

FRMO CORP.

1 North Lexington Avenue, Suite 12C, White Plains, NY 10601

Annual Report

May 31, 2016

Item 1 Name of the issuer and its predecessors (if any)

FRMO Corp.

Item 2 Address of the issuer's principal executive offices

1 North Lexington Avenue, Suite 12C
White Plains, NY 10601

Phone: 914-632-6730
Email: info@frmocorp.com
Website: www.frmocorp.com

Item 3 Security Information

Common Stock

Trading Symbol: FRMO
CUSIP: 30262F205

Par or Stated Value: \$0.001

Total shares authorized: 90,000,000	As of: May 31, 2016
Total shares outstanding: 43,953,155	As of: May 31, 2016

Preferred Stock:

Trading Symbol: N/A
CUSIP: N/A

Par or Stated Value: \$0.001

Total shares authorized: 2,000,000	As of: May 31, 2016
Total shares outstanding: None	As of: May 31, 2016

Transfer Agent

Broadridge Corporate Issuer Solutions, Inc.
1717 Arch Street, Suite 1300
Philadelphia, PA 19103
Phone: 800-733-1121

Broadridge is registered under the Exchange Act and regulated by the SEC.

Restrictions on the transfer of security

Restricted shares carry the following legend: The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be sold, transferred, pledged or hypothecated in the absence of an effective registration statement for the shares under the Securities Act of 1933 or an opinion of counsel to the company that registration is not required under said Act.

Item 4 Issuance History

Issue Date	Number and Type of Securities Issued	Person to Whom Issued	Reason for Issuance	Exemption from Registration	Trading Status	Legended Status
April 21, 2014	Option Exercise of 3,000 shares of common stock at price of \$2.00 per share (Grant date: 10/23/08)	Jay Hirschson	Director Compensation	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.
April 21, 2014	Option Exercise of 3,000 shares of common stock at price of \$2.03 per share (Grant date: 10/9/09)	Jay Hirschson	Director Compensation	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.
May 20, 2014	186,740 shares at \$8.25 per share	Horizon Common Inc.	Shares were issued in consideration of acquisition of an interest in a private investment fund.	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Securities Act.	Shares are restricted for at least 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.
August 29, 2014	Option Exercise of 3,000 shares of common stock at price of \$2.25 per share (Grant date: 10/14/10)	Jay Hirschson	Director Compensation	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.

Item 4 Issuance History (continued)

Issue Date	Number and Type of Securities Issued	Person to Whom Issued	Reason for Issuance	Exemption from Registration	Trading Status	Legended Status
August 29, 2014	Option Exercise of 3,000 shares of common stock at price of \$2.75 per share (Grant date: 1/17/12)	Jay Hirschson	Director Compensation	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.
September 9, 2014	159,693 shares at \$9.00 per share	Horizon Common Inc.	Shares were issued in consideration of acquisition of an interest in a private investment fund.	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for at least 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.
October 7, 2014	Option grant to purchase 5,000 shares of common stock, exercise price of \$9.18 per share	Allan Kornfeld	Director Compensation	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Options are unexercised. Will be restricted upon exercise.	To be legended upon exercise.
October 7, 2014	Option grant to purchase 3,000 shares of common stock, exercise price of \$9.18 per share	Jay Hirschson	Director Compensation	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Options are unexercised. Will be restricted upon exercise.	To be legended upon exercise.
February 10, 2015	Option Exercise of 50,000 shares of common stock at price of \$1.99 per share (Grant date: 12/16/09)	J. Douglas Kramer	Employee Incentive	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.

Item 4 Issuance History (continued)

Issue Date	Number and Type of Securities Issued	Person to Whom Issued	Reason for Issuance	Exemption from Registration	Trading Status	Legended Status
May 5, 2015	Option Exercise 7,750 shares of common stock at price of \$1.99 per share (Grant date: 12/16/09)	Hugh M. Ross	Employee Incentive	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.
October 8, 2015	Option grant to purchase 5,000 shares of common stock, exercise price of \$7.98 per share	Allan Kornfeld	Director Compensation	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Options are unexercised. Will be restricted upon exercise.	To be legended upon exercise.
October 8, 2015	Option grant to purchase 3,000 shares of common stock, exercise price of \$7.98 per share	Jay Hirschson	Director Compensation	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Options are unexercised. Will be restricted upon exercise.	To be legended upon exercise.
November 23, 2015	Option Exercise of 55,000 shares of common stock at price of \$1.99 per share (Grant date: 12/16/09)	J. Douglas Kramer	Employee Incentive	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.
November 27, 2015	Option Exercise of 30,000 shares of common stock at price of \$1.99 per share (Grant date: 12/16/09)	J. Douglas Kramer	Employee Incentive	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.
January 25, 2016	Option Exercise of 140,000 shares of common stock at price of \$1.99 per share (Grant date: 12/16/09)	J. Douglas Kramer	Employee Incentive	Registration of these Shares under the Securities Act of 1933, as amended, is not required pursuant to the exemption provided by Section 4(2) of the Act.	Shares are restricted for 1 year from issue date.	Shares carry the customary Securities Act of 1933 legend.



Baker Tilly Virchow Krause, LLP
One Penn Plaza, Suite 3000
New York, NY 10119
tel 212 697 6900
fax 212 490 1412
bakertilly.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
FRMO Corporation and Subsidiaries
White Plains, New York

We have audited the accompanying consolidated balance sheets of FRMO Corporation and Subsidiaries (the "Company") as of May 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income (loss), stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FRMO Corporation and Subsidiaries as of May 31, 2016 and 2015 and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
August 9, 2016

Item 5 FINANCIAL STATEMENTS (Continued)

CONSOLIDATED FINANCIAL STATEMENTS

Item 5 FINANCIAL STATEMENTS (Continued)

