

BKF CAPITAL GROUP INC

Form 10-Q

May 10, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 1-10024

BKF Capital Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-0767530

(I.R.S. Employer Identification No.)

**One Rockefeller Plaza,
New York, New York**

(Address of principal executive offices)

10020

(Zip Code)

(212) 332-8400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

As of April 29, 2005, 7,665,748 shares of the registrant's common stock, \$1.00 par value, were outstanding.

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

	March 31, 2005	December 31, 2004
	(Unaudited)	(Audited)
Assets		
Cash and cash equivalents	\$ 6,670	\$ 3,582
U.S. Treasury bills	34,262	40,466
Investment advisory and incentive fees receivable	21,961	40,009
Investments in securities, at value (cost \$6,513 and \$5,426, respectively)	6,712	5,788
Investments in affiliated partnerships	10,830	17,362
Prepaid expenses and other assets	9,180	7,049
Fixed assets (net of accumulated depreciation of \$6,413 and \$6,756, respectively)	6,364	6,812
Deferred tax asset	6,429	8,391
Goodwill (net of accumulated amortization of \$8,566)	14,796	14,796
Investment advisory contracts (net of accumulated amortization of \$61,328 and \$59,576, respectively)	8,761	10,513
Consolidated affiliated partnerships:		
Due from broker	1,425	952
Investments in securities, at value (cost \$7,011 and \$5,877, respectively)	7,540	6,517
Total assets	\$ 134,930	\$ 162,237
Liabilities, minority interest and stockholders equity		
Accrued expenses	\$ 3,236	\$ 4,292
Accrued bonuses	17,228	42,686
Accrued incentive compensation	12,172	15,773
Accrued lease amendment expense	3,737	3,843
Dividend Payable	1,063	
Consolidated affiliated partnerships:		
Securities sold short, at value (proceeds of \$1,280 and \$1,065, respectively)	1,524	1,299
Total liabilities	38,960	67,893
Minority interest in consolidated affiliated partnerships	3,582	2,478
Stockholders equity		
	7,527	7,275

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Common stock, \$1 par value, authorized 15,000,000 shares, issued
and outstanding 7,527,103 and 7,274,779 shares, respectively

Additional paid-in capital	73,918	68,114
Retained earnings	15,244	17,508
Unearned compensation restricted stock	(4,301)	(1,031)
Total stockholders equity	92,388	91,866
Total liabilities, minority interest and stockholders equity	\$ 134,930	\$ 162,237

See accompanying notes.

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

	Three Months Ended	
	March 31,	
	2005	2004
Revenues:		
Investment advisory fees	\$ 20,200	\$ 18,586
Incentive fees and allocations	11,818	10,091
Commission income (net) and other	194	478
Net realized and unrealized gain on investments	122	209
Interest income	200	78
From consolidated affiliated partnerships:		
Net realized and unrealized gain on investments	326	392
Interest and dividend income	25	13
 Total revenues	 32,885	 29,847
Expenses:		
Employee compensation and benefits	23,891	21,089
Employee compensation relating to equity grants	1,312	2,164
Occupancy & equipment rental	1,588	1,356
Other operating expenses	3,196	3,629
Amortization of intangibles	1,752	1,752
Interest expense	20	61
Other operating expenses from consolidated affiliated partnerships	22	10
 Total expenses	 31,781	 30,061
 Operating income (loss)	 1,104	 (214)
Minority interest in consolidated affiliated partnerships	(160)	(378)
 Income (loss) before taxes	 944	 (592)
 Income tax expense	 1,095	 466
 Net (loss)	 \$ (151)	 \$ (1,058)
(Loss) per share:		
Basic and Diluted	\$ (0.02)	\$ (0.15)
 Weighted average shares outstanding		
Basic and Diluted	7,444,477	6,854,289

See accompanying notes.

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

	Three Months Ended	
	March 31,	
	2005	2004
Cash flows from operating activities		
Net (loss)	\$ (151)	\$ (1,058)
Adjustments to reconcile net (loss) to net cash provided by operations:		
Depreciation and amortization	2,284	2,228
Expense for vesting of restricted stock and stock units	1,404	2,164
Tax benefit related to employee compensation plans	1,968	113
Change in deferred tax asset	1,962	(726)
Unrealized (gain) loss on investments in securities	(163)	97
Changes in operating assets and liabilities:		
(Increase) decrease in U.S. treasury bills	6,204	(5,967)
Decrease in investment advisory and incentive fees receivable	18,048	16,926
(Increase) decrease in prepaid expenses and other assets	(2,131)	545
Decrease in investments in affiliated investment partnerships	6,532	9,875
(Increase) in investments in securities	(761)	(1,231)
(Decrease) in accrued expenses	(1,056)	(481)
(Decrease) in accrued bonuses	(25,458)	(25,026)
(Decrease) in accrued lease amendment expense	(106)	(314)
Changes in operating assets and liabilities from consolidated affiliated partnerships:		
Minority interest in income	160	378
Effect on cash of partnership previously consolidated		(22)
(Increase) in due from broker	(473)	(2,980)
(Increase) in securities	(1,023)	(926)
Increase in securities sold short	225	1,470
Net cash provided by (used in) operating activities	7,465	(4,935)
Cash flows from investing activities		
Fixed asset additions	(86)	(477)
Net cash (used in) investing activities	(86)	(477)
Cash flows from financing activities		
Issuance of common stock	(4,187)	54
Dividend paid to shareholders	(1,054)	
Consolidated affiliated partnerships:		
Increase (decrease) in partner contributions received in advance		1,000
Partner subscriptions	950	1,050

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Net cash provided by (used in) financing activities	(4,291)	2,104
Net increase (decrease) in cash and cash equivalents	3,088	(3,308)
Cash and cash equivalents at the beginning of the year	3,582	4,947
Cash and cash equivalents at the end of the period	\$ 6,670	\$ 1,639
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 20	\$ 61
Cash paid for taxes	\$ 19	\$ 23

See accompanying notes.

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BKF CAPITAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2005
(Amounts in thousands)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained earnings	Unearned compensation	Total
Balance at December 31, 2004	\$ 7,275	\$ 68,114	\$ 17,508	\$ (1,031)	\$ 91,866
Grants of restricted stock	84	3,474		(3,270)	288
Issuance of common stock	168	362			530
Tax benefit related to employee compensation plans		1,968			1,968
Dividends, net of compensation expense(1)			(2,113)		(2,113)
Net (loss)			(151)		(151)
Balance at March 31, 2005	\$ 7,527	\$ 73,918	\$ 15,244	\$ (4,301)	\$ 92,388

(1) compensation expense incurred relating to dividend of \$4.

See accompanying notes.

