FRMO CORPORATION
AND SUBSIDIARIES

White Plains, New York

CONSOLIDATED FINANCIAL STATEMENTS

Including Report of Independent
Registered Public Accounting Firm

As of and for the Years Ended May 31, 2017 and 2016

FRMO CORPORATION
AND SUBSIDIARIES

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BAKER TILLY

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 sheet of FRMO Corporation and Subsidiaries (the "Company") as of May 31, 2017 and 2016, the related consolidated statements of income and comprehensive income (loss), the consolidated statement of stockholders' equity and the consolidated statements of 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) and in accordance with auditing standards generally accepted in the United States of America. 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, 2017 and 2016 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.

Emphasis of Matter

As discussed in Notes 2 and 3 to the financial statements, the Company has adopted the fair value election and Accounting Standards Update No. 2015-07 ("ASU 2015-07"), *"Disclosures for Investments in Certain Entities That Calculate Net Asset Value ("NAV") per Share (or Its Equivalent)."* This removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share as a practical expedient and related disclosures. Changes in unrealized gains and losses from assets subject to NAV and fair value are included as a component of current period net income. As a result of the adoption, the consolidated financial statements as of and for the year ended May 31, 2016 were restated to comply with retrospective adoption. This has resulted in reclassifications between individual line items in the consolidated financial statements, but no impact to the Company's consolidated financial position, stockholders' equity or cash flows as of and for the year ended May 31, 2016. Our opinion is not modified with respect to this matter.

Baker Tilly Virchow Krause, LLP

New York, New York
August 29, 2017

CONSOLIDATED FINANCIAL STATEMENTS

FRMO CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of May 31, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 51,125,142	$ 49,092,383
Accounts receivable (including due from related party of $742,901 and $820,333 at May 31, 2017 and 2016, respectively)	742,901	845,816
Prepaid income taxes	338,735	1,148,041
Bond and equity securities, available for sale, at fair value (cost of $17,404,496 and $12,720,543 at May 31, 2017 and 2016, respectively)	18,932,596	11,727,322
Participation Receivable	138,357	-
Total Current Assets	71,277,731	62,813,562
Participation Receivable	-	138,357
Investment in South LaSalle Partners, LP at fair value (cost of $5,767,095 and $5,771,005 at May 31, 2017 and 2016, respectively)	5,742,784	4,990,449
Investment in Winland Electronics, Inc., at fair value (cost of $460,435)	738,956	1,125,487
Investments in limited partnerships, at fair value (cost of $16,146,650 and $16,459,855 at May 31, 2017 and 2016, respectively)	24,833,050	21,354,824
Investment in OneChicago LLC	246,000	246,000
Investment in Digital Currency Group, Inc.	76,261	76,261
Investment in CNSX Markets, Inc.	243,040	243,040
Investment in Miami International Holdings, Inc.	250,000	250,000
Investment in National Stock Exchange Holdings, Inc.	248,580	-
Investment in The Bermuda Stock Exchange	2,704,029	2,642,020
Investment in Horizon Kinetics LLC	10,772,524	10,880,228
Participation in Horizon Kinetics LLC Revenue Stream	10,200,000	10,200,000
TOTAL ASSETS	$ 127,332,955	$ 114,960,228

LIABILITIES AND STOCKHOLDERS' EQUITY

	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 140,350	$ 183,417
Securities sold, not yet purchased (proceeds of $8,941,666 and $8,848,394 at May 31, 2017 and 2016, respectively)	4,130,837	4,412,055
Total Current Liabilities	4,271,187	4,595,472
Deferred tax liability	8,842,027	8,319,244
Total Liabilities	13,113,214	12,914,716
STOCKHOLDERS' EQUITY		
Redeemable 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 - 43,953,155 shares	43,953	43,953
Additional paid-in capital	31,275,473	30,349,918
Accumulated other comprehensive income (loss)	2,904,955	2,346,142
Retained earnings	69,119,083	65,625,135
Stockholders' Equity Attributable to the Company	103,343,464	98,365,148
Noncontrolling interests	10,876,277	3,680,364
Total Stockholders' Equity	114,219,741	102,045,512
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 127,332,955	$ 114,960,228

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)
For the Years Ended May 31, 2017 and 2016

