



May 7, 2024

## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To our Stockholders:

The annual meeting of Merchants' National Properties, Inc. ("MNP" or the "Company") will be held on June 6, 2024, beginning at 2:00 p.m., Eastern Time, virtually, by webcast, telephonically or by any other means of remote access deemed appropriate by the Company, for the purpose of:

1. Electing nine directors to serve a one-year term;
2. Appointing Marcum LLP, as our independent public accounting firm for 2024;
3. Reviewing the affairs of the Company; and
4. Transacting such other business as may properly come before the meeting.

Copies of MNP's Consolidated 2023 Financial Statements as well as the President and Chairman's Report to the Shareholders, providing a detailed overview of the Company and its major investments are attached herewith.

**THE PROXY FOR THE ELECTION OF THE DIRECTORS IS ATTACHED HEREWITH. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, WE URGE YOU TO VOTE AND SUBMIT YOUR SIGNED PROXY IN ADVANCE OF THE MEETING AT YOUR EARLIEST CONVENIENCE, BUT NO LATER THAN JUNE 5, 2024.**

Sincerely,

James Better, Chairman of the Board  
Merchants' National Properties, Inc.

**Note: A copy of the Virtual AGM Process Memorandum is attached for your convenience. If you have any questions about joining the meeting virtually, please feel free to reach out to us at (212) 557-1400.**



## VIRTUAL MEETING PROCESS

Dear Shareholders:

We are writing to inform you that the 2024 Annual General Meeting ("AGM") of the Shareholders of Merchants' National Properties, Inc. ("MNP") will be held in a virtual format on June 6, 2024 at 2:00 p.m., Eastern Time.

**Management urges all the shareholders who plan to attend the meeting to pre-register no later than June 5, 2024. In order to pre-register for the meeting, please click on the following URL (or copy and paste it in your web browser) and provide the requested information:**

<https://join.eventcastplus.com/eventcastplus/2024-MNP-Annual-General-Meeting>

Shareholders who pre-register will be able to join the AGM using the same URL as mentioned above.

Shareholders who have not pre-registered prior to the AGM, we request that, on the day of the AGM, you please log in at least 15 minutes before the scheduled meeting time. You will be asked to provide the following information to the conference manager prior to joining the AGM:

- Your name;
- Your email address;
- Your telephone number;
- Your affiliation with the registered MNP shareholder if shares are not held in your own name;
- The number of shares you have the authority to vote; and
- Your voting instructions if you are the record owner of your shares and have not submitted a proxy or if you wish to revoke your proxy and vote at the AGM.

In the event your computer does not have audio capability, you will be able to listen to the meeting through your phone by calling 800.267.6316 or 203.518.9783 and providing Conference ID: MNP. In case you have any questions or need assistance logging-in between now and the day of the AGM, please call our corporate office at 212.557.1400 and someone will assist you.

Shareholders who own their shares in street name (i.e., through brokerage accounts) are urged to provide their voting instructions ahead of the meeting. **Your vote must be received by June 5, 2024 to be counted.** Shareholders who are the record owners of their shares will be able to cast their votes until the polls close on the day of the AGM.

In order to make the AGM more efficient and informative, we encourage shareholders to provide their questions in advance of the meeting by emailing: [mariela.b@marxrealty.com](mailto:mariela.b@marxrealty.com).

## PROXY STATEMENT

The Board of Directors of MNP (the "Board") has nominated the following 9 individuals to serve a one-year term as Directors:

**James M. Better** - Mr. Better has been a director of MNP since 2002 and has served as Chairman since May 2010 and as a Member of the Dollar Land Associates, LLC Board of Managers since 2010. He is an Operating Partner of Kohlberg & Company, LLC, a private equity investment firm and the Executive Chairman and former Chief Executive Officer of Nellson Nutraceuticals, LLC, a Kohlberg portfolio company. Previously, Mr. Better was a Managing Director of Celerant Consulting, an operationally focused consultancy, and a General Partner of Capricorn Holdings, LLC, a private equity investment firm. Mr. Better is a graduate of Williams College and Stanford University's Graduate School of Business.

**Craig M. Deitelzweig** – Mr. Deitelzweig joined MNP and Marx Realty & Improvement Co., Inc. in August of 2017 as President and Chief Executive Officer. Mr. Deitelzweig has been a director of MNP since March 2019 and a Member of the Dollar Land Associates LLC Board of Managers since 2018. Mr. Deitelzweig brings over 25 years of diverse real estate experience to Marx Realty. Prior to joining MNP, he oversaw a diverse portfolio of office, multifamily and hotel assets across the United States. Mr. Deitelzweig has experience at both private developer and private equity firms. Throughout his career, he has successfully spearheaded multiple repositionings across the country and across multiple asset groups. Mr. Deitelzweig is also an attorney, having worked in the real estate group of Skadden, Arps, Slate, Meacher & Flom LLP. Mr. Deitelzweig graduated cum laude from Tulane University's A.B. Freeman School of Business and received his law degree from Fordham Law School.

**Leonard Gruenberg, Jr.** - Mr. Gruenberg has been a director of MNP since 2006. He was formerly a Managing Director of Bear, Stearns & Co. and JP Morgan Securities. He was previously a member of Dollar Land Associates LLC Board of Managers and attended the University of Arizona.

**James Magowan** - Mr. Magowan has been a director of MNP since May 2017. He serves as Managing Director of Private Equity with responsibility for private capital transactions in real assets and operating companies at Arboreal Capital LLC. He recently served as Co-Founder and Interim CEO of Arboreal B.V., a Netherlands company, focused on biodiverse, permanent reforestation in the tropics. Previously, Mr. Magowan has served as Managing Director at Sutter Securities, an Owner at Security Research Associates, and as Director at Johnson Capital (Walker & Dunlop). Mr. Magowan is an investor in early-stage companies in decarbonization and financial inclusion. Mr. Magowan is a graduate of Harvard University and holds an MBA from IMD International.

**Mark Magowan** - Mr. Magowan has been a director of MNP since 2004. He is President of The Vendome Press and a graduate of Harvard College and Oxford University. Mr. Magowan is the President of the Magowan Family Foundation and the Hellen Plummer Foundation.

**Matthew K. Maguire** – Mr. Maguire has been a Director of MNP since 2019 and is a member of the Audit Committee. Mr. Maguire was a member of the Dollar Land Associates LLC Board of Managers from 2010 to 2017. He has been a real estate professional in New York City for over twenty years. Mr. Maguire is the President of Loeb Partners Realty, LLC, a privately held real estate company with a portfolio of over 4 million square feet of commercial properties and over 2,500 residential units. He previously served as Senior Vice President of the New York City Economic Development Corporation, overseeing the City's programs for commercial office development and post-9/11 business recovery. Mr. Maguire is a graduate of Dartmouth College and Harvard University's Kennedy School of Government.

**Richard Schosberg** - Mr. Schosberg, a graduate of Cornell University, has been a director of MNP since 2017 and is Chair of the Audit Committee and a member of the Governance Committee. He has also been a director of many of the Marx Corporations for more than a decade. Mr. Schosberg is President of the Take2/Take The Lead Thoroughbred Retirement Program Inc. and Vice President of the New York Thoroughbred Horsemen's Association, Inc. He chairs committees on governance, worker safety and housing, as well as thoroughbred aftercare and legislative issues.

**James A. Stern** - Mr. Stern has been a director of MNP since 2012. He is the Founder and Chairman of The Cypress Group, LLC, a New York-based private equity firm and family office with \$3.5 billion under management. He is also a member of the Dollar Land Associates LLC Board of Managers. Prior to founding Cypress in 1994, Mr. Stern was a managing director of Lehman Brothers and a member of the Firm's Executive Committee. He serves or has served on the boards of Cinemark USA, Infinity Broadcasting, Lear Corporation, OHA Investment Corporation, RP Scherer Corporation, Two Harbors Investment Corporation, and Wesco International. Mr. Stern is Chairman Emeritus of Tufts University and served as Chairman from 2003-2013. He is a board member of several charitable organizations including The Jewish Museum, WNET and The Cancer Research Institute. Mr. Stern is a graduate of Tufts University and Harvard Graduate School of Business Administration.

**John Usdan** - Mr. Usdan has been a director of MNP since 1998. He is the CEO of Midwood Investment & Development, a company originally started by his grandfather in 1925. He has amassed 3.5 million feet of real estate in 10 states and the District of Columbia. Mr. Usdan's philanthropic interests are primarily focused in education and the arts. He is a Trustee Emeritus of Wesleyan University, a Trustee of Brooklyn Academy of the Arts, Board President of the Usdan Center and a member of the Hastings Center Board of Directors. Previously Mr. Usdan served as Chairman of the Board of Brandeis International Business School, Board President at Bronx House, Chair of Wesleyan's Capital Campaign and Ascena Board of Directors.

Directors will be elected by a plurality of the votes cast by stockholders present at the meeting or by proxy. Votes that are withheld in the election of directors, and broker non-votes will have no effect on the election.

Stockholders are entitled to cumulative voting in the election of directors. Under cumulative voting, each stockholder is entitled to that number of votes equal to the number of directors to be elected, multiplied by the number of shares owned, and the stockholder may cast votes for one nominee or distribute them in any manner chosen among any number of the nominees.

The MNP By-laws require that we receive other nominations for election to the Board by April 24, 2024, so, under the By-laws, no additional nominations can be made at this time or at the meeting.

## **Committees**

### **Audit Committee:**

- Mark Magowan
- Matthew Maguire
- Richard Schosberg (Chair)
- James M. Better, ex officio

### **Compensation Committee:**

- James Magowan
- James Stern (Chair)
- John Usdan
- James M. Better, ex officio

### **Nominating/Governance Committee:**

- Leonard S. Gruenberg, Jr. (Chair)
- Mark Magowan
- Matthew Maguire
- Richard Schosberg
- James M. Better, ex officio

## **Our Executive Officers**

**Craig M. Deitelzweig** - President and Chief Executive Officer. Please see Mr. Deitelzweig's biography above.

**Jagdish Shah** - Treasurer and Chief Financial Officer. Mr. Shah has worked for Marx Realty and Improvement Co., Inc. both as an outside accountant and an officer for over 30 years. Prior to joining Marx as Controller in 1991, Mr. Shah worked for six years as a public accountant for Frank and Zimmerman. In 2007, he was appointed Chief Financial Officer at Marx. Mr. Shah is a member of AICPA and New York State Society of CPAs. He has been a certified public accountant since 1987 and a chartered accountant since 1978. Mr. Shah received his B.S. with a major in accounting from Maharaja Sayajirao University of Baroda, India in 1975.



**MERCHANTS' NATIONAL PROPERTIES, INC.**

**DIRECTORS AND MANAGEMENT**

The following table shows the ownership of MNP common stock as of May 3, 2024 by any person acting as MNP's Chief Executive Officer during fiscal year 2023, any person acting as MNP's Chief Financial Officer during fiscal 2023, other executive officers during fiscal 2023 who are considered to be named executive officers and MNP's directors and executive officers as a group.

<u>Name</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of Outstanding Shares</u>
James M. Better	9,662 <sup>(a)</sup>	10.66%
Craig M. Deitelzweig	400 <sup>(b)</sup>	*
Leonard S. Gruenberg, Jr.	7,744 <sup>(c)</sup>	8.52%
James Magowan	20 <sup>(d)</sup>	*
Mark Magowan	2,158 <sup>(d)</sup>	2.37%
Matthew Maguire	0	*
Richard Schosberg	461	*
Jagdish Shah	11	*
James A. Stern	1,195	1.31%
John Usdan	6	*
Directors and Executive Officers as a group (10 persons)	21,657	23.89%

(a) Includes 1,440 shares owned by his spouse and 8,103 shares owned by his children. Mr. Better disclaims beneficial ownership of these shares.

(b) Represents shares awarded to Mr. Deitelzweig, as the CEO of the Company, pursuant to a restricted stock agreement. These shares become fully vested on August 10, 2024, provided Mr. Deitelzweig remains employed by the Company at that date. Unless and until this agreement is rescinded, Mr. Deitelzweig shall have voting rights and receive all dividends paid with respect to these shares.

