FRMO Corp.

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Dear Fellow Shareholders,

The past year was a year of harvesting. As noted in the 2014 Shareholder Letter, we have been gradually disposing of our closed end fund investments that have been primarily oriented towards bonds. It might be recalled that these were purchased during the aftermath of the 2008 bond market crisis when the bond market essentially ceased to function. Closed end funds were not only priced at very significant discounts to net asset value, but most bonds, apart from U.S. Treasury Securities, sold at substantial discounts to par value. Years of ultra-accommodative monetary policy have certainly changed this circumstance. We concluded that the after tax returns from this point forward are likely to be at best in the low single digits and these returns are not at all proportional to the risk of continued investment. Hence, we have been sellers of these funds for the past year.

Nevertheless, we have also planted some new seedlings in the past year. None of the seedling practice is a departure from the past. However, continuous seedling investment is gradually transforming the company. Our shareholders' equity has now surpassed $102 million. Our cash and cash equivalents balance now comfortably exceeds $44 million. We have more financial resources than at any time in the company's history. We can operate upon a far more ambitious scale should opportunities present themselves. We are a more diversified and balanced company than at any time in our corporate history.

In our discussion of business affairs we will more or less follow the FRMO segmentation that we introduced with the 2014 Shareholder Letter. However, we will take this opportunity to introduce some new investments as well as provide some strategic commentary that we did not supply in the 2014 letter. The format will be as follows:

1. Investment in Horizon Kinetics LLC
2. Horizon Kinetics LLC Revenue Share
3. Bermuda Stock Exchange
4. Investment Securities divided as follows:
    a. South LaSalle Partners LP: the Minneapolis Grain Exchange
    b. Investments in Horizon Kinetics Funds
    c. Marketable Bonds & Equities
5. Winland Electronics
6. New Venture – One Chicago
7. Securities Sold Short
8. Cash and Equivalents
9. Strategic Commentary

Horizon Kinetics LLC

Since much of what Horizon Kinetics does in the investment management realm is in the public domain, it has probably not escaped shareholder notice that funds under management have not been increasing. As of the most recent reckoning, assets under management (AUM) is approximately $9.1 billion. We have most assuredly not been immune to the trend of investors to give preference to indexation strategies. Perhaps more importantly, we have resisted the temptation to move into the various currently popular "momentum" strategies.

The popularity of momentum strategies has had a modestly negative impact upon our own index business, which was discussed for the first time last year. For example, in August of last year our classical index assets amounted to about $200 million of AUM dominated by approximately $130 million in the Virtus Wealth Masters Fund. Although this fund has about $154 million of AUM as of this writing, our classical index assets now amount to roughly $170 million of AUM.

Historically, index funds, or passive management, was marketed upon a diversification premise. The recent trend is to create even less diversified indexes that can exhibit extraordinary performance, at least for a time. Intensive and largely successful efforts are then made to gather assets on the basis of short-term performance.

We have no intention of joining these efforts. Of course, it is rather easy to create an index comprised of companies that back test very well. Unfortunately, there is only a limited supply of raw material for such purposes. Hence, the equities of firms involved in Biotechnology, Cyber Security, Cloud Computing, Chinese "A" shares, and many other groups exhibit, in our humble and perhaps incorrect view, signs of over evaluation. In any case, if newly created indexes are to be marketed upon short-term performance criteria, the effort is contrary to the basic underlying idea of indexation, which is that performance is a random walk. Once the index business is dominated by short-term performance considerations and imaginative and expensive advertising, it is simply no longer indexation.

Just as we have no intention of competing in indexation upon short-term performance considerations, we have no intention of doing likewise in the field of active management. Companies that are very exciting but nearly devoid of earnings are taking their places among the top 100 market capitalizations of the S&P 500, among other indexes. We remain value oriented investors. We will readily confess that this appears more than a trifle passé at the current time. However, the so-called new concepts do not appear very new to us. Readers of these pages who are intrigued with the history might wish to consult *The Go-Go Years* by John Brooks or perhaps *The Rise and Fall of the Conglomerate Kings* by Robert Sobel. One will discover eerie similarities and echoes of the current era in the history of the stock market in the late 1960s and early 1970s.

