



BKF Capital Group, Inc. and Subsidiaries

Quarterly Report

For the Periods Ended September 30, 2021 and 2020

BKF Capital Group, Inc.

1 Jenner, Suite 150

Irvine, CA 92618

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 in 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 in January 2000. In April 2000, BKF received a deregistration order from the Securities and Exchange Commission (“SEC”), which completed BKF’s transformation from an investment company to an operating company.

The consolidated financial statements include BKF, BKF’s wholly owned subsidiary BKF Asset Holdings, Inc. (“BAH”), BKF’s wholly owned subsidiary Bronson Financial LLC (“BF”), BKF’s wholly owned subsidiary BKF Investment Group, Inc., formerly known as BKF Management Co., Inc. (“BIG”), BIG’s wholly owned subsidiary BKF Asset Management, Inc. (“BAM”), and BAM’s wholly owned subsidiary BKF GP, Inc. (“BGP”). In November 2019, BAM was dissolved into BIG, and BIG was subsequently dissolved into BKF. As a result, the corporate structure currently includes BKF and its wholly owned subsidiaries BAH, BF, and BGP. BGP is in the process of winding up its affairs and is expected to be dissolved in early 2022.

BKF Asset Holdings, Inc. makes controlling principal investments (or effective control) in publicly and privately owned businesses. Bronson Financial LLC is an investment banking firm focusing on capital raising and mergers and acquisitions advisory services to lower- and middle-market companies, which obtained approval by Financial Industry Regulatory Authority, Inc. (“FINRA”) in June 2021 to operate as a registered broker-dealer.

The Company previously operated in the investment advisory and asset management business entirely through BAM, which was a registered investment advisor with the 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 in 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 FINRA). LEVCO withdrew its registration as a broker-dealer in 2006 and ceased operating as a broker-dealer. BGP acts as the managing general partner of an affiliated investment partnership which is in the process of being liquidated and dissolved.

Public health concerns, such as COVID-19, or any pandemic, and the reactions of governments in response to such concerns, may impact the ability of many operations to conduct normal business operations, including those where we have made significant investments. This could adversely affect our results of operations and liquidity. Such public health concerns could also result in social, economic, and labor instability in the markets in which we operate. Any of these uncertainties could have a material adverse effect on our business, financial condition or results of operations.

Our principal executive office is located at 1 Jenner, Suite 150, Irvine, CA 92618, and the telephone number is (949) 504-4424. Our website address is www.bkfcapital.com.

Strategy

BKF Capital Group, Inc. is a publicly traded holding company operating through its wholly owned subsidiaries, BKF Asset Holdings, Inc., which makes controlling principal investments (or effective control) in publicly and privately owned businesses, and Bronson Financial LLC, a FINRA registered broker-dealer which provides investment banking services (consisting of M&A advisory and capital raising services) to lower- and middle-market companies.

BKF Asset Holdings, Inc. currently has investments in Interlink Electronics, Inc. (NASDAQ: LINK), a global leader in human-machine interface and sensor technologies, Qualstar Corporation (OTCMKTS: QBAK), a

leading manufacturer of data storage solutions and high-efficiency power supplies, and MyTabolite, Inc., a developer of a next generation mobile health application that utilizes an individual’s blood test in conjunction with proprietary algorithms to guide a healthier lifestyle.

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

All of our common stock is not registered in the name of beneficial owners, but rather in the name of “Cede & Co.,” the name used by The Depository Trust Company (“DTC”). As of September 30, 2021, the Company believes it has less than ten actual shareholders of record of its common stock.

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.

Other Information

The Company’s securities were previously 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.

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 November 11, 2021. Each director will hold office 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 | 56 | Chairman, Chief Executive Officer and President |
| Leonard A. Hagan | 69 | Director |
| Ryan J. Hoffman | 43 | Chief Financial Officer |

Steven N. Bronson. Mr. Bronson has over 35 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 2010, and added the role of President in 2011. Interlink Electronics, Inc. is a global trusted advisor and technology partner in the advancing world of human-machine interface and force-sensing technologies.

In 2013, Mr. Bronson assumed the positions of President and Chief Executive Officer of Qualstar Corporation (OTCMKTS: QBAK), a high-quality tape library manufacturer, and its subsidiary N2Power, Inc., a manufacturer of high efficiency power supplies for diverse electronics industries. Since 2008, Mr. Bronson also has served as Chief Executive Officer and Chairman of the Board of Directors of Ridgfield Acquisition Corp. (OTCMKTS: RDGA). Mr. Bronson is a registered principal and chief compliance officer of Bronson Financial LLC and currently holds SIE, Series 4, Series 7, Series 24, Series 27, Series 53, Series 55, and Series 79 licenses.