**FRMO CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

As of May 31, 2016 and 2015

ASSETS		
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 49,092,383	\$ 44,745,381
Accounts receivable (including due from related party of \$820,333 and \$1,225,861 at May 31, 2016 and 2015, respectively)	845,816	1,262,109
Prepaid income taxes	1,148,041	480,398
Investment in South LaSalle Partners, LP, available for sale, at fair value (cost of \$5,771,005 and \$5,783,143 at May 31, 2016 and 2015, respectively)	4,990,449	6,520,975
Investment in Winland Electronics, Inc., available for sale, at fair value (cost of \$460,435)	1,125,487	738,596
Other investments, available for sale, at fair value (cost of \$29,180,398 and \$16,239,451 at May 31, 2016 and 2015, respectively)	<u>33,082,146</u>	<u>40,748,582</u>
Total Current Assets	90,284,322	94,496,041
Participation Receivable	138,357	138,357
Investment in OneChicago LLC	246,000	-
Investment in Digital Currency Group, Inc.	76,261	-
Investment in CNSX Markets, Inc.	243,040	-
Investment in Miami International Holdings, Inc.	250,000	-
Investment in The Bermuda Stock Exchange	2,642,020	2,639,317
Investment in Horizon Kinetics LLC	10,880,228	11,200,007
Participation in Horizon Kinetics LLC Revenue Stream	<u>10,200,000</u>	<u>10,200,000</u>
TOTAL ASSETS	<u>\$ 114,960,228</u>	<u>\$ 118,673,722</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 183,417	\$ 151,516
Securities sold, not yet purchased (proceeds of \$8,848,394 and \$6,629,187 at May 31, 2016 and 2015, respectively)	4,412,055	1,797,947
Deferred tax liability	<u>5,820,288</u>	<u>10,285,853</u>
Total Current Liabilities	10,415,760	12,235,316
Deferred Tax Liability - non-current	<u>4,752,880</u>	<u>4,274,305</u>
Total Liabilities	<u>15,168,640</u>	<u>16,509,621</u>
STOCKHOLDERS' EQUITY		
Redeemable preferred stock - \$.001 par value;		
Authorized - 2,000,000 shares; no shares outstanding	-	-
Common stock - \$.001 par value, authorized 90,000,000 shares		
Issued and outstanding - 43,953,155 shares and 43,728,155 shares at May 31, 2016 and 2015, respectively	43,953	43,728
Additional paid-in capital	30,349,918	29,399,060
Accumulated other comprehensive income	3,135,638	13,941,705
Retained earnings	<u>62,581,715</u>	<u>58,779,608</u>
Total Stockholders' Equity Attributable to FRMO Corporation	96,111,224	102,164,101
Noncontrolling interests	<u>3,680,364</u>	<u>-</u>
Stockholders' Equity	99,791,588	102,164,101
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 114,960,228</u>	<u>\$ 118,673,722</u>

See report of independent registered public accounting firm and notes to consolidated financial statements.

**FRMO CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

	Year Ended May 31,	
	<u>2016</u>	<u>2015</u>
REVENUE		
Consultancy and advisory fees	\$ 2,536,194	\$ 3,215,379
Board fees	2,400	3,200
Dividends and interest income, net	659,352	1,514,625
Realized gains from investments	3,259,989	1,334,135
Income from investment partnerships and limited liability companies	2,028,803	1,778,859
Income from investment in The Bermuda Stock Exchange	<u>2,703</u>	<u>91,597</u>
Total Revenue	<u>8,489,441</u>	<u>7,937,795</u>
OPERATING EXPENSES		
Employee compensation and benefits	103,200	103,200
Professional fees	260,168	247,516
Other expenses	323,860	184,480
Equity compensation	<u>33,920</u>	<u>42,320</u>
Total Expenses	<u>721,148</u>	<u>577,516</u>
Income from Operations before Provision for Income Taxes	7,768,293	7,360,279
Provision for income taxes	<u>4,075,596</u>	<u>2,458,423</u>
Net Income	3,692,697	4,901,856
Less net loss attributable to noncontrolling interests	<u>(109,410)</u>	<u>-</u>
Net Income Attributable to FRMO Corporation	<u>\$ 3,802,107</u>	<u>\$ 4,901,856</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Net Income	<u>\$ 3,692,697</u>	<u>\$ 4,901,856</u>
Unrealized investment holding gains (losses) arising during the period	(15,195,592)	2,351,697
Income tax benefit (provision) related to items of other comprehensive income	<u>4,425,409</u>	<u>(966,487)</u>
Unrealized investment holding gains (losses), net of tax	<u>(10,770,183)</u>	<u>1,385,210</u>
Comprehensive Income (Loss)	(7,077,486)	6,287,066
Less comprehensive loss attributable to noncontrolling interests	<u>(56,588)</u>	<u>-</u>
Comprehensive Income (Loss) Attributable to FRMO Corporation	<u>\$ (7,020,898)</u>	<u>\$ 6,287,066</u>
EARNINGS PER COMMON SHARE		
Basic	<u>\$ 0.09</u>	<u>\$ 0.11</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.11</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	<u>43,820,150</u>	<u>43,644,295</u>
Diluted	<u>43,872,460</u>	<u>44,050,646</u>

See report of independent registered public accounting firm and notes to consolidated financial statements.

Item 5 FINANCIAL STATEMENTS (Continued)

FRMO CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Years Ended May 31, 2016 and 2015

	Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Stockholders' Equity		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Attributable to FRMO Corporation	Non Controlling Interests	
BALANCE - June 1, 2014	-	\$ -	43,504,712	\$ 43,504	\$ 27,573,602	\$ 12,556,495	\$ 53,877,752	\$ 94,051,353	\$ -	\$ 94,051,353
Common Stock Issued in Exchange for Additional Investment in South LaSalle Partners, LP	-	-	159,693	160	1,437,084	-	-	1,437,244	-	1,437,244
Equity Compensation	-	-	-	-	42,320	-	-	42,320	-	42,320
Exercise of Stock Options	-	-	63,750	64	129,859	-	-	129,923	-	129,923
Tax Benefit from Exercise of Stock Options	-	-	-	-	112,995	-	-	112,995	-	112,995
Non-cash Compensation	-	-	-	-	103,200	-	-	103,200	-	103,200
Change in Unrealized Gains on Available for Sale Securities, net of tax	-	-	-	-	-	1,385,210	-	1,385,210	-	1,385,210
Net Income	-	-	-	-	-	-	4,901,856	4,901,856	-	4,901,856
BALANCE - May 31, 2015	-	-	43,728,155	43,728	29,399,060	13,941,705	58,779,608	102,164,101	-	102,164,101
Equity Compensation	-	-	-	-	33,920	-	-	33,920	-	33,920
Exercise of Stock Options	-	-	225,000	225	447,525	-	-	447,750	-	447,750
Tax Benefit from Exercise of Stock Options	-	-	-	-	167,035	-	-	167,035	-	167,035
Non-cash Compensation	-	-	-	-	103,200	-	-	103,200	-	103,200
Capital Accounts of Consolidated Limited Liability Company	-	-	-	-	199,178	-	-	199,178	-	199,178
Change in Unrealized Gains on Available for Sale Securities, net of tax	-	-	-	-	-	(10,806,067)	-	(10,806,067)	(56,588)	(10,862,655)
Net Income (Loss)	-	-	-	-	-	-	3,802,107	3,802,107	(109,410)	3,692,697
Noncontrolling interests from consolidation of Horizon Kinetics Hard Assets LLC	-	-	-	-	-	-	-	-	3,846,362	3,846,362
BALANCE - May 31, 2016	-	\$ -	43,953,155	\$ 43,953	\$ 30,349,918	\$ 3,135,638	\$ 62,581,715	\$ 96,111,224	\$ 3,680,364	\$ 99,791,588

