FRMO CORPORATION
AND SUBSIDIARY

Elmsford, New York

CONSOLIDATED FINANCIAL STATEMENTS

Including Report of Independent
Registered Public Accounting Firm

As of February 28, 2014 and May 31, 2013
and for the Three Months and Nine Months
Ended February 28, 2014 and 2013

Contents

As of February 28, 2014 and May 31, 2013 and for the Three Months and Nine Months Ended February 28, 2014 and 2013

BAKER TILLY

formerly
HOLTZ RUBENSTEIN REMINICK

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 Subsidiary
Elmsford, New York

We have reviewed the accompanying consolidated balance sheet of FRMO Corporation and Subsidiary (the "Company") as of February 28, 2014, the related consolidated statements of income and comprehensive income for the three months and nine months ended February 28, 2014, the consolidated statement of stockholders' equity for the nine months ended February 28, 2014, and the consolidated statements of cash flows for the nine months ended February 28, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FRMO Corporation and Subsidiary as of May 31, 2013 and, in our report dated August 7, 2013, we expressed an unqualified opinion on the consolidated balance sheet, but we have not performed any auditing procedures since that date on the May 31, 2013 consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of May 31, 2013, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Baker Tilly Virchow Krause, LLP

New York, New York
April 14, 2014

Consolidated Financial Statements

FRMO CORPORATION
AND SUBSIDIARY

Consolidated Balance Sheets

	February 28, 2014 (Unaudited)	May 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	**$ 26,701,148**	$ 26,525,074
Accounts receivable (including due from related party of $1,065,739 and $-0- at February 28, 2014 and May 31, 2013, respectively)	**1,613,263**	476,266
Participation receivable	**138,357**	138,357
Prepaid income taxes	**-**	397,147
Investments, available for sale, at fair value (cost of $34,926,013 and $32,003,738 at February 28, 2014 and May 31, 2013, respectively)	**58,113,002**	47,306,151
Total Current Assets	**86,565,770**	74,842,995
Investment in Unconsolidated Limited Liability Company, at cost	**11,152,452**	10,973,940
Participation in Horizon Kinetics Revenue Stream	**10,200,000**	10,200,000
Total Assets	**$ 107,918,222**	$ 96,016,935
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 240,820**	$ 171,779
Income taxes payable	**1,542,246**	-
Securities sold, not yet purchased (proceeds of $5,604,739 and $4,487,997 at February 28, 2014 and May 31, 2013, respectively)	**2,141,772**	2,338,742
Deferred tax liability	**8,564,719**	5,851,595
Redeemable preferred stock	**-**	50,000
Total Current Liabilities	**12,489,557**	8,412,116
Deferred Tax Liability - non-current	**4,237,675**	4,237,675
Total Liabilities	**16,727,232**	12,649,791
Stockholders' Equity:		
Preferred stock - $.001 par value; Authorized - 2,000,000 shares; no shares outstanding	**-**	-
Common stock - $0.001 par value: Authorized - 90,000,000 shares Issued and outstanding - 43,311,972 shares and 43,255,972 shares at February 28, 2014 and May 31, 2013, respectively	**43,311**	43,255
Additional paid-in capital	**25,976,065**	25,823,468
Accumulated other comprehensive income	**12,408,518**	7,495,416
Retained earnings	**52,763,096**	50,005,005
Total Stockholders' Equity	**91,190,990**	83,367,144
Total Liabilities and Stockholders' Equity	**$ 107,918,222**	$ 96,016,935