Leonard A. Hagan. Mr. Hagan is a founding partner at Hagan & Burns CPA's P.C. ("Hagan & Burns") where he provides financial and regulatory services to the broker-dealer community as well as tax preparation services to the firm's clients. Prior to founding Hagan & Burns in 1995, Mr. Hagan worked for six years at the accounting firm of S.D. Leidesdorf & Co. where he was a manager, which was then merged into Ernst & Whinney. Following his time at S.D. Leidesdorf & Co. and Ernst & Whinney, Mr. Hagan spent three years at Credit Suisse until he founded his own accounting firm. Mr. Hagan has over forty-five years' experience as a certified public accountant and over twenty-five years as a licensed Financial and Operations Principal ("FinOp"). Mr. Hagan is a director of Ridgefield Acquisition Corp. (OTCMKTS: RDGA), which is a publicly traded company. Mr. Hagan earned a Bachelor of Arts degree in Economics from Ithaca College and continued his education at Cornell University where he received his MBA in accounting and finance. The Board has concluded that Mr. Hagan should serve on our Board based on his financial expertise and his experience of being a certified public accountant.

Ryan J. Hoffman. Mr. Hoffman has served as our Chief Financial Officer since December 2020, joining BKF with more than two decades of auditing and professional services experience accrued at two top global accounting firms. He previously spent 16 years at the accounting firm RSM and was a partner at the firm for his last five years. There, he successfully led audits of global companies in industries that include technology, consumer products, and manufacturing. While there, he cultivated a specialization in software and multiple-element revenue recognition accounting and auditing. Prior to that, he worked for the Big Four accounting firm Ernst & Young. Mr. Hoffman graduated with a degree in accounting from Chapman University and is a licensed CPA. He is also the CFO of Interlink Electronics, Inc. (NASDAQ: LINK), Qualstar Corporation (OTCMKTS: QBAK) and Qualstar Corporation's wholly owned subsidiary, N2Power, Inc. Mr. Hoffman currently holds SIE, Series 7, Series 24, Series 27, Series 63, and Series 79 licenses.

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BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED)

| | September 30, 2021 | December 31, 2020 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 387 | \$ 502 |
| Other receivables – related party | - | 3 |
| Investments – equity method | 4,915 | 5,047 |
| Prepaid expenses and other assets | 16 | 5 |
| Total current assets | <u>5,318</u> | <u>5,557</u> |
| Property and equipment, net | 36 | - |
| Right-of-use assets | 60 | - |
| Other assets | 3 | - |
| Total assets | <u>\$ 5,417</u> | <u>\$ 5,557</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 7 | \$ 2 |
| Accrued expenses | 12 | 13 |
| Accounts payable and accrued expenses - related party | 8 | - |
| Lease liabilities, current | 35 | - |
| Accrued income taxes | 162 | 162 |
| Total current liabilities | <u>224</u> | <u>177</u> |
| Long-term liabilities | | |
| Lease liabilities, long-term | 25 | - |
| Total long-term liabilities | <u>25</u> | <u>-</u> |
| Total liabilities | <u>249</u> | <u>177</u> |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock, \$0.001 par value, authorized — 1,000,000 shares, 583,276 issued and outstanding as of both June 30, 2021 and December 31, 2020 | 1 | 1 |
| Additional paid-in capital | 74,224 | 74,224 |
| Accumulated deficit | (69,057) | (68,845) |
| Total stockholders' equity | <u>5,168</u> | <u>5,380</u> |
| Total liabilities and stockholders' equity | <u>\$ 5,417</u> | <u>\$ 5,557</u> |

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

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2021 | 2020 | 2021 | 2020 |
| Revenues | | | | |
| Advisory services | \$ 60 | \$ - | \$ 60 | \$ - |
| Total revenues | 60 | - | 60 | - |
| Expenses | | | | |
| Employee compensation and benefits | - | 37 | - | 106 |
| Legal and professional fees | 44 | 54 | 80 | 119 |
| Licenses and fees | 5 | 3 | 11 | 5 |
| Other operating expenses | 21 | 4 | 38 | 11 |
| Total expenses | 70 | 98 | 129 | 241 |
| Operating income (loss) | (10) | (98) | (69) | (241) |
| Non-operating income (expense): | | | | |
| Income (loss) on equity method investments, net | 108 | 15 | (142) | (74) |
| Other miscellaneous income (expense), net | - | (1) | - | (1) |
| Interest income (expense), net | - | - | - | 7 |
| Total non-operating income (expense) | 108 | 14 | (142) | (68) |
| Income (loss) before income taxes | 98 | (84) | (211) | (309) |
| Income tax (provision) benefit | - | - | (1) | - |
| Net income (loss) | \$ 98 | \$ (84) | \$ (212) | \$ (309) |
| Earnings (loss) per share: | | | | |
| Basic and diluted | \$ 0.17 | \$ (0.13) | \$ (0.36) | \$ (0.46) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 583,276 | 637,217 | 583,276 | 673,196 |

