

**FRMO CORPORATION
AND SUBSIDIARY**

**REPORT ON AUDIT OF CONSOLIDATED
FINANCIAL STATEMENTS**

Year Ended May 31, 2012

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Year Ended May 31, 2012

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Consolidated Financial Statements



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Independent Auditors' Report

To the Board of Directors and Stockholders
FRMO Corporation and Subsidiary

We have audited the accompanying consolidated balance sheets of FRMO Corporation and Subsidiary (the "Company") as of May 31, 2012 and 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for the year ended May 31, 2012. 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 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 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Subsidiary as of May 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the year ended May 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein Reminick LLP

New York, New York
July 27, 2012



Holtz Rubenstein Reminick LLP

**FRMO CORPORATION
AND SUBSIDIARY**

Consolidated Balance Sheets

<i>May 31,</i>	2012	2011
Assets		
Current Assets:		
Cash and cash equivalents	\$ 19,405,089	\$ 16,702,967
Accounts receivable (including due from broker of \$32,894 and \$434,841 at May 31, 2012 and 2011, respectively)	414,153	914,887
Prepaid income taxes	177,807	-
Investments, available for sale, at fair value (cost of \$29,643,836 and \$27,172,611 at May 31, 2012 and 2011, respectively)	38,375,823	34,761,796
Investment, held to maturity, at cost (fair value \$888,330 and \$760,291 at May 31, 2012 and 2011, respectively)	720,388	720,388
Total Current Assets	<u>59,093,260</u>	<u>53,100,038</u>
Investment in Kinetics Advisors, available for sale, at fair value (cost of \$4,814,846 at May 31, 2011)	-	4,814,486
Other Assets	217,255	291,742
Total Assets	<u>\$ 59,310,515</u>	<u>\$ 58,206,266</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 161,824	\$ 126,882
Due to stockholders	-	59,958
Income taxes payable	-	1,486,522
Securities sold, not yet purchased (proceeds of \$2,467,789 and \$1,068,169 at May 31, 2012 and 2011, respectively)	1,682,784	1,231,145
Deferred tax liability	246,385	1,925,794
Redeemable preferred stock	50,000	-
Total Current Liabilities	<u>2,140,993</u>	<u>4,830,301</u>
Deferred Tax Liability - non-current	2,908,916	2,451,838
Total Liabilities	<u>5,049,909</u>	<u>7,282,139</u>
Stockholders' Equity:		
Preferred stock - \$.001 par value; Authorized - 2,000,000 shares; Issued and outstanding - 50 shares Series R	-	-
Common stock - \$.001 par value: Authorized - 90,000,000 shares Issued and outstanding - 39,138,154 and 39,135,154 shares at May 31, 2012 and 2011, respectively	39,138	39,135
Additional paid-in capital	10,834,907	10,574,634
Other comprehensive income	3,701,520	3,893,106
Retained earnings	39,685,041	36,417,252
Total Stockholders' Equity	<u>54,260,606</u>	<u>50,924,127</u>
Total Liabilities and Stockholders' Equity	<u>\$ 59,310,515</u>	<u>\$ 58,206,266</u>

FRMO CORPORATION
AND SUBSIDIARY

Consolidated Statement of Income

Year Ended May 31, 2012

Revenue:	
Consultancy and advisory fees	\$ 2,325,041
Dividends and interest income, net	1,595,864
Realized gains	73,333
Income from investment partnerships	1,321,545
Revenue from unconsolidated subsidiary	169,309
Total Revenue	<u>5,485,092</u>
Expenses:	
Employee compensation and benefits	141,520
Professional fees	279,226
Other expenses	224,342
Equity compensation	165,756
Amortization	74,487
Total Expenses	<u>885,331</u>
Income from Operations before Provision for Income Taxes	4,599,761
Provision for Income Taxes	1,331,972
Net Income	<u>\$ 3,267,789</u>
Basic and Diluted Earnings per Common Share	<u>\$ 0.08</u>
Weighted Average Common Shares Outstanding:	
Basic	<u>39,138,105</u>
Diluted	<u>39,188,105</u>