We do not wish to leave readers with the impression that the new technologies will not transform human life for the better. The issue is simply that in any investment sense, a participant in these industries is subject to considerable valuation risk that we do not wish to accept. We much prefer the "time risk" of a dormant asset such as land that is to be developed, or unused frequency spectrum that generates no cash but is likely to be needed by the grand technologies currently being deployed. It is the old story of the need for patience which, as always, is a commodity in short supply. In other words, as in La Fontaine's fable of the ant and the grasshopper, we prefer to play the role of the ant.

In any case, FRMO was founded by us as a company where patient investing can be practiced without the pressures of the need to continually raise outside capital. It is for this reason that FRMO has a gradually expanding list of activities, so that we will never be reliant upon the cash flow of any single activity for success. It is also the reason that this letter seems to become longer with each passing year.

Horizon Kinetics Revenue Share

The remarks in the aforementioned section are intended to apply to the revenue share as well with one salient exception. It should be observed that the revenue share income declined by about one third. This is because the fiscal year 2015 includes essentially no performance fees as opposed to the prior fiscal year. The performance fees, of course, come from our investment partnerships. The irony with regard to the partnerships is that the indexation movement which, of necessity, ignores contrarian out-of-favor securities that do not manifest first order liquidity, leave the long-only value oriented investors with no alternative apart from patient investing. This is not necessarily true with regard to the partnerships, since these have the flexibility to be short, use options in various ways, and to arbitrage indexation anomalies. Indexation is creating opportunities that are difficult to exploit in the long-only format. The partnerships are in the process of making use of their various faculties in interesting ways.

In addition, we as a corporation are invested in the partnerships. Consequently, performance sufficiently good to generate performance fees will also be reflected in increased values of the partnerships. Thus, if and when we receive our share of the performance fee, we will also experience a robust increase in the value of the partnerships. As readers can observe in Note 4 of the 2015 fiscal year financial statements, the value of the partnerships at fiscal year-end exceed $25 million. The size of those investments in relation to our assets plus the periodic performance fees make it likely that our results will be episodic in this regard. However, the performance aspect, when earned, can have a very dramatic positive impact upon shareholders' equity. In fact, in order to achieve such an impact, a large amount of assets under management is not necessary. Indeed, it might even be an advantage not to raise large sums, since we enjoy great liberty of action with smaller sums. In any case the lesson that we ultimately learned is that in the realm of asset management, smaller is better.

Bermuda Stock Exchange

In February 2015, we increased our investment in the Bermuda Stock Exchange (BSX) to 40.8%. The investment is performing rather well. One of the exciting aspects of the exchange is the growth of the Insurance Linked Securities market. These are essentially investment grade bonds with coupons of perhaps 7.5% to 8.0% with 4-year maturities. In order to earn this unusually robust rate of return, investors must accept the risk that if certain insurance related catastrophe events such as hurricanes were to occur, the bond could forfeit most or even all of its value. There might be a 2% to 3% chance that this would happen; however, those events would be unrelated to global economic activity or the credit cycle. Inclusive of catastrophe events, these bonds have yields similar to high yield bonds. However, these Insurance Linked Securities do not exhibit spread widening or narrowing as a group, as is the case with conventional high yield bonds. In the bond world, Insurance Linked Securities are a diversifier.

The BSX has become a leader in this asset class. According to the BSX news release dated July 7, 2015 (http://www.bsx.com/News.asp), the BSX now lists Insurance Linked Securities with an aggregate value of $17.5 billion, which represents a 67% market share. According to an article published by Artemis, the leading research firm in the Insurance Linked Securities field, the BSX had attained an Insurance Linked Securities listing level of $15.9 billion on December 31, 2014.

The Insurance Linked Securities asset class is really in its infancy at this stage. Artemis calculates the total Insurance Linked Securities market at roughly $24.7 billion worldwide. This sum is minor in relation to the size of the global high yield market. Bond investors wish to diversify away from the fixed income credit and interest rate cycle. Insurance companies wish to diversify their underwriting risk and retain less risk on their own balance sheets. It is for this reason that the Insurance Linked Securities market is expanding rapidly.

From the FRMO standpoint, we ourselves diversify into a different asset class with significant positive optionality. We define optionality as the ability to earn substantial sums without investing substantial sums in relation to shareholders’ equity.

