MNP

MERCHANTS' NATIONAL PROPERTIES, INC.
708 Third Ave, 21st Floor. New York, NY 10017

April 30, 2018

To our Shareholders:

Merchants' National Properties, Inc. ("MNP") had a notable year in 2017, with the appointment of a new President and CEO, the signing of several new leases and various projects completed or underway. Significant highlights of the year include:

- In August 2017, the Board hired Craig Deitelzweig as the new President and CEO of MNP and Marx Realty. Under his leadership and experience, we are excited to realize the growth potential of our portfolio.

- The Cross County Shopping Center ("CCSC") in Yonkers, New York continues to perform admirably in an otherwise difficult leasing environment as its occupancy level approaches 99%. New leases with Starbucks, Ulta Beauty and the expansion of the Verizon store totaled approximately 15,000 square feet of new leasing activity. These new leases broaden the variety of offerings at the Center.

- In Q1 2018, Marx Realty took direct charge of the management at 708 Third Avenue and 201 East 57th from CBRE, allowing ownership to more effectively realize efficiencies, operating expense savings and revenue enhancements at these properties

- The 708 Third Avenue ownership approved a $10 million investment to fund the repositioning and rebranding of the property. The property will soon be rebranded as 10 Grand Central, which will better connect the asset with the higher rental rate district of Grand Central and highlight the building's premier location as well as its new enhancements. As part of the dramatic repositioning, the 44th Street entrance will be widened and renovated, the Third Avenue entrance will be closed and dedicated to retail space, and a portion of the 7th floor of the building will be dedicated to a tenant amenity lounge, terrace and conference facility. In addition, a new cooling tower, code-mandated sprinklering work, and other capital improvements will be completed at the property. We expect that upon the completion of this work rental rates and net operating income at the property will increase meaningfully, and we already experienced increased rental rates at tenant renewals as a result of the improvement work.

- The sale of the Knights Road Shopping Center in Philadelphia, PA in April 2017 for $17.2M followed by the purchase of an 11,892 SF commercial condominium at 124 Hudson Street in the Tribeca section of New York City as part of a 1031-exchange.

- The sale of the retail strip on Bell Blvd., in Queens, NY in December 2017 for $13.5M, and the identification of several 1031 properties for a tax-free exchange.

- The sale on March 14, 2018, of the Louisville, KY Shopping Center in KY (excluding the Taco Bell parcel), for $10.7 million, after signing a new lease for 96,000 SF of retail store with Floor & Décor, which opened for business in October 2017, and the identification of 1031 exchange properties.

Financial Highlights:

The table below provides a side-by-side comparison of MNP's 2016-17 Consolidated Income Statement "As Audited" in accordance with GAAP (Generally Accepted Accounting Principles) and "As Grossed-up" which provides more transparency to MNP's share of the underlying assets' revenue and expenses which flow up to MNP from various real estate investments.

MNP & SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDING 12/31/2017		YEAR ENDING 12/31/2016	
	AS AUDITED	AS GROSSED-UP	AS AUDITED	AS GROSSED-UP
RENTAL & OTHER INCOME	6,956,410	42,803,291	7,034,130	42,672,167
EQUITY IN EARNINGS OF REAL ESTATE VENTURES	14,129,342		17,634,669	
INVESTMENT INCOME	904,037	1,011,704	988,263	1,072,607
EXPENSES	5,613,788	18,178,969	6,385,502	19,643,337
EBITDA	**16,376,001**	**25,636,026**	**19,271,560**	**24,101,437**
NON-RECURRING GAINS (LOSS)	**-**	**5,015,757**	**1,311,776**	**10,147,257**
FINANCING EXPENSE	893,469	5,750,865	829,037	5,944,846
TAXES (STATE & FEDERAL)	2,051,795	2,987,127	3,267,653	4,147,827
TAXES (STATE & FEDERAL) - DEFERRED	(3,685,135)	(3,685,135)	3,601,345	3,601,345
DEPRECIATION/AMORTIZATION	815,965	9,299,019	629,419	8,298,792
SUBTOTAL	**76,094**	**14,351,876**	**8,327,454**	**21,992,810**
NET INCOME	**16,299,907**	**16,299,907**	**12,255,882**	**12,255,884**

Beyond the income statement, it is worth noting that:

The 2017 Net Income includes a net reduction of deferred income tax expense of $3.6 million which is attributable to $1.9 million of expense related to various adjustments and a $5.5 million one-time net benefit attributable to the 2017 tax Cuts and Jobs Act ("TCJA"). The TCJA reduced the corporate income tax rate from 35% to 21% effective with the 2018 calendar year, which resulted in a reduction in the deferred income tax liabilities, net of deferred tax assets, of approximately $5.5 million.

Included in 2017 "Equity in earnings of real estate ventures" of $14,129,342 is a $5,015,690 gain on sale of the Bell Blvd., Queens and Knights Road Shopping Center, Philadelphia properties, as compared to the 2016 gain of $8,835,480 gain on sale of the Athens, GA, Avon, CT and Glastonbury, CT properties. Excluding the impact of this non-recurring item from the Net Income, the 2017 Basic and diluted earnings per share was $73.61 compared to $70.65 in 2016.

Dividends in 2016 and 2017 totaled $35 and $40 per share respectively. On March 22, 2018, the MNP Board approved payment of a $10 per share dividend for the first half of 2018 to shareholders of record as of May 1, 2018. Checks are being mailed simultaneously with this letter.

Stockholders' equity increased by $22.8 million with a corresponding increase in book value per share to $1,923 at the end of 2017 from $1,676 at the end of 2016.

Property Management/Asset Management - Marx Realty & Improvement Co., Inc.:

We have strengthened the Marx Realty team by recruiting new legal, asset management/acquisition and property management personnel. With this new team, Marx is better positioned to enhance shareholder value through both increasing the value of its existing assets and acquiring new quality assets. We are focused on enhancing the tenant experience at our properties, tightening cost controls, and increasing rents. For example, since assuming the direct management of 708 Third Avenue and 201 East 57th Street, we have already achieved reduced rates from third-party contracts and expect to realize significant savings through a more hands-on approach to management.

For 2017, the entire portfolio generated rental revenues of $129.7 million, representing a 4.5% decrease over $135.8 million in 2016, still a 42% increase over the $92.9 million in 2008 when we began the portfolio-wide rehabilitation program. Excluding the $9 million 2017 decrease in revenue from 430 Park Avenue building, as a result of a large tenant vacating the property and an ongoing releasing campaign, last year's portfolio-wide revenue increased by 2.2%. Rental revenues within the Marx managed portfolio increased 1% to $33.3 million vs. $33 million in the prior year. However, many of the newly signed leases do not yet appear in the above revenue numbers as a result of rent commencement dates starting in 2018.

Marx Realty has been selling assets with little or no rental income growth in non-core markets in which we believe the upside potential is limited in comparison to the investment required and reinvesting the proceeds from these sales into assets in higher barrier to entry markets with more attractive long-term appreciation potential. Portfolio-wide we sold six relatively small assets in 2017 for a total of $27 million.

As has been our practice, as long as most of the owners of any given property agree, in case of a sale in excess of $2 million, we will continue to roll over the proceeds into tax-deferred exchanges for other assets in one of the following markets - New York City, Atlanta, Washington, DC, and one more to-be-determined market (likely Raleigh, Pittsburgh or Austin).

In 2017, the portfolio was made up of 63 properties. While Marx Realty oversees all of the properties in the portfolio, Cross County Shopping Center is managed on a day-to-day basis by The Macerich Company. Prior to January 5, 2018, the 201 East 57th Street retail building a/k/a "The M&B Building" and the 708 Third Avenue office building a/k/a "The Commerce Building", were managed by CBRE, Inc. Midwood Investment and Development continues to manage several jointly owned properties.

Leasing:

Over the course of 2017, Marx Realty oversaw the signing of 12 new leases (excluding leases for Midwood Management joint venture properties as well as leases for Cross County Shopping Center). The leases were for approximately 140,392 square feet of space and approximately $3.2 million in annual rental income. In addition to the new leases, 13 lease renewals were signed for approximately 397,459 square feet of space and $2.5 million in annual rental income. We currently are under negotiation with 3 tenants for 25,600 sf of new leases and 10 tenants for 93,644 sf of renewals and expansions.

Acquisitions and Redevelopment:

Acquisitions:

As we implemented our strategy of relocating our assets from weaker non-growth markets to stronger urban markets with rental rate growth and appreciation potential, the focus remained on pursuing 1031-Exchange transactions.

As noted above, the Knights Road Shopping Center in Philadelphia, PA sold for $17.2 million and we purchased as part of a 1031 exchange a three unit retail commercial condominium for $15.3 million at 124 Hudson Street in the Tribeca section of New York City.

Similarly, the MNP and Midwood Groups' jointly owned retail strip on Bell Blvd., in Queens, NY was sold in December 2017 for $13.5 million. At this time the MNP group is negotiating the purchase of a commercial condominium in Washington, DC, as part of a 1031-exchange.

