# BKF Capital Group, Inc. and Subsidiaries

## Quarterly Report

## for the Three Months and Nine Months Ended September 30, 2018

BKF Capital Group, Inc.

31248 Oak Crest Drive, Suite 110

Westlake Village, CA 91361

**Business**

Overview

BKF Capital Group, Inc., (“we,” “us,” “our,” “BKF” or the “Company”) was incorporated in Delaware in 1954. The Company was formerly Baker, Fentress & Company and operated as a non-diversified, closed-end management investment company under the Investment Company Act of 1940. Pursuant to a Plan for Distribution of Assets adopted on August 19, 1999, BKF sold substantially all of its investment securities and distributed the cash proceeds, along with shares of its largest investment, to its stockholders. These distributions were completed by January 7, 2000. On April 18, 2000, BKF received a deregistration order from the Securities and Exchange Commission, which completed BKF's transformation from an investment company to an operating company.

Since then, 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. (“BAH”) 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. (“BA”) and BKF Asset Management, Inc., ("BAM") and BAM's two wholly-owned subsidiaries, BKF GP, Inc. (“BGP”) and LEVCO Securities, Inc. ("LEVCO"). On November 27, 2012 LEVCO was dissolved. On December 19, 2016 BA was dissolved.

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, 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 withdrew its registration as a broker-dealer on November 30, 2006 and ceased operating as a broker dealer. BGP, 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 third-party assets under management. The Company's principal assets consist of a significant cash position, investments in securities (often representing controlling positions), 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.

Our principal executive office is located at 31248 Oak Crest Drive, Suite 110, Westlake Village, California 91361 and the telephone number is (805) 484-8855. Our website address is www.bkfcapital.com.

Strategy

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 will continue to invest and hold control positions in public and private companies through its primary subsidiary BAH. Capital provided to potential investee companies will primarily come in the form of share ownership and/or convertible instruments.

In the short-term, however, the Company is focusing its resources and attention to permanently resolving two legacy environmental remediation complaints filed by the Department of Justice (DOJ) through a process of direct negotiation with the DOJ backed by vigorous defense arguments that are litigation ready. To date the Company has fully cooperated with all information requests. The Company has no specific reserve for this action as the matter contains a reasonable degree of uncertainty and the Company strongly believes it will prevail on the merits of the case. Getting this matter behind the Company is paramount to future plans to expand the business.

The Company may need additional funds in order to resolve the contingent liabilities, or funds to effectuate an acquisition or additional investment, should the opportunity present itself. There is no assurance that the Company will be able to obtain such additional funds, if needed.

Market Information

The Company's common stock is quoted on the OTCPink marketplace of the OTC Markets Group under the symbol "BKFG". The following table sets forth the range of high and low prices for the Company's common stock for the periods indicated. These prices represent reported transactions between dealers that do not include retail markups, markdowns or commissions, and do not necessarily represent actual transactions.

**COMMON STOCK**

| Year / Fiscal Period | High ($) | Low ($) |
|---|---|---|
| 2018 | | |
| Third Quarter | 12.20 | 10.05 |
| Second Quarter | 11.98 | 10.85 |
| First Quarter | 15.00 | 11.50 |
| 2017 | | |
| Fourth Quarter | 15.00 | 8.00 |
| Third Quarter | 9.00 | 7.50 |
| Second Quarter | 7.50 | 7.25 |
| First Quarter | 8.00 | 6.50 |
| 2016 | | |
| Fourth Quarter | 8.50 | 6.50 |
| Third Quarter | 7.50 | 6.50 |
| Second Quarter | 8.00 | 7.10 |
| First Quarter | 7.50 | 7.00 |

As of November 10, 2018, the opening and closing price of the Company's common stock was $11.95 and $11.95, respectively.

Holders of Record

As of November 10, 2018, the Company had approximately 365 shareholders of record of its common stock, $1.00 par value.

Dividend Policy

We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future, if at all. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Share Repurchase Authorization

The Board has approved and adopted a stock repurchase program, pursuant to which the Company may purchase in open market or privately negotiated transactions up to 100,000 shares of the Company’s common stock during the twelve (12) month period July 1, 2017 through September 30, 2018. On June 25, 2018, this program was reauthorized, whereas the Company may purchase in open market or privately negotiated transactions up to 100,000 shares of the Company's common stock during the twelve (12) month period July 1, 2018 through September 30, 2019. There have been no stock repurchases in 2018.

Other Information

The Company's securities were registered under Section 12(g) of the Securities Exchange Act of 1934 (the "Exchange Act"). On May 20, 2015, we filed Form 15-12g to terminate the registration and reporting obligations under Section 12(g) of the Exchange Act. Since May 20, 2015, we make available our annual financial statements, quarterly financial statements, and other significant reports and amendments to such reports, free of charge, on our website as soon as reasonably practicable after such reports are prepared. Our website address is www.bkfcapital.com.

Officers and Directors

The following table sets forth the name, age and position of each of our directors, executive officers and significant employees as of March 31, 2018. Each director will hold office until the next annual meeting of our stockholders or until his or her successor has been elected and qualified. Our executive officers are appointed by, and serve at the discretion of, the Board of Directors.

| Name | Age | Position |
|---|---|---|
| Steven N. Bronson | 53 | Chairman, Chief Executive Officer and President |
| Leonard A. Hagan | 66 | Director |
| David S. Burnett | 52 | Chief Financial Officer |

*Steven N. Bronson*. Mr. Bronson has over 34 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 became the Chief Executive Officer and Chairman of the board of directors of Interlink Electronics, Inc. (NASDAQ: LINK) in July 2010, and added the role of President in March 2011. Interlink is a global trusted advisor and technology partner in the advancing world of human-machine interface (HMI) and force-sensing technologies.