Investment Securities

South LaSalle Partners LP – The Minneapolis Grain Exchange

FRMO's investment in the South LaSalle Partners LP (SLP) is essentially an investment in the Minneapolis Grain Exchange (MGEX). This asset is also performing well. In the first instance, higher volume contributes mightily to the economic success of exchanges since many of the costs are fixed. Rising revenue does not generally entail commensurate increases in costs. Consequently, the opportunity exists for large increases in profits. In accordance with our thinking, this is a form of optionality.

Specifically, in the case of MGEX, the June 2015 total volume of 259,169 contracts was the highest total volume month in the history of the exchange. July 2015 was the best July in the history of the exchange, and represents a 33% increase from July 2014.

This volume record is interesting since the primary product is Hard Red Spring Wheat. The volume is obviously correlated with the crop planting and harvesting cycle, which is very different from traditional equities. Moreover, wheat is a commodity. The commodities in general are in a bear market. Eighteen of the 22 components in the Bloomberg Commodity index have dropped at least 20% from prior high prices. We can only wonder what might happen if the bear market in commodities were to end. Thus, the potential for higher volume is a form of optionality.

There are also less obvious forms of optionality that exist with regard to FRMO's investment in MGEX. For example, on April 29, 2015, MGEX announced a new business relationship with the Carbon Trade Exchange. MGEX will provide support and services for a spot market exchange for trading allowances and offsets in the California carbon emissions limitation program. No one could have imagined some years ago that a conventional commodities exchange could possibly have the opportunity to participate in the trading of state carbon emissions allowances. One of the ironies is that transport fuels such as diesel are part of the emissions problem. Consequently, the opportunity to participate in transport fuels via a regulatory modality like an emissions credit could not have been anticipated. Also, the opportunity to grow exists by linking to other similar programs such as the Quebec Cap and Trade System. These are all forms of optionality.

In fact, the structure of our investment in MGEX is yet another form of optionality. It should be noted from our balance sheet that our investment in MGEX is done via SLP. We have invited outside investors to co-invest with us, which adds a fee generation aspect to our investment. The opportunity to do this in the case of SLP is rather limited, since the market capitalization of MGEX is about $70 million and we cannot own more than 35% of the exchange in total. Nevertheless, it is a form of optionality.

Finally, another form of optionality exists in the exchange in the form of real estate. The exchange owns the Grain Exchange set of buildings in Minneapolis on the corner of South 4th Avenue and South 4th Street. The buildings have a combined footprint of roughly 325,000 square feet. They are adjacent to an extensive urban renewal project that is underway, which includes construction of a new stadium. In addition, there is a new Wells Fargo building that will be connected to the

MGEX buildings via a skyway. It seems reasonable to believe that the magnitude of this urban renewal project will exert a favorable impact upon the value of the MGEX buildings.

FRMO has an investment in the MGEX (through SLP) valued at $6.5M. Via this investment we have exposure to optionality in the form of:

- Commodities
- Carbon Credits
- Real Estate
- Co-Investment Fee Income
- The theoretical possibility of new asset classes that might require the services of a licensed exchange to facilitate trading

This is a great deal of optionality for a relatively small investment when one considers the scale at which modern investment operates.

Investments in Horizon Kinetics Funds

Excluding SLP, which was discussed in the prior section, we had roughly $25.3 million invested in four partnerships, as described in Note 4 of the Annual Report last year, this amounted to slightly less than $24 million. The change in value is entirely due to appreciation. We neither added to nor withdrew monies from our partnership investments.

As a generalization, the funds have more hedges than ever before in the history of the funds. The Polestar Fund, CDK Partners and Multi-Disciplinary Fund in particular have lower gross exposure than ever before, more liquidity that ever before, and more margin availability than ever before. This should not be understood as an implied statement regarding market levels. We make no such prognostications.

The nature of the opportunity set in financial markets is changing. First, it should be obvious that once interest rates approached zero, there existed limited appreciation potential in the fixed income asset class. The fixed income asset class is many time the size of the equity asset class. Second, to the extent that at least some equities are viewed as bond substitutes, these securities similarly assume the risk/reward attributes of bonds. Utilities are a good example of this phenomenon. Third, since indexes have become the predominant modality of modern investing, the rise of this price insensitive buyer with literally many trillions of dollars of purchasing power has reduced the number of undervalued securities. This is an inevitable consequence of what can occur when securities are purchased wholesale, so to speak.