After we signed the Floor & Décor lease for 96,000 SF of space in the Louisville, KY shopping center, we signed a contract to sell the Louisville property (excluding the Taco Bell parcel) for $10.7 million. The sale of this property closed in March 2018 and at this time we have identified an office/retail property in the Bowery section of New York, an office building in West Midtown in Atlanta, GA and a property in Washington D.C.'s central business district as potential 1031-exchange properties.

Development/Redevelopment & Entitlements:

Projects which are currently under development/renovation or in planning stages are:

- The rebranding of 708 Third Avenue to 10 Grand Central, which includes a renovated and expanded 44th Street entrance and lobby, the closure of the entrance on Third Avenue to create additional retail space and a tenant lounge, terrace, and a conference facility. Studios Architects was hired to design these improvements. The renovations will embrace the heritage of the Ely Jacque Kahn designed building and reflects a modern version of the building's original architecture. Pre-built suites are being designed to help the leasing of smaller spaces in the building. Lastly, we also will be updating various building systems. The goal of the renovations is to achieve higher rents, which would be more reflective of a renovated building so close to Grand Central Terminal.

- The façade renovation work on the 75,000 square foot building (#1) at Southgate Shopping Center in Orlando, FL is part of a new potential lease for a 20,000 sf credit tenant and, as per Aldi's lease, will result in an increase of Aldi's rent as a direct result of these improvements.

- The demolition of a 23,000 square foot vacant building in State College, PA to create a mixed-use retail and student housing project on the site. This project will complement the previously approved student housing project on the rear vacant parcel. We obtained an extension of our plans from the local zoning district, enabling us to better design and position the total project. Upon completion, and depending upon what is finally designed and approved, this project is expected to have as many as 500 beds of student housing.

- The gut renovation of two long-vacant upper-level floors and one lower level floor in downtown Atlanta, GA in a former department store to create contemporary office space for creative users who desire spaces with character, high ceilings, and open layouts. As part of the renovation, we will update the lobby, elevators and create a more prominent building entrance.

As to Washington Street, Boston, given the political climate and prolonged uncertain political environment, we have changed our development plans, and now we intend to pursue an as of right development that will include retail combined with a hotel. Given the significant retail and hotel demand in this location, we expect to sign up a well-branded hotel franchisor in the coming months. We hope to announce an anchor tenant before year-end and start construction in 2019.

Review of Core Properties:

MNP has varying interest in 47 properties in 15 states and District of Columbia. The following 6 real estate holdings represent approximately 80% of MNP's direct and indirect gross income.

Cross County Shopping Center – Yonkers, NY (MNP – 37.62% Interest) – As stated earlier, the occupancy rate at the Cross County Shopping Center stands at approximately 99%, in spite of a difficult retail leasing environment and several changes at our competitive set. The Mall at Cross County, adjacent to Cross County Shopping Center, opened a new Century 21 department store in October 2017 and renovated many of the remaining stores including TJ Maxx, Home Goods and Marshall's. A new Michael's Arts & Crafts store will open in April 2018. The former National Wholesale Liquidators remains closed. Also In April 2018, Forest City Ratner's sale of Westchester's Ridge Hill, 3 miles from Cross County Shopping Center, to QIC, an Australian-based firm, was completed. At Bay Plaza, located 5 miles south in the Bronx, UNIQLO opened in February of 2018 in approximately 10,000 sq. ft. near the Food Court. At The Westchester, a Simon mall, 15 minutes north of Cross County, Against All Odds, a junior fashion retailer, will open in mid-2018 and two new vendors, The Little Beet and Melt Shop, will open in SAVOR, the recently renovated food court concept. In addition, Apple is undergoing a renovation to expand to 10,000.

Cross County Shopping Center ended 2017 with a 3% decrease in sales with a very respectable $773 per square foot. Overall, the general and shoes categories showed increases year over year and apparel, food and jewelry were down slightly. Some key retailers who showed increases include Adidas, AX Armani Exchange, Children's Place, Aldo, Skechers, Vans, and Chipotle. We are currently marketing spaces that are underperforming such as BGR the Burger Joint and focusing on early renewals with retailers such as American Eagle Outfitters and Victoria's Secret. We also are focused on increasing the various food options at the center and expanding our athleisure and fitness sectors. We recently began meeting with architects to develop a master plan for the property.

708 Third Avenue, New York, NY (MNP – 35.71% Interest) - On the development front, planning for large capital projects i.e. sprinkler system and backbone installation, a major cooling tower improvement plan, rebranding of the 708 Third Avenue building to 10 Grand Central, renovation of the lobby and creation of amenities space with conference facilities and a lounge on the 7th floor, and the program of pre-building some of the smaller office suites is already underway. Most of this work is expected to be completed over the next 12-18 months. A temporary fix of the cooling tower was completed in Q1 2018, and a major cooling tower enhancement is scheduled for the fall of 2018. In November 2017, the 708 Third ownership approved a capital call of $10 million, which is expected to be funded over the next 12 months on an as-needed basis. Over the past year, new leases for spaces measuring approximately 38,000 SF have been executed. Presently the building has a vacancy rate of 14%. We have begun relocating certain tenants to lower floors within the building to provide full-floor spaces on the valuable tower floors. We have experienced a rental rate increase of 25% on average on the leases that we are currently renewing or expanding, all with limited or no tenant improvement allowances. In total, we are in negotiations or concluding lease renewals with approximately 66,000 SF of tenants, all at our new higher rental rates. The higher rents reflect the appeal of the renovations underway.

430 Park Avenue, New York, NY – (MNP – 8.22% Interest) - This property consists of the entire western block front of Park Avenue between East 55th and 56th Streets. The property is improved with a sixteen-story class-A building and retail space on the ground floor. The building contains 287,000 SF of rentable space including 10,400 SF of ground floor retail space, the south half of which is leased to TD Ameritrade while the northern half is leased to three other tenants. Since retaining JLL as the leasing agent for the building and initiating a new marketing and leasing program, the building has attracted a lot of interest bringing the current vacancy down to 29% from 42% a year ago. Negotiations are underway to lease an additional 21,000 SF of office space. In order to fund the leasing costs of the vacancies, the master partnership has obtained a $27 million loan commitment from Bank of America, which loan is expected to close on May 1. Part of the loan proceeds will be used to retire the current mortgage on the property. The landlord has an option to terminate the lease on March 31, 2027.

545 Madison Avenue, New York, NY – (MNP - 23.33% Interest) - The 17-story office building with ground floor retail had been net leased to LCOR. LCOR, having totally repositioned the asset, sold the ground lease to Thor Equities in the fourth quarter of 2013 for a reported $55 million. Thor has continued to make timely lease payments in accordance with the terms of its ground lease.

605 West 181st Street, New York, NY – (MNP – 100% Interest) – In November 2016, America's Kids, our Tenant who occupies 100% of this three-story building plus basement retail building, requested a rent concession because of declining revenues. After some negotiations, MNP agreed to grant the concession in exchange for an early lease termination right upon 60-day notice. The Tenant's lease expires in 2024. The property is encumbered with a commercial loan, which carries interest at a 3.04% rate and has a maturity date of August 2018. We have been having conversations with the lender as well as with two potential tenants who are interested in this space.

201 East 57th Street, New York, NY – (MNP – 23.33% Interest) – This 4-story showroom building, with TD Bank on the ground floor and Design Within Reach occupying the entire second and third floors plus part of the ground floor and majority of the lower level, was completed in 2013 and fully leased and occupied by 2014. The property is encumbered with a 10-year self-amortizing $13 million loan with an interest rate of 3.07%. After Worldwide Holdings, which occupied the entire fourth-floor space, terminated their lease early in exchange for a lump sum payment, we signed a new lease for that space with Mansour Rugs, which took possession of the space late last year and started paying rent in January 2018.

A complete list of the company's properties is attached to this letter as Schedule A.

More detailed information on MNP's various real estate holdings and investments can be found on the Marx website (http://www.marxrealty.com). Shareholders, without a username and password, may write to Pattie.j@marxrealty.com to request a username and password.

Securities Portfolio:

The MNP portfolio of marketable securities was valued at $44.6 million as of December 31, 2017, with a cost basis of $2.1 million. For the year, the portfolio increased by $6.8 million or 18.03% in market value compared to an 18.74% total return in the S&P 500 index.

Bank Line of Credit:

In January 2015, MNP signed a $25 million Term Note ("Note") with Capital One Bank, $20 million of which is secured by a pledge of MNP's portfolio of marketable securities and carries interest at LIBOR plus 1.35%; the remaining $5 million is an unsecured line which carries interest at LIBOR plus 3%. The maturity date of both lines was extended to May 1, 2018, and we are currently in negotiations to increase the secured line to $30 million with an expiration date of 2020. As part of the extension, the unsecured line will be eliminated.