Consolidated Statements of Income and Comprehensive Income

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	**2014**	2013
	(Unaudited)		**(Unaudited)**	
Revenue:				
Consultancy and advisory fees	**$ 2,339,227**	$ 774,304	**$ 3,946,013**	$ 1,824,266
Dividends and interest income, net	**516,838**	542,671	**1,362,380**	1,395,125
Realized (losses) gains	**(22,093)**	138,367	**39,208**	626,795
(Loss) Income from investment partnerships and limited liability companies	**(931,035)**	650,518	**543,563**	1,605,451
Total Revenue	**1,902,937**	2,105,860	**5,891,164**	5,451,637
Expenses:				
Employee compensation and benefits	**25,800**	25,800	**77,400**	84,730
Professional fees	**106,006**	82,468	**287,975**	219,100
Other expenses	**39,456**	132,864	**156,991**	256,161
Equity compensation	**-**	6,581	**13,163**	92,519
Amortization	**-**	18,622	**-**	55,866
Total Expenses	**171,262**	266,335	**535,529**	708,376
Income from Operations	**1,731,675**	1,839,525	**5,355,635**	4,743,261
Provision for Income Taxes	**1,427,572**	980,722	**2,597,544**	1,991,925
Net Income	**304,103**	858,803	**2,758,091**	2,751,336
Other comprehensive income, net of tax				
Gross unrealized investment holding gains arising during the period	**4,499,791**	1,929,192	**8,040,550**	5,357,701
Income tax expense related to items of other comprehensive income	**(1,652,885)**	(277,577)	**(3,127,448)**	(1,680,408)
Comprehensive Income	**$ 3,151,009**	$ 2,510,418	**$ 7,671,193**	$ 6,428,629
Earnings per Common Share:				
Basic	**$ 0.01**	$ 0.02	**$ 0.06**	$ 0.07
Diluted	**$ 0.01**	$ 0.02	**$ 0.06**	$ 0.07
Weighted Average Common Shares Outstanding:				
Basic	**43,311,972**	39,138,154	**43,280,177**	39,138,154
Diluted	**43,732,355**	39,259,083	**43,681,566**	39,197,326

Consolidated Statement of Stockholders' Equity

Nine Months Ended February 28, 2014 (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance - June 1, 2013	43,255,972	$ 43,255	$ 25,823,468	$ 7,495,416	$ 50,005,005	$ 83,367,144
Equity Compensation	-	-	13,163	-	-	13,163
Exercise of Stock Options	6,000	6	12,084	-	-	12,090
Non-cash Compensation	-	-	77,400	-	-	77,400
Conversion of Redeemable Preferred Stock	50,000	50	49,950	-	-	50,000
Change in Unrealized Gains on Available for Sale Securities, net of tax	-	-	-	4,913,102	-	4,913,102
Net Income	-	-	-	-	2,758,091	2,758,091
Balance - February 28, 2014	43,311,972	$ 43,311	$ 25,976,065	$ 12,408,518	$ 52,763,096	$ 91,190,990

FRMO CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

Nine Months Ended February 28,	**2014**	2013
	(Unaudited)	
Cash Flows from Operating Activities:		
Net income	**$ 2,758,091**	$ 2,751,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash compensation	**77,400**	84,730
Equity compensation	**13,163**	92,519
Amortization	**-**	55,866
Realized gain on investments	**(39,208)**	(626,795)
Income allocated from partnership and limited liability company investments	**(543,563)**	(1,605,451)
Deferred income tax expense (benefit)	**(414,324)**	(246,385)
Changes in operating assets and liabilities:		
Accounts receivable	**(1,136,997)**	38,329
Prepaid income taxes	**397,147**	177,807
Accounts payable and accrued expenses	**69,041**	42,537
Income taxes payable	**1,501,087**	430,875
Net Cash Provided By Operating Activities	**2,681,837**	1,195,368
Cash Flows from Investing Activities:		
Proceeds - investments available for sale	**1,155,366**	175,854
Purchases - investments available for sale	**(4,427,821)**	(1,980,842)
Proceeds - investment held to maturity	**-**	-
Proceeds from securities sold, not yet purchased	**1,198,637**	2,769,604
Purchases to cover securities previously sold	**(444,035)**	(393,982)
Net Cash (Used In) Provided By Investing Activities	**(2,517,853)**	570,634
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	**12,090**	-
Net Cash Provided By Financing Activities	**12,090**	-
Net Increase in Cash and Cash Equivalents	**176,074**	1,766,002
Cash and Cash Equivalents - beginning of period	**26,525,074**	19,405,089
Cash and Cash Equivalents - end of period	**$ 26,701,148**	$ 21,171,091
Supplemental Disclosures:		
Cash paid during the years for:		
Income taxes	**$ 1,103,000**	$ 1,628,621
Interest	**$ 48,051**	$ 21,790
Non-cash Investing Activities:		
Investment acquired through the transfer of revenue stream	**$ -**	$ 511,475
Participation receivable for investment held to maturity	**$ -**	$ 720,388
Conversion of redeemable preferred stock to common stock	**$ 50,000**	$ -