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

1. Organization and Summary of Significant Accounting Policies***Organization and Basis of Presentation******Organization***

The consolidated interim financial statements of BKF Capital Group, Inc. (BKF or the Company) and its subsidiaries included herein have been prepared in accordance with generally accepted accounting principles for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. These consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The Company follows the same accounting policies in the preparation of interim reports. In the opinion of management, the consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the financial condition, results of operations and cash flows of the Company for the interim periods presented and are not necessarily indicative of a full year's results. BKF Capital Group, Inc. (the Company) operates through a wholly-owned subsidiary, Levin Management Co., Inc. and its subsidiaries, all of which are referred to as Levco. The Company trades on the New York Stock Exchange, Inc. (NYSE) under the symbol (BKF).

The Consolidated Financial Statements of Levco include its wholly-owned subsidiaries LEVCO Europe Holdings, Ltd. (LEVCO Holdings) and its wholly-owned subsidiary, LEVCO Europe, LLP (LEVCO Europe), John A. Levin & Co., Inc., (JALCO), JALCO's two wholly-owned subsidiaries, Levco GP Inc. (Levco GP) and LEVCO Securities, Inc. (LEVCO Securities) and certain affiliated investment partnerships for which the Company is deemed to have a controlling interest in the applicable partnership. One investment partnership was consolidated at March 31, 2005 and December 31, 2004. In addition, the operations of one investment partnership was included in the statements of operation and cash flows for each of the applicable periods. All intercompany transactions have been eliminated in consolidation.

JALCO is an investment advisor registered under the Investment Advisers Act of 1940, as amended, which provides investment advisory services to its clients which include U.S. and foreign corporations, mutual funds, limited partnerships, universities, pension and profit sharing plans, individuals, trusts, not-for-profit organizations and foundations. JALCO also participates in broker consulting programs (Wrap Accounts) with several nationally recognized financial institutions. LEVCO Securities is registered with the SEC as a broker-dealer and is a member of the National Association of Securities Dealers, Inc. Levco GP acts as the managing general partner of several affiliated investment partnerships and is registered with the Commodities Futures Trading Commission as a commodity pool operator.

Consolidation Accounting Policies

Operating Companies. Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities – an interpretation of Accounting Research Bulletin No. 51 (ARB 51), Consolidated Financial Statements, to variable interest entities (VIE), (FIN 46), which was issued in January 2003 and revised in December 2003 (FIN 46R), defines the criteria necessary to be considered an operating company (i.e., voting interest entity) for which the consolidation accounting guidance of Statement of Financial Accounting Standards (SFAS) No. 94,

Consolidation of All Majority-Owned Subsidiaries, (SFAS 94) should be applied. As required by SFAS 94, the Company consolidates operating companies in which BKF has a controlling financial interest. The usual condition for a controlling financial interest is ownership of a majority of the voting interest. FIN 46R defines operating companies as businesses that have a sufficient legal equity to absorb the entities' expected losses and, in each case, for which

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

the equity holders have substantive voting rights and participate substantively in the gains and losses of such entities. Operating companies in which the Company is able to exercise significant influence but do not control are accounted for under the equity method. Significant influence generally is deemed to exist when the Company owns 20% to 50% of the voting equity of an operating entity. The Company has determined that it does not have any VIE. Entities consolidated are based on equity ownership of the entity by the Company and its affiliates.

Use of Estimates

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

Revenue Recognition

Generally, investment advisory fees are billed quarterly, in arrears, and are based upon a percentage of the market value of each account at the end of the quarter. Wrap account fees are billed quarterly based upon a percentage of the market value of each account as of the previous quarter end. Incentive fees, general partner incentive allocations earned from affiliated investment partnerships, and incentive fees from other accounts are accrued on a quarterly basis and are billed quarterly or at the end of their respective contract year, as applicable. Such accruals may be reversed as a result of subsequent investment performance prior to the conclusion of the applicable contract year.

Commissions earned on securities transactions executed by LEVCO Securities and related expenses are recorded on a trade-date basis net of any sales credits.

Commissions earned on distribution of an unaffiliated investment advisor's funds are recorded once a written commitment is obtained from the investor.

Revenue Recognition Policies for Consolidated Affiliated Partnerships (CAP)

Marketable securities owned and securities sold short, are valued at independent market prices with the resultant unrealized gains and losses included in operations.

Security transactions are recorded on a trade date basis.

Interest income and expense are accrued as earned or incurred.

Dividend income and expense are recorded on the ex-dividend date.

Investments in Affiliated Investment Partnerships

Levco GP serves as the managing general partner for several affiliated investment partnerships (AIP), which primarily engage in the trading of publicly traded equity securities, and in the case of one partnership, distressed corporate debt. The assets and liabilities and results of operations of the AIP are not included in the Company's consolidated statements of financial condition with the exception of Levco GP's equity ownership and certain AIP whereby Levco GP is deemed to have a controlling interest in the partnership (see Note 4). The limited partners of the AIP have the right to redeem their partnership interests at least quarterly. Additionally, the unaffiliated limited partners of the AIP may terminate Levco GP as the general partner of the AIP at any time. Levco GP does not maintain control over the unconsolidated AIP, has not guaranteed any of the AIP obligations, nor does it have any contractual commitments associated with them. Investments in the unconsolidated AIP held through Levco GP, are recorded based upon the equity method of accounting.

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

Levco GP's investment amount in the unconsolidated AIP equals the sum total of its capital accounts, including incentive allocations, in the AIP. Each AIP values its underlying investments in accordance with policies as described in its audited financial statements and underlying offering memoranda. It is the Company's general practice to withdraw the incentive allocations earned from the AIP within three months after the year end. Levco GP has general partner liability with respect to its interest in each of the AIP and has no investments in the AIP other than its interest in these partnerships. See Note 5 Related Transactions.

Income Taxes

The Company accounts for income taxes under the liability method prescribed by Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Future tax benefits are recognized only to the extent that realization of such benefits is more likely than not to occur.

The Company files consolidated Federal and combined state and local income tax returns.

Long-Lived Assets

Long-lived assets are accounted for in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which requires impairment losses to be recognized on long-lived assets used in operations when an indication of an impairment exists. If the expected future undiscounted cash flows are less than the carrying amount of the assets, an impairment loss would be recognized to the extent the carrying value of such asset exceeded its fair value.

Intangible Assets

The cost in excess of net assets of Levco acquired by BKF in June 1996 is reflected as goodwill, investment advisory contracts, and employment contracts in the Consolidated Statements of Financial Condition. Through December 31, 2001, goodwill was amortized straight line over 15 years. Effective January 1, 2002 the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets . Under SFAS No. 142, goodwill is no longer amortized but is subject to an impairment test at least annually or when indicators of potential impairment exist. Other intangible assets with finite lives are amortized over their useful lives. Investment contracts are amortized straight line over 10 years. These contracts will be fully amortized by June 30, 2006.

