided in Section 9 of the Plan. As of December 31, 2011, 299,000 options were granted, 210,000 options were cancelled, and 311,000 are available for grant under the 2009 stock option plan.

## Notes to Consolidated Financial Statements

The exercise price of options granted under the Company's stock option plan may not be less than the fair market value on the date of grant. Stock options under our stock option plan may be awarded to officers, key-employees, consultants and non-employee directors of the Company. Under our stock option plan, every non-employee director of the Company is granted 7,000 options upon first taking office, and then 7,000 upon 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, 2011 and 2010 were \$68,431 and 72,443, respectively.

The stock based compensation expense for the year ended December 31, 2011 includes \$3,355 of amortization of the fair value of the 1,000,000 restricted shares granted to the Company's Chief Executive Officer on September 9, 2011 of \$195,968, after adjusting for the effect on the fair value of the stock options related to this transaction. The fair value will be amortized over 15 years (See Note 12).

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 2011 and 2010, respectively: (1) expected life of 5 years; (2) No annual dividend yield; (3) expected volatility 72.5% to 73.2%; and (4) risk free interest rate of 0.81% to 2.37%.

The following summarizes stock option activity for the years ended December 31, 2011 and 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	699,000	\$ 1.87	2.30	\$ 624,353
Granted in 2010	98,000	1.40		
Exercised in 2010	---	---		
Forfeited in 2010	<u>(166,000)</u>	<u>3.35</u>		
Outstanding at December 31, 2010	<u>631,000</u>	<u>\$ 1.41</u>	<u>2.21</u>	<u>\$ 469,352</u>
Granted in 2011	173,000	1.53		
Exercised in 2011	---	---		
Forfeited in 2011	<u>(456,000)</u>	<u>1.80</u>		
Outstanding at December 31, 2011	<u>348,000</u>	<u>\$ 0.96</u>	<u>2.26</u>	<u>\$ 177,253</u>
Vested and exercisable at December 31, 2010	<u>534,666</u>	<u>\$ 1.47</u>	<u>1.94</u>	<u>\$ 415,655</u>
Vested and exercisable at December 31, 2011	<u>344,000</u>	<u>\$ 0.96</u>	<u>2.23</u>	<u>\$ 174,856</u>

The weighted-average fair value of each option granted during the year ended December 31, 2011 and 2010, estimated as of the grant date using the Black-Scholes option-pricing model, was \$0.82 per option and \$0.78 per option, respectively.

Mr. Ran, our CEO, agreed not to exercise his 210,000 Remaining Options, which are vested and outstanding as of December 31, 2011, in accordance with the Restricted Stock Agreement (See Note 12).



## Notes to Consolidated Financial Statements

A summary of the status of the Company's nonvested shares as of December 31, 2011 and 2010, and changes during the years then ended is as presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Nonvested shares at January 1, 2010	122,667	\$ 0.82	3.98
Granted	98,000	1.40	4.32
Vested	<u>(124,333)</u>	1.07	3.48
Nonvested shares at December 31, 2010	<u>96,334</u>	<u>\$ 1.09</u>	<u>3.69</u>
Granted	173,000	1.53	4.77
Forfeited (non vested)	(189,667)	1.56	---
vested	<u>(75,667)</u>	\$ 0.92	3.21
Nonvested shares at December 31, 2011	<u>4,000</u>	<u>\$ 1.01</u>	<u>4.88</u>

140,000 out of the 189,667 forfeited (non vested) shares were granted and cancelled in 2011.

The following table summarizes information about stock options outstanding at December 31, 2011:

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
\$ 0.50- \$ 1.00	196,000	\$0.78	2.21	196,000	\$ 0.78
\$ 1.01- \$ 2.00	<u>152,000</u>	<u>1.20</u>	<u>2.33</u>	<u>148,000</u>	<u>1.20</u>
	<u>348,000</u>	<u>\$0.96</u>	<u>2.26</u>	<u>344,000</u>	<u>\$0.96</u>

In connection with the Company's private placement of senior secured notes the Company issued to Paulson 20,000 warrants. The warrants are convertible into the same number of common shares at an exercise price of \$2.50 per warrant. The warrants are exercisable over a five-year period beginning December 28, 2010.

