

**FRMO CORPORATION  
AND SUBSIDIARIES**

White Plains, New York

**INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS**

Including Report of Independent  
Registered Public Accounting Firm

As of August 31, 2019 (Unaudited) and  
May 31, 2019 and for the Three Months  
Ended August 31, 2019 and 2018 (Unaudited)

**FRMO CORPORATION  
AND SUBSIDIARIES**

TABLE OF CONTENTS

As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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<b>Review Report of Independent Registered Public Accounting Firm</b>	1
<b>Interim Condensed Consolidated Financial Statements</b>	
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)	3
Condensed Consolidated Statement of Stockholders' Equity	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6 - 15

## Review Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
FRMO Corporation and Subsidiaries

We have reviewed the accompanying condensed consolidated balance sheet of FRMO Corporation and Subsidiaries (the "Company") as of August 31, 2019, the related condensed consolidated statements of income (loss) and comprehensive income (loss) for the three months ended August 31, 2019 and 2018, the condensed consolidated statement of stockholders' equity for the three months ended August 31, 2019, and the condensed consolidated statements of cash flows for the three months ended August 31, 2019 and 2018. These condensed consolidated financial statements are the responsibility of the Company's management.

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

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements as of August 31, 2019 and for the three months ended August 31, 2019 and 2018 referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of FRMO Corporation and Subsidiaries as of May 31, 2019 (not presented herein) and, in our report dated August 13, 2019, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 2019 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

*Baker Tilly Virchow Krause, LLP*

New York, New York  
October 15, 2019

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FRMO CORPORATION  
AND SUBSIDIARIES**  
CONDENSED CONSOLIDATED BALANCE SHEETS  
As of August 31, 2019 and May 31, 2019

<i>ASSETS</i>	August 31, 2019 (Unaudited)	May 31, 2019
<b>Current Assets</b>		
Cash and cash equivalents	\$ 54,409,210	\$ 53,080,680
Accounts receivable (due from related parties)	776,484	760,619
Prepaid income taxes	-	736,436
Equity securities, at fair value (cost of \$48,153,881 and \$43,731,538 at August 31, 2019 and May 31, 2019, respectively)	60,313,168	63,564,512
Other assets	391,437	142,357
<b>Total Current Assets</b>	<u>115,890,299</u>	<u>118,284,604</u>
Computer equipment, net of accumulated depreciation of \$77,105 and \$62,335 at August 31, 2019 and May 31, 2019, respectively)	100,130	94,998
Investment in limited partnerships and other equity investments at fair value (cost of \$30,050,594 and \$26,208,639 at August 31, 2019 and May 31, 2019, respectively)	46,673,607	47,513,033
Investments in Securities Exchanges	3,681,813	3,641,522
Other investments	469,137	452,458
Investment in Horizon Kinetics LLC	12,204,008	11,487,950
Participation in Horizon Kinetics LLC Revenue Stream	10,200,000	10,200,000
<b>Total Assets</b>	<u><u>\$ 189,218,994</u></u>	<u><u>\$ 191,674,565</u></u>
<b><i>LIABILITIES AND STOCKHOLDERS' EQUITY</i></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 228,939	\$ 161,157
Income taxes payable	967,402	-
Securities sold, not yet purchased (proceeds of \$13,948,181 and \$11,581,064 at August 31, 2019 and May 31, 2019, respectively)	7,673,392	8,133,244
<b>Total Current Liabilities</b>	<u>8,869,733</u>	<u>8,294,401</u>
Deferred tax liability	7,816,226	8,383,113
<b>Total Liabilities</b>	<u>16,685,959</u>	<u>16,677,514</u>
<b>Stockholders' Equity</b>		
Stockholders' Equity Attributable to the Company	127,315,578	126,384,257
Noncontrolling interests	45,217,457	48,612,794
<b>Total Stockholders' Equity</b>	<u>172,533,035</u>	<u>174,997,051</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u><u>\$ 189,218,994</u></u>	<u><u>\$ 191,674,565</u></u>