Notes to Consolidated Financial Statements

As of February 28, 2014 and May 31, 2013 and for the Three Months and Nine Months Ended February 28, 2014 and 2013

1. Organization of the Company

FRMO Corporation ("FRMO" or "the Company") was incorporated in 1993 under another name. In January 2001, FRMO spun off its operations in a transaction accounted for as a reverse pooling of interests. On January 23, 2001, 34,200,000 shares of common stock were issued to the FRM Control Group. Murray Stahl and Steven Bregman, Chairman and President of the Company, respectively, are the principal persons in the FRM Control Group.

On December 20, 2011, the Company declared a 1-for-100 reverse stock split of its common stock, effective on the record date of January 17, 2012. Stockholders owning fewer than 100 shares on the record date had their shares cancelled and converted into the right to receive $3.00 for each share of common stock held prior to the reverse stock split. As a result of the reverse stock split, the Company cancelled 19,986 shares of its common stock on January 17, 2012 at a cost of $59,958. The reverse stock split was immediately followed by a 100-for-1 forward split for stockholders owning 100 or more shares on January 17, 2012. Stockholders' equity and per share amounts have been restated to account for these transactions as if they occurred at the beginning of the periods presented.

The board of directors elected and approved a change to the Company's fiscal year from February 28 to May 31, effective for the fiscal year ended May 31, 2012.

2. Nature of Business and Significant Accounting Policies

Basis of presentation - The consolidated financial statements include the accounts of FRMO and its wholly owned subsidiary, Fromex Equity Corp. ("Fromex") (collectively referred to as the "Company"). The Company maintains its corporate office in Elmsford, New York.

Nature of business - Management is experienced in the analysis of public 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. It 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 Advisors 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 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 represents 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 ("Revenue Stream"- see Note 2 (i) *Sub-Advisory fees* below) to Horizon Kinetics in exchange for A-1 units of Horizon Kinetics, increasing the Company's membership interest in Horizon Kinetics to 0.86%. Pursuant to an April 16, 2013 agreement with Horizon Kinetics, the Company issued 2,387,715 shares of its common stock on May 31, 2013 to the individual Horizon Kinetics unit sellers in exchange for an additional 4.09% interest in Horizon Kinetics. As a result of the Exchange, 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 three months and nine months ended February 28, 2014 and 2013, 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) ***Sub-Advisory fees -*** Until August 15, 2012, the Company received a one-third interest in a Revenue Stream that Horizon Kinetics derives from its sub-advisory program for a large investment firm. On August 15, 2012, the Company transferred its Revenue Stream to Horizon Kinetics in exchange for 39,897 A-1 units of Horizon Kinetics.

(ii) ***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.

(iii) ***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 term on January 29, 2013. On April 12, 2013, the Company received $664,277 as a partial distribution. As of August 31, 2013 and May 31, 2013, the balance of the assets to be distributed by Horizon was $138,357 and is included in "Participation receivable" in the consolidated balance sheets.

Prior to May 31, 2013, the Company also received fees from the following:

(i) ***Kinetics Paradigm Mutual Fund -*** The Company received 100% of the research fees to which Horizon is entitled from the open-end mutual fund, Kinetics Paradigm Fund (trading symbol WWNPX).

(ii) ***Research agreement*** - Pursuant to a research agreement with Horizon Global Advisers LLC ("HGA"), the Company's subsidiary, Fromex, received a fee equal to 46% of the management fees received by HGA from its funds under management plus 60% of the incentive or performance fees received by HGA from its funds under management.