In July 2013, Mr. Bronson assumed the positions of President and Chief Executive Officer of Qualstar Corporation (NASDAQ: QBAK), a high-quality tape library manufacturer, and its subsidiary N2Power, a manufacturer of high efficiency power supplies for diverse electronics industries. Since October 2008, Mr. Bronson also has served as Chief Executive Officer and Chairman of Ridgefield Acquisition Corp (OTCMKTS: RDGA). Mr. Bronson currently holds Series 4, 7, 24, 53, 55, 63, 65, 66 and 79 licenses.

*Leonard A. Hagan*. Mr. Hagan is a Certified Public Accountant and 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 supervisor at Ernst & Whinney/S.D. Leidesdorf for 6 years. Mr. Hagan received a Bachelor's of Arts degree in Economics from Ithaca College in 1974, and earned his Masters of Business Administration degree from Cornell University in 1976. Mr. Hagan also holds a Series 27 license and is registered as the Financial and Operations Principal for the following broker-dealers registered with the Securities and Exchange Commission: Livingston Securities, LLC, Spoke Financial, LLC and Core Financial, LLC. Mr. Hagan is also a director of Qualstar Corporation and Ridgefield Acquisition Corp, both publicly traded corporations.

*David S. Burnett*. Mr. Burnett has over 27 years of diverse financial leadership experience. Mr. Burnett serves as a consultant and part-time employee of BKF, and operates a consultancy firm that specializes in accounting and advising closely held businesses. Until August 2018, Mr. Burnett also served as Chief Financial Officer of Interlink Electronics, Inc. Mr. Burnett previously served as Chief Financial Officer of Palmetto Clean

Technology, Inc., a privately-held company offering clean energy solutions, and in various management positions with EnPro Industries, Inc. (NYSE: NPO), most recently Vice President and Treasurer. EnPro Industries is a diversified manufacturer of proprietary engineered products used in critical applications.

Prior to joining EnPro, Mr. Burnett was a Director at PricewaterhouseCoopers LLP in Charlotte, North Carolina office, and in the Washington National Tax Services office in Washington, DC. Prior to PricewaterhouseCoopers LLP, he was a Senior Manager in Grant Thornton LLP's Office of Federal Tax Services in Washington, D.C. Mr. Burnett received his Bachelor of Science in Business Administration (Accounting) from Old Dominion University, and a Master of Science in Taxation from Golden Gate University. He is both a Certified Public Accountant and a Certified Treasury Professional.

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BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Dollar amounts in thousands)

| | | September 30, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ | 4,778 | $ | 685 |
| Investments, marketable securities | | 254 | | 3,489 |
| Investments, equity method | | 3,343 | | 3,217 |
| Prepaid expenses and other assets | | 11 | | 2 |
| **Total assets** | $ | 8,386 | $ | 7,393 |
| | | | | |
| **Liabilities and stockholders' equity** | | | | |
| Accounts payable | $ | 9 | $ | 12 |
| Accrued expenses | | 19 | | 2 |
| Accrued expenses-related party | | - | | 5 |
| Total liabilities | | 28 | | 19 |
| | | | | |
| Commitments and Contingencies | | - | | - |
| | | | | |
| **Stockholders' equity** | | | | |
| Common stock, $1 par value, authorized — 15,000,000 shares, 708,726 issued and outstanding as of September 30, 2018 and December 31, 2017 | | 709 | | 709 |
| Additional paid-in capital | | 74,758 | | 74,758 |
| Accumulated deficit | | (67,109) | | (70,550) |
| Accumulated other comprehensive gain | | - | | 2,457 |
| Total stockholders' equity | | 8,358 | | 7,374 |
| | | | | |
| **Total liabilities and stockholders' equity** | $ | 8,386 | $ | 7,393 |

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

(Dollar amounts in thousands, except for share and per share data)

| | Three Months Ended September 30, 2018 | Three Months Ended September 30, 2017 | Nine months Ended September 30, 2018 | Nine months Ended September 30, 2017 |
|---|---|---|---|---|
| Expenses: | | | | |
| Employee compensation and benefits | $ 130 | $ 24 | $ 162 | $ 74 |
| Legal and Professional Fees | 38 | 0 | 116 | 195 |
| Licenses and Fees | 12 | 0 | 30 | 0 |
| Other operating expenses | 1 | 46 | 11 | 3 |
| Total expenses | 181 | 70 | 319 | 272 |
| | | | | |
| Non-operating income (expense): | | | | |
| Interest income (expense), net | - | - | - | - |
| Other miscellaneous income (expense), net | (3) | - | (3) | 26 |
| Gain (loss) on equity investments, net | 49 | 65 | 62 | 220 |
| Realized gain (loss) on marketable securities, net | 1,901 | - | 1,952 | - |
| Unrealized gain (loss) on marketable securities, net | (19) | - | (708) | - |
| Total non-operating income (expense): | 1,928 | 65 | 1,303 | 246 |
| | | | | |
| Net income (loss) before income taxes | $ 1,747 | $ (5) | $ 984 | $ (26) |
| | | | | |
| Income tax benefit (expense), net | - | - | - | - |
| | | | | |
| Net income (loss) after taxes | $ 1,747 | $ (5) | $ 984 | $ (26) |
| | | | | |
| Income (loss) per share | | | | |
| Basic and diluted | $ 2.46 | $ (0.01) | $ 1.39 | $ (.04) |
| | | | | |
| Weighted average shares outstanding basic and diluted | 708,726 | 711,380 | 708,726 | 711,670 |
| | | | | |
| Net income (loss) after taxes | $ 1,747 | $ (5) | $ 984 | $ (26) |
| | | | | |
| Unrealized gain on marketable securities, net of tax | - | (116) | - | 1,347 |
| Comprehensive income (loss) | $ 1,747 | $ (121) | $ 984 | $ 1,321 |
| | | | | |
| Comprehensive income (loss) per share | $ 2.46 | $ (0.17) | $ 1.39 | $ 1.86 |

