BKF Capital Group, Inc. and Subsidiaries

Quarterly Report

for the Three Months and Nine Months Ended September 30, 2019

BKF Capital Group, Inc.

1221 Brickell Avenue, Suite 900

Miami, FL 33131

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 include BKF, BIG and BIG's wholly owned subsidiary BKF Asset Management, Inc., ("BAM") and BAM's wholly-owned subsidiary BKF GP, Inc. ("BGP").

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 Inc, ("LEVCO"), a former subsidiary of BAM that was dissolved in 2012, 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 and investments to continue in operation beyond the upcoming year.

Our principal executive office is located at 1221 Brickell Avenue, Suite 900, Miami, FL 33131, and the telephone number is (805) 484-8855. Our website address is www.bkfcapital.com.

Strategy

BKF seeks 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 2018 the Company was forced to focus 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. In November 2018, the parties agreed to voluntary mediation and reached a comprehensive settlement agreement in principle to resolve two civil complaints. Under the settlement, BKF agreed to pay $725,000 covering both cases, and received a limited covenant not to sue on the tracts of land specified in the Complaints in the form of a comfort letter. The settlement was subject to the negotiation and approval of a Consent Decree, which was published in the Federal Register on May 24, 2019. The comment period (30 days) expired on June 23, 2019 with no comments received. The consent decree was approved and entered by the District Court

(Middle District of Florida) on July 19, 2019 and cash payment of the settlement obligation occurred on July 30, 2019.

The Company had sufficient funds to resolve the legacy environmental remediation liabilities, but may need additional funds in the future 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".

Holders of Record

As of November 12, 2019, the Company had approximately 380 shareholders of record of its common stock, $0.001 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 June 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 June 30, 2019.

On July 8, 2019, this program was again 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, 2019 through June 30, 2020.

In September 2019, the Company repurchased 11,741 shares of common stock for $144,680. These shares were immediately retired, reducing the number of issued shares to 697,427.

Change in Par Value of Common Stock

On December 19, 2018, we amended our Certificate of Incorporation to reduce the par value of all shares of common stock from $1.00 to $0.001 per share. We also reduced the number of common shares authorized from 15,000,000 to 1,000,000. Our common stock and paid-in capital accounts as presented in this Report reflect the change in par value and authorized shares.

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.

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BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Dollar amounts in thousands)

		September 30, 2019		December 31, 2018
Assets				
Cash and cash equivalents	$	2,619	$	4,642
Other Receivables		103		-
Investments, marketable securities		-		207
Investments, equity method		4,371		3,356
Prepaid expenses and other assets		20		25
Total assets	$	7,113	$	8,230
Liabilities and stockholders' equity				
Accounts payable	$	3	$	13
Accrued expenses		14		25
Accrued expenses-related party		1		-
Accrued income taxes		161		202
Legacy environmental liabilities		-		725
Total liabilities		179		965
Commitments and Contingencies		-		-
Stockholders' equity				
Common stock, $0.001 par value, authorized — 1,000,000 shares, 697,427 and 709,168 issued and outstanding as of September 30, 2019 and December 31, 2018, respectively		1		1
Additional paid-in capital		75,324		75,466
Accumulated deficit		(68,391)		(68,202)
Total stockholders' equity		6,934		7,265
Total liabilities and stockholders' equity	$	7,113	$	8,230

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, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Expenses:				
Employee compensation and benefits	$ 43	$ 130	$ 111	$ 162
Legal and Professional Fees	34	38	110	116
Licenses and Fees	-	12	2	30
Other operating expenses	4	1	26	11
Total expenses	81	181	249	319
Non-operating income (expense):				
Interest income (expense), net	11	-	42	-
Other miscellaneous income (expense), net	25	(3)	31	(3)
Gain (loss) on equity investments, net	15	49	(21)	62
Realized gain (loss) on marketable securities, net	(6)	1,901	52	1,952
Unrealized gain (loss) on marketable securities, net	3	(19)	(42)	(708)
Total non-operating income (expense)	48	1,928	62	1,303
Net income (loss) before income taxes	$ (33)	$ 1,747	$ (187)	$ 984
Income tax benefit (expense), net	-	-	-	-
Net income (loss) after taxes	$ (33)	$ 1,747	$ (187)	$ 984
Income (loss) per share				
Basic and diluted	$ (0.05)	$ 2.46	$ (0.26)	$ 1.39
Weighted average shares outstanding basic and diluted	705,254	708,726	707,863	708,726
Net income (loss) after taxes	$ (33)	$ 1,747	$ (187)	$ 984
Adjustments to arrive at comprehensive income (loss)	-	-	-	-
Comprehensive income (loss)	$ (33)	$ 1,747	$ (187)	$ 984
Comprehensive income (loss) per share	$ (0.05)	$ 2.46	$ (0.26)	$ 1.39