See report of independent registered public accounting firm and notes to consolidated financial statements.

Item 5 FINANCIAL STATEMENTS (Continued)

**FRMO CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,692,697	\$ 4,901,856
Adjustments to reconcile net income to net cash flows from operating activities		
Non-cash compensation	103,200	103,200
Equity compensation	33,920	42,320
Realized gain from investments	(3,259,989)	(1,334,135)
Income from partnerships and limited liability companies	(2,028,803)	(1,778,859)
Income from investment in The Bermuda Stock Exchange	(2,703)	(91,597)
Tax benefit from exercise of stock options	(167,035)	(112,995)
Deferred income tax benefit	438,419	169,107
Changes in operating assets and liabilities:		
Accounts receivable (includes \$(405,528) and \$681,473 from related parties) at May 31, 2016 and 2015, respectively)	416,293	(667,546)
Prepaid income taxes	(500,608)	(480,398)
Accounts payable and accrued expenses	31,901	(274,484)
Income taxes payable	-	(719,757)
Net Cash Flows from Operating Activities	<u>(1,242,708)</u>	<u>(243,288)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds - investments available for sale	7,824,323	18,343,087
Purchases - investments available for sale	(5,372,402)	(1,672,088)
Proceeds from securities sold, not yet purchased	6,622,781	995,285
Purchases to cover securities previously sold	(3,832,578)	-
Investment in OneChicago LLC	(246,000)	-
Investment in Digital Currency Group, Inc.	(76,261)	-
Investment in Miami International Holdings, Inc.	(250,000)	-
Investment in CNSX Markets, Inc.	(243,040)	-
Investment in The Bermuda Stock Exchange	-	(177,205)
Net Cash Flows from Investing Activities	<u>4,426,823</u>	<u>17,489,079</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of other equity-subsiary	548,102	-
Proceeds from exercise of stock options	447,750	129,923
Tax benefit from exercise of stock options	167,035	112,995
Net Cash Flows from Financing Activities	<u>1,162,887</u>	<u>242,918</u>
Net Change in Cash and Cash Equivalents	4,347,002	17,488,709
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>44,745,381</u>	<u>27,256,672</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 49,092,383</u>	<u>\$ 44,745,381</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Income taxes	<u>\$ 4,121,166</u>	<u>\$ 3,479,465</u>
Interest	<u>\$ 3,890,523</u>	<u>\$ 48,850</u>
NONCASH INVESTING ACTIVITIES		
Investment acquired through the issuance of common stock	<u>\$ -</u>	<u>\$ 1,437,244</u>
Investment acquired through the transfer of other investments	<u>\$ 3,715,397</u>	<u>\$ -</u>

See report of independent registered public accounting firm and notes to consolidated financial statements.

Item 5 **FINANCIAL STATEMENTS (Continued)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 1 - Nature of Business

FRMO Corporation ("FRMO") was incorporated in 1993 under the laws of the State of Delaware. In January 2001, FRMO spun off its operations in a transaction accounted for as a reverse pooling of interests.

Management is experienced in the analysis of public and private companies and securities within a framework of identifying investment strategies and techniques that reduce risk. The Company endeavors to identify and participate in operating assets, particularly in the early stages of the expression of their ultimate value, in ways that are calculated to increase the value of the stockholders' interest in FRMO. Such assets are expected to include, but are not limited to, those whose values and earnings are based on intellectual capital. Of the many varieties of capital upon which investors have earned returns, ranging from real estate to silicon, perhaps the highest returns on capital have been earned on intellectual capital. It is the goal of FRMO to maximize its return on this form of asset. The identification of any business opportunities will follow the process employed by Horizon Kinetics, LLC ("Horizon" or "Horizon Kinetics"), to select and evaluate investment opportunities and strategies. Horizon was co-founded by Murray Stahl and Steven Bregman, officers and principal stockholders of the Company. It is an investment advisory and independent research firm, the research activities serving primarily institutional investors. Horizon provides in-depth analysis of information-poor, under-researched companies and strategies to identify the complex or overlooked situations that can offer an advantage to the investor.

Until April 30, 2011, the Company owned an 8.44% interest in Kinetics Advisers, LLC ("Kinetics Advisers"). Effective May 1, 2011, the members of Kinetics Advisers contributed all of their membership interests in Kinetics Advisers to Horizon Kinetics and, in exchange, Kinetics Advisers members received certain membership interests of Horizon Kinetics and Kinetics Advisers became a wholly-owned subsidiary of Horizon Kinetics (the "Exchange"). As a result of the Exchange, the Company exchanged its original 8.44% membership interest in Kinetics Advisers for a 0.47% membership interest in Horizon Kinetics and a receivable of approximately \$4,814,000, which represented the Company's proportionate shares of fees that were earned and payable to Kinetics Advisers prior to the Exchange (see Note 3). On August 15, 2012, the Company transferred an interest in a revenue stream to Horizon Kinetics in exchange for A-1 units of Horizon Kinetics, increasing the Company's membership interest in Horizon Kinetics to 0.86%. On April 16, 2013, the Company entered into an agreement with Horizon Kinetics to exchange, on or before May 31, 2013, certain privately held units of Horizon Kinetics for common shares of the Company based upon pre-determined prices of each. On May 31, 2013, the Company issued 2,387,715 shares of its common stock to the individual Horizon Kinetics unit sellers in exchange for an additional 4.09% interest in Horizon Kinetics. As a result of the Exchange and subsequent transactions discussed above, FRMO increased its interest in Horizon Kinetics from 0.86% to 4.95% (see Note 3). Effective June 1, 2013, the Company earns substantially all of its fees from Horizon Kinetics as a result of an amendment of its product-specific revenue interests (see Note 3). For the years ended May 31, 2016 and 2015, fees earned by the Company include fees earned from Horizon Kinetics and other fees derived from assets managed by other parties based on the research of Horizon Kinetics.

