

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
BKF Capital Group, Inc.

We have audited the consolidated balance sheet of BKF Capital Group, Inc. and subsidiaries “(The Company)” as of December 31, 2016, and the related statements of operations and comprehensive income (loss), stockholders’ equity, and cash flows for the year ended December 31, 2016. BKF Capital Group, Inc.’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BKF Capital Group, Inc. and subsidiaries as of December 31, 2016, and the results of its operations and its cash flows for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/S/ RBSM, LLP

Henderson, Nevada  
May 2, 2017



CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
**To the Board of Directors and Stockholders**  
**BKF Capital Group, Inc.**

We have audited the accompanying balance sheet of BKF Capital Group, Inc. (the “Company”) as of December 31, 2015, and the related statements of operations, changes in stockholders’ equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and the results of its operations, changes in stockholders’ equity (deficit) and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**/s/ Anton & Chia, LLP**

Newport Beach, California  
May 10, 2016

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollar amounts in thousands)

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 848	\$ 2,258
Investment, available for sale	1,798	-
Investment	2,954	2,913
Prepaid expenses and other assets	-	5
<b>Total assets</b>	<b>\$ 5,600</b>	<b>\$ 5,176</b>
<b>Liabilities and stockholders' equity</b>		
Accrued expenses	\$ 49	\$ 106
Accrued expenses-related party	12	24
Total liabilities	61	130
Commitments and Contingencies	-	-
<b>Stockholders' equity</b>		
Common stock, \$1 par value, authorized — 15,000,000 shares, 711,816 and 716,737 issued and outstanding as of December 31, 2016 and December 31, 2015, respectively(1)	712	717
Additional paid-in capital	74,782	74,816
Accumulated deficit	(70,698)	(70,487)
Accumulated other comprehensive gain	743	-
Total stockholders' equity	5,539	5,046
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,600</b>	<b>\$ 5,176</b>

(1) Issued and outstanding share amounts reflect the one for ten reverse stock split effected on October 11, 2016.

See accompanying notes that are integral part of these consolidated financial statements.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
(Dollar amounts in thousands, except per share data)

	Year Ended December 31,	
	<u>2016</u>	<u>2015</u>
Income:		
Non-operating income:		
Interest income	\$ <u>1</u>	\$ <u>3</u>
Total non-operating income	<u>1</u>	<u>3</u>
Total income	1	3
Expenses:		
Employee compensation and benefits	97	95
Occupancy	12	15
Other operating expenses	<u>144</u>	<u>99</u>
Total expenses	253	209
Other income (expense)		
Gain (loss) on equity investment, net	<u>41</u>	<u>(402)</u>
Total other income (expense)	<u>41</u>	<u>(402)</u>
Net loss	\$ <u>(211)</u>	\$ <u>(608)</u>
Income tax benefit before other comprehensive income (loss)		
Income tax benefit	<u>-</u>	<u>-</u>
Total income tax benefit before other comprehensive income (loss)		
	-	-
Net loss after taxes	(211)	(608)
Other comprehensive income (loss), net of tax:		
Net loss	(211)	(608)
Unrealized gain (loss) on investments, after tax	<u>743</u>	<u>-</u>
Comprehensive income (loss)	<u><u>532</u></u>	<u><u>(608)</u></u>
Loss per share:		
Basic and diluted	\$ <u>(0.30)</u>	\$ <u>(0.82)</u>
Weighted average shares outstanding basic and diluted		
	714,820	744,335

(1) All per-share and weighted-average share amounts have been adjusted to retroactively reflect the one for ten reverse stock split effected on October 11, 2016.