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

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

| Three Months Ended September 30, 2021 | Common Stock | | Additional Paid-in capital | Accumulated Deficit | Total |
|--|---------------------|---------------|---|--------------------------------------|--------------|
| | Shares | Amount | | | |
| Balances at July 1, 2021 | 583,276 | \$ 1 | \$ 74,224 | \$ (69,155) | \$ 5,070 |
| Net income (loss) | - | - | - | 98 | 98 |
| Balances at September 30, 2021 | 583,276 | \$ 1 | \$ 74,224 | \$ (69,057) | \$ 5,168 |

| Nine Months Ended September 30, 2021 | Common Stock | | Additional Paid-in capital | Accumulated Deficit | Total |
|---|---------------------|---------------|---|--------------------------------------|--------------|
| | Shares | Amount | | | |
| Balances at January 1, 2021 | 583,276 | \$ 1 | \$ 74,224 | \$ (68,845) | \$ 5,380 |
| Net income (loss) | - | - | - | (212) | (212) |
| Balances at September 30, 2021 | 583,276 | \$ 1 | \$ 74,224 | \$ (69,057) | \$ 5,168 |

| Three Months Ended September 30, 2020 | Common Stock | | Additional Paid-in capital | Accumulated Deficit | Total |
|--|---------------------|---------------|---|--------------------------------------|--------------|
| | Shares | Amount | | | |
| Balances at July 1, 2020 | 691,157 | \$ 1 | \$ 75,249 | \$ (68,671) | \$ 6,579 |
| Net income (loss) | - | - | - | (84) | (84) |
| Repurchase of shares of common stock | (107,881) | - | (1,025) | - | (1,025) |
| Balances at September 30, 2020 | 583,276 | \$ 1 | \$ 74,224 | \$ (68,755) | \$ 5,470 |

| Nine Months Ended September 30, 2020 | Common Stock | | Additional Paid-in capital | Accumulated Deficit | Total |
|---|---------------------|---------------|---|--------------------------------------|--------------|
| | Shares | Amount | | | |
| Balances at January 1, 2020 | 691,207 | \$ 1 | \$ 75,249 | \$ (68,446) | \$ 6,804 |
| Net income (loss) | - | - | - | (309) | (309) |
| Repurchase of shares of common stock | (107,931) | - | (1,025) | - | (1,025) |
| Balances at September 30, 2020 | 583,276 | \$ 1 | \$ 74,224 | \$ (68,755) | \$ 5,470 |

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

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

| | Nine Months Ended September 30, | |
|--|--|----------------|
| | 2021 | 2020 |
| Cash flows from operating activities: | | |
| Net (loss) | \$ (212) | \$ (309) |
| Adjustments to reconcile net (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 4 | - |
| Loss on equity method investments, net | 142 | 74 |
| Change in operating assets and liabilities: | | |
| Other receivables - related party | 3 | - |
| Prepaid expenses and other assets | (14) | (2) |
| Accounts payable and accrued expenses | 4 | 2 |
| Accounts payable and accrued expenses - related party | 8 | (1) |
| Net cash used in operating activities | (65) | (236) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (40) | - |
| Purchases of equity method investments | (10) | (238) |
| Net cash used in investing activities | (50) | (238) |
| Cash flows from financing activities: | | |
| Repurchase of shares of common stock | - | (1,025) |
| Net cash used in financing activities | - | (1,025) |
| Net (decrease) in cash and cash equivalents | (115) | (1,499) |
| Cash and cash equivalents at beginning of period | 502 | 2,282 |
| Cash and cash equivalents at end of period | \$ 387 | \$ 783 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ - | \$ - |
| Cash paid for income taxes, net | \$ 1 | \$ - |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Lease liabilities arising from obtaining right-of-use assets | \$ 71 | \$ - |

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

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 in 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 in January 2000. In April 2000, BKF received a deregistration order from the Securities and Exchange Commission (“SEC”), which completed BKF’s transformation from an investment company to an operating company.

The consolidated financial statements include BKF, BKF’s wholly owned subsidiary BKF Asset Holdings, Inc. (“BAH”), BKF’s wholly owned subsidiary Bronson Financial LLC (“BF”), BKF’s wholly owned subsidiary BKF Investment Group, Inc., formerly known as BKF Management Co., Inc. (“BIG”), BIG’s wholly owned subsidiary BKF Asset Management, Inc. (“BAM”), and BAM’s wholly owned subsidiary BKF GP, Inc. (“BGP”). In November 2019, BAM was dissolved into BIG, and BIG was subsequently dissolved into BKF. As a result, the corporate structure currently includes BKF and its wholly owned subsidiaries BAH, BF, and BGP. BGP is in the process of winding up its affairs and is expected to be dissolved in early 2022.