**FRMO CORPORATION
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Consolidated Statement of Stockholders' Equity

Year Ended May 31, 2012

	Preferred Stock		Common Stock		Additional Paid-In Capital	Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance - beginning of year	50	\$ -	39,135	\$ 39,135	\$ 10,574,634	\$ 3,893,106	\$ 36,417,252	\$ 50,924,127
Exercise of Stock Options	-	-	3,000	3,000	2,997	-	-	3,000
Stock-based Payments	-	-	-	-	165,756	-	-	165,756
Non-cash Compensation	-	-	-	-	141,520	-	-	141,520
Reclassification of Redeemable Preferred Stock	-	-	-	-	(50,000)	-	-	(50,000)
Other Comprehensive Loss	-	-	-	-	-	(191,586)	-	(191,586)
Net Income	-	-	-	-	-	-	3,267,789	3,267,789
Balance - end of year	50	\$ -	39,138	\$ 39,138	\$ 10,834,907	\$ 3,701,520	\$ 39,685,041	\$ 54,260,606

See notes to consolidated financial statements.

**FRMO CORPORATION
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Consolidated Statement of Cash Flows

Year Ended May 31, 2012

Cash Flows from Operating Activities:	
Net income	\$ 3,267,789
Adjustments to reconcile net income to net cash used in operating activities:	
Non-cash compensation	141,520
Stock-based payments	165,756
Amortization	74,487
Realized gain on investments	(73,333)
Net income allocated from partnership investments	(1,276,726)
Loss on liquidation of unconsolidated limited liability company	330,764
Deferred income tax benefit	(1,679,410)
Changes in operating assets and liabilities:	
Accounts receivable	98,787
Prepaid income taxes	(177,807)
Accounts payable and accrued expenses	34,942
Income taxes payable	(1,486,522)
Net Cash Used in Operating Activities	<u>(579,753)</u>
Cash Flows from Investing Activities:	
Proceeds - investments available for sale	4,960,383
Purchases - investments available for sale	(3,076,716)
Proceeds from securities sold, not yet purchased	2,326,492
Purchases to cover securities previously sold	(871,326)
Net Cash Provided by Investing Activities	<u>3,338,833</u>
Cash Flows from Financing Activities:	
Payment to stockholders	(59,958)
Proceeds from exercise of stock options	3,000
Net Cash Used in Financing Activities	<u>(56,958)</u>
Net Increase in Cash and Cash Equivalents	2,702,122
Cash and Cash Equivalents - beginning of year	16,702,967
Cash and Cash Equivalents - end of year	<u>\$ 19,405,089</u>
Supplemental Disclosures:	
Cash paid during the year for:	
Taxes	\$ 4,720,549
Interest	<u>\$ 27,869</u>

Notes to Consolidated Financial Statements

Year Ended May 31, 2012

1. Organization of the Company

FRMO Corporation ("FRMO") was incorporated in November 1993 under the laws of the State of Delaware under the name of PSI Settlement Corp. (initially changed to FRM Nexus, Inc. and then to FRMO Corp on November 29, 2001). One of the Company's former subsidiaries was MFC Development Corp. ("MFC"). On August 31, 2000, FRMO transferred to MFC all of its assets (except for \$10,000), including all of the shares of its wholly owned subsidiaries subject to all of its liabilities which were assumed by MFC. This transfer was made in contemplation of a spin-off of MFC. In fiscal 2001, MFC filed a Form 10 to register its common stock and, on January 23, 2001, 1,800,000 shares of MFC were distributed to FRMO's stockholders pursuant to a spin-off on a share for share basis.

Because FRMO and MFC were under common control, the spin-off transaction has been accounted for on FRMO's books in a manner similar to a reverse pooling of interests with FRMO having a new start on January 23, 2001 with \$10,000 in assets, no liabilities, and 1,800,000 shares of common stock outstanding.

On November 29, 2000, the Company increased authorized capital stock from 2,000,000 shares common stock, par value \$.10 per share to 2,000,000 shares preferred stock, par value \$.001 per share and 90,000,000 shares common stock, par value \$.001 per share. 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 Pleasantville, New York.