(iii) ***Fee participation -*** A fee participation of 20% of all management fees, incentive fees, and performance allocations that Horizon Kinetics receives from Horizon Multi-Disciplinary Fund, LP and Horizon Multi-Disciplinary Offshore Fund, Ltd.

The Company has evaluated all subsequent events from the date of the consolidated balance sheets through April 14, 2014, which represents the date these consolidated financial statements are available to be issued. Other than the subsequent event described in Note 11 of the consolidated financial statements, no events have occurred that require adjustments or disclosure in the consolidated financial statements.

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 February 28, 2014 and May 31, 2013, the Company had balances in excess of federally insured limits on deposit with financial institutions. 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.

Due to/from broker - Due to broker includes net cash amounts payable for securities that have not yet settled and margin interest owed. Due from broker includes net cash amounts owed from security transactions that have not yet settled.

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 limited liability company and a participation agreement with that company 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 February 28, 2014 and May 31, 2013, investments in limited partnerships and limited liability companies are valued as of December 31, 2013 and March 31, 2013, the dates of the most current available information.

Investments in unconsolidated subsidiaries - The investment in an unconsolidated subsidiary, Horizon Kinetics, in which the Company now holds a 4.95% interest, is accounted for using the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions, and additional investments. Prior to the May 1, 2011 Exchange, as described in "nature of business", the Company's investment in Horizon Kinetics LLC was classified as available for sale, with unrealized gains being recorded through such date. 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.

Investments in partnerships and limited liability companies that have separate ownership accounts for each investor greater than three to five percent are accounted for under the equity method. Under this method, the investments include all realized income and all allocated share of pass through income or loss items. The unrealized gains and losses of these entities are also reflected in the investment and in other comprehensive income.

Notes to Consolidated Financial Statements

As of February 28, 2014 and May 31, 2013 and for the Three Months and Nine Months Ended February 28, 2014 and 2013

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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 February 28, 2014 and May 31, 2013 since, in the opinion of management, all of its accounts are deemed collectible.

Intangible assets - Net intangible assets as of February 28, 2014 and May 31, 2013 were $-0-. Intangible assets were amortized over their estimated lives, five to ten years, using the straight-line method. Amortization expense for the nine months ended February 28, 2014 and 2013 was approximately $-0- and $56,000, respectively. Amortization expense for the three months ended February 28, 2014 and 2013 was approximately $-0- and $19,000, respectively. On May 31, 2013, the Company's unamortized intangible assets were written off when the revenues related to such assets were included in the exchange of product specific revenues (see Note 3).

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.

Advertising costs - The Company's policy is to expense the cost of advertising as incurred. There were no advertising expenses for the nine months and three months ended February 28, 2014 and 2013.

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 investments.

Revenue recognition - The Company primarily generates revenue through research 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 quarter ended February 28 will include the Company’s share of annual incentive fees earned by Horizon Kinetics, if any.

Revenue (losses) from investment partnerships is earned based upon FRMO's pro rata 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 and the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107. Stock option compensation expense for the nine months ended February 28, 2014 and 2013 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. 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.

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. Management does not believe that there are any uncertain tax positions that require recognition of a tax liability. Tax returns for the years ended February 28, 2011 and forward are still subject to examination.

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 will now receive 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 a fair value of $10,200,000 as determined by an independent valuation and is shown as "Participation in Horizon Kinetics revenue stream" in the consolidated balance sheets as of February 28, 2014 and May 31, 2013.

As a result of this transaction, the Company realized a gain of approximately $10,057,000, equal to the fair value of the 4.199% Revenue Interest at the close of business on May 31, 2013 over the cost basis of the revenue interests in the Horizon Kinetics related products transferred to Horizon Kinetics on that date. Income taxes of approximately $4,023,000 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 February 28, 2014 and May 31, 2013.