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

**FRMO CORPORATION  
AND SUBSIDIARIES**

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended	
	August 31,	
	2019	2018
	(Unaudited)	
<b>REVENUE</b>		
Fees	\$ 531,820	\$ 542,182
Dividends and interest income, net	328,723	286,041
Net realized gains (losses) from investments	22,616	(32,851)
Equity earnings from partnerships and limited liability companies	1,316,050	713,073
Unrealized (losses) gains from investments subject to fair value valuation	(1,380,820)	3,517,698
Equity earnings from investment in The Bermuda Stock Exchange	40,291	62,791
Total revenue before unrealized (losses) gains from equity securities	858,680	5,088,934
Unrealized (losses) gains from equity securities	(4,846,718)	9,782,938
Total Revenue	(3,988,038)	14,871,872
<b>OPERATING EXPENSES</b>		
General and administrative expenses	334,793	289,914
Depreciation	14,769	8,449
Total Expenses	349,562	298,363
<b>(Loss) Income from Operations before Provision for Income Taxes</b>	(4,337,600)	14,573,509
Provision for Income Taxes	1,233,009	1,289,369
Net (Loss) Income	(5,570,609)	13,284,140
Less net (loss) income attributable to noncontrolling interests	(5,351,747)	10,073,017
Net (Loss) Income Attributable to the Company	\$ (218,862)	\$ 3,211,123
<b>OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX</b>		
Net (Loss) Income	\$ (5,570,609)	\$ 13,284,140
Change in other comprehensive income (loss)	-	-
Comprehensive (Loss) Income	(5,570,609)	13,284,140
Less comprehensive (loss) income attributable to noncontrolling interests	(5,351,747)	10,073,017
Comprehensive (loss) income attributable to the Company	\$ (218,862)	\$ 3,211,123
<b>NET (LOSS) INCOME PER COMMON SHARE</b>		
Basic and diluted	\$ (0.00)	\$ 0.07
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>		
Basic	43,983,335	43,973,781
Diluted	43,983,335	44,023,435

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

**FRMO CORPORATION  
AND SUBSIDIARIES**

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
For the Three Months Ended August 31, 2019 (Unaudited)

	Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Stockholders' Equity Attributable to the Company	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount						
<b>BALANCE - June 1, 2019</b>	-	\$ -	43,976,781	\$ 43,976	\$ 34,792,027	\$ -	\$ 91,548,254	\$ 126,384,257	\$ 48,612,794	\$ 174,997,051
Exercise of Stock Options	-	-	53,000	53	105,297	-	-	105,350	-	105,350
Non-cash Compensation	-	-	-	-	25,800	-	-	25,800	-	25,800
Capital Accounts of Consolidated Limited Liability Company	-	-	-	-	1,019,033	-	-	1,019,033	-	1,019,033
Net loss	-	-	-	-	-	-	(218,862)	(218,862)	(5,351,747)	(5,570,609)
Noncontrolling contributions	-	-	-	-	-	-	-	-	1,956,410	1,956,410
<b>BALANCE - August 31, 2019</b>	<u>-</u>	<u>\$ -</u>	<u>44,029,781</u>	<u>\$ 44,029</u>	<u>\$ 35,942,157</u>	<u>\$ -</u>	<u>\$ 91,329,392</u>	<u>\$ 127,315,578</u>	<u>\$ 45,217,457</u>	<u>\$ 172,533,035</u>