Earnings Per Share

The Company accounts for Earnings Per Share under SFAS No. 128, Earnings Per Share . Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the total of the weighted average number of shares of common stock outstanding and common stock equivalents. Diluted earnings (loss) per share is computed using the treasury stock method.

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

The following table sets forth the computation of basic and diluted (loss) per share (dollar amounts in thousands, except per share data):

	Three Months Ended March 31,	
	2005	2004
Net (loss)	\$ (151)	\$ (1,058)
Basic weighted-average shares outstanding	7,444,477	6,854,289
Dilutive potential shares from stock options		
Diluted weighted-average shares outstanding	7,444,477	6,854,289
Basic and diluted (loss) per share:		
Net (loss)	\$ (0.02)	\$ (0.15)

In calculating diluted (loss) per share for the three months ended March 31, 2005 and 2004 common stock equivalents of 995,007 and 1,916,085, respectively, were excluded due to their anti-dilutive effect on the calculation.

Stock-Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123) established financial accounting and reporting standards for equity-based and non-employee compensation. SFAS 123 permits companies to account for equity-based employee compensation using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, or using the fair-value method under SFAS 123. The company has adopted APB 25 and its related interpretations to account for equity-based employee compensation. Accordingly, no compensation expense was recognized for stock option awards because the exercise price equaled or exceeded the market value on the Company's common stock on the grant date. Compensation expense for restricted stock units (RSU) or restricted stock with future service requirements is recognized over the relevant service periods. In December 2002, the FASB Issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for stock-based compensation. All stock options are fully vested for the applicable periods therefore, disclosure provisions for SFAS No. 123 are not applicable. In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This statement is a revision to SFAS No. 123, Accounting for Stock-Based Compensation and supercedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service, the requisite service period (usually the vesting period), in exchange for the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified

award over the fair value of the original award immediately before the modification. As amended by Securities and Exchange Commission (SEC) Interpretive Release 33-8568, Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (Revised 2004), Share Based Payment, this statement is effective as of the beginning of the first interim or annual reporting period of the Company's first

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

fiscal year beginning after June 15, 2005. In accordance with the SFAS 123R, as amended, the Company will adopt SFAS No. 123R effective January 1, 2006.

All of the Company's remaining stock options are fully vested as of March 31, 2005. Therefore, the Company does not expect the adoption of SFAS 123R to have a material effect on the Company's financial statements.

Reclassifications

Certain prior period amounts reflect reclassifications to conform with the current year's presentation.

Significant Accounting Policies of Consolidated Affiliated Partnerships (CAP)

Securities sold short represent obligations to deliver the underlying securities sold at prevailing market prices and option contracts written represent obligations to purchase or deliver the specified security at the contract price. The future satisfaction of these obligations may be at amounts that are greater or less than that recorded on the consolidated statements of financial condition. The CAP monitors their positions continuously to reduce the risk of potential loss due to changes in market value or failure of counterparties to perform.

Minority Interest

Minority interests in the accompanying consolidated statements of financial condition represent the minority owners' share of the equity of consolidated investment partnerships. Minority interest in the accompanying consolidated statements of operations represents the minority owners' share of the income or loss of consolidated investment partnerships.

Partner Contributions and Withdrawals

Typically, contributions are accepted monthly and withdrawals are made quarterly upon the required notification period having been met. The notification period ranges from thirty to sixty days.

2. Off-Balance Sheet Risk

LEVCO Securities acts as an introducing broker and all transactions for its customers are cleared through and carried by a major U.S. securities firm on a fully disclosed basis. LEVCO Securities has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by LEVCO Securities. In the ordinary course of its business, however, LEVCO Securities does not accept orders with respect to client accounts if the funds required for the client to meet its obligations are not on deposit in the client account at the time the order is placed.

In the normal course of business, the CAP enter into transactions in various financial instruments, including derivatives, for trading purposes, in order to reduce their exposure to market risk. These transactions include option contracts and securities sold short.

Substantially all of the CAP cash and securities positions are deposited with one clearing broker for safekeeping purposes. The broker is a member of major securities exchanges.

3. Investment Advisory Fees Receivable

Included in investment advisory fees receivable are approximately \$10.7 million and \$768,000 of accrued incentive fees as of March 31, 2005 and December 31, 2004, respectively, for which the full contract measurement period has not been reached. The Company has provided for the applicable expenses relating to this revenue. If the accrued incentive fees are not ultimately realized, a substantial portion of the related accrued expenses will be reversed.

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**BKF CAPITAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

4. Consolidation of CAP

In January 2003, the FASB issued FIN 46, which addresses the application of ARB 51. The interpretation provides a framework for determining whether an entity should be evaluated for consolidation based on voting interests or significant financial support provided to the entity (variable interests). FIN 46 generally would require that the assets, liabilities and results of operations of a VIE be consolidated into the financial statements of the enterprise that is the primary beneficiary.

An entity is classified as a VIE if (a) total equity is not sufficient to permit the entity to finance its activities without additional subordinated financial support or (b) its equity investors lack (i) the direct or indirect ability to make decisions about an entity s activities through voting rights or absorb the expected losses of the entity if they occur or (ii) the right to receive the expected residual returns of the entity if they occur. Once an entity is determined to be a VIE, its assets, liabilities and results of operations should be consolidated with those of its primary beneficiary. The primary beneficiary of a VIE is the entity which either will absorb a majority of the VIE s expected losses or has the right to receive a majority of the VIE s expected residual returns. The expected losses and residual returns of a VIE include expected variability in its net income or loss and may include fees to decision makers and fees to guarantors of substantially all VIE assets or liabilities.

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

In December 2003, FIN 46R was issued which defines the criteria necessary to be considered an operating company (i.e., voting interest entity) for which the consolidation accounting guidance of SFAS 94 should be applied. As required by SFAS 94, the Company consolidates AIP in which the Company has a controlling financial interest. The consolidation of these partnerships does not impact the Company's equity or net income. Levco GP has general partner liability with respect to its interest in each of the CAP.