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

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

(Dollar amounts in thousands, except share data)

| | Common Stock | | | Additional | | Accumulated | | Comprehensive | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | | **Amount** | | **paid-in capital** | | **deficit** | | **gain or loss** | | **Total** |
| Balance at December 31, 2016 | 711,816 | $ | 712 | $ | 74,782 | $ | (70,698) | $ | 743 | $ | 5,539 |
| Repurchase of Stock | (3,090) | | (3) | | (24) | | - | | - | | (27) |
| Other Comprehensive Income | - | | - | | - | | - | | 1,714 | | 1,714 |
| Net Loss | - | | - | | - | | 148 | | - | | 148 |
| Balance at December 31, 2017 | 708,726 | $ | 709 | $ | 74,758 | $ | (70,550) | $ | 2,457 | $ | 7,374 |
| Cumulative effect of adoption of ASU No. 2016-01 | - | | - | | - | | 2,457 | | (2,457) | | - |
| Net Income | - | | - | | - | | 984 | | - | | 984 |
| Balance at September 30, 2018 | 708,726 | $ | 709 | $ | 74,758 | $ | (67,109) | $ | - | $ | 8,358 |

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

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollar amounts in thousands)

| | Nine months Ended September 30, 2018 | Nine months Ended September 30, 2017 |
|---|---|---|
| Operating activities: | | |
| Net income (loss) after taxes | $ 984 | $ (26) |
| Adjustments to reconcile net income (loss) to net cash used in operations: | | |
| (Gain) loss on equity investment, net | (62) | (220) |
| Realized (gain) loss on marketable securities, net | (1,952) | - |
| Unrealized (gain) loss on marketable securities, net | 708 | - |
| Change in operating assets and liabilities: | | |
| Decrease (increase) in prepaid expenses and other assets | (9) | (3) |
| Increase (decrease) in accrued expenses-related party | (5) | (9) |
| Increase (decrease) in accounts payable | (3) | - |
| Increase (decrease) in accrued expenses | 17 | (33) |
| Net cash (used in) operating activities | $ (322) | $ (291) |
| | | |
| Investing activities: | | |
| Repurchase of stock | $ - | $ (20) |
| Proceeds from the sale of marketable securities | 4,727 | - |
| Purchases of equity investment securities | (64) | - |
| Purchases of marketable securities | (248) | - |
| Net cash provided by (used in) investing activities | $ 4,415 | $ (20) |
| | | |
| Financing activities: | | |
| Net cash provided by (used in) financing activities | $ - | $ - |
| | | |
| Net increase (decrease) in cash and cash equivalents | $ 4,093 | $ (311) |
| Cash and cash equivalents at the beginning of the period | 685 | 848 |
| Cash and cash equivalents at the end of the period | $ 4,778 | $ 537 |
| | | |
| Non-cash investing and financing activities: | | |
| Unrealized (gain) loss on marketable securities | $ - | $ (1,347) |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | $ - | $ - |
| Cash paid for income taxes | $ - | $ - |

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

## NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

BKF Capital Group, Inc., ("we," "us," "our," "BKF" or the "Company") was incorporated in Delaware in 1954. The Company was formerly Baker, Fentress & Company and operated as a non-diversified, closed-end management investment company under the Investment Company Act of 1940. Pursuant to a Plan for Distribution of Assets adopted on August 19, 1999, BKF sold substantially all of its investment securities and distributed the cash proceeds, along with shares of Consolidated-Tomoka Land Company, to its stockholders. These distributions were completed by January 7, 2000. On April 18, 2000, BKF received a deregistration order from the Securities and Exchange Commission, which completed BKF's transformation from an investment company to an operating company.

BKF presently operates through its wholly-owned subsidiaries, BKF Investment Group, Inc., formerly known as BKF Management Co., Inc. ("BIG"), and BKF Asset Holdings, Inc. ("BAH"). The Company trades on the Over the Counter ("OTC") market under the ticker symbol "BKFG".

The consolidated financial statements of BKF include BAH, BIG and BIG's two wholly owned subsidiaries BKF Advisors, Inc. ("BA") and BKF Asset Management, Inc., ("BAM"), and BAM's wholly-owned subsidiary, BKF GP, Inc. ("BGP"). On December 19, 2016 BA was dissolved.

Our principal executive office is located at 31248 Oak Crest Drive, Suite 110, Westlake Village, California 91361 and the telephone number is (805) 484-8855. Our website address is www.bkfcapital.com. BKF makes available its annual financial statements, quarterly financial statements, and other significant reports and amendments to such reports, free of charge, on its website as soon as reasonably practicable after such reports are prepared.

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of 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 consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and disclosures made in the accompanying notes to the consolidated financial statements. Management regularly evaluates estimates and assumptions related to revenue recognition, allowances for doubtful accounts, various reserves, fair value, useful lives, asset retirement obligations, and deferred income tax asset valuation allowances. These estimates and assumptions are based on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results we experience may differ materially and adversely from our original estimates. To the extent there are material differences between the estimates and the actual results, our future results of operations will be affected.