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 Shares		Common Stock Amount		Additional paid-in capital		Accumulated deficit		Comprehensive gain or loss		Total
Balance at January 1, 2018	709,168	$	1	$	75,466	$	(70,550)	$	2,457	$	7,374
Cumulative effect of adoption of ASU No. 2016-01	-		-		-		2,457		(2,457)		-
Net Income	-		-		-		(955)		-		(955)
Balance at March 31, 2018	709,168	$	1	$	75,466	$	(69,048)	$	-	$	6,419
Net Income	-		-		-		192		-		192
Balance at June 30, 2018	709,168	$	1	$	75,466	$	(68,856)	$	-	$	6,611
Net Income	-		-		-		1,747		-		1,747
Balance at September 30, 2018	709,168	$	1	$	75,466	$	(67,109)	$	-	$	8,358

	Common Stock Shares		Common Stock Amount		Additional paid-in capital		Accumulated deficit		Comprehensive gain or loss		Total
Balance at January 1, 2019	709,168	$	1	$	75,466	$	(68,202)	$	-	$	7,265
Net Income	-		-		-		(17)		-		(17)
Balance at March 31, 2019	709,168	$	1	$	75,466	$	(68,219)	$	-	$	7,248
Net Income	-		-		-		(137)		-		(137)
Balance at June 30, 2019	709,168	$	1	$	75,466	$	(68,356)	$	-	$	7,111
Repurchase of Shares	(11,741)				(142)						(142)
Net Income	-		-		-		(33)		-		(33)
Balance at September 30, 2019	697,427	$	1	$	75,324	$	(68,389)	$	-	$	6,934

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, 2019		Nine Months Ended September 30, 2018	
Operating activities:				
Net income (loss) after taxes	$	(187)	$	984
Adjustments to reconcile net income (loss) to net cash used in operations:				
(Gain) loss on equity investment, net		21		(62)
Realized (gain) loss on marketable securities, net		(52)		(1,952)
Unrealized (gain) loss on marketable securities, net		42		708
Change in operating assets and liabilities:				
Decrease (increase) in other receivables		(103)		-
Decrease (increase) in prepaid expenses and other assets		5		(9)
Increase (decrease) in accounts payable		(10)		(5)
Increase (decrease) in accrued expenses		(11)		(3)
Increase (decrease) in accrued expenses-related party		1		17
Increase (decrease) in environmental liabilities		(725)		-
Increase (decrease) in accrued income taxes		(41)		-
Net cash (used in) operating activities	$	(1,060)	$	(322)
Investing activities:				
Repurchase of stock	$	(144)	$	-
Proceeds from the sale of marketable securities		672		4,727
Purchases of equity investment securities		(1,036)		(64)
Purchases of marketable securities		(455)		(248)
Net cash provided by (used in) investing activities	$	(963)	$	4,415
Financing activities:				
Net cash provided by (used in) financing activities	$	-	$	-
Net increase (decrease) in cash and cash equivalents	$	(2,023)	$	4.093
Cash and cash equivalents at the beginning of the period		4,642		685
Cash and cash equivalents at the end of the period	$	2,619	$	4,778
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	-	$	-
Cash paid for income taxes	$	41	$	-

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 wholly owned subsidiary BKF Asset Management, Inc., ("BAM"), and BAM's wholly-owned subsidiary, BKF GP, Inc. (“BGP”).

Our principal executive office is located at 1221 Brickell Avenue, Suite 900, Miami, FL 33131 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.