Consequently, the opportunity set has narrowed. We will have more to say about this matter in the *Strategic Commentary* section of this letter. However, the securities that for a variety of reasons have been excluded from the scope of wholesale investing offer very robust return opportunities. An example is the existence of the so-called path dependent exchange traded funds (ETFs). In a rationally ordered universe, no such funds would ever exist. We discussed the concept of path dependency in last year's annual report. Indexation has expanded its market share to the extent that it now has become possible for us to hedge a path dependent position very inexpensively. As a result of these hedges, the Horizon Kinetics funds generate increased margin availability. Moreover, as the opportunity set shrinks, various marginal positions are sold and cash is increased.

Noting that the opportunity set might be shrinking is not to say that new opportunities are not being created. For instance, consider the matter of commodity-related investments. The decline in commodity prices and the declines in the prices of commodity-related equities rivals that of 2008. Of course, that situation occurred during a financial crisis. The crisis has yet to recur.

This is an example of what can happen when indexation is the predominate form of investment. At FRMO, we have very limited exposure to commodity-related equities. We have no informed view as to when, or even if, commodity prices will recover. However, eventually indexation, or perhaps otherwise expressed, wholesale selling as opposed to wholesale buying, will create a price decline of serious magnitude, which is something upon which we have an informed view. In the meanwhile, there is very little opportunity cost to building available liquidity either in the form of cash or in the form of margin availability.

Marketable Bonds & Equities

It might be recalled that in last year's Shareholder Letter we observed that bonds were simply securities that carried risk without commensurate possibility of reward. Thus, we were beginning the sale of our closed end bond funds. We have continued this process throughout the 2015 fiscal year.

As of May 31, 2014, we had a long position of roughly $30.6 million of bond and equity securities with a cost basis of $17.7 million. As of May 31, 2015, we held $15.4 million of bond and equity investments with a cost basis of $1.449 million. This large gain is primarily the result of securities purchased during the financial crisis.

From the inception of FRMO until 2008, we undertook very limited investments. Our liquidity was gradually increasing from cash receipts from various products managed by Horizon Asset Management and Kinetics Asset Management. On February 28, 2009, at the height of the financial crisis, we had $26.6 million of equity, slightly less than a $5.3 million market value of available-for-sale investments, and nearly $17.7 million in cash. After a year of extensive selling, we now have almost 3x that amount of marketable securities and about 2.5x that amount in cash. Long-term investing entails not only patience once an investment is made but patience until an investment is made.

We have done almost no buying of marketable securities during the past year. Eventually this posture will change. As Note 4 of our Annual Report now reveals, even a small risk undertaken during a moment of capital market stress can generate enormous returns. We now have total assets that are well over 4x the amount that was possessed by our company in February 2009. We can afford to be patient. Our available-for-sale bond and equity securities have a market value now equivalent to more than 10x cost.

Winland Electronics

Winland Electronics is a very small company that sells sensors that monitor environmental conditions such as moisture, humidity and temperature. One might regard such devices as pedestrian. Perhaps this is true. Nevertheless, the market is sufficiently pedestrian and small that it does not seem to be alluring to very large firms. Winland thus enjoys a fairly robust return on invested capital. In fact, the company actually has excess capital. This is why it was undervalued at the time of our purchase.

The problem is to make use of excess capital. In the case of Winland, the following investment was recently undertaken. Winland invested $200,000 in conjunction with a third party that invested another $1,000,000 in a museum exhibition project operated by an interesting Minnesota-based company known as Exhibits Development Group. Incidentally, Winland Electronics is also based in Minnesota.

The transaction entails funding for a specific exhibition created by Exhibits Development Group (EDG) called *Magical History Tour*. This exhibition is a Beatles memorabilia retrospective. This transaction is structured in the form of preferred stock with a 10% coupon. After the preferred is redeemed, the investment will be converted into the right to 30% of the revenue generated by this exhibition until after its last tour venue currently scheduled in 2019. The preferred does contain certain repayment guarantees. Of course, the transaction involves risk, but Winland is entitled to roughly 83% of the 30% revenue share. Once repayment occurs, this is a revenue share without a capital investment.