Cash, and Cash Equivalents

The Company considers all highly liquid debt investments with original maturities from the date of purchase of three months or less as cash equivalents. Cash equivalents can include investments such as corporate debt, financial institution instruments, government debt. The Company maintains substantially all of its cash and cash equivalents invested in interest bearing instruments at a nationally recognized financial institution and two licensed investment advisory firms. The Company often has amounts in excess of $250,000 in a single bank. Amounts over $250,000 are not insured by the Federal Deposit Insurance Corporation. In addition, the Company held cash and cash equivalents in brokerage accounts, none of which are insured by the Federal Deposit Insurance Corporation. Management regularly monitors the financial institutions, together with its cash balances, and tries to keep this potential risk to a minimum.

Marketable Securities

Marketable securities are classified within cash and cash equivalents, short-term investments, or long-term investments based on the remaining maturity of the investment. Marketable securities are reported at fair value. Before 2018, our marketable securities were classified as "available for sale" with unrealized gains or losses, net of tax, recorded in accumulated other comprehensive income (loss), except as noted in the "Other-Than-Temporary Impairment" section. Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2016-01, "*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*", that amends existing guidance around classification and measurement of certain financial assets and liabilities. Under ASU 2016-1, we now record unrealized gains or losses on marketable securities through earnings.

We determine the cost of the investment sold based on an average cost basis at the individual security level. Our marketable securities include:

- Marketable debt instruments when the interest rate and foreign currency risks are not hedged at the inception of the investment or when our criteria for designation as trading assets are not met. We record the interest income and realized gains or losses on the sale of these instruments in interest and other, net.
- Marketable equity securities when there is no plan to sell or hedge the investment at the time of original classification. We acquire these equity investments to promote business and strategic objectives. We record the realized gains or losses on the sale or exchange of marketable equity securities in gains (losses) on equity investments, net.

Non-Marketable and Other Equity Investments

We may invest in non-marketable equity instruments of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies with established revenue streams and business models. Non-marketable equity and other equity investments are included in other long-term assets. We account for non-marketable equity and other equity investments for which we do not have control over the investee as:

- Equity method investments when we have the ability to exercise significant influence, but not control, over the investee. This is generally deemed to be the when we control 20%-50% of the decision-making ability over the investment entity's operations. Equity method investments may include marketable and non-marketable investments. Our proportionate share of the income or loss is recognized on a one-quarter lag and is recorded in gains (losses) on equity investments, net.
- When the equity method does not apply, non-marketable and other equity investments are recorded at fair value. Equity investments without readily determinable fair values are recorded at cost, less impairment, and plus or minus subsequent adjustments for observable price changes.

Significant judgment is required to identify whether an impairment exists in the valuation of our non-marketable equity investments portfolio, and therefore we consider this a critical accounting estimate. Our quarterly analysis considers both qualitative and quantitative factors that may have a significant impact on the investee's fair value. Qualitative analysis of our investments involves understanding the financial performance and near-term prospects of the investee, changes in general market conditions in the investee's industry or geographic area, and the management and governance structure of the investee. Quantitative assessments of the fair value of our investments are developed using the market and income approaches. The market approach includes the use of comparable financial metrics of private and public companies and recent financing rounds. The income approach includes the use of a discounted cash flow model, which requires significant estimates regarding the investees' revenue, costs, and discount rates. Our assessment of these factors in determining whether an impairment exists could change in the future due to new developments or changes in applied assumptions.

Other-Than-Temporary Impairment

Our marketable securities and non-marketable and other equity investments are subject to a periodic impairment review. Impairments affect earnings as follows:

- Marketable debt instruments when the fair value is below amortized cost and we intend to sell the instrument, or when it is more likely than not that we will be required to sell the instrument before recovery of its amortized cost basis, or when we do not expect to recover the entire amortized cost basis of the instrument (that is, a credit loss exists). When we do not expect to recover the entire amortized cost basis of the instrument, we separate other-than-temporary impairments into amounts representing credit losses, which are recognized in interest and other, net, and amounts not related to credit losses, which are recognized in other comprehensive income (loss).
- Marketable equity securities include the consideration of general market conditions, the duration and extent to which the fair value is below cost, and our ability and intent to hold the investment for a sufficient period of time to allow for recovery of value in the foreseeable future. We also consider specific adverse conditions related to the financial health of, and the business outlook for, the investee, which may include industry and sector performance, changes in technology, operational and financing cash flow factors, and changes in the investee's credit rating. We record other-than-temporary impairments on marketable equity securities and marketable equity method investments in gains (losses) on equity investments, net.
- Non-marketable equity investments based on our assessment of the severity and duration of the impairment, and qualitative and quantitative analysis of the operating performance of the investee; adverse changes in market conditions and the regulatory or economic environment; changes in operating structure or management of the investee; additional funding requirements; and the investee's ability to remain in business. We record other-than-temporary impairments for non-marketable cost method investments and equity method investments in gains (losses) on equity investments, net.

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.

Income Taxes

We account for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not determinable beyond a "more likely than not" standard, we establish a valuation allowance. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, we include an expense or benefit within the tax provision in the statement of operations. We also utilize a "more likely than not" recognition threshold and measurement analysis for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company does not have any uncertain tax positions. We recognize potential accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of operations as income tax expense.

Earnings Per Share

Basic income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted income per common share is calculated by adjusting outstanding shares, assuming conversion of all potentially dilutive convertible equity instruments consisting of options. There is no difference in the calculation of basic and diluted income per share for 2018 and 2017, respectively.