BKF Asset Holdings, Inc. makes controlling principal investments (or effective control) in publicly and privately owned businesses. Bronson Financial LLC is an investment banking firm focusing on capital raising and mergers and acquisitions advisory services to lower- and middle-market companies, which obtained approval by Financial Industry Regulatory Authority, Inc. (“FINRA”) in June 2021 to operate as a registered broker-dealer.

The Company trades on the Over the Counter (“OTC”) market under the ticker symbol “BKFG”. Our principal executive office is located at 1 Jenner, Suite 150, Irvine, CA 92618 and the telephone number is (949) 504-4424. 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 condensed 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 SEC. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. 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, 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.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Revenue Recognition

The company recognizes revenue earned from contracts with clients for services, such as M&A advisory consulting services, as the performance obligations related to the underlying arrangements are completed.

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, and 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, with realized and unrealized gains and losses recorded through earnings. We determine the cost of the investment sold based on an average cost basis at the individual security level.

The Company had no investments in marketable securities during the periods presented in these condensed consolidated financial statements. Our marketable securities could 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 income (expense), 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 realized gain (loss) on marketable securities, 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. 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 income (loss) on equity method 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.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 investee's 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 other miscellaneous income (expense), 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 in unrealized gain (loss) on marketable securities, and on marketable equity method investments in income (loss) on equity method 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 on non-marketable cost method investments in other miscellaneous income (expense), and on non-marketable equity method investments in income (loss) on equity method investments, net.

Investments in Affiliated Investment Partnerships

BGP served as the managing general partner for an affiliated investment partnership which primarily engaged in the trading of distressed corporate debt. Currently all such activities have been terminated and BKF is in the process of dissolving the partnership.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization expense are calculated using the straight-line method over the assets' estimated useful lives, being

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

three years for computers and equipment, five years for furniture and fixtures, and the shorter of the lease terms or estimated useful lives for leasehold improvements. When property and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains and losses from retirements and asset disposals are recorded in other operating expenses. Repairs and maintenance on property and equipment are expensed in the period incurred.

We perform periodic reviews to evaluate the recoverability of property and equipment and to determine whether facts and circumstances exist that would indicate that the carrying amounts of property and equipment exceed their fair values. If facts and circumstances indicate that the carrying amount of property and equipment might not be fully recoverable, projected undiscounted net cash flows associated with the related asset or group of assets over their estimated remaining useful lives are compared against their respective carrying amounts. In the event that the projected undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair values. All long-lived assets to be disposed of are reported at the lower of carrying amount or fair market value, less expected selling costs.

Property and equipment, net, consisted of the following:

| | September 30, December 31, | |
|---|--------------------------------------|-------------|
| | 2021 | 2020 |
| | (Dollar amounts in thousands) | |
| Computers and equipment | \$ 8 | \$ - |
| Furniture and fixtures | 25 | - |
| Leasehold improvements | 7 | - |
| | <u>40</u> | <u>-</u> |
| Less: accumulated depreciation and amortization | (4) | - |
| Total property and equipment | <u>\$ 36</u> | <u>\$ -</u> |

Depreciation and amortization expense totaled \$3 thousand and \$0 thousand for the three months ended September 30, 2021 and 2020, respectively, and \$4 thousand and \$0 thousand for the nine months ended September 30, 2021 and 2020, respectively.

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 consolidated statements 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 earnings (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per common share is calculated by adjusting outstanding shares, assuming conversion of all potentially dilutive convertible equity instruments.

BKF CAPITAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 include entities controlled by related persons. The Company believes transactions with its related parties are conducted on terms equivalent to those that would prevail 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 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

We reviewed all recently issued, but not yet effective, accounting pronouncements and concluded none are expected to be applicable or material to our consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through November 11, 2021, being the date these condensed consolidated financial statements were issued.

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NOTE 2. INVESTMENTS IN UNCONSOLIDATED AFFILIATED COMPANIES

Equity method investments in unconsolidated affiliated companies were as follows:

| | Qualstar Corporation | Interlink Electronics, Inc. | MyTabolite, Inc. | Total |
|---|---------------------------------|--|-----------------------------|-----------------|
| (dollar amounts in thousands) | | | | |
| Balance at January 1, 2021 | \$ 1,309 | \$ 3,738 | \$ - | \$ 5,047 |
| Plus: purchases | - | - | 10 | 10 |
| Less: sales | - | - | - | - |
| Proportional share of net income (loss) | (153) | 11 | - | (142) |
| Balance at September 30, 2021 | <u>\$ 1,156</u> | <u>\$ 3,749</u> | <u>\$ 10</u> | <u>\$ 4,915</u> |