This arrangement is very much in the FRMO tradition. Since FRMO owns approximately 15% of Winland Electronics and the investment amounts to $200,000, FRMO is risking only $30,000 on a look though basis. If successful, this could be the basis for a new business line. If unsuccessful, the risk to FRMO is immaterial. The *Magical History Tour* exhibition will be at the Pacific National Exhibition in Vancouver, British Columbia between August 22, 2015 and September 5, 2015. Shareholders have ample time to enjoy the exhibition and still come to the FRMO Annual Meeting.

New Venture – OneChicago

FRMO made a small investment in One Chicago subsequent to the end of the 2015 fiscal year. OneChicago is the market place for single stock futures. Over 6,000 products actually trade on its platform, covering about 1,648 underlying issues.

Single stock futures are essentially similar to OTC swaps and equities repos. The salient differences are that single stock futures clear through the AA+ rated Options Clearing Corp. This eliminates the counter party risk of conventional swaps. Also, there is a need for more transparency with regard to the pricing and trading of conventional swaps. This problem is solved by trading on a regulated exchange facility such as OneChicago.

The Dodd-Frank Act mandates that swaps move to exchanges or swap execution facilities and clearinghouses. Dodd-Frank also requires more transparency in the securities lending markets. A single stock future is also equivalent to a margin loan, with daily variation in margin processed by the clearinghouse.

The securities leading market and the swap market are huge. The single stock future market is in its infancy. Thus, in accordance with our remarks upon other subjects, this investment represents enormous optionality. The primary investors in OneChicago are the Chicago Mercantile Exchange (CME), the Chicago Board Options Exchange (CBOE), and Interactive Brokers (IBKR). Our cost for the investment was $246,000. We are very excited to have been able to make this small investment.

Securities Sold Short

Over the years, this business has provided our highest return on capital. This essentially involves the short sale of so-called path dependent ETFs. A path dependent security is a one that will generally decline over time due to decay features that are a property of the security. Last year's Shareholder Letter contains a brief tutorial on this instrumentality.

As of fiscal year end, we had a market value in this class of $1.797 million with a cost basis of $6.629 million. Given the size of our current balance sheet we could safely expand participation in this field. This is especially true now, as we hedge much of our exposure. The practice is also important insofar as it is a field of endeavor that does not require the use of cash. In fact, the practice generates cash over time.

In the short run, the strategy is not devoid of mark-to-market risk. The reason that we are able to engage in this strategy is that modern investment theory is designed to evaluate investments not merely by magnitude of return but by magnitude of variability. The investment community is eager to dispose of mark-to-market risk and pay truly exorbitant sums for the privilege. The return on capital that we have earned thus far is proof of this point. We prefer to accept a controllable amount of mark-to-market variability for an exorbitant return. Thus, we find ourselves once again at odds with the current thrust of portfolio thought. We have always been comfortable in this posture.

Cash & Equivalents

As can readily be seen from our balance sheet, at year end we held a record amount of cash and cash equivalents – about $44.7 million. In addition, our total investments—excluding cash—was about $48 million. We continue to endeavor to build liquidity wherever possible. In the 2008-2009 period, we were able to invest rather aggressively given our then small balance sheet and still retain a large liquidity reserve. We intend to adhere to this practice. The collapse of commodities and commodity-related equities during the past four years should provide evidence of the damage that is possible in a world of indexation, even in the absence of a financial crisis. If we do at some point draw upon our balance sheet faculties, we are likely to do so with investments that are either not part of indexes or, if contained in indexes, are such small parts of the index that the index is tangential to the trading volume of the security in question. The indexes are the investment equivalents of crowds, and the crowd is not a place for us.

It was our contention, expressed in last year's Shareholder Letter, that the opportunity cost of holding cash was low given the level of interest rates. In light of what happened in the subsequent year, we have not been disappointed. Ultimately, the mob-like pace of index investing will create opportunities. In fact, the term investing might be used to paraphrase a very famous George Bernard Shaw quote: The single biggest problem in investing is the illusion that is has taken place.[1]

Strategic Commentary

As we commenced the process of raising liquidity in the summer of 2014, the investing environment experienced a radical change. The ability of governments in general to influence economic conditions was already in rapid decline. Governments all over the world have practiced deficit financing since 1934 or 1935. After roughly 80 years of debt accumulation, governments cannot yet again increase deficits to stimulate the economy without impacting, probably severely, their credit ratings.