(c) Includes 7,444 shares owned by his spouse. Mr. Gruenberg disclaims beneficial ownership of these shares.

(d) Messrs. James and Mark Magowan have contributed their shares to the MNP Voting Trust and disclaim beneficial ownership of those shares.

\* Represents less than 1% of the outstanding common stock.

**MERCHANTS' NATIONAL PROPERTIES, INC.**

**DIRECTOR COMPENSATION**

The following table sets forth information regarding the compensation paid to each non-employee director during fiscal 2023. Any director who is an employee of MNP is not compensated for Board service.

During 2023 the Board met six times in person and/or virtually, for which Directors received a fee of \$3,000 per each of the four regularly scheduled meetings. No additional fee was paid to Directors for other meetings held via telephone conference call.

<u>Name</u>	<u>Fees</u>	<u>Other Compensation</u>
James M. Better <sup>(1)</sup>		\$68,000
Leonard S. Gruenberg, Jr.	\$12,000	
James Magowan	\$12,000	
Mark Magowan	\$12,000	
Matthew Maguire	\$12,000	
Richard Schosberg	\$12,000	
James A. Stern	\$12,000	
John Usdan <sup>(2)</sup>	\$12,000	\$6,000

(1) Represents Chairman's annual retainer of \$60,000 paid in four quarterly installments of \$15,000 each and \$8,000 for representing MNP on the Dollar Land Board of Managers and attending 4 meetings held in 2023.

(2) Mr. Usdan was paid \$6,000 for representing MNP on the Dollar Land Board of Managers and attending 3 meetings held in 2023.

**MERCHANTS' NATIONAL PROPERTIES, INC.**

**SECURITY OWNERSHIP OF CERTAIN PERSONS**

**Principal Beneficial Owners**

Listed below are the only individuals and entities known by MNP to own more than 5% of the outstanding common stock of the Company as of May 3, 2024:

<u>Name</u>	<u>Number of Shares Owned</u>	<u>Percentage of Shares Owned</u>
Mary Lynn Bianco	9,534	10.49%
Jennifer Gruenberg	7,744 <sup>(a)</sup>	8.52%
Sylvia Marx	5,537	6.09%
MNP Voting Trust	14,756 <sup>(b)</sup>	16.23%

(a) Includes 300 shares owned by her spouse. Mrs. Gruenberg disclaims beneficial ownership of these shares.

(b) A majority of the descendants of Charles E. Merrill are Subscribers to the MNP Voting Trust.





MERCHANTS' NATIONAL PROPERTIES, INC.  
10 Grand Central, 155 East 44th Street, New York, NY 10017

May 7, 2024

**To our Shareholders:**

MNP delivered another solid and stable year, with grossed up revenue up 7% and grossed up operating income up 6% over 2022. Despite the negative headlines regarding commercial real estate, our portfolio of office and retail properties is performing very well. We have invested wisely and effectively in our assets over the last several years, and we continue to benefit from this investment by achieving higher rental rates, attracting better quality tenants and reaching ever improving occupancy levels (especially as compared to our peer group) across our portfolio.

At Cross County Center, we are 97% leased and our in-line spaces are 99% leased. We have continuously focused on improving our tenant mix, and our high levels of occupancy and tenant demand have allowed us to increase rental rates while simultaneously making the Center more diverse and vibrant in its retail and food offerings. Moreover, with the opening of Target last fall, we are already seeing evidence of increased foot traffic spilling over into our other retailers – resulting in higher sales volumes throughout the Center. Sales per square foot at year-end were \$906, which is up from \$900 in 2022. Over the years, we have greatly improved the appearance of the Center with new green spaces, better signage and enhanced retail spaces from our tenants. We have also improved our shoppers' experience by adding more events and programming and by strengthening our social media presence in highlighting all the Center has to offer. We are excited about our long-term plans at the Center, and we expect to continue to grow the cashflow at this important asset over the next several years.

In our other retail assets, we have achieved significant leasing momentum over the last several years, and now have very few retail vacancies across the country. Our New York City retail assets, in particular, are performing extremely well with most of our tenants experiencing strong sales volumes.

In our office portfolio, we have the advantage of being among the first owners to understand and realize the desire of today's tenants to work in hospitality-infused, amenity-rich and beautifully designed spaces. Our hospitality-infused office model has proven successful, with a significant amount of leasing occurring at both 10 Grand Central and 545 Madison over the last twelve months. Both properties have experienced stronger leasing momentum than their peer properties, as well as increases of rental rates of \$20 to \$45 psf over prior rental rates. Most of our office tenants are physically in the office 4-5 days per week because their employees are enjoying coming to work in our buildings. As a result, we have seen many tenants renew their leases and we are discussing expansion opportunities with several tenants. Notably, throughout 2023, not a single office tenant in our portfolio elected to shrink in size.

In terms of debt, the Marx managed portfolio does not have any meaningful loan expirations in 2024 (just one loan for \$4M). Many owners in commercial real estate have been struggling with maturing loans in 2023 and 2024 in this much higher interest rate environment, as well as the expensive capital improvements that are needed for their properties to be competitive in this marketplace. In contrast, with our strong balance sheet and reputation for our successful asset repositionings, we are in a good position to benefit from the market volatility. We are looking to acquire assets during this time of dislocation and believe that many of these assets could be acquired at meaningful discounts and at a low basis.

Almost every asset class is impacted by today's higher interest rate environment, and we expect 2024 to be a volatile year for real estate. We are fortunate that our portfolio is well positioned, which will enable us to be in a position to grow our portfolio over the next twelve months. Our expertise in bringing our hospitality-infused office assets to the market also enables us to perform our renovations more affordably while also achieving premium rental rates. Today's tenants continue to prefer the premium spaces that Marx has been delivering and there remains strong demand for quality spaces as part of the "flight to quality" we've highlighted in past shareholder letters.

### **Dividends:**

Dividends totaled \$80 per share in 2023. MNP has doubled its annual dividend since 2017. We are pleased to report that the MNP Board approved payment of a \$25 per share dividend for the first half of 2024 to shareholders of record as of May 6, 2024 (it has been our practice to have a smaller dividend in the first half of the year with a larger dividend in the second half based on developments during the year). This year's dividend will be paid out by ACH or wire transfer to each shareholder who has requested an ACH/wire transfer and has provided appropriate instructions. For all other shareholders, checks will be mailed directly to their designated mailing address.

### **Virtual Annual General Meeting:**

This year's annual general meeting of the shareholders will again be held virtually. Attached to this shareholder letter is a Memorandum which provides the details of the virtual meeting process. If you are planning to attend the virtual meeting, we request that you please read the attached Memorandum and follow the instructions.

### **Financial Highlights:**

The reportable income per share for 2023 was \$144.08 versus a loss per share of \$40.37 in 2022. Accounting principles generally accepted in the United States of America ("GAAP") now require unrealized gains and losses of marketable securities to be included in net income. This standard, combined with the volatility in the stock market, has driven substantial swings in earnings during this year's reporting periods. As a result of these influences, we believe the most useful metric for assessing our performance is "Operating Income As Grossed-Up".

The table on the following page provides a side-by-side comparison of MNP's December 31, 2023, vs. December 31, 2022, consolidated statements of operations in accordance with GAAP

and “As Grossed-Up”, a non-GAAP measure, which provides more transparency to MNP’s share of the underlying assets’ revenues and expenses which flow up to MNP from its various real estate investments.

For 2023, the Company reported grossed-up rental and other income of \$60.1 million, as compared to \$56.2 million for the prior year. Similarly, for 2023, the Company reported grossed-up operating income of \$28.2 million, as compared to \$26.7 million for the prior year. In terms of grossed-up earnings before interest, taxes, depreciation and amortization (“EBITDA”), the Company reported \$39.6 million of EBITDA in 2023 as compared to \$16.8 million for the prior year, resulting in part from the increase in investment income and the value of marketable securities.

**INCOME STATEMENT OVERVIEW**  
GAAP vs. As Grossed-Up

	Years Ended December 31, 2023		Years Ended December 31, 2022	
	As Audited	As Grossed-Up	As Audited	As Grossed-Up
Rental and other income	\$ 18,589,182	\$ 60,070,767	\$ 18,044,195	\$ 56,156,682
Equity in earnings of real estate ventures	8,278,278	-	7,260,691	-
Operating expenses	(13,986,199)	(31,830,142)	(12,375,415)	(29,426,383)
<b>Operating income</b>	<b>12,881,261</b>	<b>28,240,625</b>	<b>12,929,471</b>	<b>26,730,299</b>
Investment income	2,232,399	3,428,326	1,571,804	2,106,366
Non-recurring gain (loss)	610,116	372,400	(527,058)	(841,434) (A)
Write off of unused tenant improvements	-	196,161	-	(196,161)
Gain on sale of investment in real estate venture	-	602,179	-	815,225
Impairment of intangible assets	(17,562)	(17,562)	-	-
Unrealized gain (loss) on marketable securities	7,090,813	7,085,562	(13,921,867)	(13,724,139) (B)
Unrealized (loss) gain on swap contracts	(326,854)	(341,808)	1,759,923	1,892,076 (C)
<b>EBITDA</b>	<b>22,470,173</b>	<b>39,565,883</b>	<b>1,812,273</b>	<b>16,782,232</b>
Financing expense	(1,759,486)	(8,239,923)	(1,716,599)	(7,387,705)
Depreciation and amortization expense	(3,750,114)	(13,968,835)	(3,237,208)	(12,260,369)
Income taxes	(1,855,744)	(2,252,296)	(2,009,223)	(2,284,915)
Income taxes - deferred	(2,450,620)	(2,450,620)	1,627,963	1,627,963
<b>Net income (loss)</b>	<b>12,654,209</b>	<b>12,654,209</b>	<b>(3,522,794)</b>	<b>(3,522,794)</b>
Noncontrolling interests in loss (income) of consolidated subsidiaries	405,964	405,964	(154,838)	(154,838)
<b>Net income (loss) attributable to Merchants' National Properties, Inc.</b>	<b>\$ 13,060,173</b>	<b>\$ 13,060,173</b>	<b>\$ (3,677,632)</b>	<b>\$ (3,677,632)</b>

The following is a description of some of the factors which impacted the As Audited and As Grossed-Up net income (loss) for the years ended December 31, 2023 and 2022, respectively.

- (A) The non-recurring gains in 2023 and 2022 represent the Company’s share of capital gains on the disposition of its interest in real estate investments.
- (B) Including the unrealized gain (loss) on marketable securities, as required under GAAP, the grossed-up income before taxes (EBITDA) increased to \$39.6 million for the year ended December 31, 2023, as compared to \$16.8 million for the year ended December 31, 2022.

(C) 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. For the year ended December 31, 2023, this change in fair value has resulted in decreasing grossed-up income before taxes by \$342,000, compared to increasing grossed-up income before taxes by \$1.9 million for the year ended December 31, 2022.

For the year ended December 31, 2023, stockholders' equity increased by \$5.7 million with a corresponding increase in book value per share to \$2,288 at December 31, 2023 from \$2,214 at December 31, 2022. The Company paid \$80 per share in dividends in 2023 versus \$70 per share in 2022.

For the year ended December 31, 2023, the Company reported a net income of \$13 million versus a net loss of \$3.7 million for the year ended December 31, 2022, again, partially attributable to the increase in the market value of securities as per GAAP reporting.

During the year ended December 31, 2023, the Company purchased 51 shares of common stock at an average price of \$1,490 per share directly from one stockholder. During the year ended December 31, 2022, the Company purchased 963 shares at an average price of \$1,490 per share directly from one stockholder. As of December 31, 2023, 90,674 shares of common stock were outstanding.

**Property Management/Asset Management - Marx:**

In 2023, the portfolio under management was comprised of 58 properties. While Marx actively oversees all the properties in the portfolio, Midwood Investment and Development ("Midwood") manages seven of the jointly owned properties, including the Washington Street, Boston assemblage, 85 North 3<sup>rd</sup> Street, Brooklyn, NY and the Nespresso store on Prince Street in New York City.

As stated earlier, despite all of the challenges in the commercial real estate markets in 2023, the entire portfolio generated rental revenues of \$157 million, representing a 7% increase over \$146.6 million in 2022. MNP's share of 2023 portfolio-wide revenue was \$46.8 million.