Change in Par Value of Common Stock

On December 19, 2018, we amended our Certificate of Incorporation to reduce the par value of all shares of common stock from $1.00 to $0.001 per share. We also reduced the number of common shares authorized from 15,000,000 to 1,000,000. Our common stock and paid-in capital accounts, as presented in the accompanying consolidated balance sheets and consolidated statements of equity, reflect the change in par value and authorized shares.

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 (per depositor, per bank) 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 marketable 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 the last remaining partnership.

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 2019 and 2018, 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. Related parties also includes entities controlled by related persons. 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 adopted the guidance as of January 1, 2019 and it did not have any impact on our consolidated financial statements.

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.

NOTE 2. 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 January 1, 2018	$ -	$ 3,217	$ 3,217
Plus: purchases	-	-	-
Less: sales	-	-	-
Proportional share of net income (loss)	-	13	13
Balance at September 30, 2018	$ -	$ 3,230	$ 3,230

(dollar amounts in thousands)	Qualstar Corporation	Interlink Electronics, Inc.	TOTAL
Balance at January 1, 2019	$ -	$ 3,356	$ 3,356
Plus: purchases	880	156	1,036
Less: sales	-	-	-
Proportional share of net income (loss)	-	(21)	(21)
Balance at September 30, 2019	$ 880	$ 3,491	$ 4,371

Qualstar Corporation (NASDAQ: QBAK)

On July 3, 2013, Steven Bronson, BKF's CEO and majority shareholder, was appointed President and CEO 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 could assert significant influence over the operations of Qualstar.

At December 31, 2018 the Company held 548,084 common shares of Qualstar, representing 27.00% of the outstanding shares. During the nine months ended September 30, 2019, the Company purchased an additional 160,201 common shares of Qualstar for a cost of $879,957, bringing the total investment to 30.44% of the outstanding shares.

The initial tranche of 548,084 shares had a carrying value of $0 at December 31, 2018. During the three months ended September 30, 2019, the Company would have been allocated a loss on its investment in Qualstar of approximately ($3,058), and during the nine months ended September 30, 2019, the Company would have been allocated gain on its investment in Qualstar of approximately $40,445. 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 three month period or the nine month period ended September 30, 2019. Similarly, no gain or loss was recognized during the three month period or the nine month period ended September 30, 2018. Gains may only be recognized once all prior suspended losses are absorbed.

The second tranche of 160,201 shares purchased in 2019 has a carrying value of $879,690 at September 30, 2019. The account guidance provides an investor making subsequent investments after the suspension of equity method loss recognition should only recognize previously suspended losses up to the amount of the additional investment determined to represent the funding of prior losses. Since the additional Qualstar investments do not represent a funding of prior losses, the Company will apply the equity method of accounting to its additional investment, including recording its share of losses incurred after the additional investment.

The amounts considered do not include the quarterly results of Qualstar as of September 30, 2019. 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, 2019 were 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 Summarized financial information for Qualstar is as follows:

(dollar amounts in thousands)		Six Months Ended June 30, 2019 (Last Public Filing)		Year Ended December 31, 2018
Balance sheet:				
Current assets	$	9,589	$	9,767
Non-current assets		1.057		231
Total assets	$	10,646	$	9,998
Current liabilities	$	2,942	$	2,503
Other long-term liabilities		765		167
Total liabilities	$	3,707	$	2,670
Commitments and contingencies	$	-	$	-
Total stockholders' equity	$	6,939	$	7,328
Total liabilities and stockholders' equity	$	10,646	$	9,998
Results of Operations:				
Net revenues	$	6,295	$	12,229
Cost of goods sold		4,570		7,184
Gross profit	$	1,725	$	5,045
Operating expenses	$	1,616	$	3,555
Income (loss) from operations	$	109	$	1,490
Other income (expense)		21		-
Income tax expense (benefit)	$	-	$	4
Net income (loss)	$	130	$	1,486

The fair market value of the Company's shares in Qualstar was approximately $4.1 million and $2.9 million at September 30, 2019 (708,285 shares) and December 31, 2018 (548,084 shares), respectively.