Under the terms of the secured line, if the value of portfolio declines so that the value of the Note is greater than 70% of liquid assets, MNP shall supply additional liquid assets or risk the sale of some or all of the securities with attendant tax consequences. As of December 31, 2017, the entire $10.5 million borrowed to close on the 819 7th Street NW, Washington, DC property was paid off, while the $1.5 million borrowed in August 2016 to fund the capital needs of the 85 North 3rd Street, Brooklyn property still remains outstanding.

Executive Compensation and Mr. Deitelzweig's Employment Agreement:

After months of an extensive executive search process, in August of 2017, Mr. Craig M. Deitelzweig joined MNP as its new President and Chief Executive Officer. A lawyer by training, Mr. Deitelzweig has spent the last 20+ years in real estate and brings deep experience across many asset classes as well as a broad set of industry relationships.

In August 2017, MNP entered into a three-year employment contract with Mr. Deitelzweig with an automatic one-year renewal option. Under this contract extension, in addition to the base salary, Mr. Deitelzweig is entitled to an annual bonus equal to 50% of the base salary plus a long-term cash incentive award equal to $750,000, which shall vest in three equal installments. The incentive shall be notionally invested in MNPP shares and shall be subject to upward or downward adjustments based on the price of the stock.

Consulting Project:

As you may recall, last year the board engaged the services of an independent financial advisor to explore options for increasing shareholder value in the face of our tax disadvantaged corporate structure. While working to overcome the uncertainties and obstacles that made it quite difficult to achieve financial and liquidity objectives for our shareholders, the substantial changes to the Internal Revenue Code, altered the picture dramatically. Some of these changes reduce, though do not eliminate, the disadvantages of our C-Corporation structure. The changes in the tax laws facilitate our ability to execute the repositioning of our underlying real estate portfolio going forward and should increase cash flow available for acquisition or other purposes.

Board Attendance and Compensation Practices:

Non-Executive Board Members (excluding the Chairman) received $3,000 for attending each scheduled meeting. In 2017, MNP's board met in person four times, and the total board compensation was $156,000. In addition to the in-person meetings, the board spent (collectively) many hours in attendance at meetings, teleconferences, interviews, site visits, negotiations, on-site events, and promotions, etc. Of the $156,000 paid in 2017, Mr. Better received $60,000 as the Chairman of the Board. A supplementary honorarium of $6,000 each ($2,000 per meeting) was paid to both Messrs. Better and Usdan for their services as MNP's representatives on the Dollar Land Board of Managers.

Respectfully submitted,

Craig M. Deitelzweig	James M. Better
President and Chief Executive Officer	Chairman

Complete list of Company's properties

Schedule A

Property	Building Type	Land (Acres) - Approx.	Building (square ft) - Approx.	MNP Interest [1]	Occupancy %	SF LEASED	SF VACANT	# of In-place Tenants	Primary Tenants
ALABAMA									
1301 N MEMORIAL PKWY, HUNTSVILLE	RETAIL/BILLBOARD SIGN	1.4	43,082	53.4%	100%	10,832	-	1	Bridgestone
CALIFORNIA									
17220-230 S. LAKEWOOD, BELLFLOWER	SHOPPING CENTER	11.1	131,584	17.2%	96%	126,884	4,700	4	Kimco Realty, Denny's, Granny's Donuts, Star Dental
CONNECTICUT									
1381 EAST PUTNAM AVENUE, GREENWICH	MIXED-USE	0.7	10,200	92.8%	88%	8,950	1,250	2	Belly & Body, Estate Treasures + Residentials
99 GREENWICH AVENUE, GREENWICH [2]	RETAIL	0.3	10,695	16.9%	100%	10,695	-	1	CVS
98,102, 108 GREENWICH AVENUE	MIXED-USE	0.3	18,181	57.9%	74%	12,581	4,700	5	Karp Reilly, Altus Power, Atlantic Pacific
DISTRICT OF COLUMBIA									
2200 P STREET NW, DC	RETAIL/GAS STATION	0.4	2,100	100.0%	0%	-	2,100	1	Vacant
819 7TH ST., NW, WASHINGTON, DC	RETAIL/OFFICE		7,857	45.3%	100%	7,857	-	2	Nando's Restaurant Group
FLORIDA									
4601-4675 S. ORANGE, ORLANDO	SHOPPING CENTER	15.7	144,813	23.3%	69%	99,649	45,164	6	Auto Zone, Arron Rents, ALDI, Good 2 Go, Beauty Exch
1677 & 1681 LENOX, MIAMI BCH	RESTAURANT	0.4	13,506	49.0%	100%	13,506	-	1	Yard House
GEORGIA									
207-211 PEACHTREE STREET, ATLANTA	1-4 STORY+1-1 STORY BLDG	0.4	41,249	26.8%	58%	23,949	17,300	2	Hooters, Red Phone Booth
KANSAS									
520 EAST 5TH ST, TOPEKA	1 STORY INDUSTRIAL	0.3	7,732	94.6%	0%	-	7,732	1	Was Dental Lab
KENTUCKY									
3430 PRESTON HWY, LOUISVILLE [7]	STRIP, PAD & OUTDOOR SIGN	5.3	139,994	49.3%	100%	135,994	-	3	Floor & Decor, American Signature, Taco Bell
MASSACHUSETTS									
349-365 WASHINGTON STREET, BOSTON [2]	4 BUILDING ASSEMBLAGE MIXED USE	0.5	68,405	25.0%	22%	14,879	53,526	7	Payless, Cingular, Bromfield Pen Shop
BROMFIELD & BOSWARTH ST, BOSTON [2]	3 BUILDING ASSEMBLAGE MIXED USE	0.1	33,262	29.7%	90%	29,925	3,337	15	Marliave, Colonial Trading, Torrit School, Breather
NEW JERSEY									
460 WEST ROUTE 70, MARLTON	RETAIL	1.4	9,000	34.9%	100%	9,000	-	1	Enterprise Car Rental
240 WEST PWY, PEQUANNOCK	WAREHOUSE	6.9	127,800	22.6%	100%	127,800	-	1	Strong Man Builiding Products
1218 HOOPER AVE (& BEY AVE)	RETAIL + VACANT LAND	27.2		30.1%	100%	-	-	3	Target, Chilli's, Exxon
1232 HOOPER, TOMS RIVER	SHOPPING CENTER	14.1	79,186	11.5%	91%	72,165	7,021	10	Kids R Us, Petsmart, Modern Woman, DXL, Tuesday Morning
3607 BERGENLINE, UNION CITY	RETAIL	0.3	37,647	100.0%	71%	26,647	11,000	1	ABC Bargain Stores
2125 FLETCHER AVENUE, FORT LEE [2]	RETAIL	2.1	32,725	30.0%	100%	32,725		1	Metropolital Plant Exchange
NEW YORK									
KNOLLS COOP SOCIETY, BRONX	RESIDENTIAL [5]			100.0%	100%			1	Knolls Cooperative Section No. 1
3965 HEMPSTEAD BLVD., BETHPAGE	RETAIL/GAS STATION	1.3	6,929	95.7%	100%	6,929	-	1	Quick Check Corp.
89-17/23 QUEENS BLVD., ELMHURST	RETAIL	0.3	8,625	12.7%	59%	5,124	3,501	2	JP Morgan Chase, Tea Ba Ice Cream
222 ELMIRA RD, ITHACA	SHOPPING CENTER	6.9	46,517	21.0%	98%	45,457	1,060	13	Northside Liquor, 5 Guys, Taco Bell, DiBellas
201 EAST 57TH STREET, NYC	4 SHOW ROOM	0.2	29,617	23.3%	100%	29,617	-	4	TD Bank, Design Within Reach, Mansour Rugs
532 MADISON AVENUE, NYC	RETAIL/OFFICE 5	0.04	14,529	10.4%	100%	14,529	-	1	Stahl Midtown Properties
545 MADISON AVENUE, NYC	RETAIL/OFFICE 5	0.2	139,537	23.3%	100%	139,537	-	1	Thor 545 Madison LLC
605-9 WEST 181st STREET, NYC	RETAIL	0.2	23,897	100.0%	100%	23,897	-	1	America's Kids/Youngworld Stores
712 THIRD AVENUE, NYC	RETAIL/OFFICE BUILDING	0.1	9,869	17.9%	100%	9,869	-	3	Wendy's, Dunkin Donuts, Haufbrau
140 7TH AVE S PARCEL, NYC	21sf LAND PARCEL			100.0%	100%			1	Ark Seventh Ave South
3639 MERRICK RD. SEAFORD	FREESTANDING BUILDING	0.3	4,620	22.7%	100%	4,620	-	1	Funstuff
2800 HYLAN BLVD. STATEN ISLAND	BANK BUILDING & FAST FOOD RESTAURANT	1.3	7,147	0.7%	100%	7,147	-	2	Burger King, Bank of America
79-83 MAMARONECK AVE. W.PLAINS	1 STORY + PARTIAL BSMT	0.1	4,449	94.6%	100%	4,449	-	2	Salon/Skeleton Key (Escape Room)
708 THIRD AVENUE, NYC	RETAIL/OFFICE BUILDING	0.4	413,808	35.7%	85%	344,903	62,801	82	ANA, Benenson, UNOPS, Int'l FCStone, LPQ, Blackfield, Wheelo
CROSS COUNTY SHOPPING CTR. [3]	SHOPPING CENTER	71.3	1,165,170	37.6%	99%	1,153,193	10,321	100	Macy's, Sears, Stop&Shop, XXI, Zara, H&M, Hyatt, Victoria's
92 PRINCE STREET, NEW YORK [2]	RETAIL	0.1	5,200	19.7%	100%	5,200	-	1	Nespresso
85 NORTH 3RD ST. WILLIAMSBURGH, BKLYN	RETAIL		26,856	40.6%	59%	15,919	10,937	13	B'klyn Denim, Ralph Lauren, Crème Design, Kula Yoga
478 W. BROADWAY, NEW YORK [2]	RETAIL	-	2,900	19.7%	100%	2,900	-	1	Avenso Photo Art
430 PARK AVENEUE, NEW YORK [2]	OFFICE BUILDING 6	0.3	293,939	8.2%	58%	169,378	124,561	16	TD Amer, Withers, TIAA, Wainright, Unicredito Italiano
124 HUDSON STREET, NEW YORK	RETAIL/OFFICE	-	11,892	0.0%	100%	11,892	-	3	Tribeca School, Little Gym, Warburg Realty
2320 OCEAN AVENUE, FARMINGVILLE [2]	SHOPPING CENTER	40.6	291,847	12.3%	98%	284,614	7,233	23	K-Mart, Stop&Shop, JPM, TGIF, BK, GNC, LA Fitness
PENNSYLVANIA									
3939 BUTLER ST., PITTSBURGH, PA [2]	RETAIL		40,524	45.3%	100%	40,524	-	3	Rite-Aid, WT Legget Co.
TEXAS									
3803 SOUTH COOPER STREET, ARLINGTON [2]	SHOPPING CENTER	5.1	55,005	18.1%	100%	55,005	-	4	Freed's Furniture, Pet Supplies Plus
VIRGINIA									
7717 RICHMOND HWY, ALEXANDRIA	VACANT LAND	0.1		42.6%	0%	-	-	-	Vacant, available for lease or sale
7704 RICHMOND HWY, ALEXANDRIA	SHOPPING CENTER	2.8	13,330	42.6%	100%	13,330	-	6	Verizon, Vitamin Shoppe, Pollo Campero, Dunkin
7508 RICHMOND HWY, ALEXANDRIA	RETAIL	1.1	7,920	7.9%	100%	7,920	-	2	Sherwin Williams, End of the Roll
5025 WELLINGTON RD, GAINESVILLE	FREESTANDING BUILDING	0.7	2,126	49.0%	100%	2,126	-	1	Chipotle
WEST VIRGINIA									
525 FIRST AVE, S. CHARLESTON	2 STORY INDUSTRIAL/OFFICE	0.5	14,433	100.0%	0%	-	14,433	-	Was Dental Lab - Listed for Sale
		222.7	3,599,704			3,162,117	392,677		