Nature of business - FRMO is an intellectual capital firm. The experience of its management has been in the analysis of public companies within a framework of identifying investment strategies and techniques that reduce risk. The business includes identification of assets, particularly in the early stages of the expression of their ultimate value, and the participation with them 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 Asset Management (renamed Horizon Kinetics, LLC on May 1, 2011) ("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

Notes to Consolidated Financial Statements

Year Ended May 31, 2012

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 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 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 4).

The Company earns fees that are derived from assets managed by other parties based on the research of Horizon. The programs significant to FRMO's fees are as follows:

(i) Kinetics Advisers' Hedge Funds. Fees that were earned and received by the Company before May 1, 2011 were included in the consolidated statement of income as "Revenue from unconsolidated subsidiary". Fees that were earned and not received by the Company before May 1, 2011 were included in the consolidated statement of income as "Revenue from previously owned unconsolidated subsidiary" and carried as Investments in Unconsolidated Limited Liability Companies at May 31, 2011 (see Note 4).

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

(iii) Sub-Advisory Fees. The Company receives a one-third interest in the Sub-Advisory Fee Revenue that Horizon derives from its sub-advisory program for a large investment firm.

(iv) Research Agreement. Pursuant to a research agreement with Horizon Global Advisors LLC ("HGA") the Company's subsidiary, Fromex, receives 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.

(v) Fee Participation. In March 2010, the Company acquired, for 151,807 shares of FRMO common stock, a fee participation of 20% of all management fees, incentive fees, and performance allocations that Horizon receives from Horizon Multi-Disciplinary Fund, LP and Horizon Multi-Disciplinary Offshore Fund, Ltd.

(vi) 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.

(vii) 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.

Notes to Consolidated Financial Statements

Year Ended May 31, 2012

The Company has evaluated all subsequent events from the date of the consolidated balance sheets through July 27, 2012, which represents the date these consolidated financial statements are available to be issued.

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, 2012 and 2011, 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 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.

Investments in limited partnerships and limited liability companies are valued as of March 31, 2012 and 2011.

Investments in subsidiaries - Investments in subsidiaries in which the Company holds a less than 20% voting interest and does not exert a significant influence over operations or financial policies are accounted for using the cost method. Under the cost method of accounting, the Company does not record its share in the earnings and losses of the companies in which it has an investment.

Under *Investments - Equity Method and Joint Ventures*, 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. As result of the May 1, 2011 Exchange, as described above in "Nature of business", the Company's investment in Horizon Kinetics, which now includes the business operations of Kinetics Advisors, is accounted for using the cost method, and approximates fair value in the consolidated balance sheets as of May 31, 2012 and 2011.

Notes to Consolidated Financial Statements

Year Ended May 31, 2012

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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, 2012 and 2011 since, in the opinion of management, all of its accounts are deemed collectible.

Intangible assets - Net intangible assets as of May 31, 2012 and 2011 were approximately \$217,000 and \$292,000, respectively. Such amounts have been included in the consolidated balance sheets within other assets. Intangible assets are amortized over their estimated lives, five to ten years, using the straight-line method. Amortization expense for the year ended May 31, 2012 was approximately \$74,000. The Company will incur approximately \$74,000 per year of amortization expense over the 2.9 year remaining life of intangible assets.

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 year ended May 31, 2012.

Comprehensive income - Other comprehensive income (loss) refers to revenues, expenses, gains, and losses net of income taxes that, under 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. For the year ended May 31, 2012, comprehensive loss was \$191,586.

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.

Research fees are earned and recorded on a monthly basis based upon FRMO's pro rata share of assets under management.

Revenue from fee participation and revenue relating to consulting agreements is earned primarily on a month-by-month basis.

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.

Revenue from unconsolidated subsidiaries is recognized when received.

Notes to Consolidated Financial Statements

Year Ended May 31, 2012

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 GAAP and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107. Stock option compensation expense for the year ended May 31, 2012 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 a February 28/29 year end through February 29, 2012. Effective March 1, 2012, the Company changed its tax year end to May 31 to conform to its financial year end. 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 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.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Tax years ended February 28, 2009 and forward are still subject to examination.

Reclassifications - As a result of the reverse stock split, payment of fractional shares, and forward stock split (see Note 1), due to stockholders, 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.

