

**FRMO CORPORATION
AND SUBSIDIARY**

**REPORT ON AUDITS OF CONSOLIDATED
FINANCIAL STATEMENTS**

Years Ended February 28, 2011 and 2010

Contents

Years Ended February 28, 2011 and 2010

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Consolidated Financial Statements

Independent Auditors' Report

To the Board of Directors and Stockholders
FRMO Corporation and Subsidiary

We have audited the accompanying consolidated balance sheets of FRMO Corporation and Subsidiary (the "Company") as of February 28, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company holds an 8.44% membership interest in Kinetics Advisors, LLC ("Kinetics Advisors"). Generally accepted accounting principles require the equity method of accounting for investments in limited liability companies that have separate ownership accounts for each investor greater than three to five percent. The Company cannot obtain audited financial statements from Kinetics Advisors to account for this investment under the equity method. Accordingly, the Company accounts for its 8.44% interest in Kinetics Advisors under the cost method.

In our opinion, except for the effects of not reporting the investment in Kinetics Advisors, LLC under the equity method, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FRMO Corporation and Subsidiary as of February 28, 2011 and 2010, and the results of their operations, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein Reminick LLP

New York, New York
July 11, 2011

**FRMO CORPORATION
AND SUBSIDIARY**

Consolidated Balance Sheets

<i>February 28,</i>	2011	2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 12,569,843	\$ 15,665,481
Accounts receivable (including due from broker of \$75,623 and \$-0-, respectively)	426,638	566,063
Prepaid income taxes	-	310,621
Investments, available for sale, at fair value (cost of \$27,445,685 and \$17,869,035 at February 28, 2011 and 2010, respectively)	33,105,115	21,820,350
Investment, held to maturity, at cost (fair value \$757,643)	750,473	-
Total Current Assets	46,852,069	38,362,515
Other Assets	311,214	9,590
Total Assets	\$ 47,163,283	\$ 38,372,105
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 128,264	\$ 140,782
Income taxes payable	217,191	180,599
Securities sold, not yet purchased (proceeds \$365,939)	378,375	-
Total Current Liabilities	723,830	321,381
Deferred Tax Liability - non-current	1,679,895	759,551
Total Liabilities	2,403,725	1,080,932
Stockholders' Equity:		
Preferred stock - \$.001 par value; Authorized - 2,000,000 shares; Issued and outstanding - 50 shares Series R	-	-
Common stock - \$.001 par value; Authorized - 90,000,000 shares Issued and outstanding - 39,155,140 shares at February 28, 2011 and 38,913,812 shares at February 28, 2010	39,155	38,913
Additional paid-in capital	10,559,703	9,580,331
Other comprehensive income	3,538,854	2,513,945
Retained earnings	30,621,846	25,157,984
Total Stockholders' Equity	44,759,558	37,291,173
Total Liabilities and Stockholders' Equity	\$ 47,163,283	\$ 38,372,105

**FRMO CORPORATION
AND SUBSIDIARY**

Consolidated Statements of Income

<i>Years Ended February 28,</i>	2011	2010
Revenue:		
Consultancy and advisory fees	\$ 2,960,906	\$ 3,142,539
Dividends and interest income, net	1,285,653	663,082
Realized gains	43,091	111,432
Income (loss) from investment partnerships	1,374,231	(406,531)
Revenue from unconsolidated subsidiary	3,048,523	896,900
Total Revenue	8,712,404	4,407,422
Expenses:		
Employee compensation and benefits	141,521	167,215
Professional fees	168,295	218,503
Other expenses	101,625	89,657
Equity compensation	166,656	42,087
Amortization	70,813	8,414
Total Expenses	648,910	525,876
Income from Operations	8,063,494	3,881,546
Provision for Income Taxes	2,599,632	1,914,851
Net Income	\$ 5,463,862	\$ 1,966,695
Basic and Diluted Earnings per Common Share	\$ 0.14	\$ 0.05
Weighted Average Common Shares Outstanding:		
Basic	39,122,626	36,707,353
Diluted	39,172,626	36,758,749

**FRMO CORPORATION
AND SUBSIDIARY**

Consolidated Statements of Stockholders' Equity
Years Ended February 28, 2011 and 2010

