



**MANHATTAN
BRIDGE CAPITAL**

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

DECEMBER 31, 2018

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NASDAQ:LOAN

Manhattan Bridge Capital 2018 Achievements

- Record revenue of \$7,224,562; an increase of 22.1%
- Total assets increased to \$55,903,132; an increase of 21.8%
- Net earnings increased to \$4,204,424; an increase of 22.3%
- Quarterly dividend increased in the first quarter of 2018 to \$0.12 per share
- The Company maintained its no defaults track record

Dear Valued Shareholder,

Our challenge for 2018 was to continue to grow further while avoiding the new loose standards set by some of our competitors. Thanks to our solid position in the market-place as well as our strong reputation, we managed to achieve that goal. I am proud to present to you another year of record high revenue, record high net earnings of \$0.48 per share and no loan defaults.

During 2018, the “Hard Money” industry attracted new hedge-fund capital seeking higher yields. The new source of capital created an even more competitive environment in an already less robust market. These factors led to a reduction in the rates and fees charged by lenders in the market place, and we felt we had no choice but to adjust our rates and fees in order to stay competitive. For example, during 2017 we could comfortably charge 12-13% annual interest, while in 2018 the interest rate dropped to 10-11%. We also reduced our other fees that we charge borrowers, however, not as dramatically as the drop in interest rate.

Our solution to the new market conditions was to increase the size of our loan portfolio. As always, risk management was our first priority so that we could maintain a clean track-record of no loan defaults. In order to execute on our solution, we increased our line of credit by \$5 million to \$25 million. I once again demonstrated my trust in the strength of our portfolio and my devotion to the company and extended my personal limited guaranty on this credit line. In addition, we completed a follow-on common stock offering and raised an additional \$10.8 million at a gross price of \$7.00 per share. In order to reflect our gratitude to our existing stock holders, we were determined to price and sell these shares at a higher price than our previous offering. We believe that the additional \$15.8 million in additional available capital is sufficient at this point to achieve our current goals.

Due to the recent tax reform, interest rate increases and political unrest, there is a sense of uncertainty in the New York metropolitan real estate market. We believe that real estate prices will continue to decline before they will rise again. Therefore, we aim to work with professional investors and insist on borrower's providing a personal guaranty, and we generally prefer to make loans in smaller and quicker deals rather than complicated development projects. Of course, as always we conduct our underwriting responsibly and carefully.

Thank you for your interest in Manhattan Bridge Capital.



Assaf Ran,
Chairman & CEO

Forward Looking Statements

This letter and the statements of our representatives related thereto contain or may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as “plan,” “project,” “potential,” “seek,” “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” or “continue” are intended to identify forward-looking statements. For example, when we state that we believe that our current cash balances, the proceeds of our 2018 public offering, and the Amended Credit Agreement, together with our cash flows from operations will be sufficient to fund our operations for the next 12 months, the belief that the additional available capital raised in 2018 is sufficient at this point to achieve our current goals and the belief that real estate prices will continue to decline before they will rise again, we are using forward-looking statements. Readers are cautioned that certain important factors may affect the Company’s actual results and could cause such results to differ materially from any forward-looking statements that may be made in this news release. 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, including but not limited to the following: (i) our loan origination activities, revenues and profits are limited by available funds; (ii) we operate in a highly competitive market and competition may limit our ability to originate loans with favorable interest rates; (iii) our Chief Executive Officer is critical to our business and our future success may depend on our ability to retain him; (iv) if we overestimate the yields on our loans or incorrectly value the collateral securing the loan, we may experience losses; (v) we may be subject to “lender liability” claims; (vi) our loan portfolio is illiquid; (vii) our due diligence may not uncover all of a borrower’s liabilities or other risks to its business; (viii) borrower concentration could lead to significant losses; and (ix) 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 risk factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the Securities and Exchange Commission identify important factors that could cause such differences. These forward-looking statements speak only as of the date of this press release, and we caution potential investors not to place undue reliance on such statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

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 around the New York metropolitan area. We are organized and conduct our operations to qualify as a real estate investment trust for federal income tax purposes (“REIT”). We have qualified for taxation as a REIT beginning with our taxable year ended December 31, 2014.

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

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

The properties securing the loans are generally classified as residential or commercial real estate and, typically, are not income producing. Each loan is secured by a first mortgage lien on real estate. In addition, each loan is personally guaranteed by the principal(s) of the borrower, which guarantee may be collaterally secured by a pledge of the guarantor’s interest in the borrower. The face amount of the loans we originated in the past seven years ranged from \$30,000 to a maximum of \$2.5 million. Our lending policy limits the maximum amount of any loan to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$2.5 million. Our loans typically have a maximum initial term of 12 months and bear interest at a fixed rate of 10% to 14% per year. In addition, we usually receive origination fees or “points” ranging from 0% to 2% of the original principal amount of the loan as well as other fees relating to underwriting and funding the loan. Interest is always payable monthly, in arrears. In the case of acquisition financing, the principal amount of the loan usually does not exceed 75% of the value of the property (as determined by an independent appraiser) and in the case of construction financing, it is typically up to 80% of construction costs.

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

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

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

investment located around 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 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 we believe that these market conditions should persist for a number of years. We have built our business on a foundation of intimate knowledge of the New York metropolitan area real estate market combined with a disciplined credit and due diligence culture that is designed to protect and preserve capital. We believe that our flexibility and ability to structure loans that address the needs of our borrowers without compromising our standards on credit risk, our expertise, our intimate knowledge of the New York metropolitan area real estate market and our focus on newly originated first mortgage loans, has defined our success until now and should enable us to continue to achieve our objectives.

The Market Opportunity

Real estate investment is a capital-intensive business that relies heavily on debt capital to acquire, develop, improve, construct, renovate and maintain properties. We believe that the demand for relatively small loans to acquire, renovate or improve residential real estate held around the New York metropolitan 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 around the New York metropolitan area, where real estate values are relatively stable and substandard properties are being improved, rehabilitated and renovated, we believe there are many opportunities for a “hard money” lender providing capital for these purposes to small scale developers. We further believe that our flexibility to structure loans to suit the particular needs of our borrowers and our ability to close quickly make us an attractive alternative to banks and other large institutional lenders for small real estate developers and investors.

Our Business and Growth Strategies

Our objective is to protect and preserve capital in a manner that provides for attractive risk-adjusted returns to our shareholders over the long term, principally through dividends. We intend to achieve this objective by continuing to focus exclusively on selectively originating, servicing and managing a portfolio of short-term real estate loans secured by first mortgages on real estate located around 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, if we determine that it is in our best interest, to make direct or indirect investments in real estate.