3. Restatement of the Consolidated Financial Statements

On July 12, 2012, the Company concluded that the previously filed consolidated financial statements as of and for the three months ended May 31, 2011 and the subsequent quarterly periods ended August 31, 2011, November 30, 2011 and February 29, 2012 were no longer reliable. The restatement was necessary to reflect a decrease in the amount of its investment in Kinetics Advisors, LLC attributable to an error in the calculation of fair value of the investment. The change was recorded as a reduction of revenue from previously owned unconsolidated subsidiary in the consolidated statement of income for the three months ended May 31, 2011 and as a reduction of other comprehensive income in the consolidated balance sheets for each the three month periods ended August 31, 2011, November 30, 2011, and February 29, 2012, as follows:

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Notes to Consolidated Financial Statements

Year Ended May 31, 2012

<i>May 31, 2011</i>	Previously Reported	Adjustments	Restated
Consolidated Balance Sheet			
Investment in Kinetics Advisors, available for sale, at fair value	\$ 6,451,980	\$ (1,637,494)	\$ 4,814,486
Deferred Tax Liability, current	2,580,792	(654,998)	1,925,794
Retained Earnings	37,399,748	(982,496)	36,417,252
Consolidated Statement of Income			
Revenue from Previously Owned Unconsolidated Subsidiary	\$ 6,451,980	\$ (1,637,494)	\$ 4,814,486
Provision for Income Taxes	4,425,150	(654,998)	3,770,152
Net Income	6,777,902	(982,496)	5,795,406
Net Income per Share:	\$ 0.17	\$ (0.02)	\$ 0.15
Consolidated Statement of Cash Flows			
Net Income	\$ 6,777,902	\$ (982,496)	\$ 5,795,406
Due from Previously Owned Unconsolidated Subsidiary	6,451,980	(1,637,494)	4,814,486
Deferred Income Tax Expense	2,580,792	(654,998)	1,925,794
The effects on the restatement of the consolidated financial statements for the quarterly periods ended August 31, 2011, November 30, 2011, and February 29, 2012, respectively, are as follows:			
<i>August 31, 2011</i>	Previously Reported	Adjustments	Restated
Consolidated Balance Sheet			
Investment in Kinetics Advisors, available for sale, at fair value	\$ 6,465,831	\$ (1,637,494)	\$ 4,828,337
Deferred Tax Liability, non-current	4,724,201	(654,998)	4,069,203
Retained Earnings	38,436,322	(982,496)	37,453,826
<i>November 30, 2011</i>	Previously Reported	Adjustments	Restated
Consolidated Balance Sheet			
Investments Available for Sale, at fair value	\$ 37,142,277	\$ (1,269,316)	\$ 35,872,961
Deferred Tax Liability, current	2,000,521	(507,727)	1,492,794
Other Comprehensive Income	83,201	220,907	304,108
Retained Earnings	39,120,544	(982,496)	38,138,048
<i>February 29, 2012</i>	Previously Reported	Adjustments	Restated
Consolidated Balance Sheet			
Investments Available for Sale, at fair value	\$ 41,070,496	\$ (1,331,880)	\$ 39,738,616
Deferred Tax Liability, current	2,099,126	(532,752)	1,566,374
Other Comprehensive Income	1,937,716	183,368	2,121,084
Retained Earnings	40,180,535	(982,496)	39,198,039

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Notes to Consolidated Financial Statements

Year Ended May 31, 2012

4. Investments

Available for Sale

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

<i>May 31, 2012</i>	Cost	Unrealized Gains	Fair Value
Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	\$ 3,273,885	\$ 1,036,653	\$ 4,310,538
Jordan Partners, LP	502,600	74,005	576,605
Croupier Fund, LP	562,578	256,249	818,827
Polestar Fund, LP	5,531,383	1,047,159	6,578,542
Multi-Disciplinary Fund, LP	265,164	24,073	289,237
	<u>10,135,610</u>	<u>2,438,139</u>	<u>12,573,749</u>
Investments in unconsolidated limited liability company:			
Investment in Horizon Kinetics, LLC	42,731	159,487	202,218
Bond and equity securities	19,465,495	6,134,361	25,599,856
Total Investments	<u>\$ 29,643,836</u>	<u>\$ 8,731,987</u>	<u>\$ 38,375,823</u>