	Preferred Stock		Common Stock		Additional Paid-In Capital	Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholder's Equity
	Shares	Amount	Shares	Amount				
Balance - March 1, 2009	50	\$ -	36,151,361	\$ 36,151	\$ 3,720,343	\$ (314,674)	\$ 23,191,289	\$ 26,633,109
Shares Issued in Exchange for Investment	-	-	2,473,507	2,473	5,075,975	-	-	5,078,448
Sale of Common Stock	-	-	288,944	289	574,711	-	-	575,000
Stock-based Payments	-	-	-	-	42,087	-	-	42,087
Non-cash Compensation	-	-	-	-	167,215	-	-	167,215
Other Comprehensive Income	-	-	-	-	-	2,828,619	-	2,828,619
Net Income	-	-	-	-	-	-	1,966,695	1,966,695
Balance - February 28, 2010	50	\$ -	38,913,812	\$ 38,913	9,580,331	2,513,945	25,157,984	37,291,173
Shares Issued in Exchange for Investment	-	-	241,328	242	671,195	-	-	671,437
Stock-based Payments	-	-	-	-	166,656	-	-	166,656
Non-cash Compensation	-	-	-	-	141,521	-	-	141,521
Other Comprehensive Income	-	-	-	-	-	1,024,909	-	1,024,909
Net Income	-	-	-	-	-	-	5,463,862	5,463,862
Balance - February 28, 2011	50	\$ -	39,155,140	\$ 39,155	\$ 10,559,703	\$ 3,538,854	\$ 30,621,846	\$ 44,759,558

See notes to consolidated financial statements.

**FRMO CORPORATION
AND SUBSIDIARY**

Consolidated Statements of Cash Flows

<i>Years Ended February 28,</i>	2011	2010
Cash Flows from Operating Activities:		
Net income from continuing operations	\$ 5,463,862	\$ 1,966,695
Adjustments to reconcile net income to net cash provided by other operating activities:		
Non-cash compensation	141,521	167,215
Stock-based payments	166,656	42,087
Amortization	70,813	8,414
Realized gain on investments	(43,091)	(45,412)
Net realized loss allocated from partnership investment	(1,374,231)	451,944
Deferred income tax benefit	237,138	(237,137)
Changes in operating assets and liabilities:		
Accounts receivable	139,425	190,706
Prepaid income taxes	310,621	2,187,149
Accounts payable and accrued expenses	(12,518)	(143,397)
Income taxes payable	36,592	180,599
Net Cash Provided by Operating Activities	5,136,788	4,768,863
Cash Flows from Investing Activities:		
Proceeds - investments available for sale	423,928	-
Purchases - investments available for sale	(8,271,820)	(7,376,907)
(Purchase) proceeds - investment held to maturity	(750,473)	575,000
Proceeds from securities sold, not yet purchased	365,939	-
Net Cash Used in Investing Activities	(8,232,426)	(6,801,907)
Net Decrease in Cash and Cash Equivalents	(3,095,638)	(2,033,044)
Cash and Cash Equivalents - beginning of year	15,665,481	17,698,525
Cash and Cash Equivalents - end of year	\$ 12,569,843	\$ 15,665,481
Supplemental Disclosures:		
Cash paid during the years for:		
Taxes	\$ 2,138,214	\$ 240,000
Interest	\$ 4,317	\$ -
Non-cash Investing Activities:		
Investments acquired through the issuance of common stock	\$ 299,000	\$ 5,078,448
Acquisition of fee participation revenue through the issuance of common stock	\$ 372,437	\$ -

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

1. Organization of the Company

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

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

On November 29, 2000, the Company increased authorized capital stock from 2,000,000 shares common stock, par value \$.10 per share to 2,000,000 shares preferred stock, par value \$.001 per share and 90,000,000 shares common stock, par value \$.001 per share. On January 23, 2001, 34,200,000 shares of common stock were issued to the FRM Control Group. Murray Stahl and Steven Bregman, Chairman and President of the Company, respectively, are the principal persons in the FRM Control Group.