Our strategy to achieve our objective includes the following:

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

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

In furtherance of these strategies, we have a credit line agreement with Webster Business Credit Corporation (“Webster”) and Flushing Bank (“Flushing”), whereby Webster and Flushing have extended us a \$25 million credit line.

Our Competitive Strengths

We believe our competitive strengths include:

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

Our Real Estate Lending Activities

Our real estate lending activities involve originating, funding, servicing and managing short-term loans (i.e.: loans with an initial term of not more than one year), secured by first mortgage liens on real estate property around 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, 2017, our unfunded commitment was approximately \$5.28 million. At December 31, 2018, our unfunded commitment was approximately \$7.27 million. Advances under construction loans are funded against requests supported by all required documentation as and when needed to pay contractors and other costs of construction. In the case of construction loans, the borrower will either deliver multiple notes or one global note for the entire commitment. In either case, interest only accrues on the funded portion of the loan.

In general, our strategy is to service and manage the loans we originate until they are paid. However, there have been a few instances where we have either used loans as collateral, or sold participating interests in loans. At December 31, 2018, all of our loans are secured by properties located around the New York metropolitan area, which is where we are based. Most of the properties we finance are residential, although on occasion they are classified as commercial. However, in all instances the properties are held only for investment by the borrowers. Most of these properties do not generate any cash flow.

The typical terms of our loans are as follows:

Principal amount – In the last seven years, a minimum of \$30,000 to a maximum of \$2.5 million. Our lending policy limits the maximum loan amount to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$2.5 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 10% to 14%.

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

Prepayments - Borrower may prepay the loan at any time beginning three months after the funding date.

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

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

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

Escrow - None.

Reserves - None.

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

Fees and Expenses - Borrowers generally pay an origination fee equal to 0% to 2% of the loan amount. If we agree to extend the term of the loan, we usually collect the same origination fee we charged on the initial funding of the loan. In addition, borrowers 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 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>2018</u>	<u>2017</u>
Loans originated	\$ 51,859	\$ 37,872
Loans repaid	\$ 42,147	\$ 27,503
Mortgage lending revenues	\$ 7,225	\$ 5,919
Mortgage lending expenses	\$ 1,701	\$ 1,230
Number of loans outstanding	132	120
Principal amount of loans earning interest	\$ 54,836	\$ 45,124
Average outstanding loan balance	\$ 415	\$ 376
Percent of loans secured by around New York metropolitan area properties ⁽¹⁾	100%	100%
Weighted average contractual interest rate	11.38%	12.3%
<u>Weighted average term to maturity (in months)</u> ⁽²⁾	5.52	5.30

(1) Calculated based on the number of loans.

(2) Without giving effect to extension options.

At December 31, 2018 and 2017, 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, 2018 and 2017, and the interest earned in each category (dollars in thousands):

	<u>2018</u>			<u>2017</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	113	\$3,262	86%	110	\$3,318	91%
Commercial	10	295	8%	3	73	2%
Mixed Use	9	247	6%	7	239	7%
Total	132	\$3,804	100%	120	\$3,630	100%

Our Origination Process and Underwriting Criteria

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

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

Our Current Financing Strategies

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

Credit line. Currently, we have a credit line with Webster and Flushing pursuant to which we are eligible to borrow up to \$25 million against assignments of mortgages and other collateral (the “Webster Credit Line”), as described in “Liquidity and Capital Resources” below. The current interest rates under the Webster Credit Line equal (i) LIBOR plus a premium, which rate aggregated 6.52% as of December 31, 2018, or (ii) a Base Rate (as defined in the Amended Credit Agreement) plus 2.25% plus a 0.5% agency fee, as chosen by the Company for each drawdown. (See Note 6 to the financial statements included elsewhere in this Report.)

Recent Public offerings. On April 25, 2016, MBC Funding II, our wholly owned subsidiary, completed a firm commitment underwritten public offering of 6% senior secured notes due April 22, 2026 (the “Notes”), which are currently outstanding. We guarantee MBC Funding II’s obligations under the Notes, which are secured by our pledge of 100% of the outstanding common shares of MBC Funding II we own. On August 15, 2016, we completed a public offering of 672,269 common shares. In addition, the underwriter fully exercised its over-allotment option for an additional 100,840 common shares. The gross proceeds from the offering, including the exercise of the over-allotment option, were approximately \$4.6 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

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

The following table shows our sources of capital, including our financing arrangements, and our loan portfolio as of December 31, 2018:

Sources of Capital (\$ in thousands):

Debt:	
Line of credit	\$ 16,622
Senior secured notes (net of deferred financing costs of \$547)	5,453
Total debt	<u>\$ 22,075</u>
Other liabilities	1,747
Capital (equity)	<u>32,081</u>
Total sources of capital	<u><u>\$ 55,903</u></u>
Assets:	
Loans	\$ 54,836
Other assets	<u>1,067</u>
Total assets	<u><u>\$ 55,903</u></u>

Competition

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

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

Sales and Marketing

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

Intellectual Property

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

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

Employees

As of December 31, 2018, we employed four employees. In addition, during 2018 we used outside lawyers and other independent professionals to verify titles and ownership, to file liens and to consummate the transactions. Outside appraisers were used to assist management in evaluating the worth of collateral, when deemed necessary by management. We also used construction inspectors as well as mortgage brokers and deal initiators.

Regulation

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

Regulation of Commercial Real Estate Lending Activities

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

Investment Company Act Exemption

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

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

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

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

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

Environmental Laws

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

Available information

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (Exchange Act), as amended, free of charge on our website at www.manhattanbridgecapital.com., as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. The information on our website is not incorporated by reference into this Report.

Properties

Our executive and principal operating office is located in Great Neck, New York. We use this space for all of our operations. This space is occupied under a lease, as amended, that expires September 30, 2021. The current monthly rent is \$4,203, including electricity. We believe this facility is adequate to meet our requirements at our current level of business activity.