The other programs significant to FRMO's fees are as follows:

- (i) **Consulting fees** - The Company receives consulting fees pursuant to an agreement with Santa Monica Partners, LP, whose manager is a director and stockholder of the Company.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 1 - Nature of Business (cont.)

- (ii) **Participation agreement** - In November 2010, the Company invested in a participation agreement with Horizon. The agreement provided that the Company pay to Horizon \$750,473 to fund Horizon's November 8, 2010 capital call in Croupier Prive Private Equity Fund, LP ("Prive") for the purchase by Croupier Prive Private Equity Fund Master Fund, LP ("Master") of four specified investments in consideration of Horizon's agreement that the Company shall have the right to participate in 50% of Horizon's share of any profit in each of the investments while bearing only 10% of any loss on the sale of each of the investments through the end of Prive's extended term on July 31, 2017. On April 12, 2013, the Company received \$664,277 as a partial distribution. As of May 31, 2016 and 2015, the balance of the assets to be distributed by Horizon was \$138,357 and is included in "Participation receivable" in the consolidated balance sheets.
-

NOTE 2 - Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of FRMO and its controlled subsidiaries (collectively referred to as the "Company"). Noncontrolling interests on the consolidated balance sheets, consolidated statements of income and comprehensive income (loss), and consolidated statement of stockholders' equity represent the portion of a subsidiary in which the Company does not have direct equity ownership. The Company maintains its corporate office in White Plains, New York.

Principles of Consolidation

The consolidated financial statements represent the consolidation of the accounts of FRMO and its subsidiaries in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated companies (generally 20 to 50 percent ownership), in which the Company has the ability to exercise significant influence but neither has a controlling interest nor is the primary beneficiary, are accounted for under the equity method of accounting. Investments in entities in which the Company does not have the ability to exercise significant influence are accounted for under the cost method of accounting. Under certain criteria indicated in Accounting Standards Codification ("ASC") 810, *Consolidation*, a partially-owned affiliate would be consolidated when it has less than a 50% ownership if the Company was the primary beneficiary of that entity.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. At May 31, 2016 and 2015, the Company had balances in excess of federally insured limits on deposit with financial institutions. At May 31, 2016, the Company had: (1) three accounts with balances of approximately \$11,412,000, \$36,525,000 and \$790,000 at one financial institution, and (2) one account with a balance of approximately \$365,000 at another financial institution. The Company has not experienced any losses in such accounts, and management believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Cash and Cash Equivalents (cont.)

In the normal course of business, substantially all of the Company's securities transactions, money balances, and security positions are transacted with one broker. The Company is subjected to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Company's management monitors the financial condition of such broker and does not anticipate any losses from such counterparty.

Investment Valuation

The Company accounts for its investments in accordance with "*Investments - Debt and Equity Securities*", which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. Accordingly, the Company has classified its equity securities as available-for-sale and its investment in a participation agreement as held to maturity. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs, or other factors.

Equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders' equity. Realized gains and losses are determined on the specific identification method.

Investments that the Company has the specific intent and ability to hold until maturity are carried at cost.

The estimated fair values of financial instruments are determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates, when presented herein, are not necessarily indicative of the amounts that the Company could realize in a sale. The Company will record an impairment charge if and when it believes any investment has experienced a decline that is other than temporary.

As of May 31, 2016 and 2015, investments in limited partnerships and limited liability companies are valued using data inputs from March 31, 2016 and 2015, respectively, the dates of the most current available information.

Investments in Unconsolidated Entities

The Company evaluates investments in other entities for consolidation. The Company considers the percentage interest in the joint venture, evaluation of control and whether a variable interest entity exists when determining if the investment qualifies for consolidation. Investments in limited liability companies that have separate ownership accounts for each investor greater than three to five percent are accounted for under the equity method of accounting.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Investments in Unconsolidated Entities (cont.)

Under the equity method, the investment is recorded initially at cost, and subsequently adjusted for all realized income (loss) and all allocated shares of pass-through income or loss items ("Net Income"). The Net Income of each investor will be allocated in accordance with the provisions of the operating agreement of the entity. The allocation provisions in these agreements may differ from the ownership interest held by each investor. These items are reported as a single line item in the consolidated statements of income as income and comprehensive income (loss) from investment partnerships and limited liability companies. The unrealized gains and losses of these entities are also reflected in the investment and are included in other comprehensive income. Under the cost method of accounting, the investment is recorded initially at cost, and subsequently adjusted for cash contributions and distributions resulting from any capital events.

On a quarterly basis, the Company assesses whether the value of its investments in unconsolidated entities has been impaired. An investment is impaired only if management's estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. The ultimate realization of the Company's investment in partially owned entities is dependent on a number of factors including the performance of that entity and market conditions. If the Company determines that a decline in the value of a partially owned entity is other than temporary, it will record an impairment charge.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable and Allowance for Doubtful Accounts

In the normal course of business, the Company provides unsecured credit to customers, performs credit evaluations of these customers, and maintains reserves for potential credit losses. In determining the amount of allowance for doubtful accounts, management considers historical credit losses, the past due status of receivables, payment history, and other customer-specific information. The past due status of a receivable is based on its contractual terms. Expected credit losses are recorded as an allowance for doubtful accounts. Receivables are written off when management determines they are uncollectible. An allowance for doubtful accounts is not provided as of May 31, 2016 and 2015 since, in the opinion of management, all of its accounts are deemed collectible.