Related Parties

The Company defines a related person as any director, executive officer, nominee for director, or greater than 5% beneficial owner of our common stock, in each case since the beginning of the most recently completed year, and any of their immediate family members. Transactions with related parties are conducted on terms equivalent to those prevailing in arm's-length transactions with unrelated parties.

Fair Values of Financial Instruments

We determine fair value measurements based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, we follow the following fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) our own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs):

- Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets;
- Level 2: Other inputs observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborate inputs; and
- Level 3: Unobservable inputs for which there is little or no market data and which requires the owner of the assets or liabilities to develop its own assumptions about how market participants would price these assets or liabilities.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

Contingent Liabilities

We classify assess contingent liabilities and classify them as "Probable", "Reasonably Possible", and "Remote".

- Amounts classified as "Probable" and measurable are reported on the consolidated balance sheet.
- Amounts classified as "Reasonably Possible" are disclosed in the footnotes to the financial statements. A contingent liability is disclosed in the notes to the financial statements if any of the conditions for liability recognition (probable and measurable) are not met and there is a reasonable possibility that a loss or additional loss may have been incurred. Amounts that are probable, but not measurable, are also disclosed in the footnotes.
- Amounts classified as "Remote" are not included in the reports.

Recent Accounting Developments

In January 2016, the Financial Accounting Standards Board, ("FASB") issued ASU No. 2016-01, "*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*", that amends existing guidance around classification and measurement of certain financial assets and liabilities. Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. For equity investments without readily determinable fair values, the cost method is also eliminated. However, most entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. The standard also requires that financial assets and liabilities be disclosed separately in the notes to the financial statements based on measurement principle and form of financial asset. The amendments in this guidance are effective for financial statements issued for interim and annual periods beginning after December 15, 2017. We adopted this standard in the first quarter of 2018, and no longer classify equity investments as trading or available-for-sale, and we no longer recognize unrealized holding gains and losses on marketable securities which we previously classified as available-for-sale in other comprehensive income. We recorded a cumulative-effect adjustment to the statement of financial position as of the beginning of fiscal year 2018, and unrealized gains and losses reported in accumulated other comprehensive income for available-for-sale marketable securities was reclassified to beginning retained earnings. This reclassification was approximately $2.5 million.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*", which replaces the existing guidance in ASC Topic 840, "*Leases*". The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and requires retrospective application. The Company is currently evaluating the impact of ASU 2016-02 to its consolidated financial statements, but does not expect it to be material.

In August 2016, the FASB issued ASU No. 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payment*," which clarifies how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires retrospective application to all periods presented but may be applied prospectively if retrospective application is impracticable. The Company early adopted ASU No. 2016-15 effective January 1, 2017 and applied it retroactively. There was no impact on our consolidated financial statements. Under the ASU, the Company elected a "cumulative earnings approach" policy related to distributions received from equity method investments. Under the cumulative earnings approach, the Company will compare the distributions received to its cumulative equity-method earnings since inception. Any distributions received up to the amount of cumulative equity earnings would be considered a return on investment and classified in operating activities. Any excess distributions would be considered a return of investment and classified in investing activities. There were no distributions received from equity method investments in 2018 or 2017.

In January 2017, the FASB issued ASU 2017-01, "*Business Combinations (Topic 805): Clarifying the Definition of a Business*", clarifying the definition of a business, reducing the number of transactions that need to be further evaluated and providing a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in the ASU specify that when the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not a business. The guidance also requires that an integrated set of assets and activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output to be considered a business and removes the evaluation of whether a market participant could replace the missing elements. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect the impact on our consolidated financial statements to be material.

In August 2018, the FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*", which adds disclosure requirements to Topic 820 for the range and weighted average of significant unobservable inputs used to develop

Level 3 fair value measurements. The Company is evaluating the provisions of this ASU and plans to adopt this ASU effective January 1, 2020.

We reviewed all other recently issued accounting pronouncements and concluded they are not applicable or not expected to be material to our consolidated financial statements.

Reclassification

Certain prior period amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

**NOTE 2. INVESTMENTS IN MARKETABLE SECURITIES**

Investments in Marketable Securities were as follows:

| (dollar amounts in thousands) | Coda Octopus Group | TOTAL |
|---|---|---|
| Carrying value at December 31, 2016 | $ 1,798 | $ 1,798 |
| Less: cumulative mark-to-market | (742) | (742) |
| Cost basis at December 31, 2016 | 1,056 | 1,056 |
| Plus: purchases | - | - |
| Less: sales | - | - |
| Cost basis at September 30, 2017 | 1,056 | 1,056 |
| Plus: cumulative mark-to-market | 2,089 | 2,089 |
| Carrying value at September 30, 2017 | $ 3,145 | $ 3,145 |

| (dollar amounts in thousands) | Coda Octopus Group | Amtech Systems Inc. | INTL FCStone Inc. | TOTAL |
|---|---|---|---|---|
| Carrying value at December 31, 2017 | $ 3,439 | $ 50 | $ - | $ 3,489 |
| Less: cumulative mark-to-market | (2,469) | 12 | - | (2,457) |
| Cost basis at December 31, 2017 | 970 | 62 | - | 1,032 |
| Plus: purchases | - | 142 | 106 | 248 |
| Less: sales | (970) | - | - | (178) |
| Cost basis at September 30, 2018 | - | 204 | 106 | 888 |
| Plus: cumulative mark-to-market | - | (44) | (12) | (66) |
| Carrying value at September 30, 2018 | $ - | $ 160 | $ 94 | $ 2,334 |