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

Overview

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

The properties securing the loans are generally classified as residential or commercial real estate and, typically, are not income producing. Each loan is secured by a first mortgage lien on real estate. In addition, each loan is personally guaranteed by the principal(s) of the borrower, which guarantee may be collaterally secured by a pledge of the guarantor's interest in the borrower. The face amount of the loans we originated in the past seven years ranged from \$30,000 to a maximum of \$2.5 million. Our lending policy limits the maximum amount of any loan to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$2.5 million. Our loans typically have a maximum initial term of 12 months bearing interest at a fixed rate of 10% to 14% per year. In addition, we usually receive origination fees or "points" ranging from 0% to 2% of the original principal amount of the loan as well as other fees relating to underwriting and funding the loan. Interest is always payable monthly, in arrears. In the case of acquisition financing, the principal amount of the loan usually does not exceed 75% of the value of the property (as determined by an independent appraiser) and in the case of construction financing, it is typically up to 80% of construction costs.

Since commencing this business in 2007, we have made over 740 loans and never foreclosed on a property and none of our loans have ever gone into default although sometimes we have renewed or extended our loans to enable the borrower to avoid premature sale or refinancing of the property. When we renew or extend a loan we receive additional "points" and other fees.

Our primary business objective is to grow our loan portfolio while protecting and preserving capital in a manner that provides for attractive risk-adjusted returns to our shareholders over the long term through dividends. We intend to achieve this objective by continuing to selectively originate loans and carefully manage our portfolio of first mortgage real estate loans in a manner designed to generate attractive risk-adjusted returns across a variety of market conditions and economic cycles. We believe that the demand for relatively small loans secured by residential and commercial real estate held for investment around the New York metropolitan market 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 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 advertising. Finally, our Chief Executive Officer also spends a significant portion of his time on new business development. We rely on our own employees, independent legal counsel, and other independent professionals to verify titles and ownership, to file liens and to consummate the transactions. Outside appraisers are used to assist us in evaluating the worth of collateral, when deemed necessary by management. We also use construction inspectors.

At December 31, 2018, we were committed to \$7,265,000 in construction loans that can be drawn by our borrowers when certain conditions are met.

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

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with 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.

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 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, 2018 and 2017

Total revenue

Total revenue for the year ended December 31, 2018 was approximately \$7,225,000 compared to approximately \$5,919,000 for the year ended December 31, 2017, an increase of \$1,306,000, or 22.1%. The increase in revenue represents an increase in lending operations. In 2018, approximately \$6,168,000 of our revenue represents interest income on secured, real estate loans that we offer to small businesses compared to approximately \$5,016,000 in 2017, and approximately \$1,057,000 represents origination fees on such loans compared to approximately \$903,000 in 2017. The loans are principally secured by collateral consisting of real estate and, generally, accompanied by personal guarantees from the principals of the borrowers.

Interest and amortization of deferred financing costs

Interest and amortization of deferred financing costs for the year ended December 31, 2018 were approximately \$1,699,000 compared to approximately \$1,227,000 for the year ended December 31, 2017, an increase of \$472,000 or 38.5%. The increase in interest and amortization of deferred financing costs was primarily attributable to the use of the Webster Credit Line (See Note 6 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, 2018 were approximately \$1,322,000 compared to approximately \$1,227,000 for the year ended December 31, 2017, an increase of \$95,000 or 7.7%. The increase is primarily attributable to increases in payroll, insurance, advertising and appraisal expenses as well as in Nasdaq Capital Market fees, offset by a decrease in travel and meal expenses.

Net Income

Net income for the year ended December 31, 2018 was approximately \$4,204,000 compared to approximately \$3,439,000 for the year ended December 31, 2017, an increase of \$765,000, or 22.2%. The increase is primarily attributable to the increase in revenue, offset by the increase in interest expense.

Liquidity and Capital Resources

At December 31, 2018, we had cash of approximately \$204,000 compared to cash of approximately \$136,000 at December 31, 2017 (not including restricted cash, which mainly represents collections received, pending check clearance, from the Company's commercial loans and is primarily dedicated to the reduction of the Webster Credit Line).

For the years ended December 31, 2018 and 2017, net cash provided by operating activities was approximately \$4,361,000 and \$3,462,000, respectively. The increase in net cash provided by operating activities primarily results from increases in net income and in deferred origination fees.

For the year ended December 31, 2018, net cash used in investing activities was approximately \$9,713,000, compared to approximately \$10,370,000 for the year ended December 31, 2017. Net cash used in investing activities for the year ended December 31, 2018 primarily consisted of the issuance of our short term commercial loans of \$51,859,000, offset by collection of our commercial loans of approximately \$42,147,000. Net cash used in investing activities for the year ended December 31, 2017 primarily consisted of the issuance of our short term commercial loans of approximately \$37,872,000, offset by collection of our commercial loans of approximately \$27,503,000.

For the year ended December 31, 2018, net cash provided by financing activities was approximately \$5,571,000, compared to approximately \$6,948,000 for the year ended December 31, 2017. Net cash provided by financing activities for the year ended December 31, 2018 reflects the net proceeds from the public offering, as described below, of approximately \$9,883,000 and the proceeds from the exercise of warrants of approximately \$49,000, offset by (i) the dividend payments of approximately \$3,999,000, (ii) repayments of the Webster Credit Line of approximately \$292,000, (iii) the purchase of treasury shares of approximately \$49,000 and (iv) deferred financing costs of approximately \$20,000. Net cash provided by financing activities for the year ended December 31, 2017 reflects the net proceeds from the Webster Credit Line of approximately \$10,432,000 and the proceeds from the exercise of options of approximately \$20,000, offset by the dividend payments of approximately \$3,289,000, the purchase of treasury shares of approximately \$172,000 and the deferred financing costs of approximately \$43,000.

We maintain the Webster Credit Line which provides us with a credit line of \$25 million in the aggregate secured by assignments of mortgages and other collateral.

Effective July 11, 2018, we entered into a Waiver and Amendment No. 1 to the Amended Credit Agreement ("Amendment II") with Webster, Flushing and Mr. Ran, as guarantor. In conjunction with the execution of Amendment II, we also entered into an Amended and Restated Revolving Credit Note in the principal aggregate amount of \$10,000,000 with Flushing (the "Amended Flushing Note") and a Second Amended and Restated Fee Letter with Webster and Flushing, each dated July 11, 2018. Pursuant to the terms of Amendment II, the Company's existing Webster Credit Line was increased by \$5 million to \$25 million in the aggregate. In addition, the interest rates relating to Webster Credit Line were amended such that the interest rates now equal (i) LIBOR plus a premium, which rate aggregated approximately 6.52% as of December 31, 2018, or (ii) a Base Rate (as defined in the Amended Credit Agreement) plus 2.25% plus a 0.5% agency fee, as chosen by the Company for each drawdown. Amendment II also permits the Company to repurchase, redeem or otherwise retire its equity securities in

an amount not to exceed ten percent of our annual net income from the prior fiscal year. In addition, Mr. Ran has provided a personal guaranty to the Webster Credit Line, which is shall not exceed the sum of \$500,000 plus any costs relating to the enforcement of the personal guaranty.