	2017	2016
REVENUE		
Consultancy and advisory fees	$ 1,994,465	$ 2,536,194
Board fees	3,200	2,400
Dividends and interest income, net	562,231	659,352
Realized gains from investments	857,888	3,259,989
(Loss) Income from partnerships and limited liability companies	(21,347)	2,028,803
Unrealized gain (loss) from investments subject to net asset valuation and fair value adjustments	4,161,149	(6,774,380)
Income (loss) from investment in The Bermuda Stock Exchange	62,009	2,703
Total Revenue	7,619,595	1,715,061
OPERATING EXPENSES		
Employee compensation and benefits	103,200	103,200
Professional fees	302,139	260,168
Other expenses	280,990	323,860
Equity compensation	17,280	33,920
Total Expenses	703,609	721,148
Income from Operations before Provision for Income Taxes	6,915,986	993,913
Provision for Income Taxes		
Current year	3,360,975	867,956
Additional City tax (benefit) due to establishment of nexus for prior years	(99,667)	1,015,378
Total Provision for Income Taxes	3,261,308	1,883,334
Net Income (Loss)	3,654,678	(889,421)
Less income (loss) attributable to noncontrolling interests	160,730	(109,410)
Net income (loss) Attributable to the Company	$ 3,493,948	$ (780,011)
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Net Income (Loss)	$ 3,654,678	$ (889,421)
Unrealized investment holding gains (losses) arising during the year	2,895,815	(8,421,212)
Income tax (provision) benefit related to items of other comprehensive income	913,458	2,233,147
Unrealized investment holding gains (losses), net of tax	3,809,273	(6,188,065)
Comprehensive Income (Loss)	7,463,951	(7,077,486)
Less comprehensive income (loss) attributable to noncontrolling interests	3,127,995	(56,588)
Comprehensive income (loss) Attributable to the Company	$ 4,335,956	$ (7,020,898)
NET INCOME (LOSS) PER COMMON SHARE		
Basic and diluted	$ 0.08	$ (0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	43,953,155	43,820,150
Diluted	44,000,015	43,872,460

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

FRMO CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Years Ended May 31, 2017 and 2016

	Redeemable Preferred Stock Shares	Redeemable Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Stockholders' Equity Attributable to the Company	Non-Controlling Interests	Total Stockholders' Equity
BALANCE - June 1, 2015	-	$ -	43,728,155	$ 43,728	$ 29,399,060	$ 8,570,091	$ 66,405,146	$ 104,418,025	$ -	$ 104,418,025
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 Liabilty Company					199,178			199,178	-	199,178
Change in Unrealized (Losses)	-	-	-	-	-	(6,223,949)	-	(6,223,949)	(56,588)	(6,280,537)
Net Income (Loss)	-	-	-	-	-	-	(780,011)	(780,011)	(109,410)	(889,421)
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	2,346,142	65,625,135	98,365,148	3,680,364	102,045,512
Equity Compensation	-	-	-	-	17,280	-	-	17,280	-	17,280
Non-cash Compensation	-	-	-	-	103,200	-	-	103,200	-	103,200
Capital Accounts of Consolidated Limited Liabilty Company					805,075			805,075	-	805,075
Change in Unrealized Gains	-	-	-	-	-	558,813	-	558,813	3,127,995	3,686,808
Net Income	-	-	-	-	-	-	3,493,948	3,493,948	160,730	3,654,678
Noncontrolling interests from consolidation of Horizon Kinetics Hard Assets LLC	-	-	-	-	-	-	-	-	3,907,188	3,907,188
BALANCE - MAY 31, 2017	-	$ -	43,953,155	$ 43,953	$ 31,275,473	$ 2,904,955	$ 69,119,083	$ 103,343,464	$ 10,876,277	$ 114,219,741