Marx has been and will continue to sell assets with little or no potential for rental income growth in non-core markets in which we believe the upside potential is limited in comparison to the investment required and, where appropriate, reinvesting the proceeds from these sales into assets in core markets with more attractive long-term appreciation potential. As has been our practice, as long as most of the owners of any given property agree, and an opportunity arises that is economically advantageous, in case of a sale in excess of \$2 million, we will continue to seek to roll over the proceeds into tax-deferred exchanges for other assets in our core markets.

### **Leasing:**

Over the course of 2023, Marx oversaw the signing of new leases and renewals (excluding leases for Midwood joint venture properties) totaling approximately 573,000 sf. As of April 2024, we have already signed 124,000 sf of leases and currently have approximately 200,000 sf of lease proposals under negotiation and we remain cautiously optimistic that a significant percentage of the current lease proposals and leases under negotiation will be executed this year. We continue to see tenants seeking distinctive spaces that are highly amenitized and hospitality-rich to help them retain and attract talent and to bring their employees back into the office. Marx's repositioned office portfolio is well known for these attributes, which we believe is a competitive advantage under current market conditions. In addition, in most of the markets in which we operate, retail leasing has greatly improved.

### **Acquisitions and Dispositions:**

**1381 East Putnam Avenue, Greenwich, CT:** In August 2023, we closed on the sale of this property for \$5.1 million. The Company had a 92.75% beneficial interest in this property.

**Bey Lea, Tom's River NJ:** In August 2023, we closed on the sale of this property for \$8.75 million. The Company had a 9.14% beneficial interest in this property.

### **Development and Redevelopment:**

Projects which we recently completed construction or are under development/renovation include:

- **545 Madison Avenue, NY, NY:** We completed the "Leonard Lounge" on part of the 8<sup>th</sup> floor of the building. This amenity space, which includes a fireplace, a terrace, a café, a bar and an oversized boardroom for tenant use has already been well received by tenants and prospective tenants. The completion of the Leonard Lounge and the building's lobby and pre-built spaces, position this asset to be among the better buildings in the desirable Plaza District and is necessary in attracting highly sought after financial and fashion firms during the "flight to quality" we are experiencing in the marketplace. In addition, we recently completed a pre-built space on our second floor, which is our last remaining space available in the building.
- **The Department Building, Atlanta, GA:** In 2022, we signed a long-term lease with a restaurant and entertainment group for all of the remaining available space in the building. Currently we are finishing up the remaining landlord work which is expected to be completed by the end of May.
- **Cross County Center, Yonkers, NY:** We recently completed work on a promenade which connects the Target building with the rest of the Center and promotes cross-shopping at the Center. The promenade provides bench seating, café style tables and chairs, new stone pavers and plantings, dramatic overhead lighting and an allee of hornbeam trees. We also are in the planning stages of bringing additional retail space and new mixed-uses to the Center.

- **819 7<sup>th</sup> Street, Washington, DC:** The property recently underwent renovations to the lobby, pre-built spaces and exterior façade enhancements. We believe these improvements will increase the marketability of the building by highlighting the original wood ceiling beams, wood floors, brick walls and high ceiling heights, which makes the building unique and distinctive. The improvements also include an elevator modernization and bathroom improvements. We have multiple proposals outstanding with several sought-after tenants who are attracted to the building as a result of our enhancements and the building's unique characteristics.
- **One Glover (2121 Wisconsin Ave NW., Washington, DC):** The lobby, common area and exterior renovation work in this newly acquired, value-added building was recently completed and has been well received by the marketplace.
- **10 Grand Central, NY, NY:** Work has commenced on our new amenity space which will complement our 7<sup>th</sup> floor lounge. The new space will include a town hall, a screening room and podcast studio. This new amenity is already attracting best-in-class tenants to 10 Grand Central. Work is expected to be completed by the late fall. These improvements will continue to enhance the tenant experience at 10 Grand Central and will further solidify the property as an elite Grand Central asset.

**Review of Core Properties:**

MNP has varying interest in 44 properties in 9 states and District of Columbia. The following real estate holdings represent almost 80% of MNP's direct and indirect gross rental income.

**Cross County Center – Yonkers, NY** (MNP – 37.62% Interest) – (crosscountycenter.com). The Center is 97% leased. Our largest new tenant, Target, opened last fall and has added greatly to the vibrancy of the shopping experience. We signed 35,000 sf of leases in 2023. This summer, Rihanna's Savage x Fenty and Honey Pizza will open. We are speaking with some of the country's most exciting retailers about opening at the Center, which will continue to increase sales and the profitability of the Center.

**10 Grand Central, 155 East 44<sup>th</sup> Street, New York, NY** (MNP – 35.71% Interest) – (10grandcentral.com). The building continues to benefit from the hospitality-infused renovations we made at the property. Although Third Avenue has struggled since the pandemic, 10 Grand Central continues to receive an outsized share of tenant tours and tenant interest. The Grand Central submarket has benefited from the new Grand Central Madison which brings the Long Island Railroad into Grand Central. We have seen an influx of tours from tenants that are currently located around Penn Station as a result of the increased transportation access that the Grand Central neighborhood now offers. The property attracts a diverse mix of tenants in the finance, healthcare, technology, media and legal and professional services sectors. The last twelve months of leasing have been very strong at the property, as we leased approximately 93,000 sf during this period. The start of 2024 was also a solid period for leasing at the property. We continue to achieve rental rates that are \$20-\$45 psf above prior in-place rents.

**545 Madison Avenue, New York, NY** – (MNP - 23.33% Interest) – (marx-545madisonnyc.com). Since taking over the management of this property on January 1, 2020, Marx has completed the renovation of the lobby floor and the 8<sup>th</sup> floor amenity space (the “Leonard Lounge”). As a result of the renovations to the building, we were able to attract Baccarat to lease the top floor and mezzanine space of the building at a triple digit rent. We also will be co-branding the building with the Baccarat and Marx brands. For example, Baccarat will be providing us with barware for the Leonard Lounge and dramatic chandeliers for the building’s lobby. We also recently signed renewals with our largest tenant Ogden Capital, as well as TruArc Partners.

**430 Park Avenue, New York, NY** – (MNP – 8.22% Interest in the master leasehold) - This property, managed by the Oestreicher Group, consists of the entire western block front of Park Avenue between East 55<sup>th</sup> and 56<sup>th</sup> Streets. Other than 18,746 sf vacancy, the building is fully leased. Most of the vacancy is attributable to one of the floors returned by WeWork after filing for bankruptcy. We are working with a potential tenant to take over this entire floor space. In August 2021, a new \$31 million mortgage was placed on the property through 2023 with two one-year options through August 2025. Last year, the first of the two options extending the mortgage through August 2024 was exercised.

**605 West 181<sup>st</sup> Street, New York, NY** – (MNP – 100% Interest) – This property is occupied by Foot Locker under a 10-year lease. Foot Locker opened a “Power Store” at this location in August 2019. In addition to selling its customary merchandise, this new Foot Locker store features a barbershop, sneaker cleaning, and gaming zones. The tenant continues to perform well at the site. The property is encumbered with a 10-year \$8.625M loan with an attractive interest rate of 3.39%.

**201 East 57<sup>th</sup> Street, New York, NY** – (MNP – 23.33% Interest) – This four-story showroom building is leased to TD Bank on the ground floor, Design Within Reach on second and third floors plus part of the ground floor and Mansour Rugs on the fourth floor. We have a small ground floor vacancy which we are marketing to coffee bars, design groups and other small shop retailers. The property was previously encumbered with a 10-year self-amortizing \$13 million loan with an interest rate of 3.07% which was fully paid off in July 2023, and is now debt-free.

**The Herald, 1307 New York, Washington, DC** – (MNP – 30% Interest) – (marx-theheralddc.com). After signing three leases in 2023 at an average rate of \$74 per foot, this year we have recently signed one additional lease with Proper Cloth for the ground floor space and are negotiating proposals for all but one of the remaining spaces in the property. Prospective tenants are attracted to the hospitality experience that the building offers and its high ceiling heights and distinctive design.

**2121 Wisconsin Avenue NW, Washington, DC** – (MNP - 68.62% interest) – We recently completed the renovation of the lobby and exterior at the building, which incorporates elements of the nearby parks and green spaces of the Glover Park/Georgetown neighborhood in its design. We recently signed a lease with a fitness group and have three proposals outstanding for the fourth-floor availability.

***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 Merchants' website ([www.merchantsnationalproperties.com](http://www.merchantsnationalproperties.com) or [www.mnppre.com](http://www.mnppre.com)).

**Securities Portfolio:**

The MNP portfolio of marketable securities was valued at approximately \$68.4 million as of December 31, 2023, with a cost basis of under \$1 million. For the year, the portfolio value increased by \$7.1 million or 11.6%. As of April 30, 2024, the portfolio was valued at \$73.1M.

**JP Morgan Margin Account:**

In anticipation of the February 29, 2024 maturity date of the Valley National Bank's \$40 million Line of Credit, MNP set up a margin account with JP Morgan, under which MNP can drawdown up to 50% of the value of the marketable securities at SOFR plus 1.20%. To date, there is no outstanding balance on this facility.

**Board Attendance and Compensation Practices:**

Non-Executive Board Members (excluding the Chairman) received \$3,000 for attending each scheduled meeting. In 2023, MNP's board met in person four times, and the total board compensation was \$158,000.

In addition to the in-person/Zoom meetings, the board spent (collectively) many hours in attendance at teleconferences, interviews and negotiations. Of the \$158,000 paid in 2023, Mr. Better received \$60,000 as the Chairman of the Board. A supplementary honorarium of \$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.

We look forward to seeing you at our virtual Annual General Meeting.