2. Nature of Business and Significant Accounting Policies

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

Nature of business - FRMO is an intellectual capital firm. The experience of its management has been in the analysis of public companies within a framework of identifying investment strategies and techniques that reduce risk. The business includes identification of assets, particularly in the early stages of the expression of their ultimate value, and the participation with them in ways that are calculated to increase the value of the stockholders' interest in FRMO. Such assets are expected to include, but are not limited to, those whose values and earnings are based on intellectual capital. Of the many varieties of capital upon which investors have earned returns, ranging from real estate to silicon, perhaps the highest returns on capital have been earned on intellectual capital. It is the goal of FRMO to maximize its return on this form of asset. The identification of any business opportunities will follow the process employed by Horizon Asset Management ("Horizon") to select and evaluate investment opportunities and strategies. Horizon was co-founded by Murray Stahl and Steven Bregman, officers and principal shareholders of the Company. It is an investment advisory and independent research firm, the research activities serving primarily institutional investors. It provides in-depth analysis of information-poor, under-researched companies and strategies to identify the complex or overlooked situations that can offer an advantage to the investor.

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

(i) **Kinetics Advisers' Hedge Funds**. The Company owns an 8.44% interest in Kinetics Advisors, LLC (see Note 10), which controls and provides investment advice to Kinetics Partners and Kinetics Fund, both of which are hedge funds.

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

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

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

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

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

(vi) Consulting Fees. The Company receives consulting fees pursuant to an agreement with Santa Monica Partners, LP, whose manager is a director and stockholder of the Company.

(vii) Participation Agreement. In November 2010, the Company invested in a participation agreement with Horizon. The agreement provided that the Company pay to Horizon \$750,473 to fund Horizon's November 8, 2010 capital call in Croupier Prive Private Equity Fund, LP ("Prive") for the purchase by Croupier Prive Private Equity Fund Master Fund, LP ("Master") of four specified investments in consideration of Horizon's agreement that the Company shall have the right to participate in 50% of Horizon's share of any profit in each of the investments while bearing only 10% of any loss on the sale of each of the investments through the end of Prive's term on January 29, 2013.

Cash and cash equivalents - The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. At February 28, 2011 and 2010 and throughout the periods, the Company had balances in excess of federally insured limits on deposit with financial institutions. The Company has not experienced any losses in such accounts, and management believes that it is not exposed to any significant credit risk on cash.

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

In the normal course of business, substantially all of the Company's securities transactions, money balances and security positions are transacted with one broker. The Company is subjected to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Company's management monitors the financial condition of such broker and does not anticipate any losses from such counterparty.

Investment valuation - The Company accounts for its investments in accordance with *Investments - Debt and Equity Securities*, which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. Accordingly, the Company has classified its equity securities as available-for-sale and its investment in a participation agreement as held to maturity. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs, or other factors.

Equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders' equity. Realized gains and losses are determined on the specific identification method.

Investments that the Company has the specific intent and ability to hold until maturity are carried at cost.

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

The estimated fair values of financial instruments are determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates when presented herein are not necessarily indicative of the amounts that the Company could realize in a sale. The Company will record an impairment charge if and when it believes any investment has experienced a decline that is other than temporary.

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

Under *Investments - Equity Method and Joint Ventures*, investments in limited liability companies that have separate ownership accounts for each investor greater than three to five percent should be accounted for under the equity method. The Company does not exert a significant influence over operations or financial policies of Kinetics Advisers, LLC ("Kinetics Advisers"), in which the Company holds an 8.44% membership interest (see Note 10). Due to the lack of significant influence, the Company cannot obtain audited financial statements from Kinetics Advisers which are necessary to account for this investment under the equity method and, therefore, the effects of this departure from accounting principles generally accepted in the United States of America ("GAAP") have not been quantified. The Company accounts for its 8.44% investment in Kinetics Advisers under the cost method.

Use of estimates - The preparation of financial statements in conformity with 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

Advertising costs - The Company's policy is to expense the cost of advertising as incurred. There were no advertising expenses for the years ended February 28, 2011 and 2010.

Comprehensive income - Other comprehensive income (loss) refers to revenues, expenses, gains, and losses net of income taxes that, under accounting principles generally accepted in the United States of America, are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. For the years ended February 28, 2011 and 2010, comprehensive income was \$1,024,909 and \$2,828,619, respectively.