The following table presents the consolidation of the CAP with BKF as of March 31, 2005. The consolidating statements of financial condition have been included to assist investors in understanding the components of financial condition and operations of BKF and the CAP. A significant portion of the results of operations have been separately identified in the consolidated statements of operations (dollar amounts in thousands):

	March 31, 2005			
	BKF	CAP	Eliminations	Consolidated
Assets				
Cash and cash equivalents	\$ 6,670	\$	\$	\$ 6,670
U.S. Treasury bills	34,262			34,262
Investment advisory and incentive fees receivable	21,963		(2)	21,961
Investments in securities, at value (cost \$6,513)	6,712			6,712
Investments in affiliated partnerships	14,693		(3,863)	10,830
Prepaid expenses and other assets	9,166	14		9,180
Fixed assets (net of accumulated depreciation of \$6,413)	6,364			6,364
Deferred tax asset	6,429			6,429
Goodwill (net of accumulated amortization of \$8,566)	14,796			14,796
Investment advisory contracts (net of accumulated amortization of \$61,328)	8,761			8,761
Consolidated affiliated partnerships:				
Due from broker		1,425		1,425
Investments in securities, at value (cost \$7,011)		7,540		7,540
Total assets	\$ 129,816	\$ 8,979	\$ (3,865)	\$ 134,930
Liabilities, minority interest and stockholders equity				
Accrued expenses	\$ 3,228	\$ 10	\$ (2)	\$ 3,236
Accrued bonuses	17,228			17,228
Accrued incentive compensation	12,172			12,172
Accrued lease amendment expense	3,737			3,737
Dividends payable	1,063			1,063
Consolidated affiliated partnerships:				
Securities sold short, at value (proceeds of \$1,280)		1,524		1,524

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Total liabilities	37,428	1,534	(2)	38,960
Minority interest in CAP			3,582	3,582
Stockholders equity				
Common stock, \$1 par value, authorized 15,000,000 shares, issued and outstanding 7,527,103	7,527			7,527
Additional paid-in capital	73,918			73,918
Retained earnings	15,244			15,244
Unearned compensation restricted stock	(4,301)			(4,301)
Capital from consolidated affiliated partnerships		7,445	(7,445)	
Total stockholders equity	92,388	7,445	(7,445)	92,388
Total liabilities, minority interest and stockholders equity	\$ 129,816	\$ 8,979	\$ (3,865)	\$ 134,930

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

5. Investments in Affiliated Investment Partnerships and Related Revenue

Summary financial information, including the Company's carrying value and income from the unconsolidated AIP is as follows (dollar amounts in thousands):

	March 31, 2005
Total AIP assets	\$ 739,919
Total AIP liabilities	(245,381)
Total AIP capital balance	494,538
AIP net earnings	7,369
Company's carrying value (including incentive allocations)	10,830
Company's income on invested capital (excluding accrued incentive allocations)	158

Included in the carrying value of investments in AIP at March 31, 2005 and December 31, 2004 are accrued incentive allocations approximating \$1.2 million and \$6.5 million, respectively.

Included in the Company's incentive fees and general partner incentive allocations are approximately \$950,000 and \$1.9 million payable directly to employee owned and controlled entities (Employee Entities) for the three months ended March 31, 2005 and 2004, respectively. These amounts are included in the Company's carrying value of the AIP at the end of the applicable period. These Employee Entities, which serve as non-managing general partners of several AIP, also bear the liability for all compensation expense relating to the allocated revenue, amounting to approximately \$950,000 and \$1.9 million for the three months ended March 31, 2005 and 2004, respectively. These amounts are included in the Consolidated Statement of Operations.

The Company earned investment advisory fees and incentive allocations/fees from unconsolidated affiliated domestic investment partnerships and affiliated offshore investment vehicles of approximately \$19.2 million and \$18.0 million for the three months ended March 31, 2005 and 2004, respectively.

Included in investment advisory and incentive fees receivable at March 31, 2005 and December 31, 2004 are \$3.9 million and \$4.0 million, respectively, of advisory fees from AIP and sponsored investment offshore vehicles. Also included in investment advisory and incentive fees receivable are \$7.2 million and \$26.7 million of incentive fees from sponsored offshore investment vehicles at March 31, 2005 and December 31, 2004, respectively.

6. Contractual Obligations

In the ordinary course of business, the Company enters into contracts with third parties pursuant to which BKF or the third party provides services to the other. In many of the contracts, the Company agrees to indemnify the third party under certain circumstances. The terms of the indemnity vary from contract to contract and the amount of the indemnification liability, if any, cannot be determined.

7. Non-Cash Transactions

First Quarter 2004:

Certain executive officers of the Company, who are subject to performance based criteria with regard to their 2003 compensation, and several employees were granted 56,105 shares of restricted stock with a value of approximately \$1.4 million, which vest over a three-year period. The amount unearned as of March 31, 2004 is recorded as unearned compensation in the consolidated statement of financial condition.

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**BKF CAPITAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company withheld 2,389 shares of common stock for required withholding taxes in connection with the delivery of 7,002 RSU.

The Company withheld 3,111 shares of common stock for required withholding taxes in connection with the exercised of 15, 049 stock options.

First Quarter 2005:

Certain executive officers of the Company, who are subject to performance based criteria with regard to their 2004 compensation, and several employees were granted 75,344 shares of restricted stock with a value of approximately \$3.2 million, which vest over a three-year period. The amount unearned as of March 31, 2005 is recorded as unearned compensation in the consolidated statement of financial condition.

The Company withheld 112,874 shares of common stock for required withholding taxes in connection with the delivery of 280,854 RSU.

5,000 unvested RSU were forfeited

The restriction on 9,600 shares of restricted stock was lifted and delivered.

9,000 shares of restricted stock were granted to non-employee Directors for 2005 Directors fees with a value of approximately \$360,000.

8. Income Taxes

The Company's provision (benefit) for income taxes differs from the amount of income tax determined by applying the applicable U.S. federal statutory income tax rate principally due to state and local taxes and non-deductible amortization. The Company has determined that the amortization expense on intangible assets is non-deductible since the purchase method of accounting has been applied retroactive to June 1996.

Deferred tax assets arise from the future tax benefit on deferred and non-cash compensation, lease amendment loss, unrealized losses on investment, and depreciation. Deferred tax liabilities arise from deferred revenues, unrealized gains on investments, and state and local taxes.

9. Dividends

On March 23, 2005, the Company declared a dividend of \$0.125 per share payable on April 15, 2005.

On April 5, 2005, the Company declared a special dividend of \$0.925 per share payable on April 29, 2005.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****INTRODUCTION**

BKF operates entirely through Levco, an investment adviser registered with the Securities and Exchange Commission. Levco specializes in managing equity portfolios for institutional and individual investors. Levco offers long-only equity strategies and a range of alternative investment products and other more specialized investment programs. Most clients are based in the United States, though a significant portion of investors in the alternative investment products are located outside the United States.

Levco acts as the managing general partner of a number of investment partnerships and also acts as an adviser to private investment vehicles organized outside the United States.

With respect to accounts managed pursuant to its long-only equity strategies, Levco generally receives advisory fees based on a percentage of the market value of assets under management, including market appreciation or depreciation and client contributions and withdrawals. In some cases, Levco receives performance-based fees from accounts pursuing long-only equity strategies. With respect to private investment vehicles and separate accounts managed pursuant to similar strategies, Levco is generally entitled to receive both a fixed management fee based on a percentage of the assets under management and a share of net profits.