<i>May 31, 2011</i>	Cost	Unrealized Gains	Fair Value
Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	\$ 2,116,601	\$ 1,480,194	\$ 3,596,795
Jordan Partners, LP	498,029	104,788	602,817
Croupier Fund, LP	484,057	213,403	697,460
Polestar Fund, LP	5,304,047	740,324	6,044,371
Multi-Disciplinary Fund, LP	149,278	1,918	151,196
	<u>8,552,012</u>	<u>2,540,627</u>	<u>11,092,639</u>
Investments in unconsolidated limited liability company:			
Investment in Horizon Kinetics, LLC	-	159,487	159,487
Bond and equity securities	18,620,599	4,889,071	23,509,670
Total Investments	<u>\$ 27,172,611</u>	<u>\$ 7,589,185</u>	<u>\$ 34,761,796</u>

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.

Notes to Consolidated Financial Statements

Year Ended May 31, 2012

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 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.

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.

Investments in unconsolidated limited liability companies: The Company owned an 8.44% ownership interest in Kinetics Advisors, which controlled and, until April 30, 2011, provided investment advice to Kinetics Partners and Kinetics Fund, both of which are hedge funds (the "Funds") (see Note 2 "Nature of business"). The Funds had elected to defer payment on certain fees earned and payable to Kinetics Advisors. Pursuant to the May 1, 2011 Exchange, the Company retained its 8.44% interest in deferred fees that were earned and payable to Kinetics Advisors prior to the Exchange, which were valued at approximately \$4,814,000. The deferred fees were invested by the Funds and were subject to the change in value from the appreciation or depreciation in the underlying investments. In May 2012, the Company received approximately \$4,483,000 for the balance of its proportionate share of the deferred fees, which resulted in a realized loss of approximately \$331,000 on the Company's investment in Kinetics Advisors.

Held to Maturity

The cost and fair value of the Company's investment classified as held to maturity consist of a participation agreement with Horizon Kinetics, a related party (see Note 2), and matures on January 29, 2013. Upon maturity, the Company will receive its share of the fair value of the assets included in the participation agreement. There were no unrealized losses for investments held to maturity as of May 31, 2012 and 2011.

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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 table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2012 and 2011, 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:

		<i>May 31, 2012</i>		
Description	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	\$ 14,142,632	\$ 14,142,632	\$ -	\$ -
Investments:				
Available for Sale:				
Bond and Equity Securities	25,599,856	25,599,856	-	-
Investments in Limited Partnerships	12,573,749	-	12,573,749	-
Investment in Unconsolidated Limited Liability Company	202,218	-	202,218	-
Total Investments Available for Sale	38,375,823	25,599,856	12,775,967	-
Total	\$ 52,518,455	\$ 39,742,488	\$ 12,775,967	\$ -
Liabilities (at fair value):				
Securities Sold, not yet purchased	\$ 1,682,784	\$ 1,682,784	\$ -	\$ -

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Year Ended May 31, 2012

Description	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	\$ 12,333,623	\$ 12,333,623	\$ -	\$ -
Investments:				
Available for Sale:				
Bond and Equity Securities	23,509,670	23,509,670	-	-
Investments in Limited Partnerships	11,092,639	-	11,092,639	-
Investments in Unconsolidated Limited Liability Companies	4,973,973	-	4,973,973	-
Total Investments Available for Sale	39,576,282	23,509,670	16,066,612	-
Total	\$ 51,909,905	\$ 35,843,293	\$ 16,066,612	\$ -
Liabilities (at fair value):				
Securities Sold, not yet purchased	\$ 1,231,145	\$ 1,231,145	\$ -	\$ -

6. Income Taxes

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

The provision for income taxes is comprised of the following:

Year Ended May 31, 2012

Current:	
Federal	\$ 2,383,466
State and local	627,916
	<u>3,011,382</u>
Deferred:	
Federal	(1,331,505)
State and local	(347,905)
	<u>(1,679,410)</u>
Provision for Income Taxes	<u>\$ 1,331,972</u>