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

FRMO CORPORATION
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CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 3,654,678	$ (889,421)
Adjustments to reconcile net income (loss) to net cash flows from operating activites		
Non-cash compensation	103,200	103,200
Equity compensation	17,280	33,920
Realized gain from investments	(857,888)	(3,259,989)
Loss (income) from partnerships and limited liability companies	21,347	(2,028,803)
Unrealized (gain) loss from investments subject to net asset valuation and fair value adjustments	(4,161,149)	6,774,380
(Income) loss from investment in The Bermuda Stock Exchange	(62,009)	(2,703)
Tax benefit from exercise of stock options	-	(167,035)
Deferred income tax	1,436,241	(1,753,838)
Changes in operating assets and liabilities:		
Accounts receivable (includes $77,432 and $405,528 from related parties) at May 31, 2017 and 2016, respectively)	102,915	416,293
Prepaid income taxes	809,306	(500,608)
Accounts payable and accrued expenses	(43,067)	31,901
Net Cash Flows from Operating Activities	1,020,854	(1,242,703)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,243,178	7,824,318
Purchases - investments available for sale	(1,277,232)	(5,372,402)
Proceeds from securities sold, not yet purchased	1,748,099	6,622,781
Purchases to cover securities previously sold	(1,808,560)	(3,832,578)
Investment in One Chicago LLC	-	(246,000)
Investment in Digital Currency Group, Inc.	-	(76,261)
Investment in Miami International Holdings, Inc.		(250,000)
Investment in National Stock Exchange Holdings, Inc.	(248,580)	-
Investment in CNSX Markets, Inc.	-	(243,040)
Net Cash Flows from Investing Activities	656,905	4,426,818
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of other equity-subsidiary	355,000	548,102
Proceeds from exercise of stock options	-	447,750
Tax benefit from exercise of stock options	-	167,035
Net Cash Flows from Financing Activities	355,000	1,162,887
Net Change in Cash and Cash Equivalents	2,032,759	4,347,002
CASH AND CASH EQUIVALENTS, Beginning of Year	49,092,383	44,745,381
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 51,125,142	$ 49,092,383
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for		
Income taxes	$ 1,010,108	$ 4,121,166
Interest	$ 133,347	$ 3,890,523
NONCASH INVESTING ACTIVITIES		
Investment acquired through the transfer of other investments	$ 4,234,802	$ 3,715,397

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

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. Horizon 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 4). 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 5).

Effective June 1, 2013, the Company earns substantially all of its advisory fees from Horizon Kinetics as a result of an amendment of its product-specific revenue interests (see Note 4). For the years ended May 31, 2017 and 2016, 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.

In addition the Company receives consulting fees pursuant to an agreement with Santa Monica Partners, LP, whose manager is a director and stockholder of the Company.

NOTE 1 - Nature of Business (cont.)

Noncontrolling Interests

Horizon Kinetics Hard Assets LLC

From November 1, 2015 through May 31, 2017, the Company acquired an interest in HKHA by contributing securities with a fair market value of $1,302,236. As of May 31, 2017 and 2016 the Company holds an 11.80% and 5.08% interest, respectively, in HKHA.

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.

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 88.20% and 94.92% in HKHA has been eliminated as of May 31, 2017 and 2016, respectively.

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 financial statements 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.

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

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, 2017 and 2016, the Company had balances in excess of federally insured limits on deposit with financial institutions. At May 31, 2017, the Company had: (1) three accounts with balances of approximately $11,450,000, $36,052,000 and $1,352,000 at one financial institution, and (2) one account with a balance of approximately $2,271,000 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.

Credit Risk

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 marketable securities 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 debt and equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs, or other factors.

Debt and equity marketable 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 amortized 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.

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

Investment Valuation (cont.)

As of May 31, 2017 and 2016, investments in limited partnerships and limited liability companies are valued using data inputs from March 31, 2017 and 2016, respectively, the dates of the most current available information.

Investments in limited partnerships are recorded in accordance with ASU No. 2015-07, "*Disclosures for Investments in Certain Entities That Calculate Net Asset Value ("NAV") per Share (or Its Equivalent)*, " which removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share as a practical expedient and related disclosures.

Changes in unrealized gains from assets subject to NAV are included in the consolidated statements of income and comprehensive income (loss) in unrealized gain (loss) from investments subject to net asset valuation and fair value adjustments.

The Company elected the fair value method to value its investment in Winland Electronics, Inc. The fair value is evaluated quarterly based on quoting activity. Changes to fair value are included in the consolidated statements of income and comprehensive income (loss) in unrealized gain (loss) from investments subject to net asset valuation and fair value adjustments.

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.