Respectfully submitted,



Craig M. Deitelzweig  
**President and Chief Executive Officer**

James M. Better  
**Chairman**



## Schedule A

Property	CITY	Building Type	Land (Acres) - Approx.	Building (square ft) - Approx.	MNP Interest <sup>1</sup>	Occupancy %	% VACANT	SF LEASED	SF VACANT	# of In-place Tenants	Primary Tenants
<b>ALABAMA</b>											
1301 N MEMORIAL PKWY, HUNTSVILLE	HUNTSVILLE	RETAIL/BILLBOARD SIGN	1.4	10,832	53.4%	100.00%	0.00%	10,832	-	2	Bridgestone, Lamar Advt.
<b>CALIFORNIA</b>											
17220-230 S. LAKEWOOD, BELLFLOWER	BELLFLOWER	SHOPPING CENTER	11.1	131,884	17.4%	98.86%	1.14%	130,384	1,500	6	Kimco Realty, Denny's, Ellie & Emma, Azad and Ahmadi Dental, Sunrise Beauty, LA Pro Nail
<b>CONNECTICUT</b>											
98,102, 108 GREENWICH AVENUE	GREENWICH	MIXED-USE		18,489	57.9%	100.00%	0.00%	18,489	-	7	Sweet Green, Maman Bakery, Karp Reilly, Altus Power, Night Owl, Resi Penthouse
<b>DISTRICT OF COLUMBIA</b>											
2200 P STREET NW, DC	WASHINGTON, DC	RETAIL/GAS STATION	0.4	2,100	100.0%	100.00%	0.00%	2,100	-	1	Consolidated Petroleum
819 7TH ST., NW, WASHINGTON, DC	WASHINGTON, DC	RETAIL/OFFICE		7,857	90.7%	45.12%	54.88%	3,545	4,312	1	Nando's Restaurant Group
819 7TH ST., NW, WASHINGTON, DC	WASHINGTON, DC	OFFICE		5,115	66.5%	0.00%	100.00%	-	5,115	-	
1307 NEW YORK AVE NW, WASH., DC	WASHINGTON, DC	OFFICE		120,310	28.5%	53.31%	46.69%	64,139	56,171	9	CCGN, Barbara Bush Fdn., Scott Circle, EIG, Society of Industrial Realtors, Locust Street Group, Proper Cloth
2121 WISCONSIN AVE, NW, WASH., DC	WASHINGTON, DC	OFFICE		105,722	72.2%	65.77%	34.23%	69,532	36,190	8	Nexstar Media, Perfect Fit, CommuniKids, George Sexton, Liles Parker, Wine Rack, Elite PT, Dispatch Health
<b>GEORGIA</b>											
207-211 PEACHTREE STREET, ATLANTA	ATLANTA	1-4 STORY+1-1 STORY BLDG	0.4	42,451	26.8%	100.00%	0.00%	42,451	-	3	Hooters, Red Phone Booth, Saito Bar
<b>KENTUCKY</b>											
3430 PRESTON HWY, LOUISVILLE <sup>4,5</sup>	LOUISVILLE	RESTAURANT	0.3	1,950	49.3%	100.00%	0.00%	1,950	-	1	Charley's Cheesesteaks
<b>MASSACHUSETTS</b>											
349-365 WASHINGTON STREET, BOSTON <sup>2</sup>	BOSTON	4 BUILDING ASSEMBLAGE MIXED USE	0.5	63,918	31.8%	1.78%	98.22%	1,140	62,778	2	Cingular, Unsong Park
BROMFIELD & BOSWARTH ST, BOSTON <sup>2</sup>	BOSTON	3 BUILDING ASSEMBLAGE MIXED USE	0.1	39,429	29.7%	33.73%	66.27%	13,298	26,131	8	Colonial Trading, Drinkmaster, Clothing from Italy, Instatrac, Neurable, Bay State Coin, Cimulate
<b>NEW JERSEY</b>											
460 WEST ROUTE 70, MARLTON	MARLTON	RETAIL	1.4	9,000	34.9%	100.00%	0.00%	9,000	-	1	Enterprise Car Rental
240 WEST PWY, PEQUANNOCK	POMPTON PLAINS	WAREHOUSE	6.9	127,800	22.6%	100.00%	0.00%	127,800	-	1	Strong Man Building Products
1218 HOOPER AVE (& BEY AVE)	TOMS RIVER	RETAIL + VACANT LAND	27.2		30.1%	100.00%	0.00%	-	-	3	Target, Chilli's, Exxon (All ground-leased)
3607 BERGENLINE, UNION CITY	UNION CITY	RETAIL	0.3	26,647	100.0%	100.00%	0.00%	26,647	-	1	ABC Bargain Stores
2125 FLETCHER AVENUE, FORT LEE <sup>2</sup>	FORT LEE	RETAIL	2.1	32,725	30.0%	100.00%	0.00%	32,725	-	1	Metropolitan Plant Exchange
<b>NEW YORK</b>											
KNOLLS COOP SOCIETY, BRONX <sup>4</sup>	BRONX	RESIDENTIAL			100.0%	100.00%	0.00%			1	Knolls Cooperative Section No. 1
3965 HEMPSTEAD BLVD., BETHPAGE <sup>4</sup>	BETHPAGE	RETAIL/GAS STATION	1.3	6,929	95.7%	100.00%	0.00%	6,929	-	1	QuickChek Corp.
89-17/23 QUEENS BLVD., ELMHURST	ELMHURST	RETAIL	0.3	8,625	12.7%	100.00%	0.00%	8,625	-	4	JP Morgan Chase, Rakuzen, Halal Republic, Smoke Shop
222 ELMIRA RD, ITHACA	ITHACA	SHOPPING CENTER	6.9	46,460	21.0%	100.00%	0.00%	46,460	-	14	Wild Vines, Five Guys, Taco Bell, DiBellas Sub, Cold Stone
201 EAST 57TH STREET, NYC <sup>1</sup>	NEW YORK	SHOW ROOM	0.2	29,617	23.3%	97.30%	2.70%	28,816	801	3	TD Bank, Design Within Reach, Mansour Rugs
532 MADISON AVENUE, NYC	NEW YORK	RETAIL/OFFICE	0.04	15,347	10.4%	57.45%	42.55%	8,817	6,530	3	Smilers, Less is More, Sprint
545 MADISON AVENUE, NYC <sup>1</sup>	NEW YORK	RETAIL/OFFICE	-	136,769	23.3%	83.77%	16.23%	114,569	22,200	13	Wells Fargo, Maman, Oranwood Partners, Ogden Capital, Helix Partners, Strike Holding, Truarc Partners, Peter B Cannell & Co., Kohlberg, Galaxy US, Baccarat
605-9 WEST 181st STREET, NYC	NEW YORK	RETAIL	0.2	23,897	100.0%	100.00%	0.00%	23,897	-	1	Foot Locker
712 THIRD AVENUE, NYC	NEW YORK	RETAIL/OFFICE BUILDING	0.1	9,869	17.9%	100.00%	0.00%	9,869	-	3	Wendy's, Dunkin Donuts, Haufbrau
140 7TH AVE S PARCEL, NYC	NEW YORK	21sf LAND PARCEL			100.0%	100.00%	0.00%	-	-	1	Ark Seventh Ave South
135 BOWERY ST., NYC	NEW YORK	RETAIL/OFFICE BUILDING		21,308	46.5%	63.20%	36.80%	13,466	7,842	5	Hiyake Japanese BBQ, Martin Liu, Portluis, JO Entertainment, Bad Dog
3639 MERRICK RD. SEAFORD	SEAFORD	FREESTANDING BUILDING	0.3	4,620	22.7%	100.00%	0.00%	4,620	-	1	Funstuff
2800 HILAN BLVD., STATEN ISLAND <sup>4</sup>	STATEN ISLAND	BANK BLDG/FAST FOOD RESTAURANT	1.3	7,147	0.7%	100.00%	0.00%	7,147	-	2	Starbucks, Bank of America
79-83 MAMARONECK AVE. W. PLAINS	WHITE PLAINS	1 STORY + PARTIAL BSMT	0.1	4,449	94.6%	100.00%	0.00%	4,449	-	2	Salon, US Army
10 GRAND CENTRAL, 155 E 44TH STREET	NEW YORK	RETAIL/OFFICE BUILDING	0.4	420,237	35.7%	79.45%	20.55%	333,859	86,378	47	ANA, Benenson, UNOPS, Wheelock, Mass Mutual, Crux, Little Collins, Sweetgreen, Cava, The Week, Maman Bakery, LIV Golf, HLTH, ZEFR, Agence France-Presse, Mission of Panama, Metrowall, Green Street Advisors, LeafFilter, Lewis Baach, Teledoc, FC Opco
CROSS COUNTY SHOPPING CTR.	YONKERS	SHOPPING CENTER	71.3	1,140,150	37.6%	97.00%	3.00%	1,105,952	34,198	88	Macy's, Target, Westchester Comm College, Stop&Shop, Zara, H&M, Hyatt, Victoria's Secret, Gap, Blink, Old Navy, Ulta, Multiplex, Olive Garden, TGIF, XXI Forever, Savage X Fenty
92 PRINCE STREET, NEW YORK <sup>2</sup>	NEW YORK	RETAIL	0.1	6,290	20.7%	100.00%	0.00%	6,290	-	1	Nespresso
85 NORTH 3RD ST. WILLIAMSBURG, BKLYN <sup>2</sup>	BROOKLYN	RETAIL		27,111	40.6%	100.00%	0.00%	27,111	-	16	Sola Salon, Ralph Lauren, Crème Design, Kula Yoga, Aesop, Slowear, Hotovelli, Tailgate Clothing
478 W. BROADWAY, NEW YORK <sup>2</sup>	NEW YORK	RETAIL		3,813	19.7%	100.00%	0.00%	3,813	-	1	Lumas/Avenso Photo Art
430 PARK AVENUE, NEW YORK <sup>2,3</sup>	NEW YORK	OFFICE BUILDING	0.3	296,147	8.2%	93.67%	6.33%	277,409	18,738	22	WeWork, TD, Cellini, Wainwright, Withers, Molo, Engel & Volkers, Savanna, TIAA, Midwood, Oestreicher, Joe & Juice, Midwood
124 HUDSON STREET, NEW YORK	RETAIL	RETAIL/OFFICE		11,892	19.4%	100.00%	0.00%	11,892	-	3	Tribeca School, Little Gym, Warburg Realty
2320 OCEAN AVENUE, FARMINGVILLE <sup>2</sup>	FARMINGVILLE	SHOPPING CENTER	40.6	287,016	12.3%	92.71%	7.29%	266,082	20,934	25	Stop&Shop, JPM, TGIF, BK, GNC, LA Fitness, City MD, Starbucks, Burlington Coat, Drago's Pizza, Chick-Fil-A, American Thrift, Five Below, Skechers, Familia Bakery, Taco Island, Sola Salon
<b>VIRGINIA</b>											
7717 RICHMOND HWY, ALEXANDRIA	ALEXANDRIA	VACANT LAND	0.1	-	42.6%	0.00%	0.00%	-	-	-	Vacant, available for lease or sale
7704 RICHMOND HWY, ALEXANDRIA	ALEXANDRIA	SHOPPING CENTER	2.8	13,330	42.6%	100.00%	0.00%	13,330	-	6	Verizon, Vitamin Shoppe, Pollo Campero, Dunkin Donuts, Monarch Paint
7508 RICHMOND HWY, ALEXANDRIA	ALEXANDRIA	RETAIL	1.1	7,920	7.9%	56.86%	43.14%	4,503	3,417	2	Sherwin Williams, Hungry Joe
5025 WELLINGTON RD, GAINESVILLE	GAINESVILLE	FREESTANDING BUILDING	0.7	2,126	49.0%	100.00%	0.00%	2,126	-	1	Chipotle
			180.29	3,277,298		88.00%	12.00%	2,884,063	393,235		

<sup>1</sup> Includes interest owned indirectly through MNP's 23.3333% ownership in Joseph E. Marx Co., Inc.

<sup>2</sup> Managed by Midwood Management

<sup>3</sup> Leasehold Interest

<sup>4</sup> Ground Leased

<sup>5</sup> Under contract for sale

**MERCHANTS' NATIONAL PROPERTIES, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2023 AND 2022**

**AND**

**INDEPENDENT AUDITORS' REPORT**

# MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

To the Stockholders of  
Merchants' National Properties, Inc. and Subsidiaries

### Opinion

We have audited the consolidated financial statements of Merchants' National Properties, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the reports of the other auditors, the accompanying 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, 2023 and 2022, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Dollar Land Associates, LLC, a joint venture, the investment in which, as discussed in Notes 2 and 7 to the consolidated financial statements, is accounted for by the equity method of accounting. The investment in Dollar Land Associates, LLC was \$48,957,899 and \$46,669,730, as of December 31, 2023 and 2022, respectively and the equity in its net income was \$9,489,008 and \$7,832,049 for the years then ended. Those statements, which were prepared in accordance with income tax basis of accounting, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of Dollar Land Associates, LLC which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for Dollar Land Associates, LLC, prior to these conversion adjustments, is based solely on the report of the other auditors.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Merchants' National Properties, Inc. and Subsidiaries and to meet our other ethical requirements in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Merchants' National Properties, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Merchants' National Properties, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Merchants' National Properties, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Marcum LLP*

New York, NY

April 15, 2024

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2023	2022
<b>ASSETS</b>		
Rental properties, net	\$ 73,655,113	\$ 77,432,417
Marketable securities	68,377,897	61,287,084
Investments in real estate ventures	114,972,990	112,466,720
Intangible asset available for sale	-	779,114
Cash and cash equivalents	19,982,366	20,983,236
Restricted cash	498,854	749,857
Tenant security deposits in escrow	508,173	476,922
Receivables:		
Loans, real estate ventures	3,477,475	1,875,000
Affiliated real estate ventures	544,479	670,423
Employees	2,783,520	2,627,973
Related parties	1,447,813	3,075,213
Tax refund	42,398	38,054
Deferred rent	2,731,938	2,478,809
Tenants	268,825	266,186
Other	1,338,294	255,265
Interest rate swaps	936,437	1,263,291
Prepaid expenses and other assets, net of accumulated amortization of \$1,105,993 and \$1,029,107 in 2023 and 2022, respectively	1,805,043	1,996,775
In-place leases, net of accumulated amortization of \$1,638,623 and \$556,140 in 2023 and 2022, respectively	5,084,907	6,167,390
Operating lease right-of-use asset	1,059,433	1,246,210
Prepaid income taxes	1,652,003	1,591,944
Deferred tax assets	3,950,091	3,684,562
<b>Total assets</b>	<b>\$ 305,118,049</b>	<b>\$ 301,412,445</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 3,210,325	\$ 3,833,605
Below-market leases, net of accumulated amortization of \$375,377 and \$144,331 in 2023 and 2022, respectively	1,957,526	2,188,570
Operating lease liability	1,077,976	1,255,481
Security deposits	595,071	709,170
Due to affiliate	40,442	516,900
Mortgages payable, less unamortized debt issuance costs of \$263,479 and \$378,113 in 2023 and 2022, respectively	41,307,183	44,088,885
Deferred tax liabilities	36,742,252	34,026,103
<b>Total liabilities</b>	<b>84,930,775</b>	<b>86,618,714</b>
<b>Stockholders' Equity</b>		
Common stock, \$1 par value; 187,000 shares authorized, 105,199 shares issued (shares outstanding, 90,623 and 90,674 in 2023 and 2022, respectively)	105,199	105,199
Additional paid-in capital	1,146,317	1,146,317
Retained earnings	223,055,781	217,273,778
Treasury stock, at cost (14,576 and 14,525 shares in 2023 and 2022, respectively)	(16,900,975)	(16,830,745)
<b>Total stockholders' equity</b>	<b>207,406,322</b>	<b>201,694,549</b>
Noncontrolling interests	12,780,952	13,099,182
	<b>220,187,274</b>	<b>214,793,731</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 305,118,049</b>	<b>\$ 301,412,445</b>

See notes to consolidated financial statements.