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

**FRMO CORPORATION  
AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Three Months Ended August 31, 2019 and 2018

	August 31,	
	2019 (Unaudited)	2018 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (5,570,609)	\$ 13,284,140
Adjustments to reconcile net (loss) income to net cash flows from operating activities		
Non-cash compensation	25,800	25,800
Net realized (gain) loss from investments	(22,616)	32,851
Equity earnings from partnerships and limited liability companies	(1,316,050)	(713,073)
Unrealized losses (gains) from investments subject to fair value valuation	1,380,820	(3,517,698)
Unrealized losses (gains) from equity securities	4,846,718	(9,782,938)
Equity earnings from investments in Securities Exchanges	(40,291)	(62,791)
Non-cash fee revenue	(72,101)	(10,114)
Depreciation	14,769	8,449
Deferred income tax (benefit) expense	(566,887)	723,555
Changes in operating assets and liabilities:		
Accounts receivable	(15,865)	(46,123)
Prepaid income taxes	736,436	168,493
Other current assets	(249,080)	(4,185)
Accounts payable and accrued expenses	67,782	38,993
Income taxes payable	967,402	396,853
Net Cash Flows from Operating Activities	<u>186,228</u>	<u>542,212</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	150,060	409,646
Purchases of investments	(1,456,733)	(2,027,035)
Proceeds from securities sold, not yet purchased	2,428,068	2,269,649
Purchases to cover securities previously sold	(79,542)	(1,496,987)
Purchase of computer equipment	(19,901)	(9,704)
Net Cash Flows provided by (used in) Investing Activities	<u>1,021,952</u>	<u>(854,431)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of other consolidated subsidiary equity	15,000	65,000
Proceeds from exercise of stock options	105,350	-
Net Cash Flows from Financing Activities	<u>120,350</u>	<u>65,000</u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>1,328,530</b>	<b>(247,219)</b>
CASH AND CASH EQUIVALENTS, Beginning of Period	53,080,680	53,617,453
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u><u>\$ 54,409,210</u></u>	<u><u>\$ 53,370,234</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for		
Income taxes	\$ 96,000	\$ -
Interest - margin	<u>\$ 104,737</u>	<u>\$ 87,483</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Investment acquired through the contribution of other investments	<u>\$ 2,960,441</u>	<u>\$ 2,105,469</u>

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



# FRMO CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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### NOTE 1 - Nature of Business and Basis of Presentation

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The condensed consolidated financial statements include the accounts of FRMO and its controlled subsidiaries (collectively referred to as the "Company"). The Company holds a 4.95% interest in Horizon Kinetic LLC ("Horizon") and earns substantially all of its advisory fees from Horizon. As of August 31, 2019 and May 31, 2019, the Company held a 17.34% and 15.49% equity interest in Horizon Kinetics Hard Assets LLC ("HKHA"), a company formed by Horizon and certain officers, principal stockholders and directors of the Company. 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. The noncontrolling interest of 82.66% and 84.51% in HKHA has been eliminated from results of operations for the periods ended August 31, 2019 and May 31, 2019. Total stockholders' equity includes as a separate item the amount attributable to the noncontrolling interests. The Company maintains its corporate office in White Plains, New York.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended May 31, 2019 and notes thereto. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial position and results of operations. The results of operations for the three months ended August 31, 2019 may not be indicative of the results that may be expected for the year ending May 31, 2020.

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### NOTE 2 - Summary of Significant Accounting Policies

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#### *Investment Valuation*

As of August 31, 2019 and May 31, 2019, investments in limited partnerships and limited liability companies are valued using data inputs from June 30, 2019 and March 31, 2019, respectively, the dates of the most current available information. Management reviews relevant market and related data to reconcile for the period from July 1 through August 31. Because of its significance, subsequent market volatility has been reflected in these condensed consolidated financial statements.

#### *Subsequent Events*

The Company has evaluated all subsequent events from the date of the condensed consolidated balance sheets through October 15, 2019, which represents the date these condensed consolidated financial statements are available to be issued. See Note 4 for subsequent event regarding Investment in Securities Exchanges.

**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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**NOTE 3 - Adoption of New Accounting Pronouncements**

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The Company has determined that no recently issued accounting pronouncements will have a material impact on its condensed consolidated financial position, results of operations and cash flows, or do not apply to its operations.