Accounts receivable and allowance for doubtful accounts - In the normal course of business, the Company provides unsecured credit to customers, performs credit evaluations of these customers, and maintains reserves for potential credit losses. In determining the amount of allowance for doubtful accounts, management considers historical credit losses, the past due status of receivables, payment history, and other customer-specific information. The past due status of a receivable is based on its contractual terms. Expected credit losses are recorded as an allowance for doubtful accounts. Receivables are written off when management determines they are uncollectible. An allowance for doubtful accounts is not provided as of February 28, 2011 and 2010 since, in the opinion of management, all of its accounts are deemed collectible.

Intangible assets - Net intangible assets as of February 28, 2011 and 2010 were approximately \$311,000 and \$10,000, respectively. Such amounts have been included in the consolidated balance sheets within other assets. Intangible assets are amortized over their estimated lives, five to ten years, using the straight-line method. Amortization expense for the years ended February 28, 2011 and 2010 was approximately \$71,000 and \$9,000, respectively.

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

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.

Revenue recognition - The Company primarily generates revenue through research and consulting fees. The accrual method of accounting is used to record fee income, which is recognized when earned.

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

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

Revenue (losses) from investment partnerships is earned based upon FRMO's pro rata share of each partnerships' pass through of income and expenses to its partners on a calendar year basis.

Revenue from unconsolidated subsidiaries is recognized when received.

Research - Research expenditures, consisting of investment research, are expensed as incurred.

Stock-based compensation - The Company records compensation expense associated with stock options and other equity-based compensation in accordance with guidance established by GAAP. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between GAAP standards and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies. Stock option compensation expense for the years ended February 28, 2011 and 2010 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award less an estimate for anticipated forfeitures.

Income taxes - The Company files a consolidated federal income tax return. Material differences between the financial reporting and the tax reporting of the Company's revenue, assets, and liabilities are included in deferred tax assets or liabilities. The income tax provisions and liability for income taxes are based on enacted tax laws and statutory tax rates applicable to the respective periods.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Uncertain tax positions - The Company adopted the relevant provisions of GAAP concerning uncertainties in income taxes, which clarifies the accounting for uncertainty in tax positions and requires that the Company recognize in its consolidated financial statements the impact of an uncertain tax position, if that position has a

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

more-likely-than-not chance of not being sustained on audit, based on the technical merits of that position. The adoption of this GAAP guidance did not have an impact on the Company's consolidated financial statements.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Tax years ended February 28, 2008 and forward are still subject to examination.

Reclassifications

The Company has reclassified certain amounts in its consolidated income statement for the year ended February 28, 2010 to conform to the February 28, 2011 presentation. None of these reclassifications had an effect on the Company's consolidated net earnings, total stockholders' equity, or cash flows.

3. Investments

Available for Sale

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

<i>February 28, 2011</i>	Cost	Unrealized Gains	Fair Value
Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	\$ 1,865,834	\$ 1,266,114	\$ 3,131,948
Jordan Partners, LP	494,169	77,329	571,498
Croupier Fund, LP	524,051	158,151	682,202
Polestar Fund, LP	5,298,429	219,908	5,518,337
Multi-Disciplinary Fund, LP	81,981	600	82,581
	8,264,464	1,722,102	9,986,566
Bond and equity securities	19,181,221	3,937,328	23,118,549
Total Investments	\$ 27,445,685	\$ 5,659,430	\$ 33,105,115

<i>February 28, 2010</i>	Cost	Unrealized Gains/ (Losses)	Fair Value
Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	\$ 927,204	\$ 1,161,937	\$ 2,089,141
Jordan Partners, LP	500,000	(3,602)	496,398
Croupier Fund, LP	537,903	46,880	584,783
Polestar Fund, LP	4,540,546	78,594	4,619,140
	6,505,653	1,283,809	7,789,462
Bond and equity securities	11,363,382	2,667,506	14,030,888
Total Investments	\$ 17,869,035	\$ 3,951,315	\$ 21,820,350

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

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.

The Company's investment capital in Jordan Partners, LP may be withdrawn on a quarterly basis. Horizon, a related party (see Note 2), is a member of both the General Partner and the Manager of Jordan Partners, LP.

The Company's investment capital in Croupier Fund, LP may be withdrawn as of the last day of each month by providing the general partner with 60 days advance written notice. The general partner, in its sole discretion, may permit withdrawals at other times or otherwise modify or waive such withdrawal conditions and requirements. All withdrawal amounts may be paid in cash or in kind (or a combination thereof), in the general partner's sole discretion.