Securities Sold, not yet purchased

Securities sold, not yet purchased, or securities sold short, represent obligations of the Company to deliver the specified security, and thereby create a liability to repurchase the security in the market at then prevailing prices. Securities sold, not yet purchased are recorded as a liability at fair value.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Comprehensive Income

Other comprehensive income refers to revenues, expenses, gains, and losses net of income taxes that, under U.S. GAAP, are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity and consist primarily of unrealized gains (losses) on available for sale investments.

Revenue Recognition

The Company primarily generates revenue through advisory and consulting fees. The accrual method of accounting is used to record fee income, which is recognized when earned.

Security transactions are recorded based on a trade date. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities. Realized gains and losses from securities transactions are recorded on a specific identification basis.

Revenue from the Company's interest in Horizon Kinetics' gross revenues is earned primarily on a month-by-month basis. Beginning with the quarter ended February 28, 2014, and each year thereafter, the revenue recorded for the quarter ended February 28/29 will include the Company's share of annual incentive fees earned by Horizon Kinetics, if any.

Revenue (loss) from investment partnerships is earned based upon FRMO's allocated share of each partnership's pass-through of income and expenses to its partners on a calendar year basis.

Research

Research expenditures, consisting of investment research, are expensed as incurred.

Stock-based Compensation

The Company records compensation expense associated with stock options and other equity-based compensation in accordance with guidance established by U.S. GAAP. Stock option compensation expense for the years ended May 31, 2016 and 2015 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award less an estimate for anticipated forfeitures.

Income Taxes

The Company files a consolidated federal income tax return with its wholly-owned subsidiary. Material differences between the financial reporting and the tax reporting of the Company's revenue, assets, and liabilities are included in deferred tax assets or liabilities. The income tax provisions and liability for income taxes are based on enacted tax laws and statutory tax rates applicable to the respective periods.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Income Taxes (cont.)

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized

Uncertain Tax Positions

The Company follows the relevant provisions of U.S. GAAP concerning uncertainties in income taxes, which clarifies the accounting for uncertainty in tax positions and requires that the Company recognize in its consolidated financial statements the impact of an uncertain tax position, if that position has a more-likely-than-not chance of not being sustained on audit, based on the technical merits of that position. All related interest and penalties would be expensed as incurred. Tax returns for the years ended May 31, 2013 and forward are still subject to examination. The Company has evaluated its tax position and determined that no provision for uncertainty in income taxes is necessary as of May 31, 2016 and 2015.

Reclassifications

The Company has reclassified certain prior year cost of investments as of May 31, 2015 to conform to the May 31, 2016 presentation. None of these reclassifications had an effect on previously reported net income and comprehensive income, total assets, stockholders' equity or cash flows.

Subsequent Events

The Company has evaluated all subsequent events from the date of the consolidated balance sheets through August 9, 2016, which represents the date these consolidated financial statements are available to be issued.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 3 - Exchange of Product-Specific Revenue Interests

By agreement dated April 16, 2013, the Company amended the terms of its product-specific revenue interests in the following products managed by Horizon Kinetics and its subsidiaries: (i) a mutual fund, (ii) two private investment funds, (iii) a consultative relationship with an institutional investor and, (iv) an institutional separate account. The transaction was consummated at the close of business on May 31, 2013 and commenced on June 1, 2013. FRMO now receives a single revenue interest (the "Revenue Interest") equal to 4.199% of the gross revenues of Horizon Kinetics. On May 31, 2013, the 4.199% Revenue Interest had an estimated fair value of \$10,200,000 as determined by an independent valuation and is shown as "Participation in Horizon Kinetics LLC revenue stream" in the consolidated balance sheets as of May 31, 2016 and 2015. Revenue Interest from this transaction is recorded as "Consultancy and advisory fees" in the consolidated statements of income and comprehensive income (loss) for the years ended May 31, 2016 and 2015 and represents substantially all of the consulting and advisory fees for the years ended May 31, 2016 and 2015.

As a result of this transaction, the Company realized a gain of approximately \$10,057,000 in 2013. Income taxes of approximately \$4,386,000 on the gain are deferred pursuant to Section 1031 of the Internal Revenue Code relating to "like-kind exchanges" and are included in "Deferred Tax Liability - non-current" in the consolidated balance sheets as of May 31, 2016 and 2015.

NOTE 4 - Investments

Available for Sale

The Company's investments classified as available for sale consist of the following as of May 31, 2016 and 2015:

	May 31, 2016		
	Cost	Unrealized Gains (Losses)	Fair Value
Investments			
Investment in South LaSalle Partners, LP	<u>\$ 5,771,005</u>	<u>\$ (780,556)</u>	<u>\$ 4,990,449</u>
Investment in Winland Electronics, Inc.	<u>\$ 460,435</u>	<u>\$ 665,052</u>	<u>\$ 1,125,487</u>
Other Investments			
Investments in limited partnerships			
Horizon Multi-Strategy Fund, LP	\$ 7,817,962	\$ 895,830	\$ 8,713,792
CDK Partners, LP	911,349	407,121	1,318,470
Polestar Fund, LP	7,181,462	3,626,235	10,807,697
Multi-Disciplinary Fund, LP	<u>549,082</u>	<u>(34,217)</u>	<u>514,865</u>
Total Investments in limited partnerships	16,459,855	4,894,969	21,354,824
Bond and equity securities	<u>12,720,543</u>	<u>(993,221)</u>	<u>11,727,322</u>
Total Other Investments	<u>\$ 29,180,398</u>	<u>\$ 3,901,748</u>	<u>\$ 33,082,146</u>

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 4 - Investments (cont.)

