

# BKF Capital Group, Inc. and Subsidiaries

## Quarterly Report

for the Three and Six Months Ended June 30, 2017

BKF Capital Group, Inc.  
31248 Oak Crest Drive (Suite 110)  
Westlake Village, CA 91361

## **BKF Overview**

BKF is looking to generate value opportunities where a creative approach to capital can create mutually beneficial results for not only our shareholders but for our acquired businesses and their management teams.

## **BKF History**

BKF was incorporated in Delaware in 1954. The Company's securities trade on the over the counter market under the symbol "BKFG." 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 consolidated financial statements of BKF, 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"). On November 27, 2012 LEVCO Securities was dissolved. There were no affiliated partnerships in BKF's September 30, 2014 consolidated financial statements.

Historically the Company operated in the investment advisory and asset management business entirely through BAM, which was a registered investment adviser with the Securities and Exchange Commission ("SEC"). BAM specialized in managing equity portfolios for institutional investors through its long-only equity and alternative investment strategies. BAM withdrew its registration as a registered investment advisor on December 19, 2006 and ceased operating in the investment advisory and asset management business. LEVCO Securities, a subsidiary of BAM, was a broker dealer registered with the SEC and a member of the National Association of Securities Dealers, Inc. (now known as the Financial Industry Regulatory Authority). LEVCO Securities withdrew its registration as a broker-dealer on November 30, 2006 and ceased operating as a broker dealer. BKF GP, Inc., the other subsidiary of BAM, acts as the managing general partner of several affiliated investment partnerships which have been in the process of being liquidated and dissolved since 2006.

Since January 1, 2007, the Company has had no operating business and no assets under management. The Company's principal assets consist of a significant cash position, investments in securities, sizable net operating tax losses to potentially carry forward, and its status as a publicly traded Exchange Act reporting company. BKF's current revenue stream will not be sufficient to cover BKF's ongoing expenses, however the Company has enough cash to continue in operation beyond the upcoming year.

## **Plan of Operations**

On August 2, 2012, the Company issued a press release disclosing that the Company plans to create an asset management platform with investment vehicles that focus on areas of portfolio management that typically receive less attention from investors but also present unique investment opportunities. The Company is also engaged in seeking to arrange an acquisition, with an operating business with revenues, at least three years of operating history and unique value opportunities. The Press Release is attached as an exhibit to the Company's Report on Form 8-K, dated August 3, 2012.

In September 2012, the Company changed the name of its subsidiary BKF Management Co., Inc. to BKF Investment Group, Inc. and formed a wholly owned subsidiary, BKF Advisors, Inc. ("BKF Advisors"). BKF Advisors was registered as an investment advisor with the State of Florida and the State of California. BKF Advisors terminated its registration as an investment advisor in the State of Florida effective April 1, 2014, and also, terminated its registration as an investment advisor in the State of California effective September 4, 2016. The Company's expectations were that BKF Advisors would

act as the investment advisor to the BKF Technology Fund, L.P., Delaware limited partnership, formed on September 24, 2012, that planned to engage as an investment fund (the "Partnership"). BAM was the general partner of the Partnership. The Partnership was terminated on December 14, 2016. The Company is also seeking to arrange for a merger, acquisition, business combination or other arrangement by and between the Company and a viable operating entity. The Company shall endeavor to utilize some or all of the Company's net operating loss carryforwards in connection with a business combination transaction; however, there can be no assurance that the Company will be able to utilize any of its net operating loss carryforwards. The Company has not identified a viable operating entity for a merger, acquisition, business combination or other arrangement, and there can be no assurance that the Company will ever successfully arrange for a merger, acquisition, business combination or other arrangement by and between the Company and a viable operating entity.