The Company's investment capital in Polestar Fund, LP may be withdrawn as of the last day of each month (or such other dates as the general partner in its discretion shall determine) by providing the general partner with 45 days advance written notice, with the minimum amount to be withdrawn of \$100,000. The general partner may, in its sole discretion, allow redemptions that do not comply with the above requirements; however, such redemptions may be subject to a penalty equal to up to 2% of the redemption amount requested. All withdrawal amounts may be paid in cash or in kind (or a combination thereof), in the general partner's sole discretion.

Held to Maturity

The cost and fair value of the Company's investment classified as held to maturity as of February 28, 2011 consists of the following:

<i>February 28, 2011</i>	Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	Unrealized Gains
			Less than 12 months	More than 12 months		
Participation Agreement	\$ 750,473	\$ 7,170	\$ -	\$ -	\$ 757,643	\$ 7,170

The participation agreement is with Horizon, a related party (see Note 2), and matures on January 29, 2013. Upon maturity, the Company will receive its share of the fair value of the assets included in the participation agreement. None of the Company's investments as of February 28, 2010 were classified as held to maturity.

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 sale 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.

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

Securities sold, not yet purchased are recorded as a liability at fair value. Securities sold, not yet purchased consist of the following:

<i>February 28, 2011</i>	Proceeds	Unrealized Losses	Fair Value
Equity Securities	\$ 365,939	\$ (12,436)	\$ 378,375

As of February 28, 2010, the Company did not have a liability for securities sold, not yet purchased.

4. Fair Value Measurements

The Company follows *Fair Value Measurements* for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually.

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of February 28, 2011 and February 28, 2010, 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:

Description	Total	<i>February 28, 2011</i>		
		Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (at fair value):				
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 11,287,944	\$ 11,287,944	\$ -	\$ -
Investments:				
Available for Sale:				
Bond and Equity Securities	23,118,649	23,118,649	-	-
Investments in Limited Partnerships	9,986,466	-	9,986,466	-
Total Investments Available for Sale	33,105,115	23,118,649	9,986,466	-
Total	\$ 44,393,059	\$ 34,406,593	\$ 9,986,466	\$ -
Liabilities (at fair value):				
Common Stocks	\$ 378,375	\$ 378,375	\$ -	\$ -

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

February 28, 2010

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (at fair value):				
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 10,023,347	\$ 10,023,347	\$ -	\$ -
Investments:				
Bond and Equity Securities	14,030,888	14,030,888	-	-
Investments in Limited Partnerships	7,789,462	-	7,789,462	-
Total Investments	21,820,350	14,030,888	7,789,462	-
Total	\$ 31,843,697	\$ 24,054,235	\$ 7,789,462	\$ -

5. Income Taxes

The provision for income taxes is comprised of the following:

<i>Years Ended February 28,</i>	2011	2010
Current:		
Federal	\$ 1,849,278	\$ 1,138,507
State and local	513,216	1,013,481
	<u>2,362,494</u>	<u>2,151,988</u>
Deferred:		
Federal	186,070	(185,975)
State and local	51,068	(51,162)
	<u>237,138</u>	<u>(237,137)</u>
	<u>\$ 2,599,632</u>	<u>\$ 1,914,851</u>

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

A reconciliation of the federal statutory rate to the effective tax rate is as follows:

<i>Years Ended February 28,</i>	2011	2010
Statutory Federal Income Expense Rate	34.0%	34.0%
True-up of Prior Year Taxes	-	15.0
Permanent Differences	(5.9)	(5.4)
State/Local Taxes, less federal tax effect	4.1	5.7
Total Tax	<u>32.2%</u>	<u>49.3%</u>

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

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

<i>Years Ended February 28,</i>	2011	2010
Non-current Deferred Tax Assets:		
Unrealized loss from investment	\$ -	\$ 5,206
Capital loss carryforward	-	237,136
Total Non-current Deferred Tax Assets	-	242,342
Current Deferred Tax Liabilities:		
Unrealized gain from stock investment	1,679,895	1,001,893
Total Current Deferred Tax Liabilities	1,679,895	1,001,893
Net Deferred Tax (Liability) Asset	\$ (1,679,895)	\$ (759,551)

The Company adopted the guidance for "Accounting for Uncertainty in Income Taxes" and had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. Additionally, *Accounting for Uncertainty in Income Taxes* provides guidance on the recognition of interest and penalties related to income taxes. There were no interest or penalties related to income taxes that would have been accrued or recognized as of and for the years ended February 28, 2011 and 2010. If any had been recognized, these would be reported in income tax expense.