[1] Includes interest owned indirectly through MNP's 23.3333% ownership in Joseph E. Marx Co., Inc.
[2] Managed by Midwood Management
[3] Managed by Macerich
[4] Under Development
[5] Ground Leased
[6] Leasehold Interest
[7] Under contract for sale

MERCHANTS' NATIONAL PROPERTIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

AND

INDEPENDENT AUDITORS' REPORT

FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Merchants' National Properties, Inc.

We have audited the accompanying consolidated financial statements of Merchants' National Properties, Inc. and Subsidiaries (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of one of the equity method investees discussed in Note 5 to the consolidated financial statements. The Company's investment in this real estate venture approximates 13% and 14% of consolidated total assets at December 31, 2017 and 2016, respectively, and the equity in earnings of such investee approximates 34% and 21%, respectively, of consolidated total income for the years then ended. The financial statements of this investee were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such investee, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

(Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Merchants' National Properties, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Friedman LLP

April 27, 2018

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Rental properties, net	$ 43,867,747	$ 44,142,785
Marketable securities available-for-sale	44,604,509	37,787,706
Investments in real estate ventures	120,044,030	113,042,902
Intangible asset available for sale	749,036	749,036
Cash and cash equivalents	14,017,163	12,662,600
Restricted cash	861,270	1,059,422
Receivables		
Loans receivable, real estate ventures	2,200,000	2,573,220
Affiliated real estate ventures	906,978	1,203,945
Employees	285,438	379,772
Related parties	918,715	1,436,268
State tax credit refunds	1,170,255	1,141,712
Other	154,423	290,766
Tenant security deposits in escrow	323,743	198,960
Prepaid expenses and other assets	987,039	701,128
Prepaid income taxes	1,141,676	763,820
Deferred tax assets	1,220,261	1,535,663
	$ 233,452,283	$ 219,669,705
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 674,256	$ 888,093
Accrued rent and lease deposits	514,966	390,611
Mortgages payable, less unamortized debt issuance costs of $71,795 and $138,775 in 2017 and 2016, respectively	20,094,218	20,758,137
Line of credit	1,500,000	2,000,000
Income taxes payable	-	298,671
Deferred tax liabilities	24,236,988	31,743,327
	47,020,428	56,078,839
Commitments and contingencies		
Stockholders' Equity		
Common stock, $1 par value; 187,000 shares authorized, 105,199 shares issued, (shares outstanding, 93,064 in 2017 and 2016)	105,199	105,199
Additional paid-in capital	1,146,317	1,146,317
Accumulated other comprehensive income	33,188,038	22,868,610
Retained earnings	157,525,633	144,948,272
Treasury stock, at cost (12,135 shares in 2017 and 2016)	(13,048,118)	(13,048,118)
Total Merchants' National Properties, Inc. stockholders' equity	178,917,069	156,020,280
Noncontrolling interests	7,514,786	7,570,586
	186,431,855	163,590,866
	$ 233,452,283	$ 219,669,705

See notes to consolidated financial statements.

MERCHANTS’ NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2017	Year Ended December 31, 2016
Revenues		
Rental income	$ 3,725,181	$ 4,219,163
Management fees	1,124,820	1,155,138
Leasing commissions	826,232	515,788
Other revenues	1,280,177	1,144,041
	6,956,410	7,034,130
Less - Direct operating expenses		
Real estate taxes	910,540	755,807
Depreciation and amortization	815,965	629,419
Other operating expenses	393,373	694,008
Financing expenses	746,390	746,390
Total direct operating expenses	2,866,268	2,825,624
Net revenues from rentals and other income	4,090,142	4,208,506
Equity in earnings of real estate ventures *	14,129,342	17,634,669
Investment income	904,037	988,263
Gain on sale of marketable securities	-	1,311,776
Total income	19,123,521	24,143,214
General and administrative expenses and other costs		
Financing expenses	147,079	82,647
Professional fees	1,058,392	644,100
Salaries and other general expenses	3,224,134	3,995,477
	4,429,605	4,722,224
Income before income tax expense (benefit)	14,693,916	19,420,990
Income tax expense (benefit) (see Note 10)	(1,633,340)	6,868,996
Net income	16,327,256	12,551,994
Less - Noncontrolling interests in income of consolidated subsidiaries	(27,349)	(296,110)
Net income attributable to Merchants’ National Properties, Inc.	$ 16,299,907	$ 12,255,884
Basic and diluted earnings per share	$ 175.15	$ 131.32
Weighted average number of common shares outstanding		
Basic and diluted	93,064	93,325

* Includes equity in earnings from gain on sale of property held by real estate venture of $5,015,690 and $8,835,480 in 2017 and 2016, respectively.