The Company anticipates that the selection of a business opportunity will be a complex process and will involve a number of risks, because potentially available business opportunities may occur in many different industries and may be in various stages of development. Due in part to depressed economic conditions in a number of geographic areas and shortages of available capital, management believes that there are numerous firms seeking either the additional capital which the Company has or the benefits of a publicly traded corporation, or both. The perceived benefits of a publicly traded corporation may include facilitating or improving the terms upon which additional equity financing may be sought, providing liquidity for principal shareholders, creating a means for providing incentive stock options or similar benefits to key employees, providing liquidity for all shareholders and other factors.

In some cases, management of the Company will have the authority to effect acquisitions without submitting the proposal to the shareholders for their consideration. In some instances, however, the proposed participation in a business opportunity may be submitted to the shareholders for their consideration, either voluntarily by the Board of Directors to seek the shareholders' advice and consent, or because of a requirement of State law to do so.

In seeking to arrange a merger, acquisition, business combination or other arrangement by and between the Company and a viable operating entity, the Company's objective will be to obtain long-term capital appreciation for the Company's shareholders. There can be no assurance that the Company will be able to complete any merger, acquisition, business combination or other arrangement by and between the Company and a viable operating entity.

The Company may need additional funds in order to effectuate a merger, acquisition or other arrangement by and between the Company and a viable operating entity, although there is no assurance that the Company will be able to obtain such additional funds, if needed. Even if the Company is able to obtain additional funds there is no assurance that the Company will be able to effectuate a merger, acquisition or other arrangement by and between the Company and a viable operating entity.

### **Qualstar Investment**

On December 17, 2010, the Company purchased 1,500,000 shares of Qualstar Corporation ("Qualstar") common stock in a privately negotiated transaction at the price of \$1.55 per share or the total aggregate amount of \$2,325,000. Qualstar is a diversified electronics manufacturer specializing in data storage, power supplies and computer pointing devices. Qualstar's products are known throughout the world for high quality and Simply Reliable designs that provide years of trouble-free service. Following the 2010 Purchase, BKF owned approximately 12.2% of issued and outstanding shares of Qualstar. Following the December 17, 2010 transaction BKF increased its Qualstar holdings through open market transactions.

On July 3, 2013, Steven Bronson, BKF's Chairman, was appointed the interim Chief Executive Officer and President of Qualstar.

On June 14, 2016, upon receiving approval from a majority of the outstanding shareholders of common stock at the 2016 Annual Meeting of Shareholders of the Company, Qualstar filed with the Secretary of State of the State of California a Certificate of Amendment of Restated Articles of Incorporation to implement a one-for-six reverse stock split (the "Reverse Split") of all outstanding shares of Common Stock, effective as of the close of business on June 14, 2016. The Reverse Split decreased the number of outstanding shares of Common Stock from approximately 12.3 million to approximately 2.0 million.

At June 30, 2017 and December 31, 2016 the Company held 548,085 common shares of Qualstar, representing approximately 26.84% of the outstanding shares. The market value of the Company's shares in Qualstar was approximately \$2.9 million and \$1.6 million at June 30, 2017 and December 31, 2016, respectively.

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.

During the period ended June 30, 2017 and 2016, the Company's losses on its investment in Qualstar were approximately \$94,000 and \$226,000, respectively. However under the equity method of investment, since the loss has to be restricted to the value of investment, the Company recognized no loss out of \$94,000 as at June 30, 2017. These losses do not include the quarterly results of Qualstar as of June 30, 2017. 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.

### **Interlink Electronics**

At December 2016, the Company held 875,388 shares of Interlink Electronics which representing 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.

Interlink has transitioned from FSR sensor maker to the leading Human-Machine Interface (HMI) solutions provider. Today, our corporate strategy is based on the identification and qualification of innovative HMI technologies, and using them intelligently to deliver high value-add solutions to our customers.

Our product development teams are skilled in concept definition, rapid prototyping, hardware and firmware development and integration support. We work closely with our customers to ensure on-time and on-budget solutions. Interlink benefits from its own world-class manufacturing facility in China, allowing us to react quickly to customer needs, while ensuring the highest quality standards.