As of June 30, 2019, and December 31, 2018, 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 $2.9 million, respectively. This difference is not amortized.

<u>Interlink Electronics (OTCMKTS: LINK)</u>

At September 30, 2019 and December 31, 2018, the Company held 947,650 and 889,713 shares of Interlink Electronics, respectively. During the nine months ended September 30, 2019, the Company purchased 57,937 common shares of Interlink for a cost of $156.526. These holdings represent approximately 14.45% and 13.72% of Interlink's outstanding shares at September 30, 2019 and December 31, 2018, 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.

On January 24, 2019, Interlink announced intentions to voluntarily delist its common stock from the NASDAQ Capital Market and deregister its common stock under the Securities Exchange Act of 1934 and suspend its public reporting obligations. The Company filed Form 25 with the Securities and Exchange Commission on February 4, 2019, and the Nasdaq delisting became effective on February 15, 2019, at which time trading on NASDAQ Capital Market ceased. The common stock may thereafter be eligible for quotation on OTCPink marketplace of the OTC Markets Group under the symbol “LINK”.

The carrying value of the investment in Interlink was $4.4 million at September 30, 2019 and $3.4 million at December 31, 2018. During the three months ended September 30, 2019 the Company recorded income on its investment in Interlink of $15,032. For the nine months September 30, 2019 the Company recorded a loss on its investment in Interlink of ($21,483). During the three months and nine months ended September 30, 2018 the Company recorded a gain on its investment in Interlink of $48,511 and $61,985, respectively. All balances related to the Company’s investment in Interlink are recorded on a three-month (quarterly) lag. Therefore these amounts do not include the quarterly results of Interlink as of September 30, 2019, but they do include the quarterly results of Interlink as of December 31, 2018, March 31, 2019 and June 30, 2019. This lag is consistent from period to period. The financial results for Interlink’s quarter ended September 30, 2019 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. Summarized financial information for Interlink is as follows:

(dollar amounts in thousands)		Six Months Ended June 30, 2019 (Last Public Filing)		Year Ended December 31, 2018
Balance sheet:				
Current assets	$	7,975	$	8,261
Non-current assets		1,357		1,351
Total assets	$	9,332	$	9,612
Current liabilities	$	532	$	627
Other long-term liabilities		-		-
Total liabilities	$	532	$	627
Commitments and contingencies	$	-	$	-
Total stockholders’ equity	$	8,800	$	8,985
Total liabilities and stockholders’ equity	$	9,332	$	9,612
Results of Operations:				
Net revenues	$	3,456	$	8,904
Cost of goods sold		1,703		4,000
Gross profit	$	1,753	$	4,904
Operating expenses	$	1,725	$	4,154
Income (loss) from operations	$	28	$	750
Other income (expense)		24		60
Income tax expense (benefit)	$	257	$	188
Net income (loss)	$	(205)	$	622

The fair market value of the Company's shares in Interlink was approximately $4.2 million at September 30, 2019 (947,650 shares) and $1.9 million December 31, 2018 (889,713 shares). At both September 30, 2019 and December 31, 2018, no impairment charge was taken because the excess carrying value was not determined to be "other-than-temporary".

At June 30, 2019 and December 31, 2018, our cost-basis investment in Interlink in the aggregate exceeded our proportionate share of the net assets of this equity method investee by approximately $1.2 million and $1.2 million, respectively. This difference is not amortized.

NOTE 3. INVESTMENTS IN MARKETABLE SECURITIES

Investments in Marketable Securities were as follows:

(dollar amounts in thousands)	Coda Octopus Group	Amtech Systems Inc.	INTL FCStone Inc.	TOTAL
Carrying value at January 1, 2018	$ 3,439	$ 50	$ -	$ 3,489
Less: cumulative mark-to-market	(2,469)	12	-	(2,457)
Cost basis at January 1, 2018	970	62	-	1,032
Plus: purchases	-	142	106	248
Less: sales	(970)	-	-	(970)
Cost basis at September 30, 2018	-	204	106	310
Plus: cumulative mark-to-market	-	(44)	(12)	(56)
Carrying value at September 30, 2018	$ -	$ 160	$ 94	$ 254