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**NOTE 4 - Investments**

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*Limited Partnerships and Limited Liability Companies and Equity Investments*

The Company's investments in limited partnerships and limited liability companies and equity investments consist of the following as of August 31, 2019 and May 31, 2019:

	As of August 31, 2019 (Unaudited)		
	Cost or (Proceeds)	Unrealized Gains	Fair Value
Equity Securities	<u>\$ 48,153,881</u>	<u>\$ 12,159,287</u>	<u>\$ 60,313,168</u>
Investments in limited partnerships and other equity securities:			
Limited partnerships			
Investment in South LaSalle Partners, LP	<u>\$ 5,749,623</u>	<u>\$ 1,342,529</u>	<u>\$ 7,092,152</u>
Investments in managed funds			
Horizon Multi-Strategy Fund, LP	\$ 10,165,273	\$ 6,575,370	\$ 16,740,643
CDK Partners, LP	1,430,436	1,411,668	2,842,104
Polestar Fund, LP	11,626,686	7,093,367	18,720,053
Multi-Disciplinary Fund, LP	597,875	20,067	617,942
Kinetics Institutional Partners, LP	9,889	5,833	15,722
Shepherd I, LP	<u>10,377</u>	<u>3,659</u>	<u>14,036</u>
Total Investments in Managed Funds	<u>23,840,536</u>	<u>15,109,964</u>	<u>38,950,500</u>
Investment in Winland Holdings Corporation	<u>460,435</u>	<u>170,520</u>	<u>630,955</u>
Total investments in limited partnerships and other equity securities	<u>\$ 30,050,594</u>	<u>\$ 16,623,013</u>	<u>\$ 46,673,607</u>
Securities sold, not yet purchased (liability)	<u>\$(13,948,181)</u>	<u>\$ 6,274,789</u>	<u>\$ (7,673,392)</u>

**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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**NOTE 4 - Investments (cont.)**

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	As of May 31, 2019		
	Cost or (Proceeds)	Unrealized Gains	Fair Value
Equity Securities	<u>\$ 43,731,538</u>	<u>\$ 19,832,974</u>	<u>\$ 63,564,512</u>
Investments in limited partnerships and other equity securities:			
Limited partnerships			
Investment in South LaSalle Partners, LP	<u>\$ 5,753,268</u>	<u>\$ 1,673,937</u>	<u>\$ 7,427,205</u>
Investments in managed funds			
Horizon Multi-Strategy Fund, LP	\$ 6,464,011	\$ 10,148,441	\$ 16,612,452
CDK Partners, LP	1,435,786	1,446,042	2,881,828
Polestar Fund, LP	11,478,409	7,793,533	19,271,942
Multi-Disciplinary Fund, LP	596,586	10,645	607,231
Kinetics Institutional Partners, LP	9,879	6,246	16,125
Shepherd I, LP	<u>10,265</u>	<u>3,871</u>	<u>14,136</u>
Total Investments in Managed Funds	<u>19,994,936</u>	<u>19,408,778</u>	<u>39,403,714</u>
Investment in Winland Holdings Corporation	<u>460,435</u>	<u>221,679</u>	<u>682,114</u>
Total investments in limited partnerships and other equity securities	<u>\$ 26,208,639</u>	<u>\$ 21,304,394</u>	<u>\$ 47,513,033</u>
Securities sold, not yet purchased (liability)	<u>\$(11,581,064)</u>	<u>\$ 3,447,820</u>	<u>\$ (8,133,244)</u>

**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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**NOTE 4 - Investments (cont.)**

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*Investments in Unconsolidated Entities*

Investment in Securities Exchanges

Investments in securities exchanges consist of the following as of August 31, 2019 and May 31, 2019:

	August 31, 2019 <u>(Unaudited)</u>	May 31, 2019 <u>(Unaudited)</u>
The Bermuda Stock Exchange	\$ 2,942,773	\$ 2,902,482
OneChicago, LLC	246,000	246,000
CNSX Markets, Inc.	243,040	243,040
Miami International Holdings, Inc.	250,000	250,000
Total securities exchanges	<u>\$ 3,681,813</u>	<u>\$ 3,641,522</u>

The Company holds a 40.08% interest in the Bermuda Stock Exchange, a 1.41% interest in CNSX Markets, Inc. and less than a 1.00% interest in other stock exchanges.

On September 23, 2019, the Bermuda Monetary Authority authorized the transfer of the Company's shares in The Bermuda Stock Exchange to Miami International Holdings, Inc. ("MIH") in exchange for common stock of MIH. After the completion of this transaction, the Company will own an additional 603,393 shares of MIH, in addition to shares it held directly prior to the share exchange. The Company will continue to maintain an ownership interest of less than 1.00% in MIH after the transaction is completed, which is expected to be on or about October 18, 2019.