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 Interlink's earnings and losses, and further adjusted for any distributions or dividends. On June 30, 2017, the

Company held 875,388 common shares of Interlink, representing approximately 11.95% of the outstanding shares. The investment in Interlink was approximately \$3,109,000 and \$2,954,000 at June 30, 2017 and December 31, 2016 respectively. The market value of the Company's shares in Interlink was approximately \$7.0 million at June 30, 2017 and \$6.1 million at December 31, 2016.

For the three months ended June 30, 2017 and 2016, the Company recorded a gain on its investment in Intelink of approximately \$43,000 and \$72,000, respectively. During the six months ended June 30, 2017 and 2016, the Company recorded a gain on its investment in Interlink of approximately \$154,000 and \$134,000, respectively. These gains do not include the quarterly results of Interlink as of June 30, 2017 and 2016. 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. If those results had been included the gain on equity investment would have been approximately \$22,000 greater and \$17,000 less than what is reflected in our financial statements for the three months ended June 30, 2017 and 2016 respectively and a loss on equity investment of \$45,000 and a gain of \$28,000 for the six months ended June, 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, 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 \$1.5 million, respectively. This difference is not amortized.

### **Coda Octopus Group**

At June 30, 2017 and December 31, 2016, the Company held 776,590 common shares of Coda Octopus Group valued at approximately \$3.3 million and \$1.8 million. For the three and six months ending June 30, 2017, due to the cost of the shares being \$1,055,567 the Company has recognized an accumulated comprehensive loss of approximately \$544,000 and an accumulated comprehensive gain of approximately \$1.5 million, respectively. 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.

### **Common Stock Issued and Outstanding**

As of June 30, 2017 and December 31, 2016, the Company had authorized 15,000,000 shares of common stock, 711,816 and 711,816 shares were issued and outstanding. .

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.

The Company's transfer agent is Standard Registrar and Transfer Co., Inc. located at 440 E 400 S, Salt Lake City, UT 84111.

## PRICE RANGE OF COMMON STOCK

Our common stock is quoted on the under the symbol “BKFG”. The following table sets forth, for the periods indicated, the range of high and low sales prices of our common stock as reported by OTC Markets, Inc.

	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ending December 31, 2017</b>		
Third quarter (up to August 10, 2017)	\$ 8.00	\$ 7.50
Second quarter	\$ 7.50	\$ 7.25
First quarter	\$ 8.00	\$ 6.50
<b>Fiscal Year Ended December 31, 2016</b>		
Fourth quarter	\$ 10.00	\$ 4.75
Third quarter	\$ 7.50	\$ 6.50
Second quarter	\$ 7.50	\$ 7.10
First quarter	\$ 8.00	\$ 7.00
<b>Fiscal Year Ended December 31, 2015</b>		
Fourth Quarter	\$ 8.30	\$ 5.51
Third quarter	\$ 11.90	\$ 5.51
Second quarter	\$ 13.90	\$ 8.81
First quarter (from February 19, 2015)	\$ 15.90	\$ 12.10

### **Officers and Directors**

*Steven N. Bronson, Chairman and CEO*

Mr. Steven N. Bronson has over 30 years of business and entrepreneurial experience. His successful background in investment banking and principal investing has led to him taking executive positions in several companies.

Mr. Bronson has held the position of CEO and Chairman of BKF Capital Group, Inc. (BKF) since October 2008. Founded in 1954, BKF is a publicly traded company operating through its wholly-owned subsidiaries, BKF Investment Group, Inc. and BKF Asset Holdings, Inc.

In July 2013, Mr. Bronson assumed the positions of President and CEO of Qualstar Corporation, a high quality tape library manufacturer, and its subsidiary N2Power, a manufacturer of high efficiency power supplies for diverse electronics industries. He immediately initiated a turnaround strategy, implementing cost cutting measures plus aggressive sales efforts that are fundamental steps towards profitability.