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Years Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Revenues</b>		
Rental revenues	\$ 8,780,408	\$ 9,064,358
Management fees	3,493,462	3,425,544
Leasing commissions	2,336,973	1,853,450
Asset acquisition/disposition fees	175,000	206,265
Development and buildout fees	1,090,335	984,658
Property personnel fees	1,766,159	1,660,302
Other revenues	946,845	849,618
<b>Total revenues</b>	<b>18,589,182</b>	<b>18,044,195</b>
<b>Operating Expenses</b>		
Real estate taxes	1,502,977	1,443,356
Depreciation and amortization	3,750,114	3,237,208
Other operating expenses	1,988,238	1,615,929
Financing expenses	1,759,486	1,716,599
<b>Total operating expenses</b>	<b>9,000,815</b>	<b>8,013,092</b>
<b>Net revenues from rentals and other income</b>	<b>9,588,367</b>	<b>10,031,103</b>
Equity in earnings from real estate ventures, net	8,278,278	7,260,691
Investment income	2,232,399	1,571,804
Unrealized gain (loss) on marketable securities	7,090,813	(13,921,867)
Unrealized (loss) gain on interest rate swaps	(326,854)	1,759,923
Loss on abandonment of investment in real estate venture	-	(527,058)
Loss on sale of intangible asset	(15,139)	-
Impairment of intangible assets	(17,562)	-
Gain on sale of rental property	625,255	-
<b>Net income before general and administrative expenses and other costs and income tax expense</b>	<b>27,455,557</b>	<b>6,174,596</b>
<b>General and administrative expenses and other costs</b>		
Professional fees	815,996	615,384
Salaries and other general expenses	9,678,988	8,700,746
<b>Total general and administrative expenses and other costs</b>	<b>10,494,984</b>	<b>9,316,130</b>
<b>Net income (loss) before income tax expense</b>	<b>16,960,573</b>	<b>(3,141,534)</b>
Income tax expense	4,306,364	381,260
<b>Net income (loss)</b>	<b>12,654,209</b>	<b>(3,522,794)</b>
Noncontrolling interests in loss (income) of consolidated subsidiaries	405,964	(154,838)
<b>Net income (loss) attributable to Merchants' National Properties, Inc.</b>	<b>\$ 13,060,173</b>	<b>\$ (3,677,632)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>\$ 144.08</b>	<b>\$ (40.37)</b>
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted	90,645	91,087

See notes to consolidated financial statements.



**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Treasury Stock</u>		<u>Non-</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Shares</u>	<u>Amount</u>	<u>Controlling</u>	
			<u>Capital</u>				<u>Interests</u>	<u>Equity</u>
<b>Balance, January 1, 2022</b>	<b>105,199</b>	<b>\$ 105,199</b>	<b>\$ 1,146,317</b>	<b>\$ 227,336,665</b>	<b>(13,562)</b>	<b>\$ (15,395,875)</b>	<b>\$ 8,985,131</b>	<b>\$ 222,177,437</b>
Acquisition of treasury stock	-	-	-	-	(963)	(1,434,870)	-	(1,434,870)
Net (loss) income	-	-	-	(3,677,632)	-	-	154,838	(3,522,794)
Consolidation of Orange Syndicate*	-	-	-	-	-	-	3,135,979	3,135,979
Dividends paid	-	-	-	(6,385,255)	-	-	-	(6,385,255)
Capital contributions	-	-	-	-	-	-	1,098,250	1,098,250
Capital distributions	-	-	-	-	-	-	(275,016)	(275,016)
<b>Balance, December 31, 2022</b>	<b>105,199</b>	<b>\$ 105,199</b>	<b>\$ 1,146,317</b>	<b>\$ 217,273,778</b>	<b>(14,525)</b>	<b>\$ (16,830,745)</b>	<b>\$ 13,099,182</b>	<b>\$ 214,793,731</b>
<b>Balance, January 1, 2023</b>	<b>105,199</b>	<b>\$ 105,199</b>	<b>\$ 1,146,317</b>	<b>\$ 217,273,778</b>	<b>(14,525)</b>	<b>\$ (16,830,745)</b>	<b>\$ 13,099,182</b>	<b>\$ 214,793,731</b>
Acquisition of treasury stock	-	-	-	-	(51)	(70,230)	-	(70,230)
Net income (loss)	-	-	-	13,060,173	-	-	(405,964)	12,654,209
Dividends paid	-	-	-	(7,278,170)	-	-	-	(7,278,170)
Capital contributions	-	-	-	-	-	-	487,194	487,194
Capital distributions	-	-	-	-	-	-	(399,460)	(399,460)
<b>Balance, December 31, 2023</b>	<b>105,199</b>	<b>\$ 105,199</b>	<b>\$ 1,146,317</b>	<b>\$ 223,055,781</b>	<b>(14,576)</b>	<b>(16,900,975)</b>	<b>\$ 12,780,952</b>	<b>\$ 220,187,274</b>

\* See Note 1 for description of the transaction

See notes to consolidated financial statements.

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 12,654,209	\$ (3,522,794)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	2,433,596	2,442,877
Amortization of deferred leasing costs	234,035	238,191
Amortization of debt issuance costs included in financing expenses	114,634	117,080
Amortization of below-market leases	(231,044)	(144,333)
Amortization of in-place leases	1,082,483	556,140
Provision (benefit) for deferred taxes	2,450,620	(1,627,963)
Accrued interest on loans receivable, real estate ventures	(75,000)	(75,000)
Equity in earnings of investments in real estate ventures, net	(8,278,278)	(7,260,691)
Unrealized loss (gain) on interest rate swaps	326,854	(1,759,923)
Gain on sale of rental properties	(625,255)	-
Impairment of intangible asset	17,562	-
Loss on sale of intangible asset	15,139	-
Loss on abandonment of investment in real estate venture	-	527,058
Unrealized (gain) loss on marketable securities	(7,090,813)	13,921,867
Changes in assets and liabilities		
Receivables - affiliated real estate ventures	125,944	176,662
Receivables - employees	(155,547)	(1,242,954)
Receivables - related parties	1,627,400	930,789
Receivables - tax refund	(4,344)	(500)
Receivables - deferred rent	(253,129)	(392,499)
Receivables - tenants	(2,639)	-
Receivables - other	(1,083,029)	249,065
Prepaid expenses and other assets	(42,303)	(241,260)
Change in operating lease right-of-use asset	186,777	180,593
Prepaid income taxes	(60,059)	(295,355)
Accounts payable and accrued expenses	(623,280)	1,482,111
Change in operating lease liability	(177,505)	(171,322)
Security deposits	(114,099)	116,907
Due to affiliate	(476,458)	405,000
<b>Net cash provided by operating activities</b>	<b>1,976,471</b>	<b>4,609,746</b>
<b>Cash flows from investing activities</b>		
Contributions to investments in real estate ventures	(4,070,995)	(4,078,630)
Distributions from investments in real estate ventures	9,843,003	11,523,866
Loans - affiliated real estate ventures	(1,527,475)	-
Purchase of rental properties	-	(18,020,925)
Additions to buildings and improvements	(2,794,235)	-
Intangible asset available for sale	-	(25,895)
Proceeds from sale of intangible asset	746,413	-
Proceeds from sale of rental properties	4,763,198	-
<b>Net cash provided by (used in) investing activities</b>	<b>6,959,909</b>	<b>(10,601,584)</b>
<b>Cash flows from financing activities</b>		
Purchase of treasury stock	(70,230)	(1,434,870)
Payment of dividends	(7,278,170)	(6,385,255)
Capital contributions from noncontrolling interests	487,194	1,098,250
Capital distributions to noncontrolling interests	(399,460)	(275,016)
Principal payments of mortgages payable	(876,580)	(888,426)
Proceeds from mortgage payable	1,909,512	16,620,000
Payoff of mortgage payable	(3,929,268)	-
Debt issuance costs	-	(158,314)
<b>Net cash (used in) provided by financing activities</b>	<b>(10,157,002)</b>	<b>8,576,369</b>
<b>Net (decrease) increase in cash and cash equivalents, restricted cash and tenant security deposits in escrow</b>	<b>(1,220,622)</b>	<b>2,584,531</b>
Cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of year	22,210,015	19,625,484
<b>Cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of year</b>	<b>\$ 20,989,393</b>	<b>\$ 22,210,015</b>

See notes to consolidated financial statements.

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Reconciliation of cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of year</b>		
Cash and cash equivalents	\$ 20,983,236	\$ 17,398,949
Restricted cash	749,857	1,747,272
Tenant security deposits in escrow	476,922	479,263
<b>Cash and cash equivalents, restricted cash and tenant security deposits in escrow, beginning of year</b>	<b>\$ 22,210,015</b>	<b>\$ 19,625,484</b>
<b>Reconciliation of cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of year</b>		
Cash and cash equivalents	\$ 19,982,366	\$ 20,983,236
Restricted cash	498,854	749,857
Tenant security deposits in escrow	508,173	476,922
<b>Cash and cash equivalents, restricted cash and tenant security deposits in escrow, end of year</b>	<b>\$ 20,989,393</b>	<b>\$ 22,210,015</b>
<b>Supplemental cash flow disclosures</b>		
Interest paid	\$ 1,657,980	\$ 1,604,850
Income taxes paid - net of refunds of \$0 and \$40,500, respectively	1,789,145	2,428,516
<b>Supplemental non-cash investing and financing activities</b>		
Write-off of fully amortized deferred lease costs	230,039	-
Write-off of fully amortized debt issuance costs	38,163	
Additions to ROU assets obtained from operating lease liabilities		1,426,803
Reclassification of assets, liabilities, noncontrolling interests and equity due to consolidation of investment in joint venture		
Investments in real estate ventures	-	(8,252,047)
Noncontrolling interests	-	(3,135,979)

See notes to consolidated financial statements.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### 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"), University Plaza Joint Venture LLC ("University"), Athens Joint Venture LLC ("Athens"), Bell Blvd. Partners ("Bell"), Orange Syndicate ("Orange") and MNP 2121 Wisconsin Ave LLC ("MNP 2121") 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 a Merchants' former stockholder 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 was developed into a commercial and residential project. Merchants owned 92.75% of Putnam. On August 30, 2023, Putnam sold the East Putnam property in Greenwich, CT for \$5.1 million, which resulted in a gain on sale of \$295,680.

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.

During 2020, Merchants consolidated its investment in Athens pursuant to a Plan of Redemption and Partition whereby Merchants' ownership interest increased from 45.3332% to 90.6664%, when Athens took full ownership of the retail condominium unit at 819 7<sup>th</sup> Street NW, Washington, D.C. in exchange for its ownership interest in a commercial property in Pittsburgh, PA.