### 12. Restricted Stock Grant

On September 9, 2011, upon stockholders approval at the annual meeting, we granted 1,000,000 shares of restricted common stock (the “Restricted Shares”) to Mr. Ran. Under the terms of the restricted shares agreement (the “Restricted Shares Agreement”), Mr. Ran agreed to forfeit options held by him exercisable for an aggregate of 280,000 shares of our common stock with exercise prices above \$1.21 per share and agreed not to exercise additional options held by him for an aggregate of 210,000 shares of our common stock with exercise prices below \$1.21 per share (the “Remaining Options”). Until their expiration, Mr. Ran will be required to forfeit approximately 4.76 Restricted Shares for each share of common stock issued upon any exercise of the Remaining Options. In addition, Mr. Ran may not sell, convey, transfer, pledge, encumber or otherwise dispose of the Restricted Shares until the earliest to occur of the following: (i) September 9, 2026, with respect to 1/3 of the Restricted Shares, September 9, 2027 with respect to an additional 1/3 of the Restricted Shares and September 9, 2028 with respect to the final 1/3 of the Restricted Shares; (ii) the date on which Mr. Ran’s employment is terminated by us for any reason other than for “Cause” (i.e., misconduct that is materially injurious to us monetarily or otherwise, including engaging in any conduct that constitutes a felony under federal, state or local law); or (iii) the date on which Mr. Ran’s employment is terminated on account of (A) his death; or (B) his disability, which, in the opinion of his personal physician and a physician selected by us prevents him from being employed with us on a full-time basis (each such date being referred to as a “Risk Termination Date”). If at any time prior to a Risk Termination Date Mr. Ran’s employment is terminated by us for Cause or by Mr. Ran voluntarily for any reason other than death or disability, Mr. Ran will forfeit that portion of the Restricted Shares which have not previously vested. Mr. Ran will have the power to vote the Restricted Shares and will be entitled to all dividends payable with respect to the Restricted Shares from the date the Restricted Shares are issued.

In connection with the Compensation Committee’s approval of the foregoing grant of Restricted Shares, the Compensation Committee consulted with and obtained the concurrence of independent compensation experts and informed Mr. Ran that it had no present intention of continuing its prior practice of annually awarding stock options to Mr. Ran as CEO. Also Mr. Ran, advised the Compensation Committee that he would not seek future stock option grants.

The grant of Restricted Shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The stock certificates for the Restricted Shares were imprinted with restrictive legends and are held in escrow until vesting occurs.

### 13. Forgiveness of Debt

On June 21, 2010 the board of directors of the Company decided to dissolve DAG Interactive. In connection with the dissolution, the Company recorded forgiveness of debt, for accounts payable due to a related party, in the amount of \$27,961 as additional paid-in capital.

### 14. 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 5 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 \$3,200 per month during the fifth year.

## Notes to Consolidated Financial Statements

At December 31, 2011, approximate future minimum rental, including utilities, payments under these commitments are as follows:

2012.....	\$ 38,500
2013.....	39,400
2014.....	40,400
2015.....	41,500
2016.....	28,200
<b>Total.....</b>	<b><u>\$ 188,000</u></b>

Rent expense, including utilities, was approximately \$49,000 and \$70,500 in 2011 and 2010, respectively.

### *Employment Agreements*

In March 1999, we entered into an employment agreement with Assaf Ran, our President and Chief Executive Officer. Mr. Ran's employment term renews automatically on July 1st of each year for successive one-year periods unless either party gives 180 days written notice of its intention to terminate the agreement. Under the agreement, Mr. Ran receives an annual base salary of \$75,000 and annual bonuses as determined by the Compensation Committee of the Board (the "Compensation Committee"), in its sole and absolute discretion, and is eligible to participate in all executive benefit plans established and maintained by us. Under the agreement, Mr. Ran agreed to a one-year non-competition period following the termination of his employment. In March 2003, the Compensation Committee approved an increase in Mr. Ran's compensation to an annual base salary of \$225,000. However, in 2008 and 2009 Mr. Ran agreed to a temporary reduction of his annual base salary by 75% and 55%, respectively, to \$56,000 and \$100,000. On June 21, 2010, Mr. Ran's annual base salary was restored to the level of \$225,000 per year.

Mr. Ran's annual base compensation was \$225,000 and \$167,000 during the years 2011 and 2010, respectively, and a bonus of \$65,000 for each of the years 2011 and 2010 which was approved by the Compensation Committee.

### *Derivative Action*

On November 7, 2011, the Company was sued as a nominal defendant in a stockholder derivative action, Alan R. Kahn v. Assaf Ran, et al., Supreme Court of the State of New York, County of Nassau, filed against the members of its Board of Directors (the "Board"). The plaintiff, who states that he was a stockholder of the Company at all pertinent times, alleges wrongdoing by the Board in a transaction in which Mr. Ran, our CEO and a director, was granted one million shares of the Company's restricted stock in exchange for giving up his rights to options covering 490,000 shares of the Company's common stock that he had held at the time of the transaction, as well as to seek future stock option grants from the Company. The plaintiff asserts that the Company was harmed by the transaction. The Board disagrees with the plaintiff's allegations, has moved to dismiss the complaint, and if the case goes forward after the court rules on that motion, intends to defend vigorously against the plaintiff's claims. The directors are insured under an officers' and directors' liability insurance policy which has a \$75,000 self-insured retention that must be satisfied by the Company before the insurance policy will begin to pay defense costs. Because the action is a derivative claim alleging harm to the Company, any award would be paid to the Company, not by the Company, in the event that the plaintiff was successful on the merits of his claims.