(dollar amounts in thousands)	Coda Octopus Group	Amtech Systems Inc.	INTL FCStone Inc.	TOTAL
Carrying value at January 1, 2019	$ -	$ 136	$ 71	$ 207
Less: cumulative mark-to-market	-	68	35	103
Cost basis at January 1, 2019	-	204	106	310
Plus: purchases	-	455	-	455
Less: sales	-	(659)	(106)	(765)
Cost basis at September 30, 2019	-	-	-	-
Plus: cumulative mark-to-market	-	-	-	-
Carrying value at September 30, 2019	$ -	$ -	$ -	$ -

<u>Coda Octopus Group (NASDAQ: CODA)</u>

In May, 2016, the Company purchased 10,872,256 common shares of Coda Octopus Group valued at approximately $1.1 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 Asset Holdings owned 776,590 shares of Coda Octopus Group after the reverse stock split. During 2017, BKF Asset Holdings 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 2018, BKF sold the remaining 720,900 shares of Coda Octopus Group. 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 $374,057 (versus original cost basis), and no gross losses, from the sales of Coda Octopus Group securities during the nine months ended September 30, 2018. In the nine months ended September 30, 2018, the Company recognized an unrealized gain of $663,405 prior to the date that the shares were fully divested.

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. In April and May 2019, the Company purchased an additional 70,000 common shares of Amtech Systems Inc. for a cost of $454,666, bringing the total investment to 100,000 shares and $659,187.

In June 2019, BKF Asset Holdings sold 55,395 shares and realized gross losses of $36,137 (versus original cost basis), and no gross gains. In July and August 2019, BKF Asset Holdings sold the remaining 46,605 shares and realized gross losses of $20,160 (versus original cost basis), and no gross gains. In the nine months ended September 30, 2019, before the final sale, we recognized unrealized losses of $45,843.

In the three and nine months ended September 30, 2018, we recognized an unrealized loss of $7,736 and $32,343, respectively, and no realized gains or losses. 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 held 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 $71,038 at December 31, 2018. In June 2019, BKF Asset Holdings sold all 1,942 shares and realized gross losses of $36,891 (versus original cost basis), and no gross gains. In the nine months ended September 30, 2019, prior to the sale in June, we recognized unrealized gains of $4,234.

NOTE 4. FAIR VALUE MEASUREMENTS

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

	September 30, 2019			
(dollar amounts in thousands)	Adjusted cost	Unrealized gains (losses)	Fair value	Cash & Cash Equivalents
Level 1:				
Cash	$ -	$ -	$ -	$ 2,619
Marketable securities	-	-	-	-
Equity method securities	4,371	3,942	8,313	-
Total	$ 4,371	$ 3,942	$ 8,313	$ 2,619

	December 31, 2018			
(dollar amounts in thousands)	Adjusted cost	Unrealized gains (losses)	Fair value	Cash & Cash Equivalents
Level 1:				
Cash	$ -	$ -	$ -	$ 4,642
Marketable securities	310	(103)	207	-
Equity method securities	3,356	1,390	4,746	-
Total	$ 3,666	$ 1,287	$ 4,953	$ 4,642

NOTE 5. ACQUISITIONS

On April 5, 2019, we entered into a nonbinding Quota Purchase Agreement with a European provider of test and measurement solutions to acquire the entire quota, essentially representing the entire business. The Agreement was subject to certain financing and due diligence provisions. During the review process, business projections were adjusted downward due to market trends and other factors, and the Company withdrew from the Agreement.

Other expenses included acquisition related costs totaling $194,768, of which $11,647 was incurred in December 2018, $19,253 in the three months ended March 31, 2019 and $163,869 in the three months ended June 30, 2019. As part of the withdrawal from the Quota Purchase Agreement, the Company entered into a Settlement Agreement with the Seller whereas the Seller will reimburse BKF Capital $175,000, paid in 7 equal installments from June 2019 through December 2019. The entire $175,000 benefit was recorded in June 2019. The first three installments of $25,000 each were received during the three months ended September 30, 2019. A fourth installment was received in October 2019, and the Company does not anticipate any collection issues related to the final three installments.