| | Qualstar Corporation | Interlink Electronics, Inc. | MyTabolite, Inc. | Total |
|---|---------------------------------|--|-----------------------------|-----------------|
| (dollar amounts in thousands) | | | | |
| Balance at January 1, 2020 | \$ 884 | \$ 3,784 | \$ - | \$ 4,668 |
| Plus: purchases | 238 | - | - | 238 |
| Less: sales | - | - | - | - |
| Proportional share of net income (loss) | (18) | (56) | - | (74) |
| Balance at September 30, 2020 | <u>\$ 1,104</u> | <u>\$ 3,728</u> | <u>\$ -</u> | <u>\$ 4,832</u> |

Qualstar Corporation (OTCMKTS: QBAK)

In 2013, Steven N. Bronson, BKF's Chairman of the Board, Chief Executive Officer and majority shareholder, was appointed President and Chief Executive Officer of Qualstar Corporation ("Qualstar"). This resulted in the Company's 18.3% 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 27.0% of the outstanding shares as of December 31, 2018. During the year ended December 31, 2019, the Company purchased an additional 160,201 common shares of Qualstar for a cost of \$879,957, bringing the total investment to 708,285 shares, or 36.8% of the outstanding shares as of December 31, 2019. During the year ended December 31, 2020, the Company purchased an additional 181,805 common shares of Qualstar for a cost of \$468,037, bringing the total investment to 890,090 shares, or 45.7% of the outstanding shares as of December 31, 2020. There were no changes to the Company's investment position in Qualstar for the three or nine months ended September 30, 2021; however, the Company's ownership percentage in Qualstar increased to 47.1% as of September 30, 2021 due to share issuances and repurchases by Qualstar during the period.

The initial tranche of 548,084 shares had a carrying value of \$0 at both September 30, 2021 and December 31, 2020. During the three months ended September 30, 2021 and 2020, the Company would have been allocated income on this tranche of its investment in Qualstar of \$158,250 and \$28,187, respectively; and during the nine months ended September 30, 2021 and 2020, the Company would have been allocated (loss) on this tranche of its investment in Qualstar of \$(244,595) and \$(69,186), respectively. However, under the equity method, the loss is restricted to the carrying value of the investment, and income may only be recognized once all prior suspended losses are absorbed. Accordingly, the Company recognized no income or loss during the three months or nine months ended September 30, 2021 and 2020 on this tranche. At September 30, 2021, prior suspended losses on this tranche were approximately \$2.4 million.

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The second tranche of 342,006 shares purchased in 2019 and 2020 had a carrying value of \$1.2 million at September 30, 2021 and \$1.3 million at December 31, 2020. The accounting 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. Because the additional Qualstar investments do not represent a funding of prior losses, the Company separately applies the equity method of accounting to its additional investment, including recording its share of income (loss) incurred after the additional investment. During the three months ended September 30, 2021 and 2020, the Company recorded income on its second tranche investment in Qualstar of \$98,749 and \$10,864, respectively; and during the nine months ended September 30, 2021 and 2020, the Company recorded (loss) on its second tranche investment in Qualstar of \$(152,628) and \$(17,598), respectively.

The amounts considered do not include the results of Qualstar for the quarter ended September 30, 2021 because all balances related to the Company's investment in Qualstar are recorded on a three-month (quarterly) lag. Therefore, these amounts do not include the results of Qualstar for the quarter ended September 30, 2021, but they do include the results of Qualstar through June 30, 2021. This lag is consistent from period to period. The financial results for Qualstar's quarter ended September 30, 2021 were not publicly available prior to the preparation of our financial statements. Summarized financial information for Qualstar is as follows:

| | June 30, 2021 | December 31, 2020 |
|---|-----------------------------------|---|
| | (latest public filing) | |
| (Dollar amounts in thousands) | | |
| Balance sheet: | | |
| Current assets | \$ 8,266 | \$ 7,710 |
| Noncurrent assets | 533 | 596 |
| Total assets | \$ 8,799 | \$ 8,306 |
| Current liabilities | \$ 2,443 | \$ 2,175 |
| Noncurrent liabilities | 587 | 514 |
| Total liabilities | 3,030 | 2,689 |
| Total stockholders' equity | 5,769 | 5,617 |
| Total liabilities and stockholders' equity | \$ 8,799 | \$ 8,306 |
| Six Months Ended | | |
| | June 30, 2021 | Year Ended December 31, 2020 |
| | (latest public filing) | |
| (Dollar amounts in thousands) | | |
| Results of Operations: | | |
| Net revenues | \$ 4,626 | \$ 8,097 |
| Cost of goods sold | 3,098 | 5,790 |
| Gross profit | 1,528 | 2,307 |
| Operating expenses | 1,387 | 3,568 |
| Income (loss) from operations | 141 | (1,261) |
| Other income (expense) | 1 | 7 |
| Income (loss) before taxes | 142 | (1,254) |
| Income tax (expense) benefit | - | (4) |
| Net income (loss) | \$ 142 | \$ (1,258) |

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The fair value of the Company's 890,090 shares in Qualstar was approximately \$2.5 million at September 30, 2021 and \$2.7 million at December 31, 2020.