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

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Year Ended May 31, 2012

<i>May 31,</i>	2012	2011
Current Deferred Tax Liabilities:		
Unrealized gain from investments	\$ -	\$ 1,925,794
Investments in limited partnerships and limited liability company	<u>246,385</u>	<u>-</u>
Total Current Deferred Tax Liabilities	<u>246,385</u>	1,925,794
Non-current Deferred Tax Liabilities:		
Unrealized gain from investments	<u>2,908,916</u>	2,451,838
Total Non-current Deferred Tax Liabilities	<u>2,908,916</u>	<u>2,451,838</u>
Total Deferred Tax Liability	<u>\$ 3,155,301</u>	<u>\$ 4,377,632</u>

A reconciliation of the federal statutory rate to the effective tax rate for the year ended May 31, 2012 is as follows:

Year Ended May 31, 2012

Computed Expected Tax Expense	\$ 1,563,910	34.0%
State Taxes, net of federal benefit	403,462	8.8
Permanent Differences	(584,675)	(12.7)
True-up of Prior Year Tax	(55,273)	(1.2)
Other	4,548	0.1
Total Provision for Income Taxes	<u>\$ 1,331,972</u>	<u>29.0%</u>

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 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 for the year ended May 31, 2012 consist of the following:

Redeemable Preferred Stock	50,000
Options	<u>616,888</u>
Total	<u>666,888</u>

As of May 31, 2012, there were 595,888 vested options with an exercise price below the weighted average market price of the Company's common stock during the period. For the year ended May 31, 2012, the inclusion of 144,388 options in the computation of diluted earnings per common share would have been anti-dilutive, and as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share have not been adjusted for the effects of such anti-dilutive options.

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Year Ended May 31, 2012

The reconciliation of the weighted average number of common shares used in the calculation of basic and diluted earnings per common share for the year ended May 31, 2012 follows:

Weighted Average Common Shares Outstanding	39,138,105
Effect of Dilutive Securities, common share equivalents:	
Conversion of preferred stock	50,000
Exercise of stock options	-
Dilutive Potential Common Share Equivalents	<u>39,188,105</u>

8. Major Customers

Major customers, which are in excess of 10% of consultancy and advisory fees for the year ended May 31, 2012, are as follows:

Customer A	60.6%
Customer B	13.0%

9. Non-cash Compensation

Non-cash compensation expense represents a notional salary allocation for the Company's senior officers, as required under 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. Non-cash compensation expense is recorded as an increase to additional paid-in capital.

10. 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 may redeem the shares at \$1,000 per share at any time after March 1, 2011 and shall be required to redeem them at \$1,000 per share upon the request of a holder after March 1, 2012. 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.

Effective March 1, 2012, the outstanding redeemable preferred stock was classified as a liability in accordance with GAAP guidance for accounting for certain financial instruments with characteristics of both liabilities and equity.

As of May 31, 2012 and 2011, there were 50 shares of Series R preferred stock outstanding.

Stock options

A summary of option activity as of May 31, 2012, and changes during the year ended May 31, 2012, is as follows:

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Year Ended May 31, 2012

Stock Options	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at June 1, 2011	613,888	\$ 2.15	8.27	\$ 725,644
Granted	6,000	2.75	6.64	-
Exercised	(3,000)	1.00	-	6,600
Forfeited	-	-	-	-
Outstanding at May 31, 2012	616,888	\$ 2.16	7.30	\$ 64,468
Vested and Exercisable at May 31, 2012	616,888	\$ 2.16	7.30	\$ 64,468

The following table represents non-vested stock options granted, vested, and forfeited during the year ended May 31, 2012:

Non-Vested Options	Option	Weighted Average Grant Date Fair Value
Non-vested - June 1, 2011	192,630	\$ 0.82
Granted	6,000	1.30
Vested	(198,630)	0.83
Forfeited/Expired	-	-
Non-vested – May 31, 2012	-	\$ -

The aggregate intrinsic value of options outstanding and options exercisable at May 31, 2012 and 2011 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 \$2.10 and \$3.20 closing price of FRMO's common stock on May 31, 2012 and 2011, respectively. There were 3,000 options exercised at an exercise price of \$1.00 per share during the year ended May 31, 2012.

As of May 31, 2012, there was no unrecognized compensation cost related to unvested options.