	May 31, 2015		
	Cost	Unrealized Gains (Losses)	Fair Value
Investments			
Investment in South LaSalle Partners, LP	<u>\$ 5,783,143</u>	<u>\$ 737,832</u>	<u>\$ 6,520,975</u>
Investment in Winland Electronics, Inc.	<u>\$ 460,435</u>	<u>\$ 278,161</u>	<u>\$ 738,596</u>
Other Investments			
Investments in limited partnerships			
Horizon Multi-Strategy Fund, LP	\$ 7,739,331	\$ 3,361,184	\$ 11,100,515
CDK Partners, LP	799,963	698,687	1,498,650
Polestar Fund, LP	5,667,561	6,528,283	12,195,844
Multi-Disciplinary Fund, LP	<u>583,501</u>	<u>(50,301)</u>	<u>533,200</u>
Total Investments in limited partnerships	14,790,356	10,537,853	25,328,209
Bond and equity securities	<u>1,449,095</u>	<u>13,971,278</u>	<u>15,420,373</u>
Total Other Investments	<u>\$ 16,239,451</u>	<u>\$ 24,509,131</u>	<u>\$ 40,748,582</u>

The Company's limited partnerships interests are all under 50%, except for its investment in South LaSalle Partners, LP at May 31, 2016 and 2015, which was 55.04% and 62.26%, respectively. This entity has not been consolidated into the Company due to lack of control. South LaSalle Partners, LP owns 14.2% of the seats on the Minneapolis Grain Exchange.

The Company's investment capital in South LaSalle Partners, LP may be withdrawn as of the last day of each calendar quarter by providing the general partner with 60 days advance written notice. The general partner, in its sole discretion, may permit withdrawals at other times or otherwise modify or waive such withdrawal conditions and requirements, including any notice period, for any or all of the limited partners at any time without notice to or the consent of the limited partners. An entity, related by common ownership, is a member of both the general partner and the Manager of South LaSalle Partners, LP.

The Company's investment capital in the Horizon Multi-Strategy Fund, LP may be withdrawn on 45 days prior written notice to the general partner, and the Company may redeem all or part of its capital account on the last day of each calendar quarter. Redemptions may be settled in cash or, at the discretion of the general partner, through in-kind distributions of portfolio securities, the fair market value of which would satisfy the redemption request. An entity, related by common ownership, is a member of both the general partner and the manager of Horizon Multi-Strategy Fund, LP.

The Company's investment capital in CDK Partners, LP (formerly known as Croupier Fund, LP) may be withdrawn as of the last day of each month by providing the general partner with 60 days advance written notice. The general partner, in its sole discretion, may permit withdrawals at other times or otherwise modify or waive such withdrawal conditions and requirements. All withdrawal amounts may be paid in cash or in kind (or a combination thereof), in the general partner's sole discretion.

Item 5 **FINANCIAL STATEMENTS (Continued)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 4 - Investments (cont.)

The Company's investment capital in Polestar Fund, LP may be withdrawn as of the last day of each month (or such other dates as the general partner in its discretion shall determine) by providing the general partner with 45 days advance written notice, with the minimum amount to be withdrawn of \$100,000. The general partner may, in its sole discretion, allow redemptions that do not comply with the above requirements; however, such redemptions may be subject to a penalty equal to up to 2% of the redemption amount requested. All withdrawal amounts may be paid in cash or in kind (or a combination thereof), in the general partner's sole discretion. An entity, related by common ownership, is a member of both the general partner and the manager of Polestar Fund, LP.

The Company's investment in the Multi-Disciplinary Fund, LP may be withdrawn as of the last business day of any calendar quarter upon at least 45 days advance written notice to the general partner, and in such other amounts and at such other times as the general partner may determine in its sole discretion. The minimum amount to be withdrawn is \$50,000. Partial withdrawals may not be made without the general partner's consent if they would reduce the investor's capital account balance below \$100,000. All withdrawals shall be deemed made prior to the commencement of the following calendar quarter. The general partner has discretion to waive or vary these terms. An entity, related by common ownership, is a member of both the general partner and the manager of Multi-Disciplinary Fund, LP.

Investments in Unconsolidated Subsidiaries

The Company's investments in unconsolidated subsidiaries not classified as available for sale consist of the following as of May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investment in OneChicago, LLC	\$ 246,000	\$ -
Investment in Digital Currency Group, Inc.	\$ 76,261	\$ -
Investment in CNSX Markets, Inc.	\$ 243,040	\$ -
Investment in Miami International Holdings, Inc.	\$ 250,000	\$ -
Investment in The Bermuda Stock Exchange	\$ 2,642,020	\$ 2,639,317
Investment in Horizon Kinetics LLC	\$ 10,880,228	\$ 11,200,007

OneChicago, LLC

On June 18, 2015, the Company acquired 5 units of OneChicago, LLC for \$246,000. The Company's investment in OneChicago, LLC, in which the Company holds a 0.279% interest, is accounted for using the cost method of accounting.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 4 - Investments (cont.)

Investments in Unconsolidated Subsidiaries (cont.)

Digital Currency Group, Inc.

On February 26, 2016, the Company acquired 353 shares of Digital Currency Group, Inc. for \$76,261. The Company's investment in Digital Currency Group, Inc., in which the Company holds a 0.05% interest, is accounted for using the cost method of accounting.

CNSX Markets, Inc.

On January 21, 2016, the Company acquired 380,000 shares of CNSX Markets, Inc. for \$243,040. The Company's investment in CNSX Markets, Inc., in which the Company holds a 1.41% interest, is accounted for using the cost method of accounting.

Miami International Holdings, Inc.

On May 5, 2016, the Company acquired 50,000 shares of Miami International Holdings, Inc. for \$250,000. The Company's investment in Miami International Holdings, Inc. in which the Company holds less than a 1.00% interest, is accounted for using the cost method of accounting.

The Bermuda Stock Exchange

Pursuant to an offer to the members of the Bermuda Stock Exchange ("BSX"), the Company acquired 509,114 shares of BSX (37.57%) for a total consideration of \$2,370,515 on April 16, 2014. On February 27, 2015, FRMO acquired an additional 33,940 shares of BSX from existing shareholders for \$154,521. The additional shares purchased increased FRMO's investment in BSX to 40.08% effective March 2, 2015. The Company's investment in The Bermuda Stock Exchange is accounted for under the equity method of accounting.

Horizon Kinetics LLC

The Company's investment in Horizon Kinetics, in which the Company now holds a 4.95% interest, is accounted for using the equity method of accounting. Since May 31, 2012, the Company's additional 4.09% interest in Horizon Kinetics that was acquired on May 31, 2013 and prior units are no longer classified as available for sale and thus, are now carried at cost, which includes prior fair market value adjustments through May 31, 2013.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 4 - Investments (cont.)