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

Basic and diluted earnings per common share is calculated by dividing net income allocated to common stock by the weighted average common shares outstanding during the period. The weighted average number of shares of common stock used in the calculation of diluted earnings per share is adjusted for the dilutive effects of potential common shares including the assumed exercise of vested stock options based on the treasury stock method and the assumed conversion of convertible preferred stock. Assumed exercise or conversion of potential common shares is only when the exercise price and the conversion price exceed the weighted average market price for the period, and that the entity records earnings from continuing operations, as the inclusion of such adjustments would otherwise be anti-dilutive to earnings per share from continuing operations. Potential common shares for the periods presented consist of the following:

<i>February 28,</i>	2011	2010
Convertible Preferred Stock	50,000	50,000
Options	613,888	607,888
Total	663,888	657,888

For the year ended February 28, 2011, there were 12,892 vested options with an exercise price in excess of the weighted average market price of the Company's common stock during the period. The inclusion of 12,892 options in the computation of diluted earnings per common share would have been anti-dilutive, and as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share have not been adjusted for the effects of such anti-dilutive options.

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

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

<i>Years Ended February 28,</i>	2011	2010
Weighted Average Common Shares Outstanding	39,122,626	36,707,353
Effect of Dilutive Securities, common share equivalents:		
Conversion of preferred stock	50,000	50,000
Exercise of stock options	-	1,396
Dilutive Potential Common Share Equivalents	39,172,626	36,758,749

7. Major Customers

Major customers, which are in excess of 10% of net revenues, are as follows:

<i>Years Ended February 28,</i>	2011	2010
Customer A	22.4%	47.7%
Customer B	n/a	12.6%
Revenue from Unconsolidated Subsidiary	35.0%	20.3%

8. Non-cash Compensation

Non-cash compensation expense represents a notional salary allocation for the Company's senior officers, as required under GAAP. The officers of the Company are responsible for all of the Company's operations and have agreed to not draw any salaries for an indefinite period. Non-cash compensation expense is recorded as an increase to additional paid-in capital.

9. Stockholders' Equity

Preferred stock - The number of authorized Series R preferred shares is 5,000 with a par value of \$.001 per share. These shares are each convertible to 1,000 shares of the Company's common stock at the option of either the Company or the holder. The Company may redeem the shares at \$1,000 per share at any time after March 1, 2011 and shall be required to redeem them at \$1,000 per share upon the request of a holder after March 1, 2012. These shares have one vote per share on all matters that common stock can vote upon. Upon liquidation, there is preference to the extent of \$1,000 per share. No dividends may be paid on common stock unless a dividend per share of 1,000% of common stock dividends is paid on the preferred stock.

As of February 28, 2011 and 2010, there were 50 shares of Series R preferred stock outstanding.

Common stock

Shares Issued in Exchange for Investments

The Company acquired the following investments from Horizon, a related party (see Note 2) in exchange for shares of common stock:

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

<i>Year Ended February 28, 2011</i>			
Effective Date	Investment	Shares Issued	Fair Value of Shares Issued
March 31, 2010	Fee Participation Agreement	151,807	\$ 372,437
May 19, 2010	115,000 Shares of Wisdom Tree Investments, Inc.	89,521	299,000
		<u>241,328</u>	<u>\$ 671,437</u>

<i>Year Ended February 28, 2010</i>			
Effective Date	Investment	Shares Issued	Fair Value of Shares Issued
August 1, 2009	Limited Partnership Interest in Croupier Fund, LP	258,607	\$ 537,903
January 1, 2010	Limited Partnership Interest in Polestar Fund, LP	2,214,900	4,540,545
		<u>2,473,507</u>	<u>\$ 5,078,448</u>

The fair value of the shares issued was based on the average trading price of the Company's common stock for the ten days prior to the acquisition. The Company's management believes that the terms of the acquisitions were as favorable as could have been obtained from an unrelated party on an arm's-length basis.