For investments in unconsolidated entities utilizing the equity method of accounting, 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 is 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. The Company's allocated Net Income in these items are reported as a single line item in the consolidated statements of income and comprehensive income (loss) as income from partnerships and limited liability companies. The unrealized gains and losses of these entities are also reflected in the investment and are included in unrealized gain (loss) from investments subject to net asset valuation.

For investments in unconsolidated entities utilizing 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.

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

Investments in Unconsolidated Entities (cont.)

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, 2017 and 2016 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.

Other 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.

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

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 the advisory and consulting services are performed.

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 security 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. The Company's share of annual incentive fees earned by Horizon Kinetics, if any, are included in the quarter ended February 28/29.

Income (loss) from investments subject to Net Asset Valuation and fair value adjustments:

<u>Investment Partnerships</u>

Revenue is earned based upon FRMO's allocated share of each investment partnership's pass-through of changes in unrealized gains and losses to its partners on a calendar year basis.

<u>Investments Subject to Fair Value Adjustments</u>

Revenue is earned based upon the change in unrealized gains and losses from investments subject to fair value election.

Income from The Bermuda Stock Exchange is earned based upon FRMO's allocated share of net income 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, 2017 and 2016 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.

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

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.

Deferred income 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 income 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 income 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.

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, 2014 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, 2017 and 2016.

Reclassifications

As a result of the adoption Accounting Standards Update 2015-17, *Balance Sheet Classifications of Deferred Taxes* (ASU 2015-17), the comparative consolidated balance sheet as of May 31, 2016 was restated to comply with retrospective adoption of this ASU (see Note 3 “New Accounting Pronouncements”).

As a result of the adoption Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07) and fair value election, the beginning balances in the consolidated statement of stockholders’ equity as of June 1, 2015, the consolidated balance sheet as of May 31, 2016, consolidated statement of income and comprehensive income, and consolidated statement of cash flows for the year ended May 31, 2016 were restated to comply with retrospective adoption of this ASU (see Note 3 “New Accounting Pronouncements”).

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

Subsequent Events

The Company has evaluated all subsequent events from the date of the consolidated balance sheets through August 29, 2017, which represents the date these consolidated financial statements are available to be issued.

NOTE 3 - Adoption of New Accounting Pronouncements

Balance Sheet Classification of Deferred Taxes

On November 20, 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2015-17, “Balance Sheet Classification of Deferred Taxes” (ASU 2015-17). The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance is effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those years, and early adoption is permitted. The Company retrospectively adopted ASU 2015-17 effective February 28, 2017. The comparative consolidated balance sheet as of May 31, 2016 was restated to comply with retrospective adoption of this ASU. As a result of the adoption of this ASU, current liabilities as of May 31, 2016 decreased by $5,820,288 from $10,415,760 to $4,595,472. The adoption of ASU 2015-17 did not have any impact on the Company’s consolidated results of operations or cash flows.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value (“NAV”) per Share (or Its Equivalent) and fair value adjustments

The Company elected to adopt the guidance issued in ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value (“NAV”) per Share (or Its Equivalent), " which removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share as a practical expedient and related disclosures. The Company retrospectively adopted ASU 2015-07 effective May 31, 2017. The Company does not record changes in unrealized gains, net of taxes as other comprehensive income for assets subject to NAV, and now records such changes as a component of net income, with the related deferred income tax in the consolidated statement of income.

The beginning balances in the consolidated statement of stockholders’ equity as of June 1, 2015, the consolidated balance sheet as of May 31, 2016 and the consolidated statement of income and comprehensive income (loss) for the year ended May 31, 2016 were restated to comply with the retrospective adoption.

As a result of the adoption, which the Company uses to account for investments subject to net asset valuation, accumulated other comprehensive income as of June 1, 2015 decreased by $7,625,538 and retained earnings as of June 1, 2015 increased by $7,625,538, accumulated other comprehensive income as of May 31, 2016 decreased by $3,043,420 and retained earnings as of May 31, 2016 increased by $3,043,420. The consolidated statement of income and comprehensive income (loss) for the year ended May 31, 2016 was restated to comply with retrospective adoption as follows:

NOTE 3 - Adoption of New Accounting Pronouncements (cont.)

Disclosures for Investments in Certain Entities That Calculate Net Asset Value ("NAV") per Share (or Its Equivalent) and fair value adjustments (cont.)