Notes to Consolidated Financial Statements

As of February 28, 2014 and May 31, 2013 and for the Three Months and Nine Months Ended February 28, 2014 and 2013

4. Investments

Available for sale - The Company's investments classified as available for sale consist of the following:

February 28, 2014 (Unaudited)	**Cost**	**Unrealized Gains**	**Fair Value**
Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	**$ 7,012,163**	**$ 3,508,997**	**$ 10,521,160**
Jordan Partners, LP	**516,042**	**145,264**	**661,306**
CDK Partners, LP	**782,949**	**695,027**	**1,477,976**
Polestar Fund, LP	**5,537,323**	**6,055,396**	**11,592,719**
Multi-Disciplinary Fund, LP	**523,519**	**7,914**	**531,433**
South LaSalle Partners, LP	**1,983,934**	**23,210**	**2,007,144**
	16,355,930	**10,435,808**	**26,791,738**
Bond and equity securities	**18,570,083**	**12,751,181**	**31,321,264**
Total Investments	**$ 34,926,013**	**$ 23,186,989**	**$ 58,113,002**

May 31, 2013	Cost	Unrealized Gains	Fair Value
Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	$ 6,053,384	$ 688,542	$ 6,741,926
Jordan Partners, LP	510,718	129,640	640,358
CDK Partners, LP	587,628	451,617	1,039,245
Polestar Fund, LP	5,781,014	2,793,107	8,574,121
Multi-Disciplinary Fund, LP	496,022	20,933	516,955
South LaSalle Partners, LP	298,493	10,601	309,094
	13,727,259	4,094,440	17,821,699
Bond and equity securities	18,276,479	11,207,973	29,484,452
Total Investments	$ 32,003,738	$ 15,302,413	$ 47,306,151

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 Jordan Partners, LP may be withdrawn on a quarterly basis. Horizon, a related party (see Note 2), is a member of both the general partner and the manager of Jordan Partners, 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.

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.

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.

Investment in unconsolidated limited liability company - The Company's investment classified as investment in unconsolidated limited liability company not available for sale consists of the following:

As of February 28, 2014 (Unaudited)	**Cost**
Investment in Horizon Kinetics, LLC	**$ 11,152,452**

As of May 31, 2013	Cost
Investment in Horizon Kinetics, LLC	$ 10,973,940

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.

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 February 28, 2014 and May 31, 2013, 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:

February 28, 2014 (Unaudited)

		Fair Value Measurements at Reporting Date Using		
Description	Total	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	$ 24,529,558	$ 24,529,558	$ -	$ -
Investments:				
Available for sale:				
Bond and Equity Securities	$ 31,321,264	$ 31,321,264	$ -	$ -
Investments in Limited Partnerships	26,791,738	-	26,791,738	-
Total Investments Available for Sale	$ 58,113,002	$ 31,321,264	$ 26,791,738	$ -
Liabilities (at fair value):				
Common Stocks	$ 2,141,772	$ 2,141,772	$ -	$ -

May 31, 2013

		Fair Value Measurements at Reporting Date Using		
Description	Total	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	$ 20,859,949	$ 20,859,949	$ -	$ -
Investments:				
Available for sale:				
Bond and Equity Securities	$ 29,484,452	$ 29,484,452	$ -	$ -
Investments in Limited Partnerships	17,821,699	-	17,821,699	-
Total Investments Available for Sale	$ 47,306,151	$ 29,484,452	$ 17,821,699	$ -
Liabilities (at fair value):				
Common Stocks	$ 2,338,742	$ 2,338,742	$ -	$ -

6. Income Taxes

The Company files a consolidated federal income tax return and a combined state tax return with its subsidiary, Fromex.

The tax effects of temporary differences which give rise to deferred tax assets and liabilities consist of the following:

	February 28, 2014 (Unaudited)	May 31, 2013
Current Deferred Tax Liabilities:		
Investments in limited partnerships	**$ -**	$ 414,324
Unrealized gain from investments	**8,564,719**	5,437,271
Total Current Deferred Tax Liabilities	**8,564,719**	5,851,595
Non-Current Deferred Tax Liabilities:		
Investments in limited partnerships	**214,782**	214,782
Deferral of gain from like-kind exchange (see Note 3)	**4,022,893**	4,022,893
Total Non-Current Deferred Tax Liabilities	**4,237,675**	4,237,675
Total Deferred Tax Liability	**$ 12,802,394**	$ 10,089,270

In October 2013, the Company received a notice that its federal income tax returns for the years ended February 28, 2011 and February 29, 2012 have been selected for examination by the Internal Revenue Service. The audit commenced in November 2013. The final results of this audit are unknown, although management is confident in the tax assertions made in the tax returns.