Mr. Bronson became the CEO and Chairman of Interlink Electronics, Inc. in July of 2010. In March of 2011 he also took on the role of President, bringing both his operational and financial expertise to the company. Since successfully turning around Interlink's business to profitability, Mr. Bronson has focused on strategic matters, mission-critical decisions, and identification of potential acquisitions and business partnership opportunities.

In addition, Mr. Bronson served on the board from September 1996 to July 2000 of Mikron Infrared Instruments, Inc.; he served as Mikron's Chairman and CEO from August 1998 to May 1999 during a restructuring period. Mr. Bronson led the effort of recruiting a top notch management team, eventually increasing the company's revenue by 500%; the company was sold in April 2007.

Mr. Bronson currently holds the series 4, 7, 24, 53, 55, 63, 65, 66 and 79 licenses.

*Leonard A. Hagan, Secretary*

Leonard A. Hagan has been a partner of Hagan & Burns CPAs PC (H&B) since its inception in January 1993. Prior to forming H&B, he conducted business for three years as a sole practitioner, Leonard A. Hagan CPA, as well as a partner for three years with Bernstein, Bernstein & Hagan CPAs. His securities industry experience came from working for three years with Credit Suisse (now Credit Suisse First Boston). At Credit Suisse, he was an assistant treasurer, responsible for conducting basic accounting research. Prior to this, he was a staff accountant at Ernst & Whinney/S.D. Leidesdorf for 6 years rising to become an audit manager of the firm. He has extensive audit, accounting and tax experience. He has worked with individuals and companies in various industries.

**Contact Information**

Please address inquiries to: BKF Capital Group, Inc., 31248 Oak Crest Drive, Suite 110, Westlake Village, CA 91361. Our phone number is 805-623-4184 and emails may be sent to [ir@bkfcapital.com](mailto:ir@bkfcapital.com)

## INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page Number</u>
Report of Independent Registered Public Accounting Firm	F-2
Condensed Consolidated Balance Sheets as at June 30, 2017 (unaudited) and December 31, 2016	F-3
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016 (unaudited)	F-4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)	F-5
Notes to Condensed Consolidated Financial Statements (unaudited)	F-6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the condensed consolidated balance sheet of BKF Capital Group, Inc. and subsidiaries as of June 30, 2017, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2017 and condensed consolidated statements of cash flows for the six month periods then ended. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the balance sheet of BKF Capital Group Inc. and subsidiaries as of December 31, 2016, and the related statements of operations and comprehensive income (loss), and cash flows for the year then ended (not presented herein); and in our report dated May 2, 2017, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/S/ RBSM, LLP

Henderson, Nevada  
August 14, 2017

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

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>	(Unaudited)	
Cash and cash equivalents	\$ 623	\$ 848
Investment, available for sale	3,262	1,798
Investment	3,109	2,954
<b>Total assets</b>	<b>\$ 6,994</b>	<b>\$ 5,600</b>
<b>Liabilities and stockholders' equity</b>		
Accrued expenses	\$ 10	\$ 49
Accrued expenses-related party	2	12
Total liabilities	12	61
 Commitments and Contingencies		
 <b>Stockholders' equity</b>		
Common stock, \$1 par value, authorized — 15,000,000 shares, 711,816 and 711,816 issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	712	712
Additional paid-in capital	74,782	74,782
Accumulated deficit	(70,718)	(70,698)
Accumulated other comprehensive gain	2,206	743
Total stockholders' equity	6,982	5,539
<b>Total liabilities and stockholders' equity</b>	<b>\$ 6,994</b>	<b>\$ 5,600</b>