	Year Ended May, 31 2016		
	Previously Reported	Effect of Adoption	Retrospective Application of Adoption
REVENUE			
Unrealized loss from assets subject to net asset valuation and fair value adjustments	$ -	$ (6,774,380)	$ (6,774,380)
Other revenue	8,489,441	-	8,489,441
Total Revenue	8,489,441	(6,774,380)	1,715,061
Total Expenses	721,148	-	721,148
Income from Operations before Provision for Income Taxes	7,768,293	(6,774,380)	993,913
Provision for income taxes (see Note 7)	4,075,596	(2,192,262)	1,883,334
Net income (loss)	3,692,697	(4,582,118)	(889,421)
Less net loss attributable to noncontrolling interests	(109,410)	-	(109,410)
Net Income (Loss) Attributable to FRMO Corporation	$ 3,802,107	$ (4,582,118)	$ (780,011)
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Net income (loss)	$ 3,692,697	$ (4,582,118)	$ (889,421)
Unrealized investment holding gains (losses) arising during the period	(15,195,592)	6,774,380	(8,421,212)
Income tax benefit (provision) related to items of other comprehensive income	4,425,409	(2,192,262)	2,233,147
Unrealized investment holding gains (losses), net of tax	(10,770,183)	4,582,118	(6,188,065)
Comprehensive Loss	(7,077,486)	-	(7,077,486)
Less comprehensive loss attributable to noncontrolling interests	(56,588)	-	(56,588)
Comprehensive Loss Attributable to FRMO Corporation	$ (7,020,898)	$ -	$ (7,020,898)
EARNINGS (LOSS) PER COMMON SHARE			
Basic and diluted	$ 0.09	$ (0.12)	$ (0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	43,820,150	-	43,820,150
Diluted	43,872,460	-	43,872,460

The adoption of ASU 2015-07 did not have any impact on the Company's consolidated cash flows or current income taxes.

NOTE 3 - Adoption of New Accounting Pronouncements (cont.)

Other Accounting Pronouncements

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

NOTE 4 - Participation Interest

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, 2017 and May 31, 2016. Revenue 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, 2017 and 2016 and represents substantially all of the consulting and advisory fees for such periods.

As a result of this transaction, the Company realized a gain of approximately $10,057,000 in 2013. Income taxes of approximately $4,396,000 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" in the consolidated balance sheets as of May 31, 2017 and 2016.

NOTE 5 - Investments

Limited Partnerships and Limited Liability Companies, Bonds and Equity Investments

The Company's investments in limited partnerships and limited liability companies, bonds and equity investments consist of the following as of May 31, 2017 and 2016:

NOTE 5 - Investments (cont.)

Limited Partnerships and Limited Liability Companies, Bonds and Equity Investments (cont.)

	As of May 31, 2017		
	Cost or (Proceeds)	Unrealized Gains (Losses)	Fair Value
Investments subject to Net Asset Valuation			
Investments in limited partnerships:			
Investment in South LaSalle Partners, LP	$ 5,767,095	$ (24,311)	$ 5,742,784
Investments in other limited partnerships			
Horizon Multi-Strategy Fund, LP	6,864,680	2,796,314	9,660,994
CDK Partners, LP	1,018,608	467,518	1,486,126
Polestar Fund, LP	7,694,638	5,444,742	13,139,380
Multi-Disciplinary Fund, LP	568,724	(22,174)	546,550
Total Investments in other limited partnerships	16,146,650	8,686,400	24,833,050
Total Investments Subject to Net Asset Valuation	$ 21,913,745	$ 8,662,089	$ 30,575,834
Investment subject to fair value adjustments			
Investment in Winland Electronics, Inc.	$ 460,435	$ 278,521	$ 738,956
Bond and Equity Securities Available for Sale	$ 17,404,496	$ 1,528,100	$ 18,932,596
Securities sold, not yet purchased (liability)	$ (8,941,666)	$ 4,810,829	$ (4,130,837)

	As of May 31, 2016		
	Cost or (Proceeds)	Unrealized Gains (Losses)	Fair Value
Investments Subject to Net Asset Valuation			
Investments in limited partnerships:			
Investment in South LaSalle Partnerships, LP	$ 5,771,005	$ (780,556)	$ 4,990,449
Investments in other 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	549,082	(34,217)	514,865
Total investments in other limited partnerships	16,459,855	4,894,969	21,354,824
Total investments subject to Net Asset Valuation	$ 22,230,860	$ 4,114,413	$ 26,345,273
Investment subject to fair value adjustments			
Investment in Winland Electronics, Inc.	$ 460,435	$ 665,052	$ 1,125,487
Bond and Equity Securities Available for Sale	$ 12,720,543	$ (993,221)	$ 11,727,322
Securities sold, not yet purchased (liability)	$ (8,848,394)	$ 4,436,339	$ (4,412,055)

NOTE 5 - Investments (cont.)