We were in compliance with all covenants of the Webster Credit Line, as amended, as of December 31, 2018. At December 31, 2018, the outstanding amount under the Webster Credit Line was \$16,622,147. The interest rate on the amount outstanding fluctuates daily. The rate, including a 0.5% Agency Fee, for December 31, 2018 was 6.52%.

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

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

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

The Notes are secured by a first priority lien on all of MBC Funding II's assets, including, primarily, mortgage notes, mortgages and other transaction documents entered into in connection with first mortgage loans originated and funded by us, which Funding acquired from MBC pursuant to an asset purchase agreement. MBC Funding II may redeem the Notes, in whole or in part, at any time after April 22, 2019 upon at least 30 days prior written notice to the noteholders. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest thereon up to, but not including, the date of redemption, without penalty or premium; provided that (i) if the Notes are redeemed on or after April 22, 2019 but prior to April 22, 2020, the redemption price will be 103% of the principal amount of the Notes redeemed and (ii) if the Notes are redeemed on or after April 22, 2020 but prior to April 22, 2021, the redemption price will be 101.5% of the principal amount of the Notes redeemed plus, in either case, the accrued but unpaid interest on the Notes redeemed up to, but not including, the date of redemption. Each Noteholder has the right to cause MBC Funding II to redeem his, her, or its Notes on April 22, 2021. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest up to, but not including, the date of redemption, without penalty or premium. In order to exercise this right, the Noteholder must notify MBC Funding II, in writing, no earlier than November 22, 2020 and no later than January 22, 2021. All Notes that are subject to a proper and timely notice will be redeemed on April 22, 2021. Any Noteholder who fails to make a proper and timely election will be deemed to have waived his, her or its right to have his, her or its Notes redeemed prior to the maturity date. In addition, MBC Funding II is obligated to offer to redeem the Notes if there occurs a "change of control" with respect to us or MBC Funding II or if we or MBC Funding II sell any assets unless, in the case of an asset sale, the proceeds are reinvested in the business of the seller. The redemption price in connection with a "change of control" will be 101% of the principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption. The redemption price in connection with an asset sale will be the outstanding principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption.

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

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

On November 1 2018, our Board of Directors authorized the Share Buy Back Program, pursuant to which we may, from time to time, purchase up to 100,000 shares of our common stock. The Share Buy Back Program does not obligate the Company to purchase any shares and expires on October 31, 2019. The authorization for the Share Buy Back Program is able to be terminated, increased or decreased by the Company's Board of Directors in its discretion at any time. To date, we have purchased 9,112 shares of the Company's common stock for an aggregate of \$54,387 pursuant to the Share Buy Back Program.

We anticipate that our current cash balances, the proceeds of our 2018 public offering, and the Amended Credit Agreement, as described above, together with our cash flows from operations will be sufficient to fund our operations for the next 12 months. In addition, from time to time, we receive short term unsecured loans from our executive officers, such as the loans we received from Mr. Ran during the first two quarters of 2018, and others in order to provide us with the flexibility necessary to maintain a steady deployment of capital. However, we expect our working capital requirements to increase over the next 12 months as we continue to strive for growth.

Off-Balance Sheet Arrangements

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

Contractual Obligations

Set forth below is a summary of our current obligations as of December 31, 2018 to make future payments due by the period indicated below, excluding payables and accruals. We expect to be able to meet our obligations in the ordinary course.

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Operating Lease Obligations (*)	\$ 138,000	\$ 49,000	\$ 89,000	\$ ---	\$ ---
Senior Secured Notes	\$6,000,000	\$ ---	\$ ---	\$ ---	\$6,000,000
Amounts due under Amended Credit Agreement at December 31, 2018	\$16,622,147	\$ ---	\$16,622,147	\$ ---	\$ ---

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

FORWARD-LOOKING STATEMENTS

This Annual Report ("Report") contains forward-looking statements within the meaning of section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are typically identified by the words "believe," "expect," "intend," "estimate" and similar expressions. Those statements appear in a number of places in this Report and include statements regarding our intent, belief or current expectations or those of our directors or officers with respect to, among other things, trends affecting our financial condition and results of operations and our business and growth strategies. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors (such factors are referred to herein as "Cautionary Statements"), including but not limited to the following: (i) our loan origination activities, revenues and profits are limited by available funds; (ii) we operate in a highly competitive market and competition may limit our ability to originate loans with favorable interest rates; (iii) our Chief Executive Officer is critical to our business and our future success may depend on our ability to retain him; (iv) if we overestimate the yields on our loans or incorrectly value the collateral securing the loan, we may experience losses; (v) we may be subject to "lender liability" claims; (vi) our loan portfolio is illiquid; (vii) our due diligence may not uncover all of a borrower's liabilities or other risks to its business; (viii) borrower concentration could lead to significant losses; (ix) our management has limited experience managing a real estate investment trust; and (x) 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 SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Assets		
Loans receivable	\$ 54,836,127	\$ 45,124,000
Interest receivable on loans	596,777	535,045
Cash	203,682	136,441
Cash - restricted	151,375	---
Deferred financing costs	42,040	45,269
Other assets	73,131	55,941
Total assets	<u>\$ 55,903,132</u>	<u>\$ 45,896,696</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Line of credit	\$ 16,622,147	\$ 16,914,594
Senior secured notes (net of deferred financing costs of \$547,499 and \$622,584)	5,452,501	5,377,416
Deferred origination fees	404,676	298,471
Accounts payable and accrued expenses	183,716	167,559
Dividends payable	1,158,717	891,983
Total liabilities	<u>23,821,757</u>	<u>23,650,023</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred shares - \$.01 par value; 5,000,000 shares authorized; none issued	---	---
Common shares - \$.001 par value; 25,000,000 authorized; 9,874,191 and 8,319,036 issued; 9,655,977 and 8,108,934 outstanding	9,874	8,319
Additional paid-in capital	33,110,536	23,167,511
Treasury stock, at cost – 218,214 and 210,102 shares	(590,234)	(541,491)
Accumulated deficit	(448,801)	(387,666)
Total stockholders' equity	<u>32,081,375</u>	<u>22,246,673</u>
Total liabilities and stockholders' equity	<u>\$ 55,903,132</u>	<u>\$ 45,896,696</u>
The accompanying notes are an integral part of these consolidated financial statements.		