See accompanying notes that are integral part of these consolidated financial statements.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollar amounts in thousands)

	Year Ended	
	December 31, 2016	December 31, 2015
Operating activities:		
Net loss	\$ (211)	\$ (608)
Adjustments to reconcile net loss to net cash used in operations:		
(Gain) loss on equity investment, net	(41)	402
Change in operating assets and liabilities:		
Decrease in prepaid expenses and other assets	5	10
(Decrease) Increase in accrued expenses-related party	(12)	24
Decrease in accrued expenses	(56)	(50)
Net cash used in operating activities	<u>(315)</u>	<u>(222)</u>
Investing activities:		
Repurchase of stock	(39)	-
Purchase of investment securities, available for sale	<u>(1,056)</u>	<u>(572)</u>
Net cash used in investing activities	<u>(1,095)</u>	<u>(572)</u>
Financing activities:		
Net cash used in financing activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(1,410)	(794)
Cash and cash equivalents at the beginning of the year	<u>2,258</u>	<u>3,052</u>
Cash and cash equivalents at the end of the year	<u>\$ 848</u>	<u>\$ 2,258</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income tax paid	<u>\$ -</u>	<u>\$ -</u>
Non cash investing and financing activities:		
Unrealized gain on investments available for sale	<u>\$ 743</u>	<u>\$ -</u>

See accompanying notes that are integral part of these consolidated financial statements.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Years Ended December 31, 2016 and 2015  
(Amounts in thousands)

	<b>Common Stock</b>		<b>Paid-In Capital</b>	<b>Accumulated Deficit</b>	<b>Comprehensive gain or loss</b>	<b>Total</b>
	<b>Shares (1)</b>	<b>Amount</b>				
Balance at December 31, 2014	747	\$ 747	\$ 74,995	\$ (69,879)	\$ -	\$ 5,863
Repurchase of Stock	(30)	(30)	(179)	-	-	(209)
Net Loss	-	-	-	(608)	-	(608)
Balance at December 31, 2015	717	717	74,816	(70,487)	-	5,046
Repurchase of Stock	(5)	(5)	(34)	-	-	(39)
Comprehensive Income					743	743
Net Loss	-	-	-	(211)	-	(211)
Balance at December 31, 2016	<u>712</u>	<u>\$ 712</u>	<u>\$ 74,782</u>	<u>\$ (70,698)</u>	<u>\$ 743</u>	<u>\$ 5,539</u>

(1) Shares amount reflect the one for ten reverse stock split effected on October 11, 2016.

See accompanying notes that are integral part of these consolidated financial statements.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

The BKF Capital Group, Inc., (“the Company”) operates through its wholly-owned subsidiaries, BKF Investment Group, Inc., formerly known as BKF Management Co., Inc. (“BIG”) and BKF Asset Holdings, Inc. (“BKF Holdings”) all of which are collectively referred to herein as the “Company” or “BKF.” The Company trades on the over the counter market under the symbol (“BKFG”). Currently, the Company plans to engage in the asset management business through its subsidiary BKF Advisors, Inc., which is a registered investment advisor in the States of Florida and California. BKF is also seeking to consummate an acquisition, merger or business combination with an operating entity to enhance BKF's revenues and increase shareholder value.

The consolidated financial statements of BKF, include BIG and BIG's two wholly owned subsidiaries BKF Advisors, Inc. (“BKF Advisors”) and BKF Asset Management, Inc., (“BAM”) and BAM's two wholly-owned subsidiaries, BKF GP, Inc. (“BKF GP”) and LEVCO Securities, Inc. (“LEVCO Securities”) and BKF Asset Holding, Inc., (“BKF Holdings”). On November 27, 2012 LEVCO Securities was dissolved. All intercompany accounts have been eliminated. BKF Advisors was dissolved in Delaware on December 19, 2016 and subsequently in California during the first quarter of 2017. There were no transactions to record in BKF Advisors as at December 19, 2016 (date of dissolution).

BAM was an investment advisor which was registered under the Investment Advisers Act of 1940, as amended; it withdrew its registration on December 19, 2006. BAM had no operations during 2016 and 2015.