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

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

	Three months ended June 30,		Six month ended June 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Income:				
Non-operating income:				
Other income	\$ -	\$ -	\$ 26	\$ -
Interest income	-	-	-	1
Total non-operating income	-	-	26	1
Total income	-	-	26	1
Expenses:				
Employee compensation and benefits	24	24	49	45
Occupancy	-	3	2	6
Other operating expenses	29	45	150	67
Total expenses	53	72	201	118
Other income (expense)				
Gain (loss) on equity investment, net	43	72	155	(92)
Total other income (expense)	43	72	155	(92)
Net loss	\$ (10)	\$ -	\$ (20)	\$ (209)
Income tax benefit before other comprehensive (loss) income				
Income tax benefit	-	-	-	-
Total income tax benefit before other comprehensive (loss) income	-	-	-	-
Net loss after taxes	(10)	-	(20)	(209)
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on investments, after tax	(543)	575	1,463	575
Comprehensive (loss) income	<u>(553)</u>	<u>575</u>	<u>1,443</u>	<u>366</u>
Loss per share:				
Basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.51)
Weighted average shares outstanding basic and diluted	711,816	715,279	711,816	715,208

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

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

	Six Months Ended June 30, <u>2017</u>	Six Months Ended June 30, <u>2016</u>
Cash flows from operating activities		
Net loss	\$ (20)	\$ (209)
Adjustments to reconcile net loss to net cash used in Operations:		
(Gain) loss on equity investments	(155)	92
Changes in operating assets and liabilities:		
Decrease in prepaid expenses	-	1
Decrease in accrued expense related party	(10)	-
(Decrease) in accrued expenses	<u>(40)</u>	<u>(105)</u>
Net cash used in operating activities	(225)	(221)
Cash flows from investing activities		
Repurchase of stock	-	(12)
Purchase of investment securities	<u>-</u>	<u>(1,056)</u>
Net cash used in investing activities	-	(1,068)
Net decrease in cash and cash equivalents	(225)	(1,289)
Cash and cash equivalents at the beginning of the period	<u>848</u>	<u>2,258</u>
Cash and cash equivalents at the end of the period	\$ <u><u>623</u></u>	\$ <u><u>969</u></u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
Income tax paid	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
Non cash investing and financing activities:		
Unrealized gain on investments available for sale	\$ <u><u>1,463</u></u>	\$ <u><u>-</u></u>

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

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

The BKF Capital Group, Inc., (“the Company”), with a principal office at 31248 Oak Crest Drive, Suite 110, Westlake Village, California 91361, 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”), through the date of BKF Advisors’ dissolution, 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 16, 2016 and subsequently in California on February 28, 2017. There were no transactions to record in BKF Advisors as at December 16, 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 2017.

The sole officer of the Company is Steven N. Bronson as President and the directors of the Company are Steven N. Bronson and Leonard Hagan as Chairman and Director, respectively.

Principles of Consolidation and Basis of Presentation

The accompanying condensed 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. These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or for any other future period. The condensed consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the period ended December 31, 2016 and notes thereto included in the Company’s annual report. The Company follows the same accounting policies in the preparation of interim reports as noted in the Company’s annual report.

Use of Estimates

The preparation of the condensed 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 condensed 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.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Organization and Summary of Significant Accounting Policies

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.

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 three and six months ended June 30, 2017 and 2016.

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 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.

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 June 30, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment, available for sale	\$3,262		
Investments in equity	<u>3,109</u>	<u>-</u>	<u>-</u>
Total	<u>\$6,371</u>	<u>-</u>	<u>-</u>
Assets at Fair Values as of December 31, 2016			
Investment, available for sale	\$ 1,798		
Investments in equity	<u>2,954</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,752</u>	<u>-</u>	<u>-</u>

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Organization and Summary of Significant Accounting Policies

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.

The Company has evaluated other recent pronouncements and believes that none of them will have a material impact on the Company's financial position, results of operations or cash flows.

2. Concentrations

The Company had amounts in excess of \$250,000 in a single bank during the quarter. 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.