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Interest income from loans	\$ 6,167,600	\$ 5,015,987
Origination fees	1,056,962	902,950
Total Revenue	<u>7,224,562</u>	<u>5,918,937</u>
Operating costs and expenses:		
Interest and amortization of deferred financing costs	1,699,064	1,226,728
Referral fees	1,708	3,701
General and administrative expenses	1,321,724	1,227,003
Total operating costs and expenses	<u>3,022,496</u>	<u>2,457,432</u>
Income from operations	4,202,066	3,461,505
Other income	3,000	---
Loss on write-down of investment in privately held company	---	(20,000)
Income before income tax expense	4,205,066	3,441,505
Income tax expense	(642)	(2,971)
Net income	<u>\$ 4,204,424</u>	<u>\$ 3,438,534</u>
Basic and diluted net income per common share outstanding		
--Basic	<u>\$0.48</u>	<u>\$0.42</u>
--Diluted	<u>\$0.48</u>	<u>\$0.42</u>
Weighted average number of common shares outstanding		
--Basic	<u>8,792,207</u>	<u>8,117,280</u>
--Diluted	<u>8,799,044</u>	<u>8,128,685</u>
The accompanying notes are an integral part of these consolidated financial statements		

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Totals
	Shares	Amount		Shares	Cost		
Balance, January 1, 2017	8,312,036	\$8,312	\$23,134,013	177,000	\$(369,335)	\$(459,100)	\$ 22,313,890
Exercise of options	7,000	7	20,433				20,440
Non cash compensation			13,065				13,065
Purchase of treasury shares				33,102	(172,156)		(172,156)
Dividends paid						(2,475,117)	(2,475,117)
Dividends declared and payable						(891,983)	(891,983)
Net income for the year ended December 31, 2017						3,438,534	3,438,534
Balance, December 31, 2017	8,319,036	8,319	23,167,511	210,102	\$(541,491)	(387,666)	22,246,673
Public offering	1,545,786	1,546	9,881,234				9,882,780
Exercise of warrants	9,369	9	48,726				48,735
Non cash compensation			13,065				13,065
Purchase of treasury shares				8,112	(48,743)		(48,743)
Dividends paid						(3,106,842)	(3,106,842)
Dividends declared and payable						(1,158,717)	(1,158,717)
Net income for the year ended December 31, 2018						4,204,424	4,204,424
Balance, December 31, 2018	<u>9,874,191</u>	<u>\$9,874</u>	<u>\$33,110,536</u>	<u>218,214</u>	<u>\$(590,234)</u>	<u>\$(448,801)</u>	<u>\$ 32,081,375</u>

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

**MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Net income	\$ 4,204,424	\$ 3,438,534
Adjustments to reconcile net income to net cash provided by operating activities -		
Amortization of deferred financing costs	98,695	129,131
Depreciation	3,711	4,595
Non cash compensation expense	13,065	13,065
Loss on write-down of investment in privately held company	---	20,000
Changes in operating assets and liabilities		
Interest receivable on loans	(61,732)	(188,526)
Other current and non current assets	(19,753)	323
Accounts payable and accrued expenses	16,157	62,019
Deferred origination fees	106,205	(16,940)
Net cash provided by operating activities	<u>4,360,772</u>	<u>3,462,201</u>
Cash flows from investing activities:		
Issuance of short term loans	(51,859,000)	(37,871,500)
Collections received from loans	42,146,873	27,502,820
Purchase of fixed assets	(1,148)	(1,666)
Net cash used in investing activities	<u>(9,713,275)</u>	<u>(10,370,346)</u>
Cash flows from financing activities:		
Proceeds from public offering, net	9,882,780	---
(Repayments of) proceeds from line of credit, net	(292,447)	10,431,746
Dividends paid	(3,998,825)	(3,288,621)
Proceeds from exercise of stock options and warrants	48,735	20,440
Purchase of treasury shares	(48,743)	(172,156)
Deferred financing costs incurred	(20,381)	(43,122)
Net cash provided by financing activities	<u>5,571,119</u>	<u>6,948,287</u>
Net increase in cash and restricted cash	218,616	40,142
Cash and restricted cash, beginning of year	136,441	96,299
Cash and restricted cash, end of year	<u>\$ 355,057</u>	<u>\$ 136,441</u>
Supplemental Cash Flow Information:		
Taxes paid during the year	\$ 642	\$ 2,971
Interest paid during the year	<u>\$ 1,584,508</u>	<u>\$ 1,034,097</u>
Supplement Information – Noncash Information:		
Dividend declared and payable	<u>\$1,158,717</u>	<u>\$ 891,983</u>

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

MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. The Company

Manhattan Bridge Capital, Inc. (“MBC”) and its wholly-owned subsidiary, MBC Funding II Corp. (“MBC Funding”) (collectively the “Company”), offer short-term, secured, non-banking loans (sometimes referred to as “hard money” loans) to real estate investors to fund their acquisition, renovation, rehabilitation or development of residential or commercial properties located around 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 subsidiary, MBC Funding. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with 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.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash. The Company maintains its cash with two major financial institutions. Accounts at the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Credit risks associated with short term commercial loans the Company makes to small businesses and related interest receivable are described in Note 5.

Income Taxes

The Company follows Accounting Standards Codification (“ASC”) 740-10, “Accounting for Uncertainty in Income Taxes”, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. As of December 31, 2018 and 2017, the Company has no material uncertain tax positions to be accounted for in the financial statements. The Company recognizes interest and penalties related to uncertain tax positions, if any, as part of income tax expense.

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

Notes to Consolidated Financial Statements

Revenue Recognition

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

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

Deferred Financing Costs

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

Deferred financing costs in connection with the Company’s Credit and Security Agreement with Webster Business Credit Corporation (“Webster”), as amended, as well as the Amended and Restated Credit and Security Agreement, as amended (the “Amended Credit Agreement”), with Webster and Flushing Bank (“Flushing”), as discussed in Note 6, are presented as an asset in the balance sheet, in accordance with ASU 2015-15, “Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line of Credit Arrangements”. These costs are being amortized over the term of the respective agreement, using the straight-line method.