During 2020, Merchants consolidated its investment in Bell to reflect the increase in its ownership interest in Bell from 33.25% to 66.5% after the acquisition of the fifth-floor commercial condominium unit at 819 7<sup>th</sup> Street NW, Washington, D.C.

On February 2, 2022, Merchants acquired a 4-story office building, located at 2121 Wisconsin Avenue NW in Washington, D.C. ("Wisconsin"), for approximately \$27.7 million. This property was acquired through a newly formed tenancy-in-common ("TIC") between Lenox Avenue I, LLC owned by Orange, with an 82% TIC interest and MNP 2121, with an 18% TIC interest. Orange acquired Wisconsin with the proceeds from the sale of its Miami, FL property. In 2022, Merchants ownership interest in Orange increased from 48.5607% to 72.48%. Merchants' ownership interest in MNP 2121 is 52.25%. As a result, Merchants collectively owns 68.62% of Wisconsin (59.21% through Orange and 9.41% through MNP 2121).

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **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 (through the sale date of August 30, 2023); Madison, a 52.93% owned partnership; Bethpage, a 95.70% owned limited liability company; Brahmin, a 59.40% owned limited liability company; University, a 57.88% owned limited liability company, Athens, a 90.67% owned limited liability company, Bell, a 66.5% owned partnership and Wisconsin, a 68.62% owned TIC interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### **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 (loss) of these subsidiaries and affiliates are reported separately in the consolidated statements of operations and changes in stockholders’ equity for all years presented.

##### **Use of Estimates**

The Company 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 asset acquisition allocation, depreciable lives, impairment of long-lived assets and investments in real estate ventures 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 the 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.

##### **Purchase Accounting**

The Company allocates the purchase price of asset acquisitions to the various components of the acquisition based upon the relative fair value of each component, which may be derived from various observable or unobservable inputs and assumptions.

In allocating the fair value of the identified intangible assets and liabilities of the acquired properties, below-market lease values were recorded based on the discounted difference between the current in-place rent and the Company’s estimate of current market rents. Other intangible assets acquired include amounts for in-place lease values that were based on the Company’s evaluation of specific characteristics of the tenants’ leases. Factors considered included estimates of carrying costs during hypothetical expected lease-up periods, taking into account current market conditions, and costs to execute similar leases. In estimating carrying costs, the Company included real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, based on local market conditions.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Purchase Accounting (continued)**

In estimating costs to execute similar leases, the Company considered tenant improvement allowances, leasing commissions, legal and other related expenses. The below-market leases are amortized as a charge to rental revenues over the term of the leases. Amortization of the in-place lease values is included in amortization.

##### **Marketable Securities**

Marketable securities, which consist of equity securities, are carried at fair value in the consolidated financial statements. Realized gains and losses are included in net income based on the specific identification method; unrealized holding gains and losses are included in the accompanying consolidated statements of operations.

##### **In-Place Leases**

Amortization of acquired in-place leases for the years ended December 31, 2023 and 2022 was \$1,082,483 and \$556,140, respectively, and is included as a component of amortization in the accompanying consolidated statements of operations. As of December 31, 2023, future amortization expense is as follows:

Year Ending December 31,	
2024	\$ 541,818
2025	541,818
2026	496,686
2027	476,107
2028	449,243
Thereafter	<u>2,579,235</u>
	<u>\$ 5,084,907</u>

##### **Below-Market Leases**

Amortization of acquired below-market leases for the years ended December 31, 2023 and 2022 was \$231,044 and \$144,333, respectively, and is included as a component of rental revenues in the accompanying consolidated statements of operations. As of December 31, 2023, future amortization of below-market leases is as follows:

Year Ending December 31,	
2024	\$ 147,416
2025	147,416
2026	132,269
2027	130,892
2028	129,272
Thereafter	<u>1,270,261</u>
	<u>\$ 1,957,526</u>

The weighted average amortization period for below market leases and in-place lease costs were 9.21 years and 8.15 years, respectively.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **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, 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. No impairment of the recoverability of the carrying amount of the Company's investments has occurred as of December 31, 2023 or 2022.

##### **Intangible Asset Available-for-Sale**

The intangible asset available for sale as of December 31, 2022 consists of a liquor license that was not amortized as it had 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. The liquor license was classified as available for sale as of December 31, 2022. There was no impairment provision necessary at December 31, 2022. The Company sold the license on July 19, 2023.

##### **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. No impairment was noted at December 31, 2023 or 2022.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **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. At times, the balances may exceed federally insured limits; however, no losses have been incurred.

##### **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 and are recorded as a direct deduction of the related debt obligation. These costs are being amortized on the straight-line basis over the term of the related loans, which approximates the effective interest method. For the years ended December 31, 2023 and 2022, amortization of deferred financing costs was \$114,634 and \$117,080, respectively. These amounts are included in financing expenses on the consolidated statements of operations.

##### **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 not designated the interest rate derivatives as hedges, based on its assessment of market conditions. Therefore, changes in the fair value have been recorded in the results of operations for the years ended December 31, 2023 and 2022.

For the year ended December 31, 2023, the Company recorded losses of \$326,854 on the fair value of the interest rate swap agreements, as compared to gains of \$1,759,923 for the year ended December 31, 2022.

##### **Income Taxes**

The Company files a combined income tax return for New Jersey, New York State and New York City except for Putnam, Bethpage, Brahmin, Madison, University, Athens, Bell, Orange and MNP 2121. 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. Putnam, Bethpage, Brahmin, Madison, University, Athens, Bell, Orange, and MNP 2121 file separate federal and state income tax returns.

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



## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Income Taxes** (continued)

The Company does not have any uncertain tax positions. As a result, there are no unrecognized tax benefits in the 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 operations.

##### **Revenue Recognition**

The Company recognizes base rental revenue on a straight-line basis over the terms of the respective leases which are accounted for under Accounting Standards Codification 842, Leases (“ASC 842”). Unbilled rents receivable represent the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Revenue recognition commences from lease agreements at the date the leased premise is ready for its intended use by the tenant and the tenant takes possession or controls the physical use of the leased premise. In addition to base rents, tenants are also charged for their pro rata share of increases in real estate taxes and certain operating expenses for the Property over a base year.

The Company provides its tenants with certain customary services for lease contracts such as common area maintenance and general security. The Company has utilized the practical expedient in ASC 842 and has elected to combine the non-lease components with the lease components of operating lease agreements and account for them as a single lease component in accordance with ASC 842. 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 was considered necessary at December 31, 2023 or 2022. The receivable balance at January 1, 2022 was \$258,501.

In accordance with ASC 606, Revenue from Contracts with Customers, management fees, accounting fees and development fees are recognized ratably over the period that the services are performed. Leasing commissions are recognized when the leases are executed. Asset acquisition/dispositions fees and mortgage financing fees are recognized when the transactions are entered into.

##### **Credit Losses on Financial Instruments**

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), the objective of which is to provide financial statements users with more information about the expected credit losses on consolidated financial instruments and other commitments to extend credit held by an entity, except for tenant receivables. Prior U.S. GAAP required an “incurred loss” methodology for recognizing credit losses that delayed recognition until it was probable that a loss had been incurred. Because this methodology restricted the recognition of credit losses that were expected but did not yet meet the “probable” threshold, ASU 2016-13 was issued to require the consideration of a broader range of reasonable and supportable information when determining estimates of credit losses. ASU 2016-13 was required to be adopted in the first interim period of the fiscal year beginning after December 15, 2022. Accordingly, the Company adopted ASU 2016-13 on January 1, 2023. The Company evaluates and determines credit losses based on historical losses, the aging of receivables, the quality and liquidity of collateral that secures receivables and the cash flow generated by the entities that owe receivables. The adoption of ASU 2016-13 did not have a material impact on the Company’s results of operations and cash flows.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **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.

##### **Sales of Real Estate**

Gains on sales of real estate are recognized pursuant to the provisions included in ASC 610-20. Under ASC 610-20, the Company must first determine whether the transaction is a sale to a customer or non-customer. The Company typically sells real estate on a selective basis and not within the ordinary course of its business and therefore expects that its sale transactions will not be contracts with customers. The Company next determines whether it has a controlling financial interest in the property after the sale, consistent with the consolidation model in ASC 810 "Consolidation" ("ASC 810"). If the Company determines that it does not have a controlling financial interest in the real estate, it evaluates whether a contract exists under ASC 606 and whether the buyer has obtained control of the asset that was sold. The Company recognizes a full gain on sale of real estate when the derecognition criteria under ASC 610-20 have been 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 as follows:

Building and improvements	Seven – 39 years
Equipment and furnishings	Five years

Tenant improvements are depreciated over the shorter of the estimated useful life of the assets or the terms of the respective leases.

##### **Earnings Per Share**

The Company computes basic earnings per share by dividing the 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.

##### **Leases**

The FASB issued ASC Topic 842, Leases, which amended the guidance in former ASC Topic 840. The new leasing standard requires lessees to recognize operating leases on their balance sheets by recording a right-of-use asset ("RoU") and a corresponding lease liability for the rights and obligations associated with operating leases. ASC 842 also modified certain targeted changes to lessor accounting.

The Company adopted ASC 842 effective January 1, 2022 under the modified retrospective approach and elected the optional transition method to apply the provisions of ASC 842 as of the adoption date, rather than to all comparative periods. The Company also elected the practical expedient transition package which permits the Company to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) any initial direct costs for any existing leases as of the effective date.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Leases (continued)**

##### *Lessor Accounting*

In July 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-11, Leases (Topic 842) – Targeted Improvements (“ASU 2018-11”). ASU 2018-11 provides a practical expedient that allows lessors to combine non-lease components with the related lease components if both (1) the timing and pattern of transfer are the same for the non-lease component(s) and related lease component, and (2) the lease component, if accounted for separately, would be classified as an operating lease. Lessors are permitted to apply the practical expedient to all existing leases on a retrospective (if there is no change to previously reported total revenues and expenses) or prospective basis. The Company elected the practical expedient to combine its lease (right to use an underlying asset) and non-lease components (transfer of a good or service that is not a lease, such as common area maintenance services) that meet the defined criteria and will account for the combined lease component under ASC 842 on a prospective basis. These amounts are reported as rental revenues within the consolidated statements of operations. The adoption of ASC 842 did not have a material impact on the Company’s results of operation and cash flows related to lessor leases.

##### *Lessee Accounting*

The Company, as a lessee, leases office space which was classified as an operating lease upon adoption of the new leasing standard. ASC 842 requires the Company to record a RoU asset and related lease liability for the rights and obligations associated with the operating lease. The adoption of ASC 842 resulted in the recognition of a right-to-use asset of \$1,426,803 and operating lease liability of \$1,426,803 as of January 1, 2022. The adoption of ASC 842 did not have a material impact on the Company’s results of operations and cash flows. See Note 16.

##### **Reference Rate Reform**

In March 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-04, “Reference Rate Reform (Topic 848)”. ASU 2020-04 applies to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-14 is effective for all entities as of March 12, 2020 through December 31, 2022. At December 31, 2022, the Company replaced one of its contracts from LIBOR to SOFR. The other index was replaced in March 2023. The adoption of ASC 848 did not have a material impact on the Company’s results of operation and cash flows. See Note 10.

##### **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.

##### **Reclassification**

Certain reclassifications have been made to the prior year’s consolidated financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported net loss.

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events**

These consolidated financial statements were approved by management and available for issuance on April 15, 2024. Management has evaluated subsequent events through this date.

**3 – 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.
- 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.

Financial assets (liabilities) measured at fair value on a recurring basis are summarized below:

December 31, 2023				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 68,377,897	\$ -	\$ -	\$ 68,377,897
Interest rate swaps	-	936,437	-	936,437
Total assets measured at fair value	\$ 68,377,897	\$ 936,437	\$ -	\$ 69,314,334

December 31, 2022				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 61,287,084	\$ -	\$ -	\$ 61,287,084
Interest rate swaps	-	1,263,291	-	1,263,291
Total assets measured at fair value	\$ 61,287,084	\$ 1,263,291	\$ -	\$ 62,550,375

The Company values investments in marketable securities that are freely tradable and are listed on a national securities exchange at their last quoted sales price as of the valuation date.