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of BKF Capital Group Inc., (“the Company”) and its wholly-owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S GAAP”) and in accordance with Regulation S-X of the Securities and Exchange Commission (the “SEC”). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash, and Cash Equivalents

The Company treats all investments with maturities at acquisition of three months or less as cash equivalents. Investments in money market funds are valued at net asset value. The Company maintains substantially all of its cash and cash equivalents invested in interest bearing instruments at two nationally recognized financial institutions, which at times may exceed federally insured limits. As a result the Company is exposed to credit risk related to the money market funds and the market rate inherent in those funds.

Investments in Affiliated Investment Partnerships

BKF GP served as the managing general partner for several affiliated investment partnerships (“AIP”), which primarily engaged in the trading of publicly traded equity securities, and in the case of one partnership, distressed corporate debt. Currently all AIP activities have been terminated and BKF GP is in the process of dissolving those partnerships.



BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company accounts for income taxes in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes.

Interest costs and penalties related to income taxes are classified as interest expense and general and administrative costs, respectively, in the Company's consolidated financial statements.

The Company and its subsidiaries file consolidated Federal and combined state and local tax returns. The Company is currently subject to a three year statute of limitations by major tax jurisdictions. Tax years 2011 and forward remain open to examination.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Future tax benefits are recognized only to the extent that realization of such benefits is more likely than not to occur. The Company has recorded a valuation reserve of approximately \$6.4 million and \$6.3 million against its net deferred tax asset as of December 31, 2016 and December 31, 2015, respectively. The Company believes that it is not likely that this deferred tax benefit will be utilized within the statutory period allowed.

Earnings Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the total of the weighted average number of shares of common stock outstanding and common stock equivalents. Diluted earnings (loss) per share is computed using the treasury stock method.

There were no common stock equivalents for the years ended December 31, 2016 and 2015.

Investment in Marketable Securities, available for sale

We are required to evaluate our available-for-sale investment for other-than-temporary impairment charges. We will determine when an investment is considered impaired (i.e., decline in fair value below its amortized cost), and evaluate whether the impairment is other than temporary (i.e., investment value will not be recovered over its remaining life). If the impairment is considered other than temporary, we will recognize an impairment loss equal to the difference between the investment's cost and its fair value.

Investments in partnerships, LLCs or closely-held corporations are accounted for using the equity method if the reporting entity can exercise significant influence over the investment entity, which is generally deemed to be the when a reporting entity controls 20%-50% of the decision-making ability over the investment entity's operations. Required disclosures include the name of each investment entity, percentage of ownership and summarized information about assets, liabilities and results of operations of the investment entity, either individually or aggregated. See Note 4.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Fair Values of Financial Instruments

The Company adopted FASB ASC 820-10-50, “Fair Value Measurements”. This guidance defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

The carrying amounts reported in the balance sheets for cash and cash equivalents, and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest.

Assets at Fair Values as of December 31, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment, available for sale	\$ 1,798		
Investments in equity	2,954	-	-
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 4,752</u>	<u>-</u>	<u>-</u>
Assets at Fair Values as of December 31, 2015	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in equity	\$ 2,913	-	-
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 2,913</u>	<u>-</u>	<u>-</u>

Recent Accounting Developments

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 with early adoption permitted. Under ASU 2016-02, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee’s obligation to make lease payments arising from a lease measured on a discounted basis, and a right-to-use asset, which is an asset that represents the lessee’s right to use or control the use of a specified asset for the lease term. The Company is currently evaluating the effect that the new guidance will have on its financial statements and related disclosures.

Note 2. Concentrations

The Company had amounts in excess of \$250,000 in a single bank during the year. Amounts over \$250,000 are not insured by the Federal Deposit Insurance Corporation. These balances fluctuate during the year and can exceed this \$250,000 limit. Management regularly monitors the financial institution, together with its cash balances, and tries to keep this potential risk to a minimum.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Related Party Transactions

BKF occupies space pursuant to a license agreement, dated March 1, 2015 between BKF and Interlink Electronics, Inc. BKF pays a license fee to Interlink Electronics Inc. of \$12,000 per annum, or \$1,000 per month, for use of the space. Steven N. Bronson, BKF's Chairman, CEO and majority shareholder, is also the CEO and President of Interlink Electronics.