Other Investments Carried at Cost

The following are the Company's other investments as of August 31, 2019 and May 31, 2019:

	August 31, 2019 <u>(Unaudited)</u>	May 31, 2019 <u>(Unaudited)</u>
<b>Cryptocurrency Mining Entities</b>		
HK Cryptocurrency Mining, LLC	\$ 53,686	\$ 56,467
Horatio Mining, LLC	66,361	48,621
HK Cryptocurrency Mining II, LLC	127,829	126,109
HM Tech LLC	145,000	145,000
Total cryptocurrency mining entities	<u>392,876</u>	<u>376,197</u>
Digital Currency Group, Inc.	76,261	76,261
Total other investments	<u>\$ 469,137</u>	<u>\$ 452,458</u>

**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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**NOTE 4 - Investments (cont.)**

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Investments under the Equity Method of Accounting

The Company's investments in the Bermuda Stock Exchange and Horizon are accounted for under the equity method of accounting. Both investments have been reviewed for impairment with none being noted.

Investment Concentration

As of August 31, 2019 and May 31, 2019, the Company had one investment in an equity security held directly and indirectly, through its various investments in managed funds, amounting to approximately \$25,318,000 and \$26,562,000, respectively, which represents 19.9% and 21.0%, respectively, of stockholders' equity attributable to the Company ("Equity"). None of the Company's other direct or indirect investments were greater than 10% of Equity.

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**NOTE 5 - Fair Value Measurements**

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The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of August 31, 2019 and May 31, 2019, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair values.

	As of August 31, 2019 (Unaudited)			
	Fair Value Measurements at Reporting Date Using			
		Quoted Prices		
		Investments Measured at Net Asset Total	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets (at fair value):				
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 49,811,078	\$ -	\$ 49,811,078	\$ -
Other Investments:				
Equity Securities	\$ 60,313,168	\$ -	\$ 60,313,168	\$ -
Investment in Limited Partnerships and other Equity Investments	46,673,607	46,042,652	-	630,955
Total Other Investments	\$ 106,986,775	\$ 46,042,652	\$ 60,313,168	\$ 630,955
Liabilities (at fair value):				
Common Stocks	\$ 7,673,392	\$ -	\$ 7,673,392	\$ -

**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

**NOTE 5 - Fair Value Measurements (cont.)**

	As of May 31, 2019				
	Fair Value Measurements at Reporting Date Using				
	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)
		Total			
Assets (at fair value):					
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 48,481,777	\$ -	\$ 48,481,777	\$ -	
Other Investments:					
Equity Securities	\$ 63,564,512	\$ -	\$ 63,564,512	\$ -	
Investment in Limited Partnerships and other Equity Investments	47,513,033	46,830,919	-	682,114	
Total Other Investments	\$ 111,077,545	\$ 46,830,919	\$ 63,564,512	\$ 682,114	
Liabilities (at fair value):					
Common Stocks	\$ 8,133,244	\$ -	\$ 8,133,244	\$ -	

**NOTE 6 - 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 Company records adjustments related to prior years' taxes during the period when they are identified, generally when the tax returns are filed. The effect of these adjustments on the current and prior periods (during which the differences originated) is evaluated based upon quantitative and qualitative factors and are considered in relation to the condensed consolidated financial statements taken as a whole for the respective periods. These adjustments have not been significant to the Company's financial statements.

**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

**NOTE 6 - Income Taxes (cont.)**

The provision for income taxes is comprised of the following for the three months ended August 31:

	Three Months Ended August 31,	
	2019	2018
	(Unaudited)	
Current		
Federal	\$ 1,345,654	\$ 399,150
State and City	454,242	166,664
Total Current	1,799,896	565,814
Deferred		
Federal	(585,898)	761,436
State and City	19,011	(37,881)
Total Deferred	(566,887)	723,555
Total Provision for Income Taxes	\$ 1,233,009	\$ 1,289,369

Deferred tax assets and liabilities are determined using the enacted tax rates applicable to the period the temporary differences are expected to be recovered. Accordingly, the current period income tax provision is affected by the enactment of new tax rates. The net deferred income taxes on the balance sheets reflect temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and income tax purposes, tax effected at a various rates depending on whether the temporary differences are subject to federal taxes, state and city taxes, or both.