Coda Octopus Group (NASDAQ: CODA)

At December 31, 2016, the Company held 10,872,256 common shares of Coda Octopus Group valued at approximately $1.8 million. 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 owned 776,590 shares of Coda Octopus Group after the reverse stock split. During 2017, BKF sold 55,600 shares, and at December 31, 2017, the Company held 720,900 common shares of Coda Octopus Group valued at approximately $3.4 million. During the three and nine months ended September 30, 2018, BKF sold 595,311 and 720,900 shares, respectively, representing all remaining shares of Coda Octopus Group. At September 30, 2018, the Company held 595,311 common shares of Coda Octopus Group valued at approximately $2.3 million. The Company holds the shares of Coda Octopus Group for investment purposes. In the three and nine months ended September 30, 2018, the Company recognized an unrealized gain (loss) of $0 and $663,405, respectively. Prior to the adoption of ASU No. 2016-01 on January 1, 2018, unrealized gains and losses were recognized in other comprehensive income.

The Company realized gross gains of $3,383,315 and $3,953,962 (versus original cost basis) and no gross losses, from the sales of Coda Octopus Group securities during the three and nine months ended September 30, 2018, respectively.

Amtech Systems Inc. (NASDAQ: ASYS)

In November 2017, the Company purchased 5,000 common shares of Amtech Systems Inc. for a cost of $62,328. In June 2018, the Company purchased an additional 5,000 common shares of Amtech Systems Inc. for a cost of $34,757. In July and August 2018, the Company purchased an additional 20,000 common shares of Amtech Systems Inc. for a cost of $107,436. These shares were valued at $160,200 at September 30, 2018 (30,000 shares) and $50,350 at December 31, 2017 (5,000 shares). In the three and nine months ended September 30, 2018, we recognized an unrealized loss of $7,736 and $32,343, respectively. Prior to the adoption of ASU No. 2016-01 on January 1, 2018, unrealized gains and losses were recognized in other comprehensive income. The Company holds the shares of Amtech Systems Inc. for investment purposes.

INTL FC Stone Inc. (NASDAQ: INTL)

In August 2018, the Company purchased 1,942 common shares of INTL FC Stone Inc. for a cost of $105,876. These shares were valued at $93,837 at September 30, 2018. In the three and nine months ended September 30, 2018, we recognized an unrealized loss of $12,038. The Company holds the shares of INTL FC Stone Inc. for investment purposes.

**NOTE 3. INVESTMENTS IN UNCONSOLIDATED AFFILIATED COMPANIES**

Equity method investments in unconsolidated affiliated companies were as follows:

| (dollar amounts in thousands) | Qualstar Corporation | Interlink Electronics, Inc. | TOTAL |
|---|---|---|---|
| Balance at December 31, 2016 | $ - | $ 2,954 | $ 2,954 |
| Proportional share of net income (loss) | - | 220 | 220 |
| Balance at September 30, 2017 | $ - | $ 3,174 | $ 3,174 |

| (dollar amounts in thousands) | Qualstar Corporation | Interlink Electronics, Inc. | TOTAL |
|---|---|---|---|
| Balance at December 31, 2017 | $ - | $ 3,217 | $ 3,217 |
| Purchases of equity investment securities | - | 64 | 64 |
| Proportional share of net income (loss) | - | 62 | 62 |
| Balance at September 30, 2018 | $ - | $ 3,343 | $ 3,343 |

Qualstar Corporation (NASDAQ: QBAK)

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.

At September 30, 2018 and December 31, 2017 the Company held 548,084 common shares of Qualstar, representing approximately 26.8% of the outstanding shares. The investment in Qualstar was $0 at both September 30, 2018 and December 31, 2017. During the three months ended September 30, 2018 and 2017 the Company would have been allocated a gain on its investment in Qualstar of approximately $127,000 and $16,000, respectively. However, under the equity method of investment the loss is restricted to the carrying value of the investment, thus the Company recognized no gain or loss during the period ended September 30, 2018 or 2017. Gains may only be recognized once all prior suspended losses are absorbed. These amounts do not include the quarterly results of Qualstar as of September 30, 2018. 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 quarter ended September 30, 2018 was not publicly available prior to the preparation of our financial statements. If the results had been included the investment would likely still be limited to $0 at September 30, 2018 and December 31, 2017. Summarized financial information for Qualstar is as follows:

| (dollar amounts in thousands) | | June 30, 2018 (Last Public Filing) | | December 31, 2017 |
|---|---|---|---|---|
| Balance sheet: | | | | |
| Current assets | $ | 9,094 | $ | 8,327 |
| Non-current assets | | 208 | | 240 |
| Total assets | $ | 9,302 | $ | 8,567 |
| | | | | |
| Current liabilities | $ | 2,643 | $ | 2,526 |
| Other long-term liabilities | | 139 | | 145 |
| Total liabilities | $ | 2,782 | $ | 2,671 |
| | | | | |
| Commitments and contingencies | $ | - | $ | - |
| | | | | |
| Total stockholders' equity | $ | 6,520 | $ | 5,896 |
| | | | | |
| Total liabilities and stockholders' equity | $ | 9,302 | $ | 8,567 |
| | | | | |
| Results of Operations: | | | | |
| Net revenues | $ | 2,935 | $ | 10,641 |
| Cost of goods sold | | 1,507 | | 6,392 |
| Gross profit | $ | 1,428 | $ | 4,249 |
| | | | | |
| Operating expenses | $ | 838 | $ | 3,592 |
| Income (loss) from operations | $ | 590 | $ | 657 |
| | | | | |
| Other income (expense) | | - | | - |
| Income tax expense (benefit) | $ | - | $ | 17 |
| Net income (loss) | $ | 590 | $ | 640 |

The fair market value of the Company's shares in Qualstar was approximately $4.3 million and $4.6 million at September 30, 2018 and December 31, 2017, respectively.