Note 4. Investments

A) Equity Method

i) Qualstar Corporation:

On July 3, 2013, Steven Bronson, BKF's Chairman, was appointed the interim Chief Executive Officer and President of Qualstar Corporation ("Qualstar"). This resulted in the 18.3% of the Company's ownership in Qualstar to be accounted for using the equity method, a change from the available for sale method, on the basis that BKF can assert significant influence over the operations of Qualstar.

The investment in Qualstar is accounted for using the equity method as prescribed by Accounting Standard Codification Section 323, under which the Company's carrying amount of its investment in common stock of Qualstar is the initial cost adjusted for the Company's share of Qualstar's earnings and losses, and further adjusted for any distributions or dividends. At December 31, 2016 and 2015 the Company held 548,085 common shares of Qualstar, representing approximately 26.84% of the outstanding shares, respectively. The investment in Qualstar was approximately \$0 and \$255,000 at December 31, 2016 and 2015, respectively. The market value of the Company's shares in Qualstar was approximately \$1.6 million and \$2.5 million at December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015, the Company recorded a loss on its investment in Qualstar of approximately \$330,000 and \$640,000, respectively. However under equity method of investment since the loss has to be restricted to the value of investment, Company recognized loss of only \$256,000 out of \$330,000 as at December 31, 2016. These losses do not include the quarterly results of Qualstar as of December 31, 2016. Therefore, all balances related to the Company's investment in Qualstar are recorded on a three month (quarterly) lag. This lag is consistent from period to period. The financial results for Qualstar's quarters ended December 31, 2016 and December 31, 2015 were available prior to the preparation of our financial statements. If those results had been included the investment would have been \$0 for December 31, 2016 and \$53,000 greater than what is reflected in our financial statements for December 31, 2015.

As of December 31, 2016 and 2015, our investment in Qualstar in the aggregate exceeded our proportionate share of the net assets of this equity method investee by approximately \$3.6 million and \$3.2 million, respectively. This difference is not amortized.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Investments (Continued)

During the Year 2015, Qualstar changed from a fiscal year end June 30, 2015 to December 31, 2015. As a result, the following summary information includes the years ended December 31, 2016, December 31, 2015 and June 30, 2015, respectively. The financial information for Qualstar is as follows (in thousands):

<b>Year Ended December 31</b>	<b>December 31, 2016</b>	<b>December 31, 2015 Unaudited</b>	<b>June 30, 2015</b>
Net revenues	\$ 9,417	\$ 10,978	\$ 12,902
Cost of goods sold	6,824	7,889	8,530
Gross profit	2,593	3,089	4,372
Total operating expenses	3,806	5,697	5,661
Loss from operations	(1,213)	(2,608)	(1,289)
Other expenses	3	2	19
Loss before income taxes	(1,210)	(2,606)	(1,308)
Provision (benefit) for income taxes	-	20	-
Net loss	\$ (1,210)	\$ (2,626)	\$ (1,308)
<b>Year Ended</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
Current assets	\$ 6,900	\$ 8,256	\$ 10,105
Noncurrent assets	363	471	579
Total assets	\$ 7,263	\$ 8,727	\$ 10,684
Current liabilities	\$ 2,256	\$ 2,549	\$ 2,532
Other long-term liabilities	168	131	242
Total liabilities	\$ 2,424	\$ 2,680	\$ 2,774
Total shareholders' equity	\$ 4,839	\$ 6,047	\$ 7,910
Company's equity investment	\$ (3,621)	\$ (3,297)	\$ 3,184

ii) Interlink Electronics

At December 2016, the Company holds 875,388 shares of Interlink Electronics which represents approximately 11.95% of Interlink's outstanding shares. Since, Steven Bronson, BKF's Chairman is also the Chief Executive Officer of Interlink Electronics and can significantly influence the operational decisions at Interlink, the equity method is being used as opposed to the available for sale method to account for this investment. Securities available-for-sale are stated at fair market value with unrealized gains or losses determined by the specific identification method and reported as a component of accumulated other comprehensive income.