The tax effects of temporary differences which give rise to the deferred tax liability consist of the following as of August 31, 2019 and May 31, 2019:

	August 31, 2019	May 31, 2019
	(Unaudited)	
Deferred Tax Liability		
Investments in limited partnerships	\$ 640,905	\$ 622,616
Investment in unconsolidated limited liability companies	241,803	230,672
Deferral of gain from like-kind exchange	2,779,555	2,779,555
Unrealized gain from investments	4,153,963	4,750,270
Total Deferred Tax Liability	\$ 7,816,226	\$ 8,383,113

**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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**NOTE 6 - Income Taxes (cont.)**

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A reconciliation of the federal statutory rate to the effective tax rate is as follows for the three months ended August 31, 2019 and 2018:

	2019 (Unaudited)		2018 (Unaudited)	
Income before taxes	\$ (4,337,600)	100.00%	\$ 14,573,509	100.00%
Computed expected tax expense	\$ (910,896)	21.00%	\$ 3,060,437	21.00%
State and City taxes, net of federal benefit	358,850	-8.27%	131,665	0.90%
Permanent differences				
Permanent differences related to consolidation of noncontrolling interests	1,359,626	-31.35%	(2,440,394)	-16.75%
Other permanent differences	420,661	-9.70%	567,383	3.89%
Other	4,768	-0.11%	(29,722)	-0.20%
Total Provision for Income Taxes	\$ 1,233,009	-28.43%	\$ 1,289,369	8.84%

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

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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. 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 unexercised stock options of 51,000 and 99,000 for the three months ended August 31, 2019 and 2018.

As of August 31, 2019 and 2018 there were 27,000 and 83,000 vested options, respectively, with an exercise price below the weighted average market price of the Company's common stock during the period.



**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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

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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 three months ended August 31:

	2019	2018
	(Unaudited)	
Weighted Average Common Shares Outstanding	43,983,335	43,973,781
Effect of Dilutive Securities, common share equivalents:		
Exercise of stock options	-	49,654
Dilutive Potential Common Share Equivalents	<u>43,983,335</u>	<u>44,023,435</u>

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**NOTE 8 - Stockholders' Equity**

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*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. There were no shares of preferred stock outstanding as of August 31, 2019 and May 31, 2019.

*Stock Options*

A summary of option activity as of August 31, 2019, and changes during the three months then ended, is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<i>Stock Options</i> (Unaudited)				
Outstanding at June 1, 2019	104,000	\$ 4.34	2.06	\$ 329,040
Granted	-	-	-	-
Exercised	(53,000)	1.99	-	\$ 277,750
Forfeited	-	-	-	-
Outstanding at August 31, 2019	<u>51,000</u>	<u>\$ 6.79</u>	<u>3.40</u>	<u>\$ 48,790</u>
Vested and Exercisable at August 31, 2019	<u>51,000</u>	<u>\$ 6.79</u>	<u>3.40</u>	<u>\$ 48,790</u>

**FRMO CORPORATION  
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
As of August 31, 2019 (Unaudited) and May 31, 2019 and for the  
Three Months Ended August 31, 2019 and 2018 (Unaudited)

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**NOTE 8 - Stockholders' Equity** (cont.)

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All stock options were vested as of August 31, 2019 and May 31, 2019.

The aggregate intrinsic value of options outstanding and options exercisable at August 31, 2019 and May 31, 2019 is calculated as the difference between the exercise price of the underlying options and the market price of FRMO's common stock for the shares that had exercise prices that were lower than the \$7.20 and \$7.25 closing price of FRMO's common stock on August 31, 2019 and May 31, 2019, respectively.

As of August 31, 2019, there was no unrecognized compensation cost related to unvested options.