Earnings Per Share (“EPS”)

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

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

	Years ended December 31,	
	2018	2017
Basic weighted average common shares outstanding	8,792,207	8,117,280
Incremental shares for assumed exercise of options	6,837	11,405
Diluted weighted average common shares outstanding	<u>8,799,044</u>	<u>8,128,685</u>

46,425 and 59,238 vested options and warrants were not included in the diluted EPS calculation for the years ended December 31, 2018 and 2017, 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, 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 Company determines the fair value of its senior secured notes using market prices which currently approximate their carrying amount.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2017. This ASU outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance, including industry specific guidance. Several ASUs expanding and clarifying the initial guidance issued in ASU 2014-09 have been released since May 2014. Exclusions from the scope of this guidance include revenue resulting from loans, investment securities (available-for-sale and trading), investments in unconsolidated entities and leases. The Company adopted the ASU effective January 1, 2018. The Company evaluated the applicability of this guidance and concluded that the adoption does not have an effect on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which amends the existing accounting standards for leases. This ASU requires lessees to record a right-of-use asset and a corresponding lease liability on the balance sheet for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. This ASU also requires expanded disclosures regarding leasing arrangements. For public companies that file with the Securities Exchange Commission (“SEC”) the standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, 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 November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”). The amendments in this update require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of this standard required the Company to reconcile changes in cash, cash equivalents, and restricted cash on the consolidated statement of cash flows. As a result, the Company no longer presents transfers between cash and cash equivalents and restricted cash in the statement of cash flows. The Company adopted ASU 2016-18 in 2018 and applied the guidance retrospectively to the 2017 consolidated statement of cash flows.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” This ASU expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging transactions. For public companies that file with the SEC, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, 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.

Notes to Consolidated Financial Statements

In February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This ASU amends ASC 220, “Income Statement – Reporting Comprehensive Income,” to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. In addition, under this ASU, an entity will be required to provide certain disclosures regarding stranded tax effects. For all entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, 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 June 2018, the FASB issued ASU 2018-07, “Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.” This ASU supersedes ASC 505-50, “Equity Based Payment to Non-Employees,” (“ASC 505-50”) and expands the scope of ASC 718, “Compensation – Stock Compensation,” to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. For public companies that file with the SEC, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than an entity’s adoption date of ASC 606, “Revenue from Contracts with Customers.” The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, 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.

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

3. Cash

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.

The Company’s Level 1 investments are valued using quoted market prices in active markets. As of December 31, 2018 and 2017, the Company’s Level 1 investments consisted of cash and money market accounts in the amount of approximately \$204,000 and \$136,000, respectively, and were recorded as cash in the Company’s consolidated balance sheets.

4. Cash - Restricted

Restricted cash mainly represents collections received, pending check clearance, from the Company’s commercial loans and is primarily dedicated to the reduction of the Company’s credit line established pursuant to the Amended Credit Agreement (the “Webster Credit Line”) (see Note 6).

Notes to Consolidated Financial Statements

5. Commercial Loans

Loans Receivable

The Company offers short-term secured non-banking loans to real estate investors (also known as hard money) to fund their acquisition and construction of properties located around 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 borrowers. The loans are generally for a term of one year. The short term loans are initially recorded, and carried thereafter, in the financial statements at cost. Most of the loans provide for receipt of interest only during the term of the loan and a balloon payment at the end of the term.

For the years ended December 31, 2018 and 2017, the total amounts of \$51,859,000 and \$37,871,500, respectively, have been lent, offset by collections received from borrowers, under the commercial loans in the amount of \$42,146,873 and \$27,502,820, respectively. The face amounts of the loans the Company originated in the past seven years have ranged from a minimum of \$30,000 to a maximum of \$2,500,000. The Company's board of directors established a policy limiting the maximum amount of any loan to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$2.5 million. The Company's loans typically have a maximum initial term of 12 months and bear interest at a fixed rate of 10% to 14% per year. In addition, the Company usually receives origination fees, or "points," ranging from 0% to 2% of the original principal amount of the loan as well as other fees relating to underwriting, funding and managing the loan. Interest is always payable monthly, in arrears. In the case of acquisition financing, the principal amount of the loan usually does not exceed 75% of the value of the property (as determined by an independent appraiser), and in the case of construction financing, up to 80% of construction costs.

At December 31, 2018, the Company was committed to \$7,265,000 in construction loans that can be drawn by the borrowers when certain conditions are met.

At December 31, 2018 and 2017, no one entity has loans outstanding representing more than 10% of the total balance of the loans outstanding.

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

Credit Risk

Credit risk profile based on loan activity as of December 31, 2018 and 2017:

Performing loans	Developers-Residential	Developers-Commercial	Developers-Mixed Used	Total outstanding loans
December 31, 2018	<u>\$ 41,301,127</u>	<u>\$ 3,660,000</u>	<u>\$ 3,875,000</u>	<u>\$ 54,836,127</u>
December 31, 2017	<u>\$ 41,739,000</u>	<u>\$ 900,000</u>	<u>\$ 2,485,000</u>	<u>\$ 45,124,000</u>

At December 31, 2018, the Company's loans receivable consisted of loans in the amount of \$2,060,000, \$4,470,000 and \$8,837,000, originally due in 2016, 2017 and 2018, respectively. At December 31, 2017, the Company's loans receivable consisted of loans in the amount of \$80,000, \$400,000, \$2,940,000 and \$13,187,500, originally due in 2014, 2015, 2016 and 2017, 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, 2018 and 2017, 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, approximately \$11,638,000 of the loans receivable at December 31, 2018 were paid off, including \$4,695,000 originally due in or before 2018.

6. Line of Credit and Loans

Line of Credit

Currently, we have a \$25 million credit line with Webster and Flushing. On February 27, 2015, the Company entered into the Webster Credit Line with Webster pursuant to which it could borrow up to \$14 million against assignments of mortgages and other collateral. The Webster Credit Line was initially in effect until February 27, 2018. The Webster Credit Line initially provided for an interest rate (until amended – as described below) 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. In addition, the Webster Credit Line also contains a cross default provision which will deem any default under any indebtedness owed by us or our subsidiary, MBC Funding, as a default under the credit line. Mr. Assaf Ran, the Company's President and Chief Executive Officer, had personally guaranteed all of the Company's obligations to Webster.