Shares Issued to Employees

On December 22, 2009, two executive officers purchased an aggregate of 288,944 shares of common stock valued at \$1.99 per share.

Stock options - During the year ended February 28, 2011, the Company granted two directors of a subsidiary options to acquire a total of 6,000 shares of common stock, at an exercise price of \$2.25 per share, through October 15, 2017. All outstanding options granted during the year ended February 28, 2011 are exercisable upon issuance.

During the year ended February 28, 2010, the Company granted: (i) two executive officers options to acquire a total of 577,888 shares of common stock, at an exercise price of \$1.99 per share, through December 16, 2019, and (ii) two directors of a subsidiary options to acquire a total of 6,000 shares of common stock, at an exercise price of \$2.03 per share, through October 8, 2016. All outstanding options granted to directors during the year ended February 28, 2010 are exercisable upon issuance.

The Company's Board of Directors and compensation committee determine the amount of options, expiration date, and the vesting provisions for options granted as compensation. The Company's results of continuing operations for the years ended February 28, 2011 and 2010 includes share-based compensation expense totaling approximately \$167,000 and \$42,000, respectively.

The weighted average estimated fair value of stock options granted during the years ended February 28, 2011 and 2010 was \$1.45 and \$0.84 per share, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The Company takes into consideration the guidance under current GAAP guidance and SAB No. 107 when reviewing and updating assumptions. The expected volatility is based upon the historical volatility of FRMO stock and other contributing factors.

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

The assumptions made in calculating the fair values of options are as follows:

<i>Years Ended February 28,</i>	2011	2010
Dividend Yield	0.00%	0.00%
Volatility	66.62%	72.73% - 81.31%
Risk-Free Interest Rate	1.83%	1.36% - 2.83%
Expected Life	7 years	3 - 7 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

A summary of option activity as of February 28, 2011 and 2010, and changes during the years 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 March 1, 2009	24,000	\$ 5.88	5.01	\$ -
Granted	583,888	\$ 1.99	9.77	\$ 52,190
Exercised	-	\$ -	-	\$ -
Forfeited	-	\$ -	-	\$ -
Outstanding at February 28, 2010	607,888	\$ 2.14	9.54	\$ 55,910
Granted	6,000	\$ 2.25	6.63	\$ 4,500
Exercised	-	\$ -	-	\$ -
Forfeited	-	\$ -	-	\$ -
Outstanding at February 28, 2011	613,888	\$ 2.15	8.52	\$ 605,867
Vested and Exercisable at February 28, 2011	421,258	\$ 2.22	8.40	\$ 411,311

The following table represents non-vested stock options granted, vested, and forfeited during the years ended February 28, 2011 and 2010:

Notes to Consolidated Financial Statements

Years Ended February 28, 2011 and 2010

Non-Vested Options	Options	Weighted Average Grant Date Fair Value
Non-vested - March 1, 2009	-	\$ -
Granted	583,888	\$ 0.83
Vested	(198,629)	\$ 0.84
Forfeited/Expired	-	\$ -
Non-vested - February 28, 2010	385,259	\$ 0.82
Granted	6,000	\$ 1.45
Vested	(198,629)	\$ 0.84
Forfeited/Expired	-	\$ -
Non-vested - February 28, 2011	\$ 192,630	\$ 0.82

The aggregate intrinsic value of options outstanding and options exercisable at February 28, 2011 and 2010 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 \$3.00 and \$2.08 closing price of FRMO's common stock on February 28, 2011 and 2010, respectively. No options were exercised in the years ended February 28, 2011 and 2010.

As of February 28, 2011, unrecognized compensation cost of approximately \$94,000 related to unvested options is expected to be recognized over a remaining weighted-average life of .8 years. The total fair value of shares vested during the years ended February 28, 2011 and 2010 was approximately \$167,000 for both years.

10. Subsequent Event

Effective in May 2011 Horizon, a related party (see Note 2), Kinetics Advisers, LLC, in which the Company owns an 8.44% interest (see Note 2), and Kinetics Asset Management, Inc. ("Kinetics") combined to form Horizon Kinetics, LLC ("HK") with Kinetics Advisers, LLC constituting a subsidiary of HK in which the Company continues to own an 8.44% interest.