7. Net Income Per Common Share and Per Common Share Equivalent

Basic and diluted earnings per common share are 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 exercise price and the conversion price exceed the weighted average market price for the period, 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 consist of the following:

Nine Months Ended February 28,	**2014**	2013
Redeemable Preferred Stock	**-**	50,000
Options	**615,888**	622,888
Total	**615,888**	672,888

As of February 28, 2014 and 2013, there were 601,888 and 589,888, respectively, vested options with an exercise price below the weighted average market price of the Company's common stock during the period.

The reconciliation of the weighted average number of common shares used in the calculation of basic and diluted earnings per common share follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	**2014**	2013
	(Unaudited)		**(Unaudited)**	
Weighted Average Common Shares Outstanding	**43,311,972**	39,138,154	**43,280,177**	39,138,154
Effect of Dilutive Securities, common share equivalents:				
Conversion of preferred stock	-	50,000	-	50,000
Exercise of stock options	**420,383**	70,929	**401,389**	9,172
Dilutive Potential Common Share Equivalents	**43,732,355**	39,259,083	**43,681,566**	39,197,326

8. Major Customers

Major customers which are in excess of 10% of consultancy and advisory fees are as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	**2014**	2013
	(Unaudited)		**(Unaudited)**	
Customer A	**45.0%**	n/a	**67.1%**	n/a
Customer B	**n/a**	41.4%	**n/a**	51.7%
Customer C	**54.5%**	40.6%	**32.0%**	24.7%

9. 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.

10. Stockholders' Equity

Redeemable preferred stock - There were 5,000 shares of Series R preferred stock authorized with a par value of $.001 per share. These shares were each convertible to 1,000 shares of the Company's common stock at the option of either the Company or the holder. These shares had 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.

On November 11, 2013, the holder of the Company’s Series R preferred stock converted all of the 50 shares outstanding to 50,000 shares of common stock. As of February 28, 2014 and May 31, 2013, respectively, there were -0- shares and 50 shares of Series R preferred stock outstanding. The Company was required to redeem the 50 shares outstanding as of May 31, 2013 at $1,000 per share upon the request of a holder.

Stock options - A summary of option activity as of February 28, 2014, and changes during the nine months ended February 28, 2014, is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at June 1, 2013	622,888	$ 2.15	6.30	$ 1,277,244
Granted	8,000	6.67	6.62	3,440
Exercised	(6,000)	2.02	-	16,230
Forfeited	(9,000)	4.00	-	-
Outstanding at February 28, 2014	615,888	$ 2.19	5.69	$ 3,073,058
Vested and Exercisable at February 28, 2014	615,888	$ 2.19	5.69	$ 3,073,058

All stock options were vested as of February 28, 2014 and May 31, 2013.

The aggregate intrinsic value of options outstanding and options exercisable at February 28, 2014 and May 31, 2013 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 $7.10 and $4.10 closing price of FRMO's common stock on February 28, 2014 and May 31, 2013, respectively.

As of February 28, 2014, there was no unrecognized compensation cost related to unvested options.

11. Subsequent Event

On February 25, 2014, FRMO made an offer to the members of the Bermuda Stock Exchange ("BSX") to acquire up to a maximum of 575,265 shares, or 42.77% of total BSX shares issued and outstanding, at a price of $4.50 per share plus applicable stamp duty. The offer expired on March 31, 2014 and resulted in subscriptions for 509,114 shares (37.57%) for a total consideration of $2,370,515 (including Bermuda Stamp Duty of $79,502). The Bermuda Monetary Authority approved the transaction on April 11, 2014. The transaction is expected to be consummated on April 15, 2014.