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2017	2016
Net income	$16,327,256	$12,551,994
Other comprehensive income (loss)		
Unrealized gain on marketable securities arising during the year, net of deferred tax of $1,498,998 and $1,098,643	5,317,805	1,954,409
Reversal of deferred tax related to change in tax rate	5,004,800	-
Reclassification adjustment for gains realized in net income, net of deferred tax of $428,880	-	(762,454)
	10,322,605	1,191,955
Comprehensive income	26,649,861	13,743,949
Less - Comprehensive income attributable to noncontrolling interests	(30,526)	(297,375)
Comprehensive income attributable to Merchants' National Properties, Inc.	$26,619,335	$13,446,574

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Merchants' National Properties, Inc.										
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Unearned Compensation		Treasury Stock		Noncontrolling	Total
	Shares	Amount	Capital	Income	Earnings	Shares	Amount	Shares	Amount	Interests	Equity
Balance, January 1, 2016	105,199	$ 105,199	$ 1,050,417	$ 21,677,920	$ 135,963,316	480	$ (501,600)	11,335	$ (11,814,798)	$ 7,432,256	$ 153,912,710
Stock-based compensation - award	-	-	95,900	-	-	(100)	104,500	-	-	-	200,400
Stock-based compensation - reversed	-	-	-	-	-	(380)	397,100	380	(397,100)	-	-
Purchase of treasury stock	-	-	-	-	-	-	-	420	(836,220)	-	(836,220)
Net income	-	-	-	-	12,255,884	-	-	-	-	296,110	12,551,994
Dividends paid	-	-	-	-	(3,270,928)	-	-	-	-	(159,045)	(3,429,973)
Other comprehensive income, net of tax	-	-	-	1,190,690	-	-	-	-	-	1,265	1,191,955
Balance, December 31, 2016	105,199	105,199	1,146,317	22,868,610	144,948,272	-	-	12,135	(13,048,118)	7,570,586	163,590,866
Net income	-	-	-	-	16,299,907	-	-	-	-	27,349	16,327,256
Dividends paid	-	-	-	-	(3,722,546)	-	-	-	-	(126,776)	(3,849,322)
Contributions	-	-	-	-	-	-	-	-	-	40,450	40,450
Other comprehensive income, net of tax	-	-	-	10,319,428	-	-	-	-	-	3,177	10,322,605
Balance, December 31, 2017	105,199	$ 105,199	$ 1,146,317	$ 33,188,038	$ 157,525,633	-0-	$ -0-	12,135	$ (13,048,118)	$ 7,514,786	$ 186,431,855

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2017	Year Ended December 31, 2016
Cash flows from operating activities		
Net income	$ 16,327,256	$ 12,551,994
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	815,965	629,419
Amortization of debt issuance costs included in financing expenses	66,980	68,278
Provision for deferred taxes	(3,685,135)	3,601,345
Unrealized loss on intangible asset available for sale	-	68,415
Equity in earnings of investments in real estate ventures	(14,129,342)	(17,634,669)
Distributions from investments in real estate ventures	7,979,433	8,901,025
Stock-based compensation	-	200,400
Gain on sale of marketable securities available-for-sale	-	(1,311,776)
Changes in assets and liabilities		
Receivables - affiliated real estate ventures	296,967	83,990
Receivables - employees	94,334	659,525
Receivables - related parties	517,553	(21,547)
Receivables - state tax credit refunds	(28,543)	1,056,083
Receivables - other	136,343	(149,648)
Tenant security deposits in escrow	(124,783)	(15,737)
Prepaid expenses and other assets	(285,911)	111,479
Prepaid income taxes	(377,856)	511,161
Accounts payable and accrued expenses	(213,837)	(940,734)
Accrued rent and lease deposits	124,355	15,593
Income taxes payable	(298,671)	298,671
Net cash provided by operating activities	7,215,108	8,683,267
Cash flows from investing activities		
Restricted cash	198,152	(499,361)
Contributions to investments in real estate ventures	(851,219)	(4,279,674)
Contributions from noncontrolling interests	40,450	-
Purchase of rental properties	(540,927)	(1,138,698)
Proceeds from sale of marketable securities available-for-sale	-	1,324,769
Purchase of marketable securities available-for-sale	-	(1,151,904)
Advances to (repayments of) loans receivable, real estate ventures, net	373,220	(2,573,220)
Net cash used in investing activities	(780,324)	(8,318,088)
Cash flows from financing activities		
Purchase of treasury stock	-	(836,220)
Payment of dividends	(3,722,546)	(3,270,928)
Payment of dividends to noncontrolling interests	(126,776)	(159,045)
Proceeds from (payments of) line of credit, net	(500,000)	2,000,000
Principal payments of mortgages payable	(730,899)	(634,958)
Repayment of construction loan	-	(3,965,429)
Proceeds from construction loan	-	2,142,784
Proceeds from mortgage payable	-	4,500,000
Debt issuance costs	-	(38,162)
Net cash used in financing activities	(5,080,221)	(261,958)
Net increase in cash and cash equivalents	1,354,563	103,221
Cash and cash equivalents, beginning of year	12,662,600	12,559,379
Cash and cash equivalents, end of year	$ 14,017,163	$ 12,662,600
Supplemental cash flow disclosures		
Interest paid (includes capitalized interest of $79,749 in 2016)	$ 827,247	$ 799,655
Income taxes paid - net of refunds	2,788,376	1,347,855
Noncash investing and financing activities		
Recognition of unearned compensation	-	104,500

See notes to consolidated financial statements.

1 - ORGANIZATION

Merchants' National Properties, Inc. ("Merchants"), Guest Realty Company ("Guest"), Marx Realty & Improvement Co. Inc. ("Marx"), Maryland Stores Corporation ("Maryland"), Rier Realty Co., Inc. ("Rier"), East Putnam Ave. I, LLC ("Putnam"), The M&B Building Owners II, LLC ("Bethpage"), Brahmin Realty Associates, LLC ("Brahmin), Madison Syndicate ("Madison"), and University Plaza Joint Venture ("University") own, manage, develop and lease various commercial real estate properties and invest in real estate ventures in the United States (collectively these entities are referred to as the "Company"). Guest, Marx, Maryland and Rier (the "Acquired Entities") were acquired in the transaction discussed below.

On November 21, 2006, Merchants acquired certain shares of stock and partnership interests in the Acquired Entities and other joint venture interests from the estate of Merchants' former stockholder (the "Seller") for a total cost of $41,661,149 in cash. There were no significant liabilities assumed upon acquisition. The purchase price was allocated to the real estate and partnership interests based on their fair values. No goodwill or intangible assets were recorded.

On November 8, 2012, Putnam was formed to acquire property which is being developed into a commercial and residential project. Merchants owns 92.75% of Putnam.

On July 16, 2013, Bethpage was formed to acquire land for the purpose of net leasing or developing it into a commercial project. Merchants owns 95.70% of Bethpage.

In October 2014, Brahmin was formed to acquire a 50% tenancy-in-common interest in three real properties. Merchants owns 59.40% of Brahmin.

On September 11, 2015, Merchants acquired an additional 8.05% interest in the members' equity of University, which resulted in 57.88% interest in the members' equity of University.

Principles of Consolidation

The consolidated financial statements include the accounts of Merchants and its subsidiaries; Guest, a 100% owned subsidiary; Maryland, an 80% owned subsidiary; Marx, a 100% owned subsidiary; Rier, a 94.64% owned subsidiary; Putnam, a 92.75% owned limited liability company; Madison, a 52.93% owned partnership; Bethpage, a 95.70% owned limited liability company; Brahmin, a 59.40% owned limited liability company; and University, a 57.88% owned partnership. All significant intercompany accounts and transactions have been eliminated in consolidation.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Noncontrolling Interests
Accounting principles generally accepted in the United States of America ("GAAP") require that noncontrolling interests in subsidiaries and affiliates be reported in the equity section of a company's balance sheet. In addition, the amounts attributable to the net income and other comprehensive income of these subsidiaries and affiliates are reported separately in the consolidated statements of income, comprehensive income and changes in stockholders' equity for all periods presented.

Use of Estimates
Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The most significant estimates and assumptions relate to depreciable lives, impairment of long-lived assets and the recovery of receivables. Actual results could differ from those estimates.

Rental Properties, Net
Real estate is recorded at cost. Maintenance and repairs are charged to operations at the time the expenditures are made, whereas betterments and improvements are capitalized. Upon sale or other disposition of real estate, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Marketable Securities Available for Sale
Marketable securities consist of equity securities that are classified as available-for-sale, and are carried in the accompanying consolidated financial statements at fair value. Realized gains and losses are included in net income based on the specific identification method; unrealized holding gains and losses are included in other comprehensive income.

Investments in Real Estate Ventures
Investments in unconsolidated affiliated companies, in which the Company has a less than 50% interest and significant influence, but not control, are accounted for using the equity method. Distributions declared but not paid are recorded as receivables from affiliated real estate ventures. On a periodic basis, management assesses whether there are any indicators that the carrying value of the Company's investments in real estate ventures may be impaired. An investment is impaired only if management's estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment. The Company's estimates of fair value for each investment are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for space, competition for tenants,

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Real Estate Ventures (Continued)
changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the fair values estimated by management in its impairment analyses may not be realized. As of December 31, 2017 and 2016, management determined that no impairment of the recoverability of the carrying amount of its investments has occurred.

Intangible Asset Available for Sale
Intangible asset available for sale consists of a liquor license that is not amortized as it has an indefinite life. The Company reviews intangible assets with indefinite lives for impairment annually or more frequently if impairment indicators arise. As permitted under GAAP, the Company took a qualitative approach in determining whether it was more likely than not that the intangible asset was impaired. To the extent the qualitative factors indicate that there is more than a 50% likelihood that the intangible asset is impaired or when the qualitative approach is not used, the Company performs a quantitative impairment test. The quantitative impairment test consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, the Company recognizes an impairment loss in an amount equal to that excess. In 2016, the Company classified the liquor license as available for sale and expensed $68,415, the amount in excess of net realizable value, to salaries and other general expenses. As of December 31, 2017, management determined that no impairment provision was necessary.