As of September 30, 2021 and December 31, 2020, our cost-basis of our investment in Qualstar in the aggregate exceeded our proportionate share of the net assets of this equity method investee by approximately \$3.6 million and \$3.3 million, respectively. This difference is not amortized.

On April 20, 2020, Qualstar Corporation filed a Form 25 with the SEC voluntarily delisting its common stock from Nasdaq and, based upon ownership of its shares by fewer than 300 holders of record, deregistering its common stock under the Securities Exchange Act of 1934 (the "Exchange Act") and suspending its public reporting obligations. The delisting became effective on April 30, 2020, at which time trading on Nasdaq ceased. The common stock of Qualstar thereafter be eligible for quotation on OTC Pink marketplace of the OTC Markets Group under the symbol "QBAK", if market makers commit to making a market in the shares.

On May 6, 2020, Qualstar filed a Form 15 with the SEC suspending its obligation to file periodic reports under the Exchange Act, including annual, quarterly and current reports on Form 10-K, Form 10-Q and Form 8-K, respectively. All requirements associated with being an Exchange Act-registered company, including the requirement to file current and periodic reports, terminated permanently 90 days thereafter. Qualstar intends to make its financial results publicly available through other means.

Interlink Electronics, Inc. (NASDAQ: LINK)

At September 30, 2021 and December 31, 2020, the Company held 993,658 shares of Interlink Electronics, Inc. ("Interlink") common shares. These holdings represent approximately 15.0% of Interlink's outstanding shares. Steven N. Bronson, BKF's Chairman of the Board, Chief Executive Officer, and majority shareholder, is also the Chairman of the Board, Chief Executive Officer, 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 \$3.7 million at both September 30, 2021 and December 31, 2020. During the three months ended September 30, 2021 and 2020, the Company recorded income on its investment in Interlink of \$9,484 and \$1,957, respectively; and during the nine months ended September 30, 2021 and 2020, the Company recorded income (loss) on its investment in Interlink of \$10,989 and \$(55,727), respectively. These amounts do not include the results of Interlink for the quarter ended September 30, 2021 because 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 results of Interlink for the quarter ended September 30, 2021, but they do include the results of Interlink through June 30, 2021. This lag is consistent from period to period. The financial

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results for Interlink's quarter ended September 30, 2021 was not publicly available prior to the preparation of our financial statements. Summarized financial information for Interlink is as follows:

| | June 30, 2021 | December 31, 2020 |
|---|--------------------------------------|---|
| | (latest public filing) | |
| | (Dollar amounts in thousands) | |
| Balance sheet: | | |
| Current assets | \$ 8,469 | \$ 8,496 |
| Noncurrent assets | 1,434 | 1,526 |
| Total assets | \$ 9,903 | \$ 10,022 |
| Current liabilities | \$ 928 | \$ 1,042 |
| Noncurrent liabilities | 87 | 140 |
| Total liabilities | 1,015 | 1,182 |
| Total stockholders' equity | 8,888 | 8,840 |
| Total liabilities and stockholders' equity | \$ 9,903 | \$ 10,022 |
| | Six Months Ended | |
| | June 30, 2021 | Year Ended December 31, 2020 |
| | (latest public filing) | |
| | (Dollar amounts in thousands) | |
| Results of Operations: | | |
| Revenue, net | \$ 3,632 | \$ 6,888 |
| Cost of revenue | 1,631 | 2,986 |
| Gross profit | 2,001 | 3,902 |
| Operating expenses | 1,928 | 3,792 |
| Income (loss) from operations | 73 | 110 |
| Other income (expense) | (19) | (92) |
| Income (loss) before taxes | 54 | 18 |
| Income tax (expense) benefit | (34) | 95 |
| Net income (loss) | \$ 20 | \$ 113 |

The fair value of the Company's 993,658 shares in Interlink was approximately \$9.4 million at September 30, 2021 and \$8.9 million at December 31, 2020.

At both September 30, 2021 and December 31, 2020, our cost-basis of our investment in Interlink in the aggregate exceeded our proportionate share of the net assets of this equity method investee by approximately \$1.5 million. This difference is not amortized.