The investment in Interlink Electronics is accounted for using the equity method as prescribed by Accounting Standard Codification Section 323, under which the Company's carrying amount of its investment in common stock of Interlink is the initial cost adjusted for the Company's share of Qualstar's earnings and losses, and further adjusted for any distributions or dividends. At December 31, 2016 the Company held 875,388 common shares of Interlink, representing approximately 11.95% of the outstanding shares. The investment in Interlink was approximately

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$2,954,000 and \$2,658,000 at December 31, 2016 and 2015 respectively. The market value of the Company's shares in Interlink was approximately \$6.1 million at December 31, 2016 and \$5 million December 31, 2015.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Investments (Continued)

During the years ended December 31, 2016 and 2015, the Company recorded a gain on its investment in Interlink of approximately \$297,000 and \$238,000, respectively. These gains do not include the quarterly results of Interlink as of December 31, 2016 and 2015. Therefore, all balances related to the Company's investment in Interlink are recorded on a three month (quarterly) lag. This lag is consistent from period to period. The financial results for Interlink's quarters ended December 31, 2016 and 2015 were available prior to the preparation of our financial statements. If those results had been included the gain on equity investment would have been approximately \$41,000 and \$31,000 greater than what is reflected in our financial statements for December 31, 2016 and 2015 respectively. As of December 31, 2016 and 2015, our investment in Interlink in the aggregate exceeded our proportionate share of the net assets of this equity method investee by approximately \$1.2 million and \$1.6 million, respectively. This difference is not amortized.

<b>Years Ended December 31,</b>	<b>2016</b>	<b>2015</b>
Net revenues	\$ 11,886	\$ 10,514
Cost of goods sold	4,880	4,869
Gross profit	<u>7,006</u>	<u>5,645</u>
Total operating expenses	<u>4,159</u>	<u>3,963</u>
Income from operations	2,847	1,682
Other income	40	38
Income before income taxes	<u>2,887</u>	<u>1,720</u>
Provision (benefit) for income taxes	6	11
Net Income	<u>\$ 2,893</u>	<u>\$ 1,731</u>

  

<b>Year Ended December 31,</b>	<b>2016</b>	<b>2015</b>
Current assets	\$ 9,385	\$ 7,347
Noncurrent assets	1,086	215
Total assets	<u>\$ 10,471</u>	<u>\$ 7,562</u>
Current liabilities	\$ 873	\$ 859
Other long-term liabilities	--	40
Total liabilities	<u>873</u>	<u>899</u>
Total shareholders' equity	<u>9,598</u>	<u>6,663</u>
Company's equity investment	<u>\$ (1,216)</u>	<u>\$ (1,566)</u>

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Investments (Continued)

B) Marketable Securities:

Coda Octopus Group

At December 31, 2016, the Company held 10,872,256 common shares of Coda Octopus Group valued at \$1,910,255. As the cost of the shares was \$1,055,567 the Company has recognized an accumulated comprehensive gain of approximately \$743,000, net of tax of \$112,000 at December 31, 2016. The Company holds the shares of Coda Octopus Group for investment purposes. On January 11, 2017, Coda Octopus Group announced a 1 for 14 reverse stock split of its common stock following approval by its majority stockholders. As a result, BKF Capital now owns 776,590 shares of Coda Octopus Group after the reverse stock split.

Years Ended December 31,	2016	2015
Investment in trading securities at cost	\$ 1,055	\$ -
Unrealized gain, net of tax	743	-
Investment in trading securities at fair market value	1,798	\$ -

Note 5. Income Taxes

As of December 31, 2016 the Company has a federal net operating loss (“NOL”) carryforward of approximately \$13.4 million, the utilization of which is limited under IRS Code Section 382 due to changes in the ownership of the Company's stock. The Company also had a state net operating loss carryforward of approximately \$5.9 million. The NOL carryforwards generated in the years 2005-2008 expire in 2025 thru 2028, and can be used at a rate of \$344,000 per year based on Section 382 limitations. The NOL carryforwards generated in the years 2009 through 2016 expire in 2030 through 2036, and are not currently subject to Section 382 limitations. Management will continue to monitor its Section 382 limitation annually