Limited Partnerships and Limited Liability Companies, Bonds and Equity Investments (cont.)

The Company's limited partnerships interests are all under 50%, except for its investment in South LaSalle Partners, LP at May 31, 2017 and 2016, which was 45.04% and 55.04%, 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 in Winland Electronics, Inc. is recorded as a non-current asset due to its limited trading activity and the possible inability of the Company to sell all of the shares owned within a one-year period.

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.

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.

NOTE 5 - Investments (cont.)

Limited Partnerships and Limited Liability Companies, Bonds and Equity Investments (cont.)

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 Entities

The following are the Company's investments in unconsolidated entities accounted for using the cost method of accounting:

OneChicago, LLC

The Company holds a 0.279% interest in OneChicago, LLC. The Company acquired 5 units of OneChicago, LLC for $246,000 on June 18, 2015.

Digital Currency Group, Inc.

The Company holds a 0.05% interest in Digital Currency Group, Inc. The Company acquired 353 shares of Digital Currency Group, Inc. for $76,261 on February 26, 2016.

CNSX Markets, Inc.

The Company holds a 1.41% interest in CNSX Markets, Inc. The Company acquired 380,000 shares of CNSX Markets, Inc. for $243,040 on January 21, 2016.

Miami International Holdings, Inc.

The Company holds less than a 1.00% interest in Miami International Holdings, Inc. The Company acquired 50,000 shares of Miami International Holdings, Inc. for $250,000 on May 5, 2016.

National Stock Exchange Holdings, Inc.

The Company holds less than a 1.00% interest in National Stock Exchange Holdings, Inc. The Company acquired 21 shares of National Stock Exchange Holdings, Inc. for $248,580 on September 16, 2016.

The following are the Company's investments in unconsolidated entities accounted for using the equity 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.

NOTE 5 - Investments (cont.)

Investments in Unconsolidated Entities (cont.)

Horizon Kinetics LLC

The Company holds a 4.95% interest in Horizon Kinetics (see Note 1).

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 6 - 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, 2017 and 2016, 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.

In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has elected the fair value option for its investments on an investment-by-investment basis at the time each investment is initially recognized in the financial statements or upon an event that gives rise to a new basis of accounting for these items. The Company has elected the fair value option for its investment in Winland Electronics, Inc.

NOTE 6 - Fair Value Measurements (cont.)

	As of May 31, 2017				
		Fair Value Measurements at Reporting Date Using			
	Total	Investments Measured at Net Asset Value	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	$ 48,854,581	$ -	$ 48,854,581	$ -	$ -
Other Investments					
Bond and Equity Securities	$ 19,671,552	$ -	$ 18,932,596	$ 738,956	$ -
Investments in Unconsolidated Limited Partnerships	30,575,834	30,575,834	-	-	-
Total Other Investments	$ 50,247,386	$ 30,575,834	$ 18,932,596	$ 738,956	$ -
Liabilities (at fair value):					
Common Stocks	$ 4,130,837	$ -	$ 4,130,837	$ -	$ -

	As of May 31, 2016				
		Fair Value Measurements at Reporting Date Using			
	Total	Investments Measured at Net Asset Value	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	$ -	$ -
Other Investments:					
Bond and Equity Securities	$ 12,852,809	$ -	$ 11,727,322	$ $1,125,487	$ -
Investments in Unconsolidated Limited Partnerships	26,345,273	26,345,273	-	-	-
Total Other Investments	$ 39,198,082	$ 26,345,273	$ 11,727,322	$ 1,125,487	$ -
Liabilities (at fair value):					
Common Stocks	$ 4,412,055	$ -	$ 4,412,055	$ -	$ -