As of September 30, 2018, and December 31, 2017, our cost-basis investment in Qualstar in the aggregate exceeded our proportionate share of the net assets of this equity method investee by approximately $3.0 million and $3.3 million, respectively. This difference is not amortized.

Interlink Electronics (NASADAQ: LINK)

At September 30, 2018 and December 31, 2017 the Company held 889,713 and 875,490 shares of Interlink Electronics, respectively. The Company purchased an addition 14,223 shares during September 2018 for a cost basis of $64,229. These holdings represent approximately 13.5% and 11.9% of Interlink's outstanding shares at September 30, 2018 and December 31, 2017, respectively. Steven N. Bronson, BKF's Chairman, CEO, and majority shareholder, is also the Chairman, CEO, and majority shareholder of Interlink. Mr. Bronson can significantly influence the operational decisions at Interlink, thus the equity method is being used to account for this investment.

The carrying value of the investment in Interlink was $3.3 million at September 30, 2018 and $3.2 million at December 31, 2017. During the three and nine months ended September 30, 2018 the Company recorded a gain on its investment in Interlink of approximately $49,000 and $62,000, respectively. During the three and nine months ended September 30, 2017 the Company recorded a gain on its investment in Interlink of approximately and $66,000 and $220,000, respectively. These amounts do not include the quarterly results of Interlink as of September 30, 2018. 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 quarter ended September 30, 2018 was not publicly available prior to the preparation of our financial statements. If those results had been included the investment would likely not have changed materially and remained at approximately $3.3 million at September 30, 2018 and December 31, 2017. Summarized financial information for Interlink is as follows:

| (dollar amounts in thousands) | | June 30, 2018 (Last Public Filing) | | December 31, 2017 |
|---|---|---|---|---|
| Balance sheet: | | | | |
| Current assets | $ | 10712 | $ | 10,684 |
| Non-current assets | | 1,208 | | 1,146 |
| Total assets | $ | 11,920 | $ | 11,830 |
| | | | | |
| Current liabilities | $ | 722 | $ | 703 |
| Other long-term liabilities | | - | | - |
| Total liabilities | $ | 722 | $ | 703 |
| | | | | |
| Commitments and contingencies | $ | - | $ | - |
| | | | | |
| Total stockholders' equity | $ | 11,198 | $ | 11,127 |
| | | | | |
| Total liabilities and stockholders' equity | $ | 11,920 | $ | 11,830 |
| | | | | |
| Results of Operations: | | | | |
| Net revenues | $ | 2,573 | $ | 11,153 |
| Cost of goods sold | | 1,162 | | 4,297 |
| Gross profit | $ | 1,411 | $ | 6,856 |
| | | | | |
| Operating expenses | $ | 1,192 | $ | 4,717 |
| Income (loss) from operations | $ | 219 | $ | 2,139 |
| | | | | |
| Other income (expense) | | (46) | | (5) |
| Income tax expense (benefit) | $ | 55 | $ | 874 |
| Net income (loss) | $ | 118 | $ | 1,260 |

The fair market value of the Company's shares in Interlink was approximately $3.6 million at September 30, 2018 and $4.6 million December 31, 2017.

At both September 30, 2018 and December 31, 2017, our cost-basis investment in Interlink in the aggregate exceeded our proportionate share of the net assets of this equity method investee by approximately $1.3 million and $1.0 million, respectively. This difference is not amortized.

**NOTE 4. FAIR VALUE MEASUREMENTS**

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

| (dollar amounts in thousands) | September 30, 2018 Adjusted cost | Unrealized gains (losses) | Fair value | Cash & Cash Equivalents |
|---|---|---|---|---|
| Level 1: | | | | |
| Cash | $ - | $ - | $ - | $ 4,778 |
| Marketable securities | 310 | (56) | 254 | - |
| Equity method securities | 3,334 | 4,605 | 7,939 | - |
| Total | $ 3,644 | $ 4,549 | $ 8,193 | $ 4,778 |

| (dollar amounts in thousands) | December 31, 2017 Adjusted cost | Unrealized gains (losses) | Fair value | Cash & Cash Equivalents |
|---|---|---|---|---|
| Level 1: | | | | |
| Cash | $ - | $ - | $ - | $ 685 |
| Marketable securities | 1,032 | 2,457 | 3,489 | - |
| Equity method securities | 3,217 | 5,956 | 9,173 | - |
| Total | $ 4,249 | $ 8,413 | $ 12,662 | $ 685 |

**NOTE 5. INCOME TAXES**

The Company experienced an ownership change under IRC Section 382 in 2008. In general, a Section 382 ownership change occurs if there is a cumulative change in our ownership by “5% shareholders” (as defined in the Internal Revenue Code of 1986, as amended) that exceeds 50 percentage points over a rolling three-year period. An ownership change generally affects the rate at which net operating losses (“NOLs”) and potential other deferred tax assets are permitted to offset future taxable income. Certain state jurisdictions within which we operate contain similar provisions and limitations. All of the remaining federal and state NOLs amount as of September 30, 2018 are subject to annual limitations due to the 2008 ownership change, at approximately $344,000 per year. Because these limitations preclude the use of a large portion of these pre-ownership change NOLs, the Company permanently wrote-off the related deferred tax assets, however, since the Company maintained a full valuation allowance against these deferred tax assets, this write-off had no impact on tax expense.