Effective July 7, 2017, the Company entered into an Amendment of the Webster Credit Line (the "Amendment"), with Webster. In conjunction with the execution of the Amendment, the Company also entered into an Amended and Restated Revolving Credit Note (the "Amended Note"), and Amendment No. 3 Fee Letter (the "Fee Letter"), each dated July 7, 2017, with Webster. Pursuant to the terms of the Amendment, the Webster Credit Line was increased by \$1 million to \$15 million in the aggregate, with an option, at the discretion of Webster, to increase the Webster Credit Line to \$20 million in the aggregate. The term of the Webster Credit Line was extended to February 28, 2021, unless sooner terminated, and contains a provision that permits a Company option for a further extension of the Webster Credit Line until February 28, 2022, subject to Webster's consent. Pursuant to the terms of the Amendment, the terms of the personal guaranty provided by Mr. Ran were amended such that the potential sums owed under Mr. Ran's personal guaranty will not exceed the sum of \$500,000 plus any costs relating to the enforcement of the personal guaranty. In addition, the interest rates relating to the Webster Credit Line were amended such that the interest rates equaled (i) LIBOR plus 3.75% plus a 0.5% Agency Fee (as hereinafter defined) or (ii) a Base Rate (as defined in the Webster Credit Line) plus 2.25% plus a 0.5% agency fee, as chosen by the Company for each drawdown. Finally, the Amendment provided that the Company shall not permit mortgage loans that are outstanding more than 24 months after their origination date to comprise more than 17.5% of their total portfolio of mortgage loans at any time. Pursuant to the terms of the Fee Letter, the Company agreed to pay Webster an agency fee equal to 0.5% per annum on the actual principal amount of advances outstanding during any month, as well as a \$15,000 syndication fee.

On August 8, 2017, the Company entered into the Amended Credit Agreement with Webster and Flushing. In conjunction with the execution of the Amended Credit Agreement, the Company also entered into a Revolving Credit Note in the principal aggregate amount of \$5 million with Flushing and an Amended and Restated Fee Letter (the "Amended Fee Letter") with Webster, each dated August 8, 2017. Pursuant to the terms of the Amended Credit Agreement, the Company's existing Webster Credit Line was amended to include Flushing as an additional lender, as well as increased the funds available under the Webster Credit Line by \$5 million, to \$20 million in the aggregate. The Amended Credit Agreement also incorporated and restated previously reported amendments. In addition, Mr. Ran executed an Amended and Restated Guaranty, which was restated to include previously reported amendments. Finally, the Company executed the Amended Fee Letter which incorporated and restated previously reported amendments.

Effective July 11, 2018, the Company entered into a Waiver and Amendment No. 1 to the Amended Credit Agreement ("Amendment II") with Webster, Flushing and Mr. Ran, as guarantor. In conjunction with the execution of Amendment II, the Company also entered into an Amended and Restated Revolving Credit Note in the principal aggregate amount of \$10,000,000 with Flushing and a Second Amended and Restated Fee Letter with Webster and Flushing, each dated July 11, 2018. Pursuant to the terms of Amendment II, the Company's existing Webster Credit Line was further increased by \$5,000,000 to \$25,000,000 in the aggregate. In addition, the interest rates relating to the Webster Credit Line were amended such that the interest rates now equal (i) LIBOR plus a premium, which rate aggregated approximately 6% as of July 11, 2018, or (ii) a Base Rate (as defined in the Amended Credit Agreement) plus 2.25% plus a 0.5% agency fee, as chosen by the Company for each drawdown. Amendment II also permits the Company to repurchase, redeem or otherwise retire its equity securities in an amount not to exceed ten percent of its annual net income from the prior fiscal year.

Notes to Consolidated Financial Statements

Total costs to establish the Webster Credit Line were approximately \$144,000, and the total costs to amend the Webster Credit Line were approximately \$64,000. These costs are being amortized over the term of the respective agreement, using the straight-line method. The amortization costs for the years ended December 31, 2018 and 2017 were \$23,609 and \$54,045, respectively.

The Company was in compliance with all covenants of the Amended Credit Agreement as of December 31, 2018. At December 31, 2018, the outstanding amount under the Amended Credit Agreement was \$16,622,147. The interest rate on the amount outstanding fluctuates daily. The rate, including a 0.5% agency fee, for December 31, 2018 was 6.52%.

Short-Term Loans

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

During the third quarter of 2017, Mr. Ran made two short term bridge loans to the Company in the aggregate amount of \$860,000, at an interest rate of 6% per annum. Both loans were repaid in full on August 8, 2017. The aggregate interest expense for these loans was \$923.

7 Senior Secured Notes

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

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

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

Each Noteholder has the right to cause MBC Funding to redeem his, her or its Notes on April 22, 2021. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest up to, but not including, the date of redemption, without penalty or premium. In order to exercise this right, the Noteholder must notify MBC Funding, in writing, no earlier than November 22, 2020 and no later than January 22, 2021. All Notes that are

Notes to Consolidated Financial Statements

subject to a properly and timely notice will be redeemed on April 22, 2021. Any Noteholder who fails to make a proper and timely election will be deemed to have waived his, her or its right to have his, her or its Notes redeemed prior to the maturity date.

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

8. Stockholders' Equity

On November 1, 2018, the Company adopted a share buy back program for the repurchase of up to 100,000 shares of the Company's common stock. As of December 31, 2018, the Company has purchased 8,112 common shares under this repurchase program, at an aggregate cost of approximately \$49,000.

9. Income Taxes

Income tax expense consists of the following:

	<u>2018</u>	<u>2017</u>
Current Taxes:		
Federal	\$ ---	\$ ---
State	642	2,971
Income tax expense	<u>\$ 642</u>	<u>\$ 2,971</u>

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 2018; additional catch-up contributions of \$3,000 for eligible employees 50 or older) 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, 2018 and 2017 the Company contributed \$13,260 and \$12,810, 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, 2018, an aggregate of 376,000 options were granted under the Plan of which 245,000 options were cancelled or expired, and 269,000 are available for future grants under the Plan.

Notes to Consolidated Financial Statements

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. Generally, options outstanding vest over periods not exceeding four years and are exercisable for up to five years from the grant date.

Stock based compensation expense recognized under ASC 718 for each of the years ended December 31, 2018 and 2017 of \$13,065 reflects the amortization of the fair value of 1,000,000 restricted shares granted to the Company's Chief Executive Officer on September 9, 2011 of \$195,968, after adjusting for the effect on the fair value of the stock options related to this transaction. The fair value will be amortized over 15 years.