Noncontrolling Interests

Horizon Kinetics Hard Assets LLC

Horizon Kinetics Hard Assets LLC ("HKHA") is a New York limited liability company formed by Horizon, and certain officers, principal stockholders and directors of the Company for the purpose of investing in companies that own 'hard assets' with intrinsic value such as commodities including oil, natural gas, precious metals as well as land assets including industrial and commercial real estate, and other similar assets.

From November 1, 2015 through May 1, 2016, the Company acquired an interest in HKHA by contributing securities with a fair market value of \$310,432. As of May 31, 2016 the Company holds a 5.08% interest in HKHA.

Due to the common control and ownership between HKHA and the Company's principal stockholders and directors, HKHA has been consolidated within the Company's financial statements in accordance with the Company's consolidation policy. The noncontrolling interest of 94.92% in HKHA has been eliminated as of May 31, 2016.

Securities Sold, not yet purchased (liability)

Securities sold, not yet purchased, or securities sold short, consist of equity securities that the Company has borrowed and sold. The Company is required to "cover" its short sales in the future by purchasing the security at prevailing market prices and delivering it to the counterparty from which it borrowed the security. The Company is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short. Securities sold, not yet purchased are recorded as a liability at fair value. A gain, limited to the price at which the Company sold the investment short, or a loss, unlimited in amount, will be recognized upon the cover of the short sale.

NOTE 5 - Fair Value Measurements

The Company follows "*Fair Value Measurements*" for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2016 and 2015, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair values. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates, and yield curves, and quoted prices for identical or similar instruments in markets that are not active. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability. The Company does not have Level 3 assets or liabilities:

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 5 - Fair Value Measurements (cont.)

	As of May 31, 2016			
	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (at fair value)				
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 48,727,079	\$ 48,727,079	\$ -	\$ -
Investments				
Available for sale				
Bond and Equity Securities	\$ 12,852,809	\$ 11,727,322	\$ 1,125,487	\$ -
Investments in Limited Partnerships	26,345,273	-	26,345,273	-
Total Investments Available for Sale	\$ 39,198,082	\$ 11,727,322	\$ 27,470,760	\$ -
Liabilities (at fair value):				
Common Stocks	\$ 4,412,055	\$ 4,412,055	\$ -	\$ -
	As of May 31, 2015			
	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (at fair value)				
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 44,744,316	\$ 44,744,316	\$ -	\$ -
Investments				
Available for sale				
Bond and Equity Securities	\$ 16,158,969	\$ 16,158,969	\$ -	\$ -
Investments in Limited Partnerships	31,849,184	-	31,849,184	-
Total Investments Available for Sale	\$ 48,008,153	\$ 16,158,969	\$ 31,849,184	\$ -
Liabilities (at fair value):				
Common Stocks	\$ 1,797,947	\$ 1,797,947	\$ -	\$ -

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 6 - Income Taxes

The Company files a consolidated federal income tax return and a combined state tax return with its wholly-owned subsidiary, Fromex Equities Corp.

The provision for (benefit from) income taxes is comprised of the following for the years ended May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Current		
Federal	\$ 2,118,957	\$ 1,924,175
State and City	<u>1,518,215</u>	<u>365,141</u>
Total Current	<u>3,637,172</u>	<u>2,289,316</u>
Deferred		
Federal	(229,158)	132,616
State and City	<u>667,582</u>	<u>36,491</u>
Total Deferred	<u>438,424</u>	<u>169,107</u>
Total Provision for Income Taxes	<u>\$ 4,075,596</u>	<u>\$ 2,458,423</u>

The tax effects of temporary differences which give rise to deferred tax assets and liabilities consist of the following as of May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Current Deferred Tax Liabilities		
Investments in limited partnerships	\$ 471,890	\$ 401,018
Unrealized gain from investments	<u>5,348,398</u>	<u>9,884,835</u>
Total Current Deferred Tax Liabilities	<u>5,820,288</u>	<u>10,285,853</u>
Non-Current Deferred Tax Liabilities		
Investment in unconsolidated limited liability company	366,925	251,412
Deferral of gain from like-kind exchange	<u>4,385,955</u>	<u>4,022,893</u>
Total Non-Current Deferred Tax Liabilities	<u>4,752,880</u>	<u>4,274,305</u>
Total Deferred Tax Liability	<u>\$ 10,573,168</u>	<u>\$ 14,560,158</u>

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 6 - Income Taxes (cont.)

A reconciliation of the federal statutory rate to the effective tax rate is as follows for the years ended May 31, 2016 and 2015:

	2016		2015	
Computed Expected Tax Expense	\$ 2,679,184	34.0%	\$ 2,502,495	34.0%
State Taxes, net of federal benefit	386,627	4.9%	286,049	3.9%
Permanent Differences	(192,935)	-2.4%	(398,677)	-5.4%
True-Up of Prior Year Tax	228,406	2.9%	57,259	0.8%
Additional City Tax Due to Establishment of Nexus for Prior Years, net of federal benefit - current	588,492	7.5%	-	-%
Additional City Tax Due to Establishment of Nexus for Prior Years, net of federal benefit - deferred	426,886	5.4%	-	-%
Other	(41,064)	-0.6%	11,297	0.1%
Total Provision for Income Taxes	\$ 4,075,596	51.7%	\$ 2,458,423	33.4%

NOTE 7 - Net Income Per Common Share and Per Common Share Equivalent

Basic and diluted earnings per common share is calculated by dividing net income allocated to common stock by the weighted average common shares outstanding during the period. The weighted average number of shares of common stock used in the calculation of diluted earnings per share is adjusted for the dilutive effects of potential common shares including the assumed exercise of vested stock options based on the treasury stock method and the assumed conversion of convertible preferred stock. Assumed exercise or conversion of potential common shares is only when the weighted average market price for the period exceeds the exercise price and the conversion price, and that the entity records earnings from continuing operations, as the inclusion of such adjustments would otherwise be anti-dilutive to earnings per share from continuing operations. Potential common shares for the years ended May 31, 2016 and 2015 consist of the following:

	2016	2015
Options	103,626	548,138
Total	103,626	548,138

As of May, 31, 2016 and 2015, there were 79,626 and 540,138, respectively, vested options with an exercise price below the weighted average market price of the Company's common stock during the period.