Monetary conditions cannot be made more accommodative. Interest rates cannot be lowered. Quantitative easing beyond a certain point becomes inflationary. Consequently, one cannot purchase a broadly diversified portfolio of equities and expect increasing earnings and increasing valuations.

A relatively small number of innovative firms do experience robust revenue and earnings growth. However, these are in such demand by indexes and other types of investors that the valuations have become astronomical. It is for these reasons that we were confident that the opportunity cost of liquidity was low. Indeed, capital markets have not generated significant returns in the past twelve months.

The investment management industry has yet to adjust to this change. In the 12 months ended June 30, 2015, approximately 186 out of 330 iShares ETFs generated returns of less than positive 1%. Another 28 funds generated returns of less than 2% but greater than 1%. Therefore, less than 1/3 of all iShares ETFs produced returns that were greater than the 2% presumptive rate of inflation.

In the year ended May 31, 2015, our own FRMO return on equity was 8.6%, even as we ended the fiscal year with about 45% of shareholders' equity in cash and receivables. Ultimately, the money management industry can only respond to this set of circumstances with greater concentration of investment and less emphasis upon portfolios that are capable of handling huge inflows.

It is our view that profitability for a money management firm will increasingly come from performance fees. This strategy can be very lucrative, but will not be possible with vast sums of money. Successful firms will focus upon a narrower list of investments. These will be more eclectic and will not be easily imitated. In other words, a relatively small amount of assets under

[1] The actual George Bernard Shaw quote is: "The single biggest problem in communication is the illusion that is has taken place."

management can produce huge profitability. Huge amounts of assets under management will, in our view, result in wholesale or commoditized investing with generally very low fees and low profit margins. In our own money management business we are gradually but consistently investing with more focus upon a more narrow range of publicly traded investments. Happily, our profit margins remain high.

Nevertheless, from an FRMO Corp. point of view, there are risks involved in the fact that we invest in a narrow range of companies. We might prove to be poor investors. Moreover, something might happen to us. FRMO cannot remain as the publicly traded version of Horizon Kinetics. Consequently, it might not have escaped investors notice that other seedling businesses have made their appearance in FRMO in the past two years.

Of course, we are as engaged as ever in the money management business. We do not wish this to change. However, the following table of our corporate investments will illustrate how the business of FRMO is evolving. It is a table of the number of employees in each of our investments. It illustrates very well how the business is evolving:

FRMO Corp. Number of Employees at each Investment Entity as of 7/2/2015

Bermuda Stock Exchange	8
Horizon Kinetics	87
Minneapolis Grain Exchange	33
OneChicago	17
Winland Electronics	6
Total	151

This, of course, does not take into account the employees at Exhibits Development Group which is a new Winland Electronics Investment. We are, therefore, expanding the number of people to whom we are exposed without increasing our corporate overhead. In fact, as will be really seen from our annual income statement, operating expenses actually declined.

We have increased our range of investments, we have increased our "optionality," we have decreased our corporate expenses, and we have increased significantly our available liquidity. We are always considering other "high optionality" seedling businesses. The table above might change dramatically if even some optionality is realized. This could be the case even if we do not make any other "high optionality" seedling investments.

All of this, as noted previously, is a consequence of the changing investment environment. Although it might seem to outside observers that the future belongs to indexation, our view is that the business will become much more research intensive and "active" rather than passive. Readers can easily monitor this situation by observing the returns generated by indexes collectively. Simply count the totality of low index returns out of the 1700 or so existing ETFs in recent periods. We would advise one to monitor this situation carefully in the future.

We will conclude this already lengthy letter with the following cynical observation. We view index investing as the functional equivalent of mortgages with no individual income verification, since index investing rejects the value of individual security research. No-income-verification mortgages apparently worked so well that now that approach is being implemented as a philosophy over the entire range of investments. We are moving our business in the opposite direction.

We cordially and humbly thank our shareholders for their support over the years.

Murray Stahl	Steven Bregman
Chairman and CEO	President and CFO