The interest rate swap agreements are valued at fair value using a swap valuation model that utilizes an income approach using observable market inputs including interest rates London Interbank Offered Rate (“LIBOR”), Secured Overnight Financing Rate (“SOFR”) and credit default swap rates.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 3 – FAIR VALUE MEASUREMENTS (Continued)

The carrying values of cash and cash equivalents, restricted cash, receivables, loans payable and accounts payable and accrued expenses approximate their fair values due to their short-term nature. It was not practicable to reasonably estimate the fair value of the loans receivable from real estate ventures, the 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.

#### 4 – RENTAL PROPERTIES, NET

Rental properties consist of the following:

	December 31,	
	2023	2022
Land	\$ 25,128,115	\$ 27,376,418
Buildings and improvements	56,979,469	58,539,340
Furniture and fixtures	742,224	1,107,304
Equipment	3,003,446	2,994,733
Impairment of land and building	-	(1,337,269)
	85,853,254	88,680,526
Less: accumulated depreciation	12,198,141	11,248,109
	<u>\$ 73,655,113</u>	<u>\$ 77,432,417</u>

Depreciation expense for the years ended December 31, 2023 and 2022 was \$2,433,596 and \$2,442,877, respectively.

#### 5 – PROPERTY ACQUISITION

The Company acquired Wisconsin for \$27,700,000 on February 2, 2022. The purchase price, including acquisition costs, was allocated based on the relative fair value of the assets and liabilities acquired and consists of the following:

Land	\$ 6,279,063
Building	19,035,404
In-place leases	6,723,530
Below market leases	(2,332,903)
Net purchase price	<u>\$ 29,705,094</u>

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6 – MARKETABLE SECURITIES**

Cost and fair value information for common stock securities are as follows:

	December 31,	
	2023	2022
Cost	\$ 897,173	\$ 897,173
Fair value	68,377,897	61,287,084
Net unrealized gain	\$ 67,480,724	\$ 60,389,911

There were no sales of marketable securities during the years ended December 31, 2023 or 2022.

**7 – 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, 2023 and 2022, respectively, are as follows:

	December 31,	
	2023	2022
Balance, beginning of period	\$ 112,466,720	\$ 119,818,866
Contributions	4,070,995	4,078,630
Distributions	(9,843,003)	(11,523,866)
Consolidation of Orange Syndicate *	-	(8,250,412)
Reclassification from rental properties	-	1,609,869
Loss on abandonment of investment in real estate venture	-	(527,058)
Equity in earnings, net	8,278,278	7,260,691
Net investments, end of period	\$ 114,972,990	\$ 112,466,720

\* Represents the reclassification of the investment in Orange to rental properties, net as a result of the consolidation of this real estate venture with the Company's consolidated financial statements effective February 2022 (Note 1).

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**7 – 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,	
	2023 (unaudited)	2022 (unaudited)
Assets, net of accumulated depreciation and amortization of \$287,307,032 and \$267,409,995	\$ 608,319,702	\$ 620,007,076
Liabilities	379,417,279	373,566,309
Equity	\$ 228,902,423	\$ 246,440,767

	Years Ended December 31,	
	2023 (unaudited)	2022 (unaudited)
Rental and other revenues	\$ 150,941,209	\$ 139,316,200
Unrealized gain on marketable securities	(22,503)	847,417
Net gains on disposal of rental property	5,101,137	2,252,302
Total income	156,019,843	142,415,919
Direct operating expenses	53,625,060	66,104,408
Financing expenses	20,826,991	17,272,508
Depreciation and amortization expense	34,798,881	28,277,188
Income taxes	1,840,977	1,340,213
Total expenses	111,091,909	112,994,317
Net income	\$ 44,927,934	\$ 29,421,602

The investments in real estate ventures on the accompanying consolidated balance sheets are accounted for by the Company using the equity method. The above amounts, which are maintained on the historical cost basis and represent 100% of the assets (net of accumulated amortization and depreciation where applicable), liabilities, equity, revenues and expenses of the real estate joint ventures, have not been audited, except one of the investments as noted in the independent auditors' 2023 report. The assets and liabilities of this investment in real estate venture are approximately 32% and 28%, respectively, of the total assets and liabilities above at December 31, 2023 and 31% and 30%, respectively, at December 31, 2022. The net income of this investment in real estate venture is approximately 55% and 69% of the total net income above for the years ended December 31, 2023 and 2022, respectively.

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**7 – INVESTMENTS IN REAL ESTATE VENTURES (Continued)**

Investments in real estate ventures consist of the following:

Investee	% Of Ownership (a)	
	December 31, 2023	December 31, 2022
135 Bowery	9.0000%	9.0000%
430 Park Avenue Syndicate (b)	7.0828	7.0828
532 Madison Syndicate	10.4099	10.4099
708 Third Avenue Holdings, LLC	35.7135	35.7135
Avon Joint Venture	40.5938	40.5938
BSC Empire	37.6214	37.6214
Belle Haven Realty LLC	42.5700	42.5700
Bellflower Joint Venture	17.4167	17.4167
Bey Lea Joint Venture (b) (d)	0.0000	9.1366
Boston Syndicate	31.4393	31.4393
Dollar Land Associates, LLC	37.6214	37.6214
Farmingville Associates (b)	10.6223	10.6223
Fort Lee Joint Venture	30.0000	30.0000
Hastings Drive I, LLC	48.8289	48.8289
Herald Owners, LLC	28.5030	28.5030
Ithaca Joint Venture	21.0000	21.0000
Joseph E. Marx Company, Inc. ("JEM")	23.3330	23.3330
Knights Road Shopping Center LP (b)	11.4044	11.4044
Louisville Syndicate	49.3097	49.3097
Marlton Joint Venture	34.9167	34.9167
Newbury Street Partners (b) (c)	19.2084	18.7084
Ocean County Ventures (b)	30.0981	30.0981
Pequannock Joint Venture LLC	22.5953	22.5953
Peters Land Realty, LLC	26.7644	26.7644
Queens Blvd. Realty, LLC	12.6867	12.6867
Seaford Joint Venture	22.6781	22.6781

(a) % of Company's beneficial interest in the underlying investment.

(b) Excludes indirect interest through JEM.

(c) Merchants purchased 0.5% interest in Newbury Street Partners on June 8, 2023 for \$100,000.

(d) The property was sold on July 28, 2023.



## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 8 – LOANS RECEIVABLE, REAL ESTATE VENTURE

Loans receivable from one real estate venture affiliate in the amount of \$1,950,000 and \$1,875,000 as of December 31, 2023 and 2022, respectively, are unsecured, due on demand and bear interest at 5.0%. As of December 31, 2023 and 2022, accrued interest of \$431,250 and \$375,000, respectively, was included in the loan receivable balance.

Loan receivable from one real estate venture affiliate in the amount of \$536,067 as of December 31, 2023 is unsecured, due on demand and bears interest at 6.0%. As of December 31, 2023, accrued interest of \$11,067 was included in the loan receivable balance.

Loan receivable from one real estate venture in the amount of \$991,408 as of December 31, 2023 is unsecured, due on demand and bears interest at 6.0%. As of December 31, 2023, accrued interest of \$21,408 was included in the loan receivable balance.

Management believes that these loans are fully collectible, and no allowance for credit loss is required at December 31, 2023 and 2022.

#### 9 – LINE OF CREDIT

In March 2021, Merchants obtained a three-year \$40 million credit facility (the “Credit Facility”) with Valley National Bank, which expired in February 2024 and was not renewed. The Credit Facility was subject to a borrowing base of 75% of the fair value of the Company’s marketable securities and 100% of the value of cash and cash equivalents. Initially, the interest rate on the Credit Facility was LIBOR plus 1.25%. The loan agreement was amended on February 1, 2023, changing the interest rate on the Credit Facility to SOFR plus 1.25%. The Credit Facility was subject to certain covenants and allows the Company to request that the bank issue standby letters of credit of up to \$10 million on its behalf.

No amounts were outstanding under the Credit Facility as of December 31, 2023 and 2022. There was no interest expense on the Credit Facility during the years ended December 31, 2023 and 2022.

#### 10 – MORTGAGES PAYABLE

In August 2019, Merchants obtained a \$8,625,000 mortgage payable, secured by a first mortgage lien on the property located at 605-609 West 181<sup>st</sup> Street, New York, NY. The mortgage required monthly payments of interest only at 3.39% through September 1, 2020. Beginning October 1, 2020, the mortgage requires principal and interest payment based on a 24-year amortization term. The mortgage matures on September 1, 2029, at which time the outstanding principal balance and any unpaid interest is due. For the years ended December 31, 2023 and 2022, interest expense was \$272,076 and \$274,754, respectively. The mortgage payable balance at December 31, 2023 and 2022 was \$7,825,678 and \$8,081,082, respectively. The loan is subject to a debt service coverage ratio of 1.10. Beginning January 1, 2020, the debt service ratio requires quarterly testing.

The Company has a receive-variable (LIBOR), pay-fixed (1.64%) interest rate swap agreement related to its variable rate loan on West 181<sup>st</sup> Street. The interest rate swap agreement was effective as of August 13, 2019,

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 10 – MORTGAGES PAYABLE (Continued)

matures on September 4, 2029, and had an original notional amount of \$8,625,000 with a notional amount of \$7,825,678 and \$8,081,082 at December 31, 2023 and 2022, 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. In March 2023, variable LIBOR was replaced with SOFR.

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, MA. On June 1, 2019, the three mortgages with an outstanding balance of approximately \$2,480,000 were modified to allow for borrowings up to \$4,750,000. The modified mortgages require monthly payments in the aggregate of \$52,342 with 4.35% of interest to adjust every seven years through November 1, 2039. The initial interest rate during the first seven years is fixed at 4.35% and every seven years the interest will adjust to 185 basis points plus the seven-year US Treasury Index not to exceed 4.35%. Merchants is a limited guarantor of this loan. For the years ended December 31, 2023 and 2022, interest expense was \$189,618 and \$194,974, respectively. The mortgage payable balance at December 31, 2023 and 2022 was \$4,231,578 and \$4,356,029, respectively. The loan is subject to a debt service coverage ratio of 1.20, which shall be tested annually. Brahmin is currently not in compliance with the ratio; however, Brahmin is current in its debt service payments.

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. 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 required 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 was 4%. For the years ended December 31, 2023 and 2022, interest expense was \$104,393 and \$161,117, respectively. The mortgage was paid off on August 30, 2023 upon the sale of the East Putnam property in Greenwich, CT. The mortgage payable balance at December 31, 2022 was \$3,983,337.

On September 11, 2015, University obtained a loan in the amount of \$9,000,000. The loan requires monthly payments in the aggregate of \$47,291 and has a maturity date of September 11, 2025. Merchants is the guarantor of this loan. 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 of 1.30, which shall be tested annually. 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, 2023 and 2022, interest expense was \$280,539 and \$291,756, respectively. The mortgage payable balance at December 31, 2023 and 2022 was \$6,966,474 and \$7,252,352, respectively.

The Company has a receive-variable (SOFR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan on University. The interest rate swap agreement was effective as of October 1, 2015, matures on October 1, 2025, and had an original notional amount of \$9,000,000 with a notional amount of \$6,966,474 and \$7,252,352 at December 31, 2023 and 2022, 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.

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10 – MORTGAGES PAYABLE (Continued)**

In November 2016, Athens obtained a \$5,000,000 mortgage payable, secured by a first mortgage lien on the property located at 819 7<sup>th</sup> Street NW, Washington DC. Merchants is a limited guarantor of this loan. The mortgage requires monthly payments in the aggregate of \$25,199, including principal and interest, based on a 25-year amortization schedule and has a maturity date of December 1, 2023. Athens has exercised its option to extend the maturity date to May 27, 2024. Management intends to pay the outstanding balance upon the extended maturity date. The interest rate during the initial term of the note was 3.50%. The interest rate during the extended term is SOFR + 300 bps. For the years ended December 31, 2023 and 2022, interest expense was \$145,609 and \$151,080, respectively. The mortgage payable balance at December 31, 2023 and 2022 was \$4,017,422 and \$4,174,198, respectively. The loan is subject to a debt service ratio of 1.25, which shall be tested annually. Athens is currently not in compliance with the ratio; however, Athens is current in its debt service payments.