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.

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 at July 2013; 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 June 30, 2017 and December 31, 2016 the Company held 548,085 common shares of Qualstar, representing approximately 26.84% of the outstanding shares. The market value of the Company's shares in Qualstar was approximately \$2.9 million and \$1.6 million at June 30, 2017 and December 31, 2016, respectively.

During the three months ended June 30, 2017 and 2016, the Company's had a gain on its investment in Qualstar of approximately \$16,000 and a loss on its investment in Qualstar of approximately \$111,000, respectively and for the six months ended June 30, 2017 and 2016, the Company's losses on its investment were approximately \$94,000 and \$226,000, respectively. However under the equity method of investment, since the loss has to be restricted to the value of investment, the Company recognized no loss out of three months ended \$16,000 and the six months ended \$94,000 as at June 30, 2017. These losses do not include the quarterly results of Qualstar as of June 30, 2017. 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.

As of June 30, 2017 and 2016, 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 \$3.4 million, respectively. This difference is not amortized.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

4. Investments

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. On June 30, 2017, the Company held 875,388 common shares of Interlink, representing approximately 11.95% of the outstanding shares. The investment in Interlink was approximately \$3,109,000 and \$2,954,000 at June 30, 2017 and December 31, 2016, respectively. The market value of the Company's shares in Interlink was approximately \$7 million at June 30, 2017 and \$6.1 million at December 31, 2016.

For the three months ended June 30, 2017 and 2016, the Company recorded a gain on its investment in Intelink of approximately \$43,000 and \$72,000, respectively. During the six months ended June 30, 2017 and 2016, the Company recorded a gain on its investment in Interlink of approximately \$154,000 and \$134,000, respectively. These gains do not include the quarterly results of Interlink as of June 30, 2017 and 2016. 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. . If those results had been included the gain on equity investment would have been approximately \$22,000 greater and \$17,000 less than what is reflected in our financial statements for the three months ended June 30, 2017 and 2016 respectively and a loss on equity investment of \$45,000 and a gain of \$28,000 for the six months ended June, 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, 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 \$1.5 million, respectively. This difference is not amortized.

B) Marketable Securities:

Coda Octopus Group

At June 30, 2017 and December 31, 2016, the Company held 776,590 and 776,590 common shares of Coda Octopus Group valued at approximately \$3.3 million and \$1.8 million. As the cost of the shares was \$1,055,567 the Company has recognized an accumulated comprehensive gain of approximately \$2.2 million. 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.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Investment in trading securities at cost	\$ 1,055	\$ 1,055
Unrealized gain, net of tax	2,207	743
Investment in trading securities at fair market value	<u>\$ 3,262</u>	<u>\$ 1,798</u>

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

5. 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.

In May 2015, the Company received a notice from the Department of Justice (“DOJ”), on behalf of the United States Air Force (“USAF”), of a potential claim under Section 107(a) of the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) for contamination on land in Florida that the DOJ alleges was owned, from 1931 until 1942, by an alleged corporate predecessor of the Company before the USAF acquired the land by eminent domain and used the land as a bombing range. The DOJ has calculated that the USAF has incurred approximately \$4.3 million in past costs and may incur up to approximately \$1.0 million in future costs related to the investigation and cleanup. The Company denies liability on several legal grounds and believes the likelihood of any liability is remote. The Company cannot yet predict if or when a suit may be filed against it, nor can the Company determine any additional costs that may be incurred in connection with this matter.

6. Common Stock

As of June 30, 2017 and December 31, 2016, the Company had authorized 15,000,000 shares of common stock at \$1 par value; 711,816 and 711,816 shares were issued and outstanding, 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.

The Company’s transfer agent is Standard Registrar and Transfer Co., Inc. located at 440 E 400 S, Salt Lake City, UT 84111.

7. Subsequent Events

Events subsequent to June 30, 2017 have been evaluated through August 10, 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.