On August 4, 2020, Interlink filed a Registration Statement on Form 10 with the SEC to register shares of its common stock under the Exchange Act, as amended, which became effective on October 3, 2020. On March 25, 2021, Interlink's common stock became listed on The Nasdaq Capital Market of The Nasdaq Stock Market LLC.

MyTabolite, Inc.

In May 2021, the Company formed MyTabolite, Inc., together with another stockholder, each of which holds a 50% ownership interest in MyTabolite, Inc. During the periods ended September 30, 2021, MyTabolite, Inc.

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did not conduct any operations, and as of September 30, 2021 MyTabolite, Inc. had \$20 thousand in assets and stockholders' equity.

NOTE 4. FAIR VALUE MEASUREMENTS

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

| | Adjusted Cost | Unrealized Gains (Losses) | Fair Value |
|--------------------------------------|--------------------------|--|-----------------------|
| (Dollar amounts in thousands) | | | |
| As of September 30, 2021 | | | |
| Level 1: | | | |
| Cash | \$ 387 | \$ - | \$ 387 |
| Investments – equity method | 4,915 | 6,978 | 11,893 |
| Total | <u>\$ 5,302</u> | <u>\$ 6,978</u> | <u>\$ 12,280</u> |
| As of December 31, 2020 | | | |
| Level 1: | | | |
| Cash | \$ 502 | \$ - | \$ 502 |
| Investments – equity method | 5,047 | 6,568 | 11,615 |
| Total | <u>\$ 5,549</u> | <u>\$ 6,568</u> | <u>\$ 12,117</u> |

NOTE 5. RELATED PARTY TRANSACTIONS

Interlink Electronics, Inc., Qualstar Corporation, and Ridgefield Acquisition Corp. (“Ridgefield”) are related parties to BKF. Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also (a) the Chairman of the Board, Chief Executive Officer and majority shareholder of Interlink, (b) the Chairman of the Board, Chief Executive Officer and majority shareholder of Qualstar, and (c) the Chairman of the Board, Chief Executive Officer and majority shareholder of Ridgefield. Ryan J. Hoffman, our Chief Financial Officer, is also the Chief Financial Officer of Interlink and Qualstar.

In June 2019, Interlink moved its corporate offices to Camarillo, California in a facility it shared with Qualstar. Beginning in June 2019, BKF paid Qualstar \$250 per month for use of part of Qualstar’s Camarillo, California office. In July 2020, both Interlink and Qualstar relocated their corporate offices to Irvine, California, while continuing to use the Camarillo, California facility for operations. BKF continued to pay Qualstar \$250 per month through November 2020 for use of part of the Camarillo, California office space. Beginning in November 2020, BKF ceased using a portion of Qualstar’s Camarillo, California office space and commenced using a portion of Interlink’s Irvine, California office space, for which BKF paid Interlink approximately \$500 per month. Effective June 1, 2021, BKF relocated to a new corporate headquarters office in Irvine, California, which it occupies under a lease agreement (Note 9).

Effective July 1, 2021, Bronson Financial LLC (“BF”), a wholly owned subsidiary of BKF, entered into M&A advisory consulting services agreements with each of Interlink and Qualstar in which BF provides M&A advisory consulting services to Interlink and Qualstar each for \$10,000 per month. In addition, we have consulting agreements with Interlink for certain of its employees and/or independent contractors that provide operational and general and administrative services to us. Finally, Interlink, Qualstar, and BKF occasionally pay expenses on behalf of one another, for which each party reimburses the other party correspondingly.

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Transactions with Interlink are as follows:

| | Three months ended September 30, | | | |
|---|---|-------------------------------|-----------------------------|-------------------------------|
| | 2021 | | 2020 | |
| | Due to Interlink | Due from Interlink | Due to Interlink | Due from Interlink |
| | (in thousands) | | | |
| Balance at July 1, | \$ 6 | \$ - | \$ 1 | \$ - |
| Billed (or accrued) to BKF Capital by Interlink | 33 | - | 3 | - |
| Paid by BKF Capital to Interlink | (32) | - | (4) | - |
| Billed (or accrued) to Interlink by BKF Capital | - | 30 | - | - |
| Paid by Interlink to BKF Capital | - | (30) | - | - |
| Balance at September 30, | <u>\$ 7</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | 2021 | | 2020 | |
| | Due to Interlink | Due from Interlink | Due to Interlink | Due from Interlink |
| | (in thousands) | | | |
| Balance at January 1, | \$ - | \$ - | \$ - | \$ - |
| Billed (or accrued) to BKF Capital by Interlink | 46 | - | 4 | - |
| Paid by BKF Capital to Interlink | (39) | - | (4) | - |
| Billed (or accrued) to Interlink by BKF Capital | - | 30 | - | - |
| Paid by Interlink to BKF Capital | - | (30) | - | - |
| Balance at September 30, | <u>\$ 7</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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Transactions with Qualstar are as follows:

| | Three months ended September 30, | | | |
|--|----------------------------------|----------------------|--------------------|----------------------|
| | 2021 | | 2020 | |
| | Due to Qualstar | Due from Qualstar | Due to Qualstar | Due from Qualstar |
| | (in thousands) | | | |
| Balance at July 1, | \$ 3 | \$ - | \$ 1 | \$ - |
| Billed (or accrued) to BKF Capital by Qualstar | - | - | - | - |
| Paid by BKF Capital to Qualstar | (3) | - | (1) | - |
| Billed (or accrued) to Qualstar by BKF Capital | - | 30 | - | - |
| Paid by Qualstar to BKF Capital | - | (30) | - | - |
| Balance at September 30, | \$ - | \$ - | \$ - | \$ - |
| | (in thousands) | | | |
| | 2021 | | 2020 | |
| | Due to Qualstar | Due from Qualstar | Due to Qualstar | Due from Qualstar |
| Balance at January 1, | \$ - | \$ - | \$ - | \$ - |
| Billed (or accrued) to BKF Capital by Qualstar | 6 | - | 4 | - |
| Paid by BKF Capital to Qualstar | (6) | - | (4) | - |
| Billed (or accrued) to Qualstar by BKF Capital | - | 30 | - | - |
| Paid by Qualstar to BKF Capital | - | (30) | - | - |
| Balance at September 30, | \$ - | \$ - | \$ - | \$ - |

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 and provide a physical location to use on an occasional basis. Effective June 30, 2019, Ridgefield terminated this arrangement and leased its own administrative office in Nevada. At September 30, 2021 and December 31, 2020, Ridgefield owed BKF \$0 and \$2,800 for this rental fee. During the nine months ended September 30, 2021 and 2020, Ridgefield paid BKF \$2,800 and \$0, respectively.

NOTE 8. STOCKHOLDERS' EQUITY

The Company's board of directors previously 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 of 2019, the Company repurchased 11,741 shares of common stock for \$144,680. In November and December of 2019, the Company repurchased 6,220 shares of common stock for \$74,614. Prior to the program expiring in June 2020, the Company purchased 50 shares of common stock for \$433. All shares repurchased under the program were retired, reducing the number of issued shares to 691,157 at June 30, 2020.

On July 16, 2020, stockholders approved an amendment to our Restated Certificate of Incorporation to accomplish a 1-for-10,000 reverse stock split of our issued and outstanding common stock, followed immediately by a 10,000-to-1 forward stock split of our issued and outstanding common stock. Shares of common stock that would have been converted into less than 1 share in the reverse stock split were cashed out at \$9.50 per share of common stock held before the reverse stock split. Registered stockholders that held at least 10,000 shares of common stock at the effective time of the reverse stock split experienced no changes in their holdings. As a result of the stock split

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transactions, the number of common shares issued and outstanding was reduced to 583,276. Shares that were cashed out were accounted for as repurchased shares and were retired.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Lease Agreement

In May 2021 the Company entered into a two-year non-cancellable lease agreement for its 1,845 square-foot corporate office in Irvine, California. The lease term began June 1, 2021 and ends May 31, 2023. The lease agreement requires monthly rental payments of \$3,044 for the first year and \$3,173 for the second year, plus common area maintenance costs as determined by the landlord.

In accordance with the lease accounting framework under ASC 842, the Company recorded both a right-of-use (“ROU”) asset and a lease liability, calculated by discounting the fixed lease payments over the lease term at the rate implicit in the lease or the Company’s incremental borrowing rate. The rate implicit in each lease is not readily determinable, and we therefore use our incremental borrowing rate to determine the present value of the lease payments. The weighted average incremental borrowing rate used to determine the initial value of ROU assets and lease liability was 5.0%.

As of September 30, 2021, the Company had current and long-term lease liabilities of \$35 thousand and \$25 thousand, respectively, and right-of-use assets of \$60 thousand. Future imputed interest as of September 30, 2021 totaled approximately \$2 thousand. The weighted average remaining lease term of the Company’s leases as of September 30, 2021 is 1.7 years.

Future minimum lease payments under non-cancellable operating leases that have remaining non-cancellable lease terms in excess of one year are as follows (in thousands):

| | Minimum Lease Payment |
|---|--------------------------------------|
| 2021 (remainder of year) | \$ 9 |
| 2022 | 37 |
| 2023 | 16 |
| 2024 | - |
| 2025 | - |
| Thereafter | - |
| Total undiscounted future non-cancelable minimum lease payments | 62 |
| Less: Imputed interest | (2) |
| Present value of lease liabilities | <u>\$ 60</u> |