Item 5 FINANCIAL STATEMENTS (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 7 - Net Income Per Common Share and Per Common Share Equivalent (cont.)

The reconciliation of the weighted average number of common shares used in the calculation of basic and diluted earnings per common share follows for the years ended May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Weighted Average Common Shares Outstanding	43,820,150	43,644,295
Effect of Dilutive Securities, common share equivalents		
Exercise of stock options	<u>52,310</u>	<u>406,351</u>
Dilutive Potential Common Share Equivalents	<u>43,872,460</u>	<u>44,050,646</u>

NOTE 8 - Noncash Compensation

Noncash compensation expense represents a notional salary allocation for the Company's senior officers, as required under U.S. GAAP. The officers of the Company are responsible for all of the Company's operations and have agreed to not draw any salaries for an indefinite period. Noncash compensation expense is recorded as an increase to additional paid-in capital.

NOTE 9 - Stockholders' Equity

Redeemable Preferred Stock

The number of authorized Series R preferred shares is 5,000 with a par value of \$.001 per share. These shares are each convertible to 1,000 shares of the Company's common stock at the option of either the Company or the holder. The Company is required to redeem them at \$1,000 per share upon the request of a holder. These shares have one vote per share on all matters that common stock can vote upon. Upon liquidation, there is preference to the extent of \$1,000 per share. No dividends may be paid on common stock unless a dividend per share of 1,000% of common stock dividends is paid on the preferred stock. There were no shares of preferred stock outstanding as of May 31, 2016 and 2015.

Item 5 **FINANCIAL STATEMENTS (Continued)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended May 31, 2016 and 2015

NOTE 9 - Stockholders' Equity (cont.)

Stock Options

A summary of option activity as of May 31, 2016, and changes during the year then ended, is as follows:

<i>Stock Options</i>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at June 1, 2015	548,138	\$ 2.17	4.57	\$ 3,773,114
Granted	8,000	7.98	6.36	-
Exercised	(225,000)	1.99	-	424,350
Forfeited	<u>(227,512)</u>	<u>1.99</u>	<u>-</u>	<u>429,795</u>
 Outstanding at May 31, 2016	 <u>103,626</u>	 <u>\$ 3.40</u>	 <u>3.87</u>	 <u>\$ 260,742</u>
 Vested and Exercisable at May 31, 2016	 <u>103,626</u>	 <u>\$ 3.40</u>	 <u>3.87</u>	 <u>\$ 260,742</u>

All stock options were vested as of May 31, 2016 and 2015.

The aggregate intrinsic value of options outstanding and options exercisable at May 31, 2016 and 2015 is calculated as the difference between the exercise price of the underlying options and the market price of FRMO's common stock for the shares that had exercise prices that were lower than the \$5.30 and \$9.05 closing price of FRMO's common stock on May 31, 2016 and 2015, respectively.

As of May 31, 2016, there was no unrecognized compensation cost related to unvested options.

Item 6 Describe the Issuer’s Business, Products and Services

A. A description of the issuer’s business operations:

The corporation is an intellectual capital firm identifying and managing investment strategies and business opportunities.

B. Date and State of Incorporation:

Issuer is a Corporation incorporated in the state of Delaware in November 1993

C. The Issuer’s primary SIC Code:

SIC Code: 6719 – Holding Company

D. The Issuer’s fiscal year end date:

Fiscal year end is May 31

E. Principal Products or Services, and their Markets:

Holding Company

Item 7 Describe the Issuer’s Facilities

Company leases fully furnished office space from Horizon Kinetics LLC at 1 North Lexington Avenue, Suite 12C, White Plains, New York 10601. The lease term is one year renewable for consecutive one year periods until terminated.

Item 8 Officers, Directors, and Control Persons

A. Names of Officers, Directors, and Control Persons:

Name of Director/Officer	Title
Murray Stahl	Chairman, CEO, Beneficial owner of more than 10%
Steven Bregman	President, CFO, Director, Beneficial owner of more than 10%
Peter Doyle	Vice President, Director, Beneficial owner of more than 5%
Lawrence J. Goldstein	Director, Beneficial owner of more than 5%
Lester J. Tanner	Director
Allan Kornfeld	Director
Jay P. Hirschson	Director
John C. Meditz	Beneficial owner of more than 10%
Thomas C. Ewing	Beneficial owner of more than 10%
Jay Kesslen	General Counsel
Therese Byars	Corporate Secretary

B. Legal/Disciplinary History

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

None

C. Beneficial Shareholders.

The following table provides information as of May 31, 2016 concerning the beneficial ownership or control of our Common Stock by all persons known by us who beneficially own more than ten percent (10%) of any class of our equity securities.

Name	Title	Number of Shares	Percentage of Shares
Murray Stahl FRMO Corp. 1 North Lexington Ave, Suite 12C White Plains, NY 10601	Chairman, CEO	7,164,912	16.3%
Steven Bregman FRMO Corp. 1 North Lexington Ave, Suite 12C White Plains, NY 10601	President, CFO, Director	6,912,970	15.7%
John C. Meditz Horizon Kinetics LLC 470 Park Avenue South New York, NY 10016	Control Person	7,139,851	16.2 %
Thomas C. Ewing Horizon Kinetics LLC 1111 Metropolitan Ave, Suite 750 Charlotte, NC 28204	Control Person	5,597,051	12.7%

Item 9 Third Party Providers

1. Legal Counsel

Morris Simkin
Law Office of Morris Simkin
60 East 42nd Street, Suite 1101, New York, NY 10017
Phone: (212) 455-0476 | Email: msimkin@securitiesregslawyer.com

2. Accountant or Auditor

John Basile, Engagement Partner
Baker Tilly Virchow Krause, LLP
One Penn Plaza, Suite 3000, New York, NY 10119
Phone: (212) 697-6900 | Email: John.Basile@bakertilly.com

Item 10 Issuer Certification

I, Murray Stahl, certify that:

1. I have reviewed this Annual Report of FRMO Corp.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Dated: August 9, 2016

/s/ Murray Stahl
Murray Stahl
Chairman & CEO

I, Steven Bregman, certify that:

1. I have reviewed this Annual Report of FRMO Corp.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Dated: August 9, 2016

/s/ Steven Bregman
Steven Bregman
President & CFO