The following summarizes stock option activity for the years ended December 31, 2018 and 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2017	28,000	\$ 2.10	1.75	\$ 19,851
Expired in 2017	(7,000)	2.92		
Exercised in 2017	(7,000)	1.02		
Outstanding at December 31, 2017	14,000	\$ 2.23	1.00	\$ 10,513
Expired in 2018	(7,000)	1.53		
Outstanding at December 31, 2018	7,000	\$ 2.92	0.50	\$ 5,034

There was no grant of options during the years ended December 31, 2018 and 2017. All outstanding options at December 31, 2018 and 2017 are vested and exercisable. The fair value of options granted, if any, is estimated on the date of grant using the Black-Scholes option-pricing model utilizing weighted average assumptions for (1) expected life; (2) annual dividend yield; (3) expected volatility; (4) risk free interest rate.

The following table summarizes information about stock options outstanding at December 31, 2018:

Stock Option Outstanding			
Range of Exercise Prices	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
\$ 2.01- \$ 3.00	7,000	\$ 2.92	0.50

On July 31, 2014, in connection with the Company's public offering in July 2014, the Company issued warrants to purchase up to 87,719 common shares, with an exercise price of \$3.5625 per common share, to the representative of the underwriters of the offering (the "July 2014 Representative Warrants"). These warrants 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. At December 31, 2018, July 2014 Representative Warrants to purchase up to 3,000 common shares were outstanding.

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 up to 50,750 common shares, with an exercise price of \$5.4875 per common share, to the representative of the underwriters of the offering (the "May 2015 Representative Warrants"). These warrants are exercisable at any time, and from time to time, in whole or in part, commencing on May 22, 2016 and expire on May 22, 2020. The fair value of these warrants, using the Black-Scholes option pricing model, on the date of issuance was \$54,928. At December 31, 2018, May 2015 Representative Warrants to purchase up to 9,650 common shares were outstanding.

On August 15, 2016, in connection with a public offering of the Company's common stock, the Company issued warrants to purchase up to 33,612 common shares, with an exercise price of \$7.4375 per common share, to the representative of the underwriters of the offering (the "August 2016 Representative Warrants"). The warrants are exercisable at any time, and from time to time, in whole or in part, commencing on August 9, 2017 and expire on August 9, 2021. The fair value of these warrants, using the Black-Scholes option pricing model, on the date of issuance was \$47,020. At December 31, 2018, all of the August 2016 Representative Warrants were outstanding.

12. Public Offering

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

13. Commitments and Contingencies

Operating Leases

On July 21, 2016, the Company amended its existing lease (the "Lease Amendment") for its corporate headquarters located at 60 Cutter Mill Road, Great Neck, New York, to extend the term of the lease for an additional five years, through September 30, 2021. Among other things, the Lease Amendment provides for gradual annual rent increases from approximately \$3,500 per month during the first year to \$3,900 per month during the fifth year of the extension term.

At December 31, 2018, approximate future minimum rental payments, including utilities, are as follows:

2019.....	\$ 49,000
2020.....	50,000
2021.....	39,000
Total.....	<u>138,000</u>

Rent expense, including utilities, in the years 2018 and 2017 was approximately \$50,000 and \$49,000, respectively.

Employment Agreements

In March 1999, we entered into an employment agreement with Mr. Ran, pursuant to which: (i) Mr. Ran's employment term renews automatically on June 30th of each year for successive one-year periods unless either party gives to the other written notice at least 180 days prior to June 30th of its intention to terminate the agreement; (ii) Mr. Ran receives 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.

In June 2016, the Compensation Committee approved an increase of Mr. Ran's annual base salary from \$225,000 to \$275,000. In June 2017, the Compensation Committee approved an increase of Mr. Ran's annual base salary from \$275,000 to \$305,000. Mr. Ran's annual base compensation for the years 2018 and 2017 were \$305,000 and \$290,000, respectively. In addition, the Compensation Committee approved an annual bonus of \$78,000 to Mr. Ran in 2018, and approved a special bonus of \$33,000 and an annual bonus of \$45,000 to Mr. Ran in 2017.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Manhattan Bridge Capital, Inc. and Subsidiary (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis of Opinion

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

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

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



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

New York, New York
March 15, 2019

EXECUTIVE OFFICERS

Assaf Ran
Chief Executive Officer and President

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

BOARD OF DIRECTORS

Assaf Ran, *Chairman of the Board*

Lyron Bentovim (1)

Eran Goldshmit (1)(2)(3)

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

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

SHAREOWNER SERVICES

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

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

COUNSEL

Zysman, Aharoni, Gayer and Sullivan & Worcester LLP
 1633 Broadway, 32nd Floor
 New York, NY 10019

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, 2018, 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

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

STOCK MARKET INFORMATION

2017	Common Stock		Cash dividends declared
	High	Low	
First Quarter	\$7.65	\$5.10	\$0.1000
Second Quarter	\$6.10	\$4.65	\$0.1025
Third Quarter	\$6.30	\$5.25	\$0.1025
Fourth Quarter	\$6.15	\$5.50	\$0.1100
2018			
First Quarter	\$7.20	\$5.70	\$0.1200
Second Quarter	\$7.70	\$6.36	\$0.1200
Third Quarter	\$8.00	\$5.95	\$0.1200
Fourth Quarter	\$6.50	\$5.34	\$0.1200
2019			
First Quarter	\$6.62	\$5.52	\$0.1200

Holders

As of May 3, 2019, the number of registered holders of our common shares was 12 and the estimated number of beneficial owners of our common shares was approximately 4,000. American Stock Transfer & Trust Company serves as transfer agent for our common shares.

Dividends

We elected to be taxed as a REIT commencing with our year ended December 31, 2014. From and after the effective date of our REIT election, we intend to pay regular quarterly distributions to holders of our common shares in an amount not less than 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gains). As a REIT, our distributions generally will be taxable as ordinary income to our shareholders (subject to the lower effective tax rates applicable to qualified REIT dividends via the deduction-without-outlay mechanism of Section 199A of the Code, which is available to our noncorporate U.S. shareholders for taxable years after 2017 and before 2026), although we may designate a portion of the distributions as qualified dividend income or capital gain or a portion of the distributions may constitute a return of capital. For tax reporting purposes, taxable income dividends/distributions and non-taxable return of capital distributions may result and will be reported as such to U.S. individual taxpayers on Form 1099-DIV. For the tax year of 2018, all of our total distributions are characterized as non-qualified dividends.



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MANHATTAN BRIDGE CAPITAL

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