Long-Lived Assets
The Company reviews the carrying values of its long-lived assets, such as rental properties, whenever events or changes in circumstances indicate that the carrying values may no longer be appropriate. Recoverability of carrying values is assessed by estimating future net cash flows from the assets. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact management's assumptions as to rental rates, costs, holding periods or other factors that may result in changes in the Company's estimates of future cash flows. Although management believes the assumptions used in testing for impairment are reasonable, changes in any one of the assumptions could produce a significantly different result. Based on management's evaluations, no impairment charges were deemed necessary at December 31, 2017 and 2016.

Cash and Cash Equivalents
The Company considers cash and cash equivalents to include cash on hand, cash in banks, and short-term investments in institutional money market funds with initial maturities of three months or less. Cash balances in banks in the United States of America are insured by the Federal Deposit Insurance Corporation subject to certain limitations. Cash balances in institutional money market funds are insured by the Securities Investor Protection Corporation subject to certain limitations.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Restricted cash represents funds held in escrow for tenant and capital improvements and leasing commissions as required by the lenders.

Debt Issuance Costs

Debt issuance costs represent amounts incurred in connection with obtaining debt financing. These costs are being amortized on the straight-line basis over the term of the related loan, which approximates the effective interest method. For the years ended December 31, 2017 and 2016, amortization of deferred financing costs was $66,980 and $68,278, respectively. These amounts are included in financing expenses.

Income Taxes

The Company files a combined income tax return for New York State and New York City except for Madison, Putnam, Bethpage, Brahmin and University. Merchants and Marx file a consolidated federal income tax return and separate income tax returns for all states except New York. Guest, Maryland and Rier file separate federal income tax returns and for all states except New York. Madison, Putnam, Bethpage, Brahmin and University file separate federal and state income tax returns.

The Company applies the provisions of Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 740, "Income Taxes". The Company files income tax returns in the U.S. federal jurisdiction and in various states.

The Company does not have any uncertain tax positions. As a result, there are no unrecognized tax benefits in the accompanying consolidated balance sheets. If the Company were to incur any interest and penalties in connection with income tax deficiencies, the Company would classify interest in the "interest expense" category and classify penalties in the "non-interest expense" category within the consolidated statements of income.

Deferred Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Rental Revenue

The Company recognizes rental revenue as earned. All leases between the Company and the tenants of the properties are considered to be operating leases. Receivables from tenants are stated at the amount management expects to collect. Account balances are written off after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on contractual terms and how recently payments have been received. No allowance against tenant receivables is considered necessary at December 31, 2017 and 2016.

Sales of Real Estate

The Company accounts for sales of real estate under the full accrual method, whereby gain is not recognized until the collectability of the sales price is reasonably assured and the earnings process is virtually complete. When a sale does not meet such requirements, gain is deferred until the requirements for income recognition are met.

Depreciation

Properties are stated at cost. Depreciation of rental properties is computed using the straight-line method over the estimated useful lives of the assets.

Earnings Per Share

The Company computes basic earnings per share by dividing net income attributable to Merchants by the weighted average number of shares outstanding for the year. Diluted earnings per share are calculated utilizing the weighted average number of common shares outstanding adjusted for the effect of any common stock equivalents.

Comprehensive Income

Comprehensive income consists of two components, consolidated net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains and losses that, under GAAP, are recorded as an element of equity but are excluded from consolidated net income.

Fair Value Measurements

The Company follows the provisions of ASC Topic 820, "Fair Value Measurements and Disclosures", which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2: Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model-derived valuations whose inputs or significant value drivers are observable.

Level 3: Unobservable inputs are used when little or no market data is available.

Fair Value of Financial Instruments

ASC Topic 825, "Disclosures about Fair Value of Financial Instruments", as amended, requires certain entities to disclose the fair values of specified financial instruments for which it is practicable to estimate those values. The carrying values of cash and cash equivalents, restricted cash, receivables, and accounts payable and accrued expenses approximate their fair values due to their short-term nature. The fair value of marketable securities are measured on a recurring basis using Level 1 inputs (see Note 4). It was not practicable to reasonably estimate the fair value of the loans receivable from real estate ventures, line of credit and mortgages payable as there are no quoted market prices of similar products and management has not developed a valuation model necessary to make such estimates.

Derivative Instruments

In accordance with GAAP, the Company recognizes derivatives as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. Changes in fair value will affect either accumulated other comprehensive income or loss, which is a component of equity, if the derivative qualifies as a hedge and is effective, or net income or loss, if the derivative does not qualify as a hedge or if the hedge is ineffective.

The Company has a receive-variable (LIBOR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan (see Note 8). The interest rate swap agreement is effective as of October 1, 2015, matures on October 1, 2025, and has an original notional amount of $9,000,000 with a notional amount of $8,523,292 and $8,748,910 at December 31, 2017 and 2016, respectively. The notional amount is reduced based on the terms of the agreement. The interest rate swap agreement is intended to hedge the Company's exposure to possible increases in interest rates and the resulting increase in cash outflows.

The interest rate swap was not designated as a cash flow hedge and, accordingly, changes in fair value are recognized in earnings. As of December 31, 2017 and 2016, the Company did not record the fair value of the interest rate swap agreement as it was not material to its consolidated financial statements.

Stock-Based Compensation

The Company follows the provisions of ASC Topic 718, "Compensation - Stock Compensation", which requires compensation costs related to stock-based payment transactions to be measured and recorded at the fair value of the equity instrument issued.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties
The Company is subject to risks incidental to the ownership, development and management of real estate. These include the risks normally associated with the changes in the general economic climate, trends in the real estate industry, availability of land for development, changes in tax laws and interest rates, availability of financing, and the potential liability under environmental and other laws.

The Company's investments include marketable equity securities. Due to the risks associated with equity securities, it is at least reasonably possible that changes in market conditions in the near term could materially affect the value of investments reported in the consolidated financial statements.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent Events
These consolidated financial statements were approved by management and available for issuance on April 27, 2018. Management has evaluated subsequent events through this date.

3 - RENTAL PROPERTIES, NET

Rental properties consist of the following:

	December 31,	
	2017	2016
Land	$ 20,094,019	$ 20,094,019
Buildings and improvements	26,802,216	26,261,289
Furniture and fixtures	1,002,848	1,002,848
Equipment	79,124	79,124
	47,978,207	47,437,280
Less - Accumulated depreciation	4,110,460	3,294,495
	$ 43,867,747	$ 44,142,785

4 - MARKETABLE SECURITIES

Cost and fair value data for common stock classified as available-for-sale securities are as follows:

	December 31, 2017	December 31, 2016
Cost	$ 2,113,886	$ 2,113,886
Fair value	44,604,509	37,787,706
Net unrealized gain	$ 42,490,623	$ 35,673,820

During the year ended December 31, 2016, the Company realized gross gains from sales of marketable securities of $1,311,776. Proceeds from sale of marketable securities with a cost basis of $12,993 were $1,324,769 in 2016. The Company used the sales proceeds to acquire new securities. There were no purchases or sales of marketable securities in 2017.

5 - INVESTMENTS IN REAL ESTATE VENTURES

The Company holds investments in various real estate ventures. Changes in the Company's investments in real estate ventures for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Balance, beginning of year	$ 113,042,902	$ 100,029,584
Contributions	851,219	4,279,674
Distributions	(7,979,433)	(8,901,025)
Equity in earnings	14,129,342	17,634,669
Net investments, end of year	$ 120,044,030	$ 113,042,902

5 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

The following information summarizes the total assets, liabilities, revenues and expenses of the investees in the aggregate prior to allocating the Company's share indicated by the percentages listed on the following page:

	December 31,	
	2017 (Unaudited) *	2016 (Unaudited) **
Assets	$ 523,480,933	$ 554,979,157
Liabilities	294,012,858	322,535,353
Equity	$ 229,468,075	$ 232,443,804
Rental and other revenues	$ 125,818,636	$ 129,217,072
Net gains on disposal of rental property	23,961,382	28,736,595
Total income	149,780,018	157,953,667
Direct operating expenses	49,677,099	51,940,060
Financing expenses	14,460,388	14,288,253
Depreciation and amortization expense	27,868,451	24,072,101
Income taxes	3,902,371	3,772,292
Net income	$ 53,871,709	$ 63,880,961

*The above 2017 amounts have not been audited, except as noted in the independent auditors' report, one of the investments in real estate ventures is audited by other auditors. The assets and liabilities of this investment in real estate venture are approximately 37% and 44%, respectively, of the total assets and liabilities above. The net income of this investment in real estate venture is approximately 32% of the total net income above.

**The above 2016 amounts have not been audited, except as noted in the independent auditors' report, one of the investments in real estate ventures is audited by other auditors. The assets and liabilities of this investment in real estate venture are approximately 35% and 40%, respectively, of the total assets and liabilities above. The net income of this investment in real estate venture is approximately 22% of the total net income above.