At March 31, 2005, assets under management at Levco were \$13.1 billion, up slightly from \$13.0 billion a year earlier. Following is a comparison of Levco's assets under management as defined by product and client type:

	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Long-Only Accounts:					
Institutional	\$ 2,723	\$ 2,964	\$ 2,802	\$ 2,692	\$ 2,818
Sub-Advisory	2,744	2,641	2,362	2,491	2,440
Non-Institutional	1,671	1,713	1,651	1,667	1,683
Wrap	2,225	2,319	2,216	2,281	2,379
Total Long-Only	9,363	9,637	9,031	9,131	9,320
Alternative Strategies:					
Event-Driven	2,262	2,568	2,599	2,678	2,604
Long-Short Accounts	849	792	752	722	642
Short-Biased	423	422	510	497	394
Other Private Investment Funds	193	185	150	97	70
Total Alternative Strategies	3,727	3,967	4,011	3,994	3,710
Total	\$ 13,090	\$ 13,604	\$ 13,042	\$ 13,125	\$ 13,030

Levco also has a wholly-owned broker-dealer subsidiary that clears through Bear Stearns Securities Corp. on a fully disclosed basis. Generally, the customers of the broker-dealer subsidiary are advisory clients of Levco, and the trades executed through the broker-dealer are generally placed by Levco in its capacity as investment adviser.

RISK FACTORS

The following risks, among others, sometimes have affected, and in the future could affect BKF's business, financial condition or results of operations. The risks described below are not the only ones facing BKF. Additional risks not presently known to BKF or that BKF currently deems insignificant may also impact its business.

Table of Contents***Levco is dependent on key personnel***

Levco is largely dependent on the efforts of its senior investment professionals managing the long-only strategies and the event-driven, long-short and short-biased equity products. Levco is also dependent on the efforts of Mr. John A. Levin, the chairman and chief executive officer of BKF. The loss of the services of key investment personnel, including Mr. Levin, could have a material adverse effect on Levco because it could jeopardize its relationships with clients and result in the loss of those accounts. In the case of alternative investment strategies, the loss of the senior investment professionals managing the strategy could result in the discontinuation of the strategy by Levco. A stockholder has proposed nominees to run against Mr. John Levin and two other current directors at the upcoming annual meeting of stockholders.

In 2004, the event-driven strategies, which have been led for an extended period of time by two Senior Portfolio Managers, represented approximately 37% of the asset-based investment advisory fees, approximately 70% of the incentive fees and approximately 48% of BKF's total fees. Mr. Frank Rango, one of the two Senior Portfolio Managers of the event-driven group, has announced his intention to relinquish such position as of the conclusion of 2005. Mr. Henry Levin will continue as the sole Senior Portfolio Manager for the group.

As a result of this dependence on key personnel, and the ability of investment personnel or groups of investment personnel to start their own independent businesses, management may be constrained in its ability to negotiate compensation with senior personnel. Except for Messrs. Frank Rango and Henry Levin, none of Levco's key investment personnel, including Mr. John Levin, are subject to employment contracts.

Levco's future success depends on its ability to retain and attract qualified personnel to conduct its investment management business. To the extent that Levco further diversifies its products and strategies, BKF anticipates that it will be necessary for Levco to add portfolio managers and investment analysts. No assurance can be given that Levco will succeed in its efforts to recruit and retain the required personnel. Because of its relatively smaller size, Levco may have relatively fewer resources with which to recruit and retain personnel. The loss of key personnel or the inability to recruit and retain qualified portfolio managers, business and marketing personnel could have a material adverse effect on Levco's business.

In December 1998, BKF adopted an incentive compensation plan (most recently amended in 2001) to give Levco the ability to attract and retain talented professionals with equity-based and cash compensation. Determinations with regard to the implementation of this plan are made by the Compensation Committee of the board of directors of BKF on a regular basis. Because BKF is a relatively small public company, the value of the equity awards that may be offered to professionals may be limited relative to what competitors may offer. If the price of BKF stock decreases, no assurance can be given that the equity-based compensation will serve its purpose to attract and retain talented professionals.

Levco is dependent on a limited number of investment strategies

Levco currently derives most of its revenues from three investment offerings—a large cap value strategy, an event-driven investment strategy, and an actively traded long-short US equity strategy. While these strategies may often perform differently in a given investment environment, adverse developments with regard to any of these strategies could have a material adverse effect on Levco's business.

A decline in the performance of the securities markets could have an adverse effect on Levco's revenues

Levco's operations are affected by many economic factors, including the performance of the securities markets. Declines in the securities markets, in general, and the equity markets, in particular, would likely reduce Levco's assets under management and consequently reduce its revenues. In addition, any continuing decline in the equity markets, failure of these markets to sustain their prior rates of growth, or continued volatility in these markets could result in investors withdrawing from the equity markets or decreasing their rate of investment, either of which would likely adversely affect Levco. Levco's rates of growth in assets under management and revenues have varied from year to year, and there can be no assurance that the growth rates sustained in the past will continue. Levco is generally a value manager, and a general decline in the

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performance of value securities could have an adverse effect on Levco's revenues. Levco also offers event-driven and other alternative investment strategies. The failure to implement these strategies effectively could likewise impact Levco's revenues.

Poor investment performance could adversely affect Levco's financial condition

Success in the investment management industry depends largely on investment performance. Good performance generally stimulates sales of services and investment products and tends to keep withdrawals and redemptions low. This generates higher management fees, which are based on the amount of assets under management and sometimes on investment performance. If Levco experiences poor performance, this will likely result in decreased sales, decreased assets under management and the loss of accounts, with corresponding decreases in revenue.

Adverse developments with regard to significant customers or relationships could adversely affect Levco's revenues

As of March 31, 2005, the ten largest customers of Levco's long-only equity strategies (counting as single customers each wrap fee program and related family and institutional accounts) generated approximately \$5.3 million of revenues for Levco in the first quarter of 2005 (including incentive fees), or approximately 16.5% of BKF's total fees for the period. Excluding the impact of incentive fees on BKF's business, the ten largest customers for long-only equity products accounted for approximately 50.6% of all asset-based investment advisory fees earned in the first quarter of 2005. The loss of any of these customers could have an adverse effect on BKF's revenues.

In the institutional marketplace, consultants play a key role in selecting investment managers for their clients. In the event that a consultant advising current clients of Levco takes a negative view of Levco, Levco could lose a number of accounts related to that consultant.