In February 2022, Wisconsin obtained a mortgage payable of up to \$20,730,000, secured by a first mortgage lien on the property located at 2121 Wisconsin Avenue, NW, Washington, DC. Merchants has provided a Guaranty for payment and performance of this mortgage. In addition, Merchants has provided an environmental indemnity guaranty (the “Guaranty”). Management believes that there is no liability under the Guaranty at December 31, 2023. The mortgage payable matures in February 2032, requires monthly interest only payments at the rate of 3.4% for the first 24 months and then principal and interest payments thereafter of \$85,064, based on a 35-year amortization period. For the years ended December 31, 2023 and 2022, interest expense was \$652,617 and \$525,838, respectively. The mortgage payable balance at December 31, 2023 and 2022 was \$18,529,512 and \$16,620,000, respectively.

Future minimum payments on all of the aforementioned mortgages payable are as follows:

Year Ending December 31,		
2024	\$	4,960,357
2025		7,391,477
2026		748,116
2027		775,597
2028		801,805
Thereafter		26,893,310
		41,570,662
Less: unamortized debt issuance costs		263,479
	\$	41,307,183

**11 – LEASE ARRANGEMENTS (AS LESSOR)**

Building space is leased under non-cancelable operating leases. Certain tenant leases provide for minimum annual rent, a percentage of tenant sales in excess of stipulated amounts, real estate taxes, utility costs and other expenses. Certain leases also provide for renewal and termination options.

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11 – LEASE ARRANGEMENTS (AS LESSOR) (Continued)**

Minimum rental revenues under existing non-cancelable leases as of December 31, 2023 are approximately as follows:

Year Ending December 31,	
2024	\$ 6,910,000
2025	6,602,000
2026	6,538,000
2027	6,407,000
2028	5,742,000
Thereafter	34,527,000
	\$ 66,726,000

For the years ended December 31, 2023 and 2022, one tenant represented approximately 16% of rental income.

The components of rental revenue are as follows:

	December 31,	
	2023	2022
Fixed lease payments	\$ 7,874,033	\$ 8,099,712
Variable lease payments	906,375	964,646
	\$ 8,780,408	\$ 9,064,358

**12 – 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 consists of the following:

	Years Ended December 31,	
	2023	2022
Current		
Federal	\$ 1,316,800	\$ 486,656
State	538,944	1,522,567
	1,855,744	2,009,223
Deferred		
Federal	1,849,412	(1,540,711)
State	601,208	(87,252)
	2,450,620	(1,627,963)
Income tax provision per consolidated statements of operations	\$ 4,306,364	\$ 381,260

**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12 – INCOME TAXES (Continued)**

Components of deferred tax assets and liabilities are as follows:

**Deferred tax assets**

Bad debt expense	\$ 52,221	\$ 15,459	\$ 164,118	\$ 48,583
Depreciation - federal	2,536,341	532,633	126,865	26,642
Depreciation - state	23,187,673	2,525,137	21,129,947	2,301,051
Interest expense deduction limitation	2,409,577	582,389	1,521,775	319,573
Net operating losses	-	-	213,678	44,872
Impairment loss	-	-	1,308,732	387,425
Prepaid rent	994,736	294,473	1,879,584	556,416
	<u>29,180,548</u>	<u>3,950,091</u>	<u>26,344,699</u>	<u>3,684,562</u>

**Deferred tax liabilities**

Amortization	1,846,229	546,541	1,846,229	546,541
Bad Debt Expense	1,724	510	-	-
Depreciation - federal	20,340,260	5,738,228	19,116,778	5,309,317
Deferred gain on disposal of rental property	32,847,128	9,723,768	32,847,128	9,723,769
Deferred revenue	10,544,907	3,121,619	9,638,292	2,853,232
Other	8,251,196	2,442,611	6,403,509	1,895,636
Unrealized gain on interest rate swap	905,456	268,043	1,200,887	355,500
Unrealized gain on marketable securities	67,731,509	14,900,932	60,645,947	13,342,108
	<u>142,468,409</u>	<u>36,742,252</u>	<u>131,698,770</u>	<u>34,026,103</u>

Net deferred tax liability	<u>\$ 113,287,861</u>	<u>\$ 32,792,161</u>	<u>\$ 105,354,071</u>	<u>\$ 30,341,541</u>
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The above components of deferred tax assets and liabilities also include GAAP to tax differences from investments in real estate ventures.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 13 – 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 fees and other revenues earned from related parties for the years ended December 31, 2023 and 2022 were \$8,782,713 and \$8,273,925, respectively.

As of December 31, 2023 and 2022, the amount due from related parties for management fees, leasing commissions, supervisory fees and other charges was \$1,447,813 and \$3,075,213, respectively. These amounts are non-interest bearing and are due on demand.

As of December 31, 2023 and 2022, the amount due to related parties to cover temporary cash shortfalls was \$40,442 and \$516,900, respectively. These amounts are non-interest bearing and are due on demand.

Loans to employees for the purchase of membership interests in certain real estate ventures totaling \$2,783,520 and \$2,627,973 at December 31, 2023 and 2022, respectively, are included in receivables from employees on the 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 real estate ventures.

#### 14 – 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 annual maximum of \$6,700 for 2023 and \$6,100 for 2022. The Company's matching contributions for the years ended December 31, 2023 and 2022 were \$85,822 and \$88,775, respectively.

#### 15 – COMMITMENTS AND CONTINGENCIES

##### **Guarantees and Indemnification**

In April 2020, Herald Owners, LLC ("Herald"), one of the Investees referred to in Note 7, obtained a mortgage payable of up to \$49,844,000, with a mortgage balance outstanding at December 31, 2023 in the amount of \$43,198,009 secured by a first mortgage lien on the property located at 1307 New York Avenue, NW, Washington, DC. Merchants is a limited guarantor on this loan. In addition, Merchants has provided Deferred Equity and Completion guarantees, an Environmental Indemnity Agreement and an Interest, Carry and Rebalancing Guaranty (the "Guaranty"). Among other requirements, the Guaranty will terminate upon the completion of construction work and achievement of an occupancy rate of 88% of net rentable square footage. In January 2022, the construction was completed. Management believes that there is no liability under the Guaranty at December 31, 2023 and 2022. The mortgage payable was set to mature in April 2023, requires monthly interest only payments at the rate of 4.5% and contains two 12-month extension options, subject to Merchants meeting certain conditions. Herald exercised its first extension option on February 1, 2023, extending the maturity date to April 5, 2024. Herald exercised its second extension option on April 5, 2024, extending the maturity date to April 5, 2025.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 15 – COMMITMENTS AND CONTINGENCIES (Continued)

##### **Guarantees and Indemnification** (continued)

The Company has signed limited suretyship and guarantee agreements with the mortgagees of two investees as of December 31, 2023 and 2022, which own rental real properties with mortgages outstanding of approximately \$18,571,000 and \$18,761,000 as of December 31, 2023 and 2022, respectively. 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 as of December 31, 2023 and 2022.

##### **Employment Agreement**

In April 2020, the Company amended and restated the original 2017 employee agreement with its Chief Executive Officer (the "CEO"), ending August 2024, with an automatic extension of one year, pursuant to which the Company agreed to pay a base annual salary of \$620,000, with an annual increase of the lesser of the increase in the consumer price index or 3% per year. The CEO also became eligible for an annual performance bonus award providing a target bonus opportunity of 75% of the current base salary. The Company also granted the CEO a long-term incentive award equal to \$1,100,000 (the "LT Cash Incentive"). The LT Cash Incentive shall vest on each of the four anniversaries of the August 10, 2020 Award Date in four equal installments, subject to the CEO's continued employment through the respective vesting dates, and payable in full on August 10, 2024. As of December 31, 2023, \$893,750 was accrued and included in accounts payable and accrued expenses.

In addition, when the Company enters into new investments, as defined in the CEO's employment agreement, the 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. The unpaid balance, including accrued interest, is due within 12 months of termination of employment with the Company. As of December 31, 2023 and 2022, the loan balance, including accrued interest, was \$2,251,901 and \$2,068,426, respectively. These amounts are included in receivables from employees on the accompanying consolidated balance sheets.

For the year ended December 31, 2023, the CEO's total compensation was \$1,687,819, which consisted of \$684,069 for base salary, a \$660,000 bonus and a \$343,750 LT Cash Incentive. For the year ended December 31, 2022, the CEO's total compensation was \$1,574,145, which consisted of \$664,145 for base salary, a \$635,000 bonus and a \$275,000 LT Cash Incentive.

In April 2021, the Company entered into a restricted stock agreement pursuant to which the CEO was granted 100 shares of common stock of the Company. The CEO was granted an additional 100 shares of common stock of the Company in December 2021, an additional 100 shares in May 2023 and an additional 100 shares in December 2023. These 400 shares will become fully vested on August 10, 2024, provided the CEO remains employed by the Company at that date. Unless and until this agreement is rescinded, the CEO shall have all voting rights and receive all dividends paid with respect to the 400 shares.

## MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 15 – COMMITMENTS AND CONTINGENCIES (Continued)

##### **Employment Agreement** (continued)

The Company follows the provisions of ASC Topic 718, “Compensation - Stock Compensation”, which covers a wide range of share-based compensation arrangements and provides guidance for recognition of compensation cost related to these types of transactions. Compensation will be measured based on the fair value of the equity instrument when it is earned.

For the years ended December 31, 2023 and 2022, the Company has determined that the stock compensation expense is not material to the financial statements as a whole. Stock compensation expense of \$591,700 will be recorded upon 100% vesting.

##### **Capital Calls and Investment Funding**

In the normal course of business, the Company may be requested to make additional capital contributions to its real estate investments. As of the date of this report, the Company has no outstanding capital calls received from its real estate investments.

##### **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.

#### 16 – LEASES (AS LESSEE)

The Company leases office space from 708 Third Avenue Holdings, LLC, in which it has an investment. The lease expires on January 23, 2029 and falls under ASC 842, as discussed in Note 2. For the years ended December 31, 2023 and 2022, the operating lease cost was \$253,479 and \$252,341, respectively, and is included in the consolidated statement of operations.

The following summarizes the line items in the consolidated balance sheets which include amounts for the operating lease:

	December 31,	
	2023	2022
Operating right-of-use asset	<u>\$ 1,059,433</u>	<u>\$ 1,246,210</u>
Current maturities of operating lease liability	\$ 195,188	\$ 177,504
Operating lease liability, less current maturities	<u>882,788</u>	<u>1,077,977</u>
Total operating lease liability	<u>\$ 1,077,976</u>	<u>\$ 1,255,481</u>



**MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16 – LEASES (AS LESSEE) (Continued)**

Additional disclosures regarding the Company's lease as lessee are as follows:

	Years Ended December 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liability	\$ 219,204	\$ 219,204
Weighted average remaining lease term	5.1 years	6.1 years
Weighted average discount rate	3.55%	3.55%

The maturities of operating lease liability as of December 31, 2023 were as follows:

Year Ending December 31,	
2024	\$ 230,334
2025	232,560
2026	232,560
2027	232,560
2028	232,560
Thereafter	19,380
Total lease payments	1,179,954
Less: interest	101,978
Present value of lease liability	\$ 1,077,976

**17 – SUBSEQUENT EVENTS**

On April 2, 2024, Louisville Syndicate (“Louisville”), one of the Investees referred to in Note 7, entered into a Purchase and Sale Agreement to sell the property in Louisville, KY for \$830,000. Merchants owns 49.3097% of Louisville.

As part of the one-year extension of the Herald mortgage (see Note 15), the Merchants controlled member, Herald DC Ventures, LLC (“Funding Member”) loaned Herald Member, LLC (“Non-Funding Member”), an affiliate of Iowa Public Employee’s Retirement System, managed by Invesco Advisors, Inc., \$3.9M to cover the loan extension costs and \$3M for tenant improvement and leasing costs. This loan carries an interest rate of 14%.