5 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Investments in real estate ventures consist of the following at December 31:

	% of Ownership*	
Investee	2017	2016
430 Park Avenue Syndicate **	7.0828%	7.0828%
532 Madison Syndicate	10.4099	10.4099
708 Third Avenue Holdings, LLC ***	35.7135	35.7135
Arlington Joint Venture	18.0625	18.0625
Athens Joint Venture	45.3332	45.3332
Avon Joint Venture	40.5938	40.5938
Bell Blvd. Partners	32.0000	32.0000
BSC Empire	37.6214	37.6214
Belle Haven Realty LLC	42.5700	42.5700
Bellflower Joint Venture	17.1667	17.1667
Bey Lea Joint Venture **	9.0050	9.0050
Boston Syndicate	25.0000	25.0000
Dollar Land Associates LLC	37.6214	37.6214
East Rutherford Joint Venture	0.7500	0.7500
Farmingville Associates **	10.5598	10.5598
Fort Lee Joint Venture	30.0000	30.0000
Ithaca Joint Venture	21.0000	21.0000
Joseph E. Marx Co. Inc.	23.3330	23.3330
Knights Road Shopping Center LP **	11.4044	10.9999
LM of Greenwich	16.9125	16.9125
Louisville Syndicate	49.3097	49.3097
Marlton Joint Venture	34.9167	34.9167
Newbury Street Partners **	18.7084	18.7084
Ocean County Ventures **	30.0981	30.0981
Orange Syndicate **	48.5607	48.5607
Pequannock Joint Venture LLC	22.5953	22.5953
Peters Land Syndicate	26.7644	17.7241
Queens Blvd. Joint Venture	12.6867	12.6867
Seaford Joint Venture	22.6781	22.6781

* % of Company's beneficial interest in the underlying asset.
** Excludes indirect interest through Joseph E. Marx Co. Inc.
*** Represents 35.7135% of 708 Third Avenue building and 17.85675% of 712 Third Avenue building.

6 - LOANS RECEIVABLE

Loans receivable from two real estate venture affiliates in the combined amounts of $2,200,000 and $2,573,220 as of December 31, 2017 and 2016, respectively, are due on demand and bear interest at 5.0%. As of December 31, 2016, accrued interest of $73,220 was included in the receivable balance. There was no accrued interest at December 31, 2017. Management believes that these loans are fully collectible, and no allowance for loan loss is required at December 31, 2017 and 2016.

7 - LINES OF CREDIT

Merchants has a $25,000,000 credit facility (the "Facility"). At December 31, 2017, the Facility included a secured line of credit up to $20,000,000 and an unsecured line of credit up to $5,000,000. The secured line is subject to a borrowing base of 70% of the fair value of Merchants' marketable securities and 100% of the value of cash and cash equivalents. Interest on secured borrowings is LIBOR plus 1.35% (2.68% and 1.92% at December 31, 2017 and 2016, respectively). As of December 31, 2017 and 2016, the Company had $1,500,000 and $2,000,000, respectively, of outstanding borrowings under the secured line of credit. The secured line of credit expires on May 1, 2018 (see Note 15).

The unsecured line, which requires interest at LIBOR plus 3%, expires on May 1, 2018 (see Note 15). As of December 31, 2017 and 2016, there were no borrowings under the unsecured line of credit.

The Facility is subject to certain covenants which the Company has met at December 31, 2017.

The Facility allows Merchants to request that the bank issue standby letters of credit on its behalf.

Interest expense was $43,892 and $77,778 for the years ended December 31, 2017 and 2016, respectively.

8 - MORTGAGES PAYABLE

In April 2009, the Company obtained a $6,500,000 mortgage payable, secured by a first mortgage lien on the property located at 605-609 West 181st Street, New York, New York (the "605-609 Loan"). The mortgage required monthly payments of $41,084 based on a 30-year amortization, including interest at 6.5% a year through April 30, 2014. In July 2013, the terms were modified on the outstanding mortgage balance of $6,155,902. The modified mortgage requires monthly payments of $42,762 based on a 15-year amortization, including interest at 3.04%, and matures on August 1, 2018 (see Note 15). Interest expense was $148,745 and $160,238 for the years ended December 31, 2017 and 2016, respectively. The mortgage payable balance at December 31, 2017 and 2016 was $4,628,727 and $4,993,120, respectively.

8 - MORTGAGES PAYABLE (Continued)

In October 2014, Brahmin obtained three mortgages totaling $2,790,000, which collectively are secured by a first mortgage lien on the properties located at 10-14 Bosworth Street, 41 Bromfield Street and 45 Bromfield Street, Boston, Massachusetts. The mortgages require monthly payments in the aggregate of $15,211 based on a 25-year adjustable interest rate, with interest to adjust every ten years through November 2030. The initial interest rate during the first ten years is fixed at 4.25%. Merchants is a limited guarantor of this loan. Interest expense was $112,757 and $116,399 for the years ended December 31, 2017 and 2016, respectively. The mortgage payable balances at December 31, 2017 and 2016 were $2,585,108 and $2,654,882, respectively.

On April 3, 2015, Putnam obtained a construction loan in the amount of $4,000,000 for the development of its property, with an option to convert it to a permanent facility at the issuance of a certificate of occupancy after closing. The loan bears interest at the Wall Street Journal Prime Rate plus a margin of 0.123% on the outstanding balance. On December 29, 2016, the outstanding construction loan in the amount of $3,965,429 was converted into a permanent mortgage of $4,500,000, maturing on January 1, 2024. The mortgage requires monthly payments in the aggregate of $21,484, including principal and interest based on a 30-year amortization schedule. The interest rate during the term of the note is 4%. For the years ended December 31, 2017 and 2016, interest expense was $179,970 and $130,384, respectively. In 2016, $79,749 of interest expense was capitalized and included in the development costs of the property. The mortgage payable balances at December 31, 2017 and 2016 were $4,428,886 and $4,500,000, respectively. The loan is subject to a debt service ratio of 1.25, which shall be tested annually commencing on December 31, 2017. Putnam is currently not in compliance with the ratio as of December 31, 2017; however, Putnam is current in its payment of debt service. Management of the Company has been in communication with the lender.

On September 11, 2015, University obtained a loan in the amount of $9,000,000. The loan requires monthly payments of approximately $19,000, including interest equal to LIBOR plus 1.625% (2.98% and 2.24% at December 31, 2017 and 2016, respectively), and has a maturity date of September 11, 2025. Merchants is the guarantor of this loan. University has entered into a receive-variable (LIBOR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan (see Note 2). The loan can be prepaid in whole or in part from time to time without penalty. The loan is subject to a debt service ratio. If the debt service ratio falls below 1.30, University is required to provide cash collateral or an unconditional standby letter of credit. In April 2018, University deposited $300,000 in a debt service reserve at the request of the lender in order to satisfy this covenant due to noncompliance as of December 31, 2017. For the years ended December 31, 2017 and 2016, interest expense was $341,125 and $350,840, respectively. The mortgage payable balance at December 31, 2017 and 2016 was $8,523,292 and $8,748,910, respectively.

8 - MORTGAGES PAYABLE (Continued)

Future minimum payments are as follows:

Year Ending December 31,	
2018	$ 5,025,193
2019	405,739
2020	421,209
2021	439,690
2022	457,743
Thereafter	13,416,439
	20,166,013
Less - Unamortized debt issuance costs	71,795
	$ 20,094,218

9 - LEASE ARRANGEMENTS

Building space is leased under noncancelable operating leases. Certain tenant leases provide for the payment of minimum rentals plus a percentage of the tenant's sales in excess of stipulated amounts. Minimum rental revenues under existing noncancelable leases as of December 31, 2017 are approximately as follows:

Year Ending December 31,	
2018	$ 4,404,000
2019	4,253,000
2020	3,730,000
2021	3,620,000
2022	3,383,000
Thereafter	13,987,000
	$ 33,377,000

Common area maintenance and real estate tax escalation charges included in rental income were $303,837 and $482,852 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, two tenants represented approximately 40% of rental income. At December 31, 2016, one tenant represented approximately 33% of rental income.

10 - INCOME TAXES

The Company's effective tax rate differs from the statutory tax rate due to state credits, as discussed below.

The Company's income tax provision (benefit) consists of the following:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Current		
Federal	$ 2,504,802	$ 3,058,439
State	717,248	1,350,924
New York State Empire Zone and Qualified Empire Zone Enterprise credit *	(1,170,255)	(1,141,712)
	2,051,795	3,267,651
Deferred		
Federal	(2,726,972)	2,605,530
State	(958,163)	995,815
	(3,685,135)	3,601,345
Income tax expense (benefit) per consolidated statements of income	$ (1,633,340)	$ 6,868,996
Deferred tax effect of other comprehensive income	$ (3,505,802)	$ (669,763)

Due to the United States tax legislation enacted in December 2017, the corporate tax rate was reduced to 21% from 35%, which resulted in a decrease of approximately $5,542,000 in deferred income tax and a decrease of approximately $5,005,000 in deferred tax effect of other comprehensive income. This revised tax rate was used by management in calculating the income tax expense and effect on the deferred tax balances for the federal and states taxes applicable to the Company.