A decrease in Levco's management fees, the cancellation of investment management agreements or poor investment performance by the Levco private investment funds could adversely affect Levco's results

Management Fees. Some segments of the investment management industry have experienced a trend toward lower management fees. Levco must maintain a level of investment returns and service that is acceptable to clients given the fees they pay. No assurance can be given that Levco will be able to maintain its current fee structure or client base. Reduction of the fees for new or existing clients could have an adverse impact on Levco's profits.

Cancellation of Investment Management Agreements. It is expected that Levco will derive almost all of its revenue from investment management agreements. For registered investment companies, a majority of the disinterested members of each fund's board must approve these agreements at least annually and the agreements are terminable without penalty on 60 days' notice. The agreements with Levco's separately-managed account clients generally are terminable by the client without penalty and with little or no notice. Any failure to renew, or termination of, a significant number of these agreements could have an adverse effect on Levco.

Poor Investment Performance of the Private Investment Funds. BKF derives revenue from incentive fees and general partner incentive allocations earned with respect to its proprietary unregistered investment funds. Stronger positive performance by these funds generates higher incentive fees and incentive allocations because those fees and allocations are based on the performance of the assets under management. On the other hand, relatively poor performance will result in lower or no incentive fees or allocations, and will tend to lead to decreased assets under management and the loss of accounts, with corresponding decreases in revenue.

Levco is a relatively small public company in a highly competitive business

Levco competes with a large number of domestic and foreign investment management firms, commercial banks, insurance companies, broker-dealers and other firms offering comparable investment services. Many of the financial services companies with which Levco competes have greater resources and assets under management than Levco does and offer a broader array of investment products and services.

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Management believes that the most important factors affecting Levco's ability to attract and retain clients are the abilities, performance records and reputations of its portfolio managers, the ability to hire and retain key investment personnel, the attractiveness of investment strategies to potential investors and competitive fees and investor service. Levco's ability to increase and retain client assets could be adversely affected if client accounts underperform client expectations or if key investment personnel leave Levco. Levco's ability to compete with other investment management firms also depends, in part, on the relative attractiveness of its investment philosophies and methods under prevailing market conditions. The absence of significant barriers to entry by new investment management firms in the institutional managed accounts business increases competitive pressure. Since Levco is a relatively smaller asset management company, changes in customers, personnel and products and other business developments may have a greater impact on Levco than they would have on larger, more diversified asset management companies.

Levco is dependent on information systems and administration, back-office and trade execution functions

Levco is highly dependent on information systems and technology and depends, to a great extent, on third parties who are responsible for managing, maintaining and updating these systems. No assurance can be given that Levco's current systems will continue to be able to accommodate its growth or that the costs of its outsourcing arrangements will not increase. The failure to accommodate growth or an increase in costs could have an adverse effect on Levco.

Success in the investment management industry also depends on the ability of an investment manager, and third parties with whom the investment manager contracts, to successfully perform administrative, back-office and trade execution functions. A failure by Levco or a third party contracted by Levco to perform such functions could adversely impact Levco's revenues.

Conflicts of interest may arise and adversely affect Levco

From time to time, Levco's officers, directors and employees may own securities which one or more of its clients also own. Although Levco maintains internal policies regarding individual investments by its officers, directors and employees which require them to report securities transactions and restrict certain transactions so as to minimize possible conflicts of interest, possible conflicts of interest may arise that could have adverse effects on Levco. Similarly, conflicting investment positions may develop among various investment strategies managed by Levco. Although Levco has internal policies in place to address such situations, such conflicts could have adverse effects on Levco.

Government regulations may adversely affect Levco and BKF

Virtually all aspects of Levco's business are subject to various federal and state laws and regulations. Levco is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary, recordkeeping, operational and disclosure obligations. John A. Levin & Co. is also registered with the Commodity Futures Trading Commission as a commodity trading advisor and a commodity pool operator, and Levco GP is registered with that agency as a commodity pool operator. John A. Levin & Co. and Levco GP are members of the National Futures Association. LEVCO Securities is registered as a broker-dealer under the Securities Exchange Act of 1934, is a member of the National Association of Securities Dealers, Inc. and is a member of the Municipal Securities Rulemaking Board. In addition, Levco is subject to the Employee Retirement Income Security Act of 1974 and its regulations insofar as it is a fiduciary with respect to certain clients. Furthermore, BKF, as a publicly traded company listed on the New York Stock Exchange, is subject to the federal securities laws, including the Securities Exchange Act of 1934, as amended, and the requirements of the exchange.

These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict Levco or BKF from conducting its business if it fails to comply with these laws and regulations. If Levco or BKF fails to comply with these laws and regulations, these agencies may impose sanctions, including the suspension of individual employees, limitations on business activities for

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specified periods of time, revocation of registration, and other censures and fines. Even if in compliance with all laws and regulations, changes in these laws or regulations could adversely affect BKF's profitability and operations and its ability to conduct certain businesses in which it is currently engaged.

Terrorist attacks could adversely affect BKF

Terrorist attacks, including biological or chemical weapons attacks, and the response to such terrorist attacks, could have a significant impact on New York City, the local economy, the United States economy, the global economy, and global financial markets. It is possible that the above factors could have a material adverse effect on BKF's business, especially given the fact that all operations are conducted from a single location in New York City and BKF has incurred lease obligations with regard to this location through September 2011. BKF maintains a business continuity facility in Stamford, Connecticut.

Certain statements under this caption Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995 (the Reform Act). See Part II Other Information.

RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations is based on the Consolidated Statements of Financial Condition and Consolidated Statements of Operations for BKF Capital Group, Inc. and Subsidiaries. It should be noted that certain affiliated investment partnerships in which BKF may be deemed to have a controlling interest have been consolidated. The number and identity of the partnerships being consolidated may change over time as the percentage interest held by BKF and its affiliates in affiliated partnerships changes. The assets, liabilities and related operations of these partnerships and related minority interest have been reflected in the consolidated financial statements for the three month periods ended March 31, 2005 and March 31, 2004. The consolidation of the partnerships does not impact BKF's equity or net income.

Table of Contents**Three Months Ended March 31, 2005 as Compared to Three Months Ended March 31, 2004****Revenues**

Total revenues for the first quarter of 2005 were \$32.89 million, reflecting an increase of 10.2% from \$29.85 million in revenues in the same period in 2004. This increase is primarily attributable to (i) a 17.1% increase in incentive fees and allocations from \$10.09 million in the first quarter of 2004 to \$11.82 million in the first quarter of 2005 and (ii) an 8.7% increase in investment advisory fees from \$18.59 million in the first quarter of 2004 to \$20.20 million in the first quarter of 2005. The revenues generated by the various investment strategies were as follows (all amounts are in thousands):

	Quarter Ended	
	March 31, 2005	March 31, 2004(a)
Revenues:		
Investments Management Fees (IMF):		
Long-Only	\$ 8,544	\$ 8,921
Event-Driven	6,994	6,801
Long-Short	3,063	1,834
Short-Biased	1,069	931
Other	530	99
Total IMF Fees	20,200	18,586
Incentive Fees and Allocations:		
Long-Only	1,024	281
Event-Driven	5,563	8,898
Long-Short	5,111	764
Short-Biased	97	2
Other	23	146
Total Incentive Fees	11,818	10,091
Total Fees	32,018	28,677
Broker Dealer Revenue-Net	194	478
Total Advisory Revenue	32,212	29,155
Investment and Interest Income	322	287
Investment Income from Consolidated Affiliated Partnerships	351	405
Total Revenue	\$ 32,885	\$ 29,847

(a) Re-classified to conform with current year.