Since it is not likely that deferred tax assets will be realized, Management has placed a 100% Valuation Reserve on the deferred assets. During 2016 the company experienced a loss from continuing operations and an unrealized gain on its available for sale securities. Accordingly, the company is recording a tax benefit as a component of continuing operations.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities, shown net in the deferred tax asset on the Consolidated Statements of Financial Condition, consisted of the following (dollar amounts in thousands):

	Year Ended December 31,	
	2016	2015
Deferred tax assets:		
Equity Method Investment	\$ 1,787	\$ 1,795
Net operating loss carryforward	4,928	4,736
Gross deferred tax asset	\$ 6,715	\$ 6,531
Deferred tax liabilities:		
Deferred state income taxes	\$ (348)	\$ (194)
Gross deferred tax liabilities	\$ (348)	\$ (194)
Net deferred tax asset	\$ 6,367	\$ 6,337
Valuation reserve	(6,367)	(6,337)
	\$ —	\$ —

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Income Taxes (Continued)

A reconciliation of income tax (benefit) with expected federal income tax expense (benefit) computed at the applicable federal tax rate of 35% is as follows (dollar amounts in thousands):

	Year Ended December 31,	
	2016	2015
Expected income tax (benefit)	\$ (74)	\$ (313)
Increase/Decrease in income tax resulting from:		
Other		(2)
State Taxes	(12)	
Change in valuation reserve	86	215
Income tax expense	\$ —	\$ —

Note 6. Commitments and Contingencies

The Company could be subject to a variety of claims, suits and proceedings that arise from time to time, including actions with respect to contracts, regulatory compliance and public disclosure. These actions may be commenced by a number of different constituents, including vendors, former employees, regulatory agencies, and stockholders. The following is a discussion of the significant matters involving the Company.

The Company is a defendant in a lawsuit for claims for alleged services in the amount of approximately \$171,000. The complaint was filed in the New York State Supreme Court and alleges a claim for breach of contract against BAM for alleged goods and services delivered to BAM. The Company is vigorously defending this action. The Company has no specific reserve for this action.



BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
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Note 7. Common Stock

As of December 31, 2016 and 2015, the Company had authorized 15,000,000 shares of common stock, 711,816 and 716,737 shares were issued and outstanding as of December 31, 2016 and 2015, respectively.

On October 11, 2016, the Company filed a certificate of amendment (the “Amendment”) to the Company’s Certificate of Incorporation with the Delaware Secretary of State to effect a 1-for-10 reverse stock split (the “Reverse Split”) of the Company’s issued and outstanding Common Stock, par value \$1.00 which shall be reclassified and converted into one validly issued, fully paid and non-assessable share of common stock, par value \$1.00. The reverse stock split became effective on October 12, 2016, at which time each 10 shares of BKF Capital Group Inc.’s issued and outstanding common stock automatically converted into 1 share of common stock. This Certificate of Amendment was adopted by the Board of Directors of the Corporation pursuant to a written consent of the directors of the Corporation dated September 23, 2016 in accordance with Section 141 of the Delaware General Corporation Law, and by the written consent of the holders of a majority of the outstanding shares of the Corporation's voting stock on September 23, 2016 in accordance with Section 228 of the Delaware General Corporation Law.

All issuances have been adjusted retrospectively to reflect the effect of the 1 for 10 reverse stock split.

During December 31, 2016 and 2015, the Company repurchased 4,922 shares of common stock for approximately \$39,000 and 30,421 shares of common stock for approximately \$209,000, respectively.

Note 8. Subsequent Events

Events subsequent to December 31, 2016 have been evaluated through April 26, 2017, the date these financial statements were ready to be issued, to determine whether they should be disclosed to keep the financial statements from being misleading. We were not aware of any significant subsequent event that is required to be disclosed.