*Dollar Land Associates LLC ("Dollar Land") is the owner of Cross County Shopping Center in Yonkers, New York and one of the entities listed in Note 5. Dollar Land applied for and was accepted into the New York State Empire Zone program, which entitled its members to obtain a Qualified Empire Zone Enterprise ("QEZE") credit against their New York State income taxes based on property tax payments made under the Payment-in-Lieu-of-Taxes program. In April 2009, the State of New York issued QEZE Certification, allowing the Dollar Land members to claim a refundable tax credit equal to 75% of the PILOT amount for ten years through 2018. Merchants' share of the QEZE credit as of December 31, 2017 and 2016 was $1,170,255 and $1,141,712, respectively.

10 - INCOME TAXES (Continued)

Components of deferred tax assets and liabilities are as follows:

	December 31,			
	2017		2016	
	Components	Tax Effect	Components	Tax Effect
Deferred tax assets				
Depreciation - State	$ 10,173,177	$ 1,119,049	$ 8,721,571	$ 1,122,466
Allowance for doubtful accounts	-	-	449,744	191,376
Prepaid rent	184,144	54,672	269,268	114,412
Other	156,754	46,540	276,767	107,409
	10,514,075	1,220,261	9,717,350	1,535,663
Deferred tax liabilities				
Unrealized gain on marketable securities	42,548,673	9,360,635	35,733,669	12,866,444
Depreciation	2,815,260	591,205	5,127,649	1,743,401
Amortization	1,798,981	534,118	1,692,307	719,061
Deferred gain on disposal of rental property	22,389,647	6,647,486	17,500,627	7,436,015
Deferred revenue*	14,782,357	4,392,337	13,472,944	5,728,109
Tangible property regulations	6,644,980	1,977,511	6,155,151	2,619,940
Other	2,467,925	733,696	1,455,351	630,357
	93,447,823	24,236,988	81,137,698	31,743,327
Net deferred tax liability	$ 82,933,748	$ 23,016,727	$ 71,420,348	$ 30,207,664

*Includes revenue from straight-lining of rents pursuant to ASC Topic 840, "Leases", for various properties. For the years ended December 31, 2017 and 2016, deferred revenue components of $2,402,128 and $2,327,711, respectively, apply to Dollar Land. For the years ended December 31, 2017 and 2016, deferred revenue components of $10,188,703 and $9,322,629, respectively, apply to Joseph E. Marx Co. Inc.

Components of deferred tax assets and liabilities include book to tax differences arising from investments in real estate ventures.

11 - RELATED PARTY TRANSACTIONS

The Company manages various properties and several entities through which investments in real estate ventures are held. Management fees, leasing commissions, supervisory and other miscellaneous fees earned from related parties for the years ended December 31, 2017 and 2016 were $2,493,798, and $2,062,601, respectively.

The amount due from related parties for management fees, leasing commissions, supervisory fees and other charges at December 31, 2017 and 2016 was $918,715 and $1,436,268, respectively. These amounts are noninterest-bearing and due on demand.

11 - RELATED PARTY TRANSACTIONS (Continued)

Loans to employees for the purchase of membership interests in certain subsidiaries totaling $285,438 and $379,772 at December 31, 2017 and 2016, respectively, are included in receivables from employees on the accompanying consolidated balance sheets. The loans bear interest at 6%, and any unpaid balance, including accrued interest, is due within 12 months of termination of employment with the Company. The loans to employees are collateralized by the employees' respective ownership interest in these subsidiaries.

12 - STOCK-BASED COMPENSATION

The former chief executive officer (the "Former CEO") of the Company, as part of his employment agreement further discussed in Note 14, was eligible to receive five annual retention awards of no less than 160 shares of the Company's common stock, on each May 24 through 2018. The employment agreement was terminated in November 2016 upon the Former CEO's resignation. The Former CEO received 100 shares of the Company's stock in 2016. In 2016, the Company repurchased 420 shares held by the Former CEO for a total consideration of $836,220.

In 2009 and 2013, the Company reissued shares of treasury stock to be used as incentive awards for the Former CEO. Since the Company's stock is not actively traded, management estimated the fair value of stock awards granted in 2016 to be $2,004 per share, based on the weighted average market price over a period of time. Stock-based compensation totaled $200,400 during 2016.

The balance of the reissued shares of treasury stock was recorded as unearned compensation in the equity section of the Company's consolidated balance sheets until the shares were granted. In connection with the resignation of the Former CEO in 2016, the balance of the unearned compensation was reclassed to treasury stock.

13 - RETIREMENT PLAN

The Company makes matching contributions to a retirement plan equivalent to 50% of participants' contributions, not to exceed 2% of such employees' base compensation, or the Internal Revenue Code imposed maximum of $5,400 per year. The Company's matching contributions for the years ended December 31, 2017 and 2016 were $20,272 and $28,814, respectively.

14 - COMMITMENTS AND CONTINGENCIES

Guarantees and Indemnification

The Company has signed limited suretyship and guarantee agreements with the mortgagees of two investees which own rental real properties with mortgages outstanding of approximately $18,597,000 at December 31, 2017. The Company has signed limited suretyship and guarantee agreements with the mortgagees of three investees which own rental real properties with mortgages outstanding of approximately $20,720,000 at December 31, 2016. In addition, the Company has provided indemnification for any environmental issues to the lenders of these investees. Management believes that there is no liability under these guarantees at December 31, 2017 and 2016.

Lease

The Company leases office space from 708 Third Avenue Holdings, LLC, in which it has an investment. The lease expires on June 30, 2028. For the years ended December 31, 2017 and 2016, rent expense, including real estate tax and operating expense escalations, was $219,726 and $217,763, respectively. Minimum rental expense under this lease as of December 31, 2017 is as follows:

Year Ending December 31,	
2018	$ 191,393
2019	203,921
2020	204,746
2021	204,746
2022	204,746
Thereafter	1,307,902
	$ 2,317,454

Employment Agreement

The Company is committed under a three-year employment agreement with its new Chief Executive Officer (the "New CEO") ending in August 2020, with an automatic extension of one year thereafter, pursuant to which the Company agrees to pay a base annual salary of $480,000, with an annual increase of the lesser of the increase in the consumer price index or 3% per year, and a first year guaranteed minimum bonus of $100,000, payable no later than March 15, 2018, provided he has not resigned or been terminated. In subsequent years, the New CEO is eligible for an annual performance bonus award providing a target bonus opportunity of no less than 50% of the current base salary. During 2017, the Company paid a base salary of approximately $188,000.

14 - COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreement (Continued)
In August 2017, the Company granted the New CEO a long-term incentive award equal to $750,000 (the "LT Cash Incentive"). The LT Cash Incentive shall be invested by the New CEO in shares of the Company's common stock and shall be adjusted upwards or downwards, as the case may be, based on the value of the Company's common stock, as reasonably determined by the Board of Directors in good faith, during the period commencing on August 10, 2017, the date of hire (the "Effective Date") and ending on the third anniversary of the Effective Date. The LT Cash Incentive shall vest in three equal installments, subject to the New CEO's continued employment through the respective vesting dates. As of December 31, 2017, no vesting has occurred and no stock compensation has been recorded.

In addition, when the Company enters into new investments, as defined in the employment agreement, the New CEO is required to make a personal investment at the level of 5% of the Company's investment. The funds for the CEO's personal investments would be loaned by the Company on a non-recourse basis, with interest at 6% a year, using the acquired equity as collateral. There are no loans outstanding at December 31, 2017.

The Company had a five-year employment agreement with the Former CEO ending in May 2018, which was terminated in November 2016 upon the Former CEO's resignation. Pursuant to the agreement the Company agreed to pay a base annual salary of $475,000, with an annual consumer price index increase capped at 3% per year, and a guaranteed minimum bonus of $163,000. The Former CEO was also entitled to receive restricted shares of the Company's stock. During 2016, the Company paid the Former CEO a base salary of approximately $445,000 and a bonus of $483,000 pursuant to the employment agreement. The Company loaned the Former CEO funds for new investments during his employment. In 2016, all loans receivable from the Former CEO were paid off upon his resignation.

Capital Calls and Investment Funding
In the normal course of business, the Company may be required to fund capital calls from its investees.

Litigation
In the normal course of business, the Company is a party to various legal claims, actions and complaints relating to its real estate activities. Management does not expect that the results of any of these proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

15 - SUBSEQUENT EVENTS

The Company has received quotes from various lenders for the refinancing of the 605-609 loan that matures on August 1, 2018, and expects to refinance this debt during the second quarter of 2018.

The Company expects to finalize the agreement for a new secured line of credit in the amount of $30,000,000 in May 2018. The line is subject to a borrowing base of 70% of the fair value of the Company's marketable securities and 100% of the value of cash and cash equivalents. Interest on the line will be LIBOR plus 1.35% and the line will expire in three years.

In March 2018, a real estate venture in which the Company has a 49.3097% interest sold a property for approximately $10 million and will reinvest the proceeds in a new property under the rules of Internal Revenue Code Section 1031.