At December 31, 2017, the gross federal NOLs without regard to this permanent write-off was $47.1 million. As of December 31, 2017, federal NOLs for which deferred tax assets are considered were approximately $9.6 million. Of this amount, $3.4 million are subject to limitations under IRC Section 382. If not utilized, federal NOLs will expire between 2028 and 2037. The Company also had a state net operating loss carryforward of approximately $6.0 million, which expire between 2029 and 2037.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on consideration of these items, management has determined that enough uncertainty exists relative to the realization of the deferred income tax asset balances to warrant the application of a full valuation allowance as of September 30, 2018 and December 31, 2017.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (TCJA). The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the top U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018; (2) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; and (3) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. The reduction in the federal corporate tax rate from 34% to 21% had no effect on our financial results because any net deferred tax assets were fully offset by a valuation allowance.

U.S. federal income tax returns after 2014 remain open to examination. Generally, state income tax returns after 2013 remain open to examination. No income tax returns are currently under examination. As of September 30, 2018 and December 31, 2017, the Company does not have any unrecognized tax benefits, and continues to monitor its current and prior tax positions for any changes. The Company recognizes penalties and interest related to unrecognized tax benefits as income tax expense. For the three and nine months ended September 30, 2018 and 2017, there were no penalties or interest recorded in income tax expense.

**NOTE 6. RELATED PARTY TRANSACTIONS**

Interlink Electronics, Inc. (NASDAQ: LINK)

We entered into an agreement, dated March 1, 2016 with Interlink Electronics, Inc. (“Interlink”). Pursuant to the agreement, BKF occupies and uses one furnished office, telephone and other services, located at Interlink’s corporate offices in Westlake Village, CA, for a fee of $1,000 per month. The agreement was amended effective February 1, 2017 reducing the fee to $250 per month. In addition, Interlink will occasionally pay administrative expenses on behalf of BKF, and BKF will reimburse Interlink. On March 1, 2018, BFK leased executive office space in Charleston, SC. Interlink intends to use a portion of this office space for a proportionate fee. BKF still intends to utilize a portion of the Interlink offices in California for a fee of $250 per month. Effective March 1, 2018 we modified the existing agreement and entered into a cost-sharing agreement with Interlink that calls for a monthly net settlement of all shared costs between the use of the California and the South Carolina offices, including rent, administrative expenses and similar costs.

| (dollar amounts in thousands) | Three Months Ended September 30, 2018 | Nine months Ended September 30, 2018 |
|---|---|---|
| Interlink paid BKF | $ 6 | $ 29 |
| BKF paid Interlink | (2) | (4) |
| Net settlement | $ 4 | $ 25 |

Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the Chairman of the Board, Chief Executive Officer and majority shareholder of Interlink. At September 30, 2018 and December 31, 2017, there were no amounts owed between the companies.

Ridgefield Acquisition Corp. (OTC: RDGA)

Ridgefield Acquisition Corp. (“Ridgefield”) occupies a portion of the offices occupied by BKF Capital Group, Inc., on a month to month basis for a rental fee of $50 per month, intended to cover administrative costs. Steven N. Bronson, the Company's Chairman, CEO, and majority shareholder, is also the Chairman, CEO and majority shareholder of Ridgefield. At September 30, 2018 and December 31, 2017, Ridgefield owed us $2,350 and $1,900, respectively. There were no payments made in 2017 or 2018.

**NOTE 7. COMMITMENTS AND CONTINGENCIES**

In August 2018, the United States Department of Justice (DOJ) has filed two civil complaints asserting that BKF Capital is liable for remediation costs under the Comprehensive Environmental Response, Compensation, and

Liability Act (CERCLA). The parallel lawsuits are identical except for the location of the cleanup sites, which are in separate district court jurisdictions in Florida. Both sites are located on tracts of land now known as the Avon Park Air Force Range (Avon Park). Predecessors to BKF Capital owned the land until 1942 when it was transferred to the United States Government pursuant to a Judgement on Declaration of Taking.

The claim is a remediation of certain pesticides and other chemicals used in dipping vats. Cattle dipping was widely used method to eradicate tick-borne diseases from Florida's otherwise prosperous cattle industry. The Florida Legislature passed a law in 1923 requiring every cattleman in the state to comply with a full tick eradication program, which included dipping cattle every two weeks. We continue to believe that the Company has valid factual and legal defenses to this claim and we are vigorously defending the claim. The Company has no specific reserve for this action as the matter contains a reasonable degree of uncertainty and the Company believes it will prevail on the merits of the case.

In addition to the Avon Park matter, we are from time to time subject to other litigation and legal proceedings arising in the ordinary course of business. We believe that the outcome of such other litigation and legal proceedings will not have a material adverse effect on our financial condition, results of operations and cash flows. Expenses for administrative and legal proceedings are recorded when incurred.

**NOTE 8. SUBSEQUENT EVENTS**

In October 2018, both parties in the Avon Park CERCLA litigation referred to in Footnote 7 agreed to a change in venue whereby both complaints are now under the jurisdiction of the Middle District of Florida, rather than in separate district courts.

In addition, the parties agreed to voluntary mediation which is scheduled to take place in November 2018. The Company is willing to resolve the case through any available means and will participate in the mediation in good faith. In connection with early mediation of this case, the Court granted BFK Capital a brief extension, until November 19, 2018, to respond to the Complaints.