The increase in asset-based advisory fees with respect to the firm's largest long-short equity strategy was attributable to net contributions and appreciation through performance. In the case of the event-driven strategies, the increase in asset-based advisory fees resulted from an increased allocation to BKF under the revenue sharing arrangement between BKF and the other participant in the joint venture that serves as the management company to the

non-US investment vehicle holding a large majority of the assets in the event-driven strategy. With respect to long-only investment strategies, the decrease in assets under management that was generated by net withdrawals , combined with a lower average fee, resulted in lower revenues.

The increase in incentive fees and allocations was primarily attributable to an increase in the performance and the assets under management of a long-short investment strategy, which was partly offset by a decline in performance and assets under management in event-driven strategies. Accounts pursuing long-only strategies generated higher performance-based fees in the first quarter of 2005.

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Incentive fees and general partner allocations are accrued on a quarterly basis but are primarily determined or billed and allocated, as the case may be, at the end of the applicable contract year or upon investor withdrawal. Such accruals may be reversed prior to being earned or allocated as the result of investment performance.

Frank Rango, one of the two Senior Portfolio Managers for the event-driven strategies, has announced his intention to step down from such position at the conclusion of 2005. Henry Levin will continue as the sole Senior Portfolio Manager for the group. Henry Levin will continue to be supported by four other Portfolio Managers for the event-driven strategies and two Portfolio Managers focused on investments in distressed debt. The change in responsibilities for Mr. Rango may impact the ability of Levco to retain and attract clients with respect to its event-driven strategies and may impact the revenues generated by the event-driven accounts. The event-driven accounts generated 48% of the Company's total fees in 2004.

Revenue generated by the broker-dealer business (net of clearing charges) declined 59.4% to \$194,000 in the first quarter of 2005 from \$478,000 in the first quarter of 2004. This decline was primarily the result of a decrease in the number of accounts maintained at the broker-dealer and reduced trading activity in such accounts.

Net realized and unrealized gains on investments decreased by 41.6% to \$122,000 in the first quarter of 2005 from \$209,000 in the first quarter of 2004, primarily as the result of a decrease in performance of seed capital investments.

Net realized and unrealized gain on investments and interest and dividend income from consolidated affiliated partnerships decreased 13.3% to \$351,000 in the first quarter of 2005 from \$405,000 in the same period in 2004. The gains/losses on investments and dividend and interest income from consolidated investment partnerships include minority interests, *i.e.*, the portion of the gains or losses generated by the partnerships allocable to all partners other than Levco GP, Inc., which are separately identified on the consolidated statements of operations.

Expenses

Total expenses for the first quarter of 2005 were \$31.78 million, reflecting an increase of 5.7% from \$30.06 million in expenses in the same period in 2004. Total expenses excluding amortization of finite life intangibles were \$30.03 million in the first quarter of 2005, reflecting an increase of 6.1% from \$28.31 million for the first quarter of 2004.

Employee compensation and benefit expense (including grants of equity awards), was \$25.20 million in the first quarter of 2005, reflecting an increase of 8.4% from \$23.25 million in the first quarter of 2004. The rate of increase in cash compensation expense beyond the rate of increase of revenues is primarily attributable to the increased percentage of assets raised by internal marketing staff, as their sales commissions are reflected in employee compensation and benefit expense while sales commissions paid to third party marketers are included in other operating expenses. Thus, an increase in assets raised by internal marketing staff which is offset by decreases in assets raised by third party marketers will lead to a percentage increase in compensation expense that would exceed the percentage increase in revenues.

The conditions in the industry with respect to both alternative investment and long-only professionals remain intense. The investment teams responsible for the management of alternative investment products are compensated on a number of different bases, which differ from the basis on which the investment team managing long-only products is compensated. This can be expected to result in a higher percentage of the revenues generated by such alternative strategies being paid as compensation to personnel directly associated with the investment teams. Revenues associated with this long-short strategy grew by \$5.6 million. As a result of the increased revenues, compensation expense relating to the strategy (including a portion of internal sales personnel) grew by approximately \$4.3 million. With respect to the event-driven strategies, revenues decreased by \$3.1 million, while compensation expense relating to the event-driven products decreased by \$1.9 million. The investments made with respect to new products that are reflected in compensation expense increased to \$580,000 in the first quarter of 2005, as compared to \$544,000 in the same period in 2004.

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Occupancy and equipment rental was \$1.59 million in the first quarter of 2005, reflecting a 17.1% increase from \$1.36 million in the same period in 2004, primarily as the result of escalations under the lease and increased depreciation expense relating to the upgrade of BKF's computer systems.

Other operating expenses were \$3.20 million in the first quarter of 2005, reflecting an 11.9% decrease from \$3.63 million in the same period in 2004, primarily as the result of reductions in third party referral fees and distribution related travel and entertainment expenses, which were partly offset by increased professional fees to auditors, consultants and lawyers relating to public company issues.

Operating Income/ Loss

Operating income for the first quarter of 2005 was \$1.10 million, as compared to an operating loss of \$214,000 in the same period in 2004. Operating income excluding the amortization of finite life intangibles and the total income from consolidated affiliated partnerships was \$2.50 million in the first quarter of 2005, as compared to \$1.13 million in the same period in 2004.

Income Taxes

Total income tax expense was \$1.10 million in the first quarter of 2005, as compared to \$466,000 for the same period in 2004. This increase primarily reflects the increase in income before taxes (as determined without a deduction for the amortization of intangibles). An effective tax rate of approximately 40.63% (before amortization) was used to make the determination with respect to the provision for taxes at March 31, 2005, while an effective tax rate of approximately 40.14% (before amortization) was used to calculate the provision for taxes at March 31, 2004.