NOTE 7 - Income Taxes

The Company files a consolidated federal income tax return and a combined state/city 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:

	Years Ended May 31	
	2017	2016
Current:		
Federal	$ 1,466,085	$ 2,118,957
State and City	358,982	1,518,215
Total Current	1,825,067	3,637,172
Deferred		
Federal	1,555,094	(2,421,420)
State and City	(118,853)	667,582
Total Deferred	1,436,241	(1,753,838)
Total Provision for Income Taxes	$ 3,261,308	$ 1,883,334

The tax effects of temporary differences which give rise to the deferred tax liability consist of the following as of May 31, 2017 and 2016:

	2017	2016
Deferred Tax Liability		
Investments in limited partnerships	$ 20,568	$ 471,890
Investment in unconsolidated limited liability companies	283,089	366,925
Deferral of gain from like-kind exchange	4,396,011	4,385,955
Unrealized gain from investments subject to net asset valuation included in net income	3,586,360	1,736,045
Unrealized gain from investments included in other comprehensive income	555,999	1,358,429
Total Deferred Tax Liability	$ 8,842,027	$ 8,319,244

NOTE 7 - Income Taxes (cont.)

A reconciliation of the federal statutory rate to the effective tax rate is as follows for the years ended May 31, 2017 and 2016:

	2017		2016	
Income Before Taxes	$ 6,915,986	100.0%	$ 993,913	100.0%
Computed Expected Tax Expense	$ 2,351,435	34.0%	$ 337,930	34.0%
State and City Taxes, net of federal benefit	128,626	1.9%	386,627	38.9%
Permanent Differences	546,737	7.9%	(119,872)	-12.1%
True-up of Prior Year Tax	302,592	4.4%	228,406	23.0%
Additional City Tax due to Establishment of Nexus for Prior Years, net of federal benefit (1)				
Current	(111,358)	-1.6%	588,492	59.2%
Deferred	11,691	0.2%	426,886	43.0%
Other	31,585	0.4%	34,865	3.5%
Total Provision for Income Taxes	$ 3,261,308	47.2%	$ 1,883,334	189.5%

(1) During the year ended May 31, 2016, the Company voluntarily established nexus in New York City and calculated an estimate of income taxes and accrued interest for the years ended May 31, 2013, 2014 and 2015. In September 2016, the Company filed the required tax returns which resulted in the actual income tax and accrued interest being $168,725 less than the estimate as of May 31, 2016. The net amount of this adjustment after federal tax was $111,358 and is included in in current income taxes for the year ended May 31, 2017.

The Company filed its corporate tax returns for the years ended May 31, 2016 and 2015 during the three months ended February 28/29, 2017 and 2016. Due to the nature of K-1 pass-through items, actual taxable pass-through items from investment partnerships and unconsolidated limited liability companies can differ from estimated amounts. For the years ended May 31, 2017 and 2016, the filing of the corporate tax returns resulted in tax true-ups of $302,592 and $228,406, respectively, primarily due to differences in pass through items.

NOTE 8 - 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 consist of the following for the years ended May 31:

	2017	2016
Stock Options	111,626	103,626

As of May, 31, 2017 and 2016, there were 87,626 and 79,626, respectively, of 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 for the years ended May 31:

	2017	2016
Weighted Average Common Shares Outstanding	43,953,155	43,820,150
Effect of Dilutive Securities,		
common share equivalents:		
Exercise of stock options	46,860	52,310
Dilutive Potential Common Share Equivalents	44,000,015	43,872,460

NOTE 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.

NOTE 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 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, 2017 and 2016.

Stock Options

A summary of option activity as of May 31, 2017, and changes during the year then ended, 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, 2016	103,626	$ 3.40	3.87	$ 260,742
Granted	8,000	4.80	6.36	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at May 31, 2017	111,626	$ 3.50	3.12	$ 189,079
Vested and Exercisable at May 31, 2017	111,626	$ 3.50	3.12	$ 189,079

All stock options were vested as of May 31, 2017 and 2016.

The aggregate intrinsic value of options outstanding and options exercisable at May 31, 2017 and 2016 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 $4.40 and $5.30 closing price of FRMO's common stock on May 31, 2017 and 2016, respectively.

As of May 31, 2017, there was no unrecognized compensation cost related to unvested options.