### 15. Related Parties Transactions

DAG Interactive Inc, our former subsidiary, was held 20% by Ocean-7. Mark Alhadeff is the main shareholder of Ocean-7 and effective December of 2005 is a member of our Board. On June 21, 2010, the Board decided to dissolve DAG Interactive, Inc. and, in connection therewith, recorded forgiveness of debt for the amount due to Ocean-7 (See Note 13).

In April 2010, in connection with the closing of a loan transaction with a third party by the Company, Mr. Ran, our CEO, loaned the Company \$150,000 at an interest rate of 12% per annum. The Company fully repaid this loan within a week and incurred interest expense of \$400.

In 2011, Mr. Ran made four separate loans to the Company in amounts ranging from \$20,000 to \$100,000, at an interest rate of 12% per annum. All of these loans were repaid by the Company as of December 31, 2011. The aggregate interest expense for these loans was \$455.

### 16. Subsequent Events

On February 21, 2012, one of the short-term loans the Company received in the amount of \$200,000 was repaid in full by the Company. (See Note 7)

Subsequent to the balance sheet date, Mr. Ran, our CEO, made three loans to the Company in the aggregate amount of \$230,000 at an interest rate of 12%, per annum. One of the loans in the amount of \$65,000 was repaid by the Company on March 12, 2012. The other two are expected to be repaid in the near future.

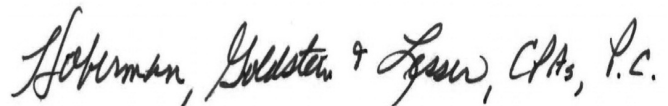
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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, 2011 and 2010, 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, Goldstein & Lesser, CPA's, P.C.

New York, New York  
March 12, 2012

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# Corporate Information

## EXECUTIVE OFFICERS

Assaf Ran  
*Chief Executive Officer and President*

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

## BOARD OF DIRECTORS

Assaf Ran  
*Chief Executive Officer and President*  
Manhattan Bridge Capital, Inc.

Michael J. Jackson (1)  
*Chief Financial Officer and Executive Vice President*  
iCrossing Inc.

Phillip Michals (1)  
*Head of Business Development*  
Aegis Capital Corp.

Eran Goldshmit (1)  
*President*  
New York Diamond Center

Mark Alhadeif  
*President*  
Ocean-7 Development, Inc.

Lyron Bentovim (2)  
*Chief Financial Officer and Chief Operating Officer*  
Sunrise Telecom, Inc.

- (1) Member of the Compensation Committee, Audit Committee and Nominating Committee  
(2) 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  
6201 15 Avenue  
Brooklyn, NY 11219  
Phone: 800-937-5449

## ANNUAL MEETING

The Annual Meeting of Stockholders will take place at 9:00 a.m. local time, on Friday, June 22, 2012 at the offices of Morse, Zelnick, Rose & Lander, LLP, 405 Park Avenue, Suite 1401, New York, NY 10022

## COUNSEL

Morse, Zelnick, Rose & Lander, LLP  
405 Park Avenue, Suite 1401  
New York, NY 10022

## INDEPENDENT PUBLIC ACCOUNTANTS

Hoberman, Goldstein & Lesser, CPA's, P.C.  
226 West 26th Street, 8th Floor  
New York, NY 10001

## OTHER INFORMATION

A copy of the Company's annual report on Form 10-K, as amended, 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

Manhattan Bridge Capital Inc. is traded on the NASDAQ Capital Market under the symbol LOAN.

(a) The high and low sales prices for our common stock as reported by the NASDAQ Capital Market for the quarterly periods during 2011 and 2010 were as follows:

2010	High	Low
First Quarter	\$1.56	\$1.00
Second Quarter	\$1.39	\$1.10
Third Quarter	\$1.70	\$1.26
Fourth Quarter	\$1.56	\$1.23
2011		
First Quarter	\$1.80	\$1.26
Second Quarter	\$1.85	\$1.30
Third Quarter	\$1.34	\$0.92
Fourth Quarter	\$1.20	\$0.82
2012		
First Quarter	\$1.44	\$0.90

## (b) Holders

As of May 15, 2012, the approximate number of record holders of our Common Stock was 16. The number of holders does not include individuals or entities who beneficially own shares but whose shares, which are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder. American Stock Transfer & Trust Company serves as transfer agent for our shares of common stock.

## (c) Dividends

In 2011 and 2010, we did not declare a dividend.



**MANHATTAN  
BRIDGE CAPITAL**

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

**TEL: 516-444-3400**

**FAX: 516-444-3404**

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