LIQUIDITY AND CAPITAL RESOURCES

BKF's current assets as of March 31, 2005 consist primarily of cash, short-term investments and investment advisory and incentive fees receivable. While BKF's daily business operations are not generally capital intensive, BKF utilizes capital to develop and seed new investment products. The development of new products is an important element in BKF's business plan, and such seed capital investments may require substantial financial resources. BKF has historically met its cash and liquidity needs through cash generated by operating activities. At March 31, 2005, BKF had cash, cash equivalents and U.S. Treasury bills of \$40.93 million, compared to \$44.05 million at December 31, 2004. This decrease primarily reflects the payment of a dividend and the payment of cash bonuses in 2005 which were accrued in 2004, which were partly offset by the collection of receivables and the annual withdrawal of general partner incentive allocations from affiliated investment partnerships. The decrease in investment advisory and incentive fees receivable from \$40.01 million at December 31, 2004 to \$21.96 million at March 31, 2005 primarily reflects the receipt of incentive fees earned in 2004. The decrease in investments in affiliated investment partnerships from \$17.36 million at December 31, 2004 to \$10.83 million at March 31, 2005 primarily reflects the withdrawal of general partner incentive allocations from the partnerships earned with respect to 2004, which was partially offset by the accrual of incentive allocations for the three month period ended March 31, 2005. Incentive allocations typically are withdrawn within three months following the end of the calendar year to pay compensation and other expenses.

The increase in prepaid expenses and other assets to \$9.18 million at March 31, 2005 from \$7.05 million at December 31, 2004, and the decrease in the deferred tax asset to \$6.43 million at March 31, 2005 from \$8.39 million at December 31, 2004, both reflect the tax deduction taken in 2005 based on the fair market value of stock delivered pursuant to restricted stock unit awards. Due to the amount of the deduction, 2005 will reflect, for tax purposes, a net operating loss that may be carried back to prior years with respect to federal tax and carried forward with respect to state and local taxes.

Accrued expenses were \$3.24 million at March 31, 2005, as compared to \$4.29 million at December 31, 2004. Such expenses were comprised primarily of accruals for third party marketing fees and professional fees relating to public company expenses. Third party marketing fees are based on a percentage of accrued revenue, and such accruals may be reversed based on the subsequent investment performance of the relevant accounts

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through the end of the applicable performance measurement period. The payment of third party marketing fees was partly offset by the expenses accrued during the three months ended March 31, 2005.

Accrued bonuses were \$17.23 million at March 31, 2005, as compared to \$42.69 million at December 31, 2004, reflecting the payment of 2004 bonuses and the accrual for 2005 bonuses.

On April 5, 2005, BKF declared a special dividend of \$0.925 per share payable on April 29, 2005, resulting in total dividend payments aggregating approximately \$7.9 million.

Based upon BKF's current level of operations and anticipated growth, BKF expects that cash flows from operating activities will be sufficient to finance its working capital needs for the foreseeable future. Except for its lease commitments, which are discussed in Note 10 in the Notes to Consolidated Financial Statements in BKF's Annual Report on Form 10-K for the year ended December 31, 2004, BKF has no material commitments for capital expenditures.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Since BKF's revenues are largely driven by the market value of Levco's assets under management, these revenues are exposed to fluctuations in the equity markets. Management fees for most accounts are determined based on the market value of the account on the last day of the quarter, so any significant increases or decreases in market value occurring on or shortly before the last day of a quarter may materially impact revenues of the current quarter or the following quarter (with regard to wrap program accounts). Furthermore, since Levco manages most of its assets in a large cap value style, a general decline in the performance of value stocks could have an adverse impact on Levco's revenues. Similarly, a lack of opportunity to implement, or a failure to successfully implement, Levco's event-driven, long/short and short-biased strategies could reduce performance based incentive fees and allocations and thereby negatively impact BKF's revenues. Because BKF is primarily in the asset management business and manages equity portfolios, changes in interest rates, foreign currency exchange rates, commodity prices or other market rates or prices impact BKF only to the extent they are reflected in the equity markets.

Item 4. *Controls and Procedures*

An evaluation was performed under the supervision and with the participation of BKF's management, including the CEO and CFO, of the effectiveness of the design and operation of BKF's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, BKF's management, including the CEO and CFO, concluded that BKF's disclosure controls and procedures were effective as of the end of the period covered by this report. There have been no changes in BKF's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during BKF's most recent quarter that has materially affected, or is reasonably likely to materially affect, BKF's internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that BKF's controls will succeed in achieving their stated goals under all potential future conditions.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases by BKF during the quarter ended March 31, 2005 of equity securities that are registered by BKF pursuant to Section 12 of the Exchange Act.

The purchases described below relate to the withholding of shares from employees in order to satisfy statutory withholding requirements in connection with the delivery of common stock underlying Restricted Stock Units.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Units)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
1/1/05 - 1/31/05	96,508	\$ 36.76	Not Applicable	Not Applicable
2/1/05 - 2/28/05	16,366	\$ 39.09	Not Applicable	Not Applicable
3/1/05 - 3/31/05			Not Applicable	Not Applicable

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

This Quarterly Report on Form 10-Q contains certain statements that are not historical facts, including, most importantly, information concerning possible or assumed future results of operations of BKF and statements preceded by, followed by or that include the words may, believes, expects, anticipates, or the negation thereof, or similar expressions, which constitute forward-looking statements within the meaning of the Reform Act. For those statements, BKF claims the protection of the safe harbor for forward-looking statements contained in the Reform Act. These forward-looking statements are based on BKF's current expectations and are susceptible to a number of risks, uncertainties and other factors, including the risks specifically enumerated in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and BKF's actual results, performance and achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include the following: retention and ability of qualified personnel; the performance of the securities markets and of value stocks in particular; the investment performance of client accounts; the retention of significant client and/or distribution relationships; competition; the existence or absence of adverse publicity; changes in business strategy; quality of management; availability, terms and deployment of capital; business

abilities and judgment of personnel; labor and employee benefit costs; changes in, or failure to comply with, government regulations; the costs and other effects of legal and administrative proceedings; and other risks and uncertainties referred to in this document and in BKF's other current and periodic filings with the Securities and Exchange Commission, all of which are difficult or impossible to predict accurately and many of which are beyond BKF's control. BKF will not undertake and specifically declines any obligation to

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publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. In addition, it is BKF's policy generally not to make any specific projections as to future earnings, and BKF does not endorse any projections regarding future performance that may be made by third parties.

Item 6. Exhibits

10.1 Employment Agreement with Henry L. Levin and Frank F. Rango dated April 19, 2005 (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by Registrant on April 22, 2005)

31.1 Section 302 Certification of Chief Executive Officer

31.2 Section 302 Certification of Chief Financial Officer

32.1 Section 906 Certification of Chief Executive Officer

32.2 Section 906 Certification of Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BKF Capital Group, Inc.

By: /s/ John A. Levin

John A. Levin

*Chairman, Chief Executive Officer
and President*

By: /s/ Glenn A. Aigen

Glenn A. Aigen

*Senior Vice President and
Chief Financial Officer*

Date: May 10, 2005