The Company intends to maintain a friendly relationship with the European Seller, including the exploration of possible business arrangements in the future.

NOTE 6. RELATED PARTY TRANSACTIONS

Interlink Electronics, Inc. (OTCMKTS: 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 used a portion of this office space for a proportionate fee. BKF still utilized a portion of the Interlink offices in California for the $250 per month fee. 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.

In February 2019, the Company chose not to renew the lease for executive office space in Charleston, SC. As a result, BKF no longer has a physical presence in South Carolina. In connection with the expiration of this lease, the Company realized a small loss of approximately $2,000, primarily representing the disposal of furniture and fixtures. The Company still paid for office space located at Interlink's corporate offices in Westlake Village, CA, for a fee of $250 per month until June 2019, when Interlink moved its corporate headquarters to Camarillo, CA. Beginning in June 2019 and going forward, BKF Capital pays Qualstar Corporation directly for the $250 per month fee. Qualstar leases the Camarillo space to Interlink.

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 2019 and December 31, 2018, there were no amounts owed between the companies.

(dollar amounts in thousands)		Three Months Ended September 30, 2019		Three Months Ended September 30, 2018		Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018
Interlink paid BKF	$	-	$	6	$	4	$	29
BKF paid Interlink		(1)		(2)		(2)		(4)

Net settlement	$ (1)	$ 4	$ 2	$ 25

Qualstar Corporation. (NADSAQ: QBAK)

Qualstar Corporation ("Qualstar") will occasionally pay administrative expenses, including rent, on behalf of BKF, and BKF will reimburse Qualstar. Similarly, BFK will occasionally pay administrative expenses on behalf of Qualstar, and Qualstar will reimburse BKF. Steven N. Bronson, the Company's Chairman, CEO, and majority shareholder, is also the CEO of Qualstar.

These expenses are generally paid out of administrative convenience and no formal agreement or future commitments currently exists between the two companies, although draft agreements have been prepared are expected to be formalized before the end of 2019. At September 30, 2019 BKF Capital owed Qualstar $1,000. At December 31, 2018, there were no amounts owed between the companies.

(dollar amounts in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Qualstar paid BKF	$ -	$ -	$ 2	$ -
BKF paid Qualstar	(3)	-	(6)	-
Net settlement	$ (3)	$ -	$ (4)	$ -

Ridgefield Acquisition Corp. (OTCMKTS: RDGA)

Ridgefield Acquisition Corp. ("Ridgefield") previously occupied a portion of our offices on a month to month basis for a rental fee of $50 per month that was 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. Effective June 30, 2019, Ridgefield terminated this arrangement and leased their own administrative office in Nevada.

At September 30, 2019 and December 31, 2018, Ridgefield owed BKF $2,950 and $2,500, respectively. There were no payments made in 2018 or 2019.

NOTE 7. STOCKHOLDERS' EQUITY

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, 2019 through June 30, 2020. In September 2019, the Company repurchased 11,741 shares of common stock for $144,680. These shares were immediately retired, reducing the number of issued shares.

NOTE 8. COMMITMENTS AND CONTINGENCIES

In August 2018, the United States Department of Justice (DOJ) 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. The 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. The Company has valid factual and legal defenses to this claim and vigorously defended our position in response to the Complaints.

In October 2018, both parties in the Avon Park CERCLA litigation agreed to a change in venue whereby both complaints became subject to the jurisdiction of the Middle District of Florida, rather than in separate district courts.

In November 2018, the parties agreed to voluntary mediation. The Company is willing to resolve the case through any available means and participated in the mediation in good faith. In connection with early mediation of this case, the parties reached a comprehensive settlement agreement in principle to resolve two civil complaints. Under the settlement, BKF agreed to pay $725,000 covering both cases, and received a limited covenant not to sue on Avon Park tracts of land in the form of a comfort letter. The settlement was subject to the negotiation and approval of a Consent Decree, which was published in the Federal Register on May 24, 2019. The comment period (30 days) expired on June 23, 2019 with no comments received. The consent decree was approved and entered by the District Court (Middle District of Florida) on July 19, 2019 and cash payment of the settlement obligation occurred on July 30, 2019.

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.