

**FRMO CORPORATION  
AND SUBSIDIARIES**

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**REPORT ON AUDITS OF CONSOLIDATED  
FINANCIAL STATEMENTS**

*Year Ended February 28, 2009*

**Contents**

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*Year Ended February 28, 2009*

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**Consolidated Financial Statements**

## Independent Auditors' Report

To the Board of Directors and Stockholders  
FRMO Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheet of FRMO Corporation and Subsidiaries (the "Company") as of February 28, 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the year 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides 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 Subsidiaries as of February 28, 2009, and the results of their operations, and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Holtz Rubenstein Reminick LLP*

New York, New York  
March 10, 2010

**FRMO CORPORATION  
AND SUBSIDIARIES**

**Consolidated Balance Sheet**

*February 28, 2009*

**Assets**

Current Assets:

Cash and cash equivalents	\$ 5,370,569
Short-term investments in money market mutual funds	12,327,956
Accounts receivable	756,769
Prepaid taxes	2,497,770
Other investments, available for sale, at fair value (cost \$4,883,556)	5,296,670
Total Current Assets	<u>26,249,734</u>

Deferred Income Taxes	649,549
Other Assets	18,004
Total Assets	<u>\$ 26,917,287</u>

**Liabilities and Stockholders' Equity**

Current Liabilities:

Accounts payable and accrued liabilities	\$ 284,178
Total Current Liabilities	<u>284,178</u>

Stockholders' Equity:

Preferred stock - \$.001 par value; Authorized - 2,000,000 shares; Issued and outstanding - 50 shares Series R	-
Common stock - \$.001 par value: Authorized - 90,000,000 shares Issued and outstanding - 36,151,361 shares	36,151
Additional paid-in capital	3,020,343
Other comprehensive loss	(314,674)
Retained earnings	23,891,289
Total Stockholders' Equity	<u>26,633,109</u>
Total Liabilities and Stockholders' Equity	<u>\$ 26,917,287</u>

**FRMO CORPORATION  
AND SUBSIDIARIES**

**Consolidated Statement of Income**

*Year Ended February 28, 2009*

Revenue:	
Consultancy and advisory fees	\$ 6,097,923
Dividends, interest and investment income	327,333
Revenue from unconsolidated subsidiary	5,022,818
Total Revenue	<u>11,448,074</u>
Expenses:	
Employee compensation and benefits	75,000
Professional fees	154,026
Administrative expenses	16,000
Other expenses	15,480
Equity compensation	8,040
Amortization	75,013
Total Expenses	<u>343,559</u>
Income from Continuing Operations before Provision for Income Taxes	11,104,515
Provision for Income Taxes	3,480,708
Income from Continuing Operations	<u>7,623,807</u>
Income from Discontinued Operations, net of provision for income taxes	61,385
Net Income	<u>\$ 7,685,192</u>
Basic Earnings per Common Share:	
Income from continuing operations	\$ 0.21
Income from discontinued operations	0.00
Income per Common Share	<u>\$ 0.21</u>
Diluted Earnings per Common Share:	
Income from continuing operations	\$ 0.21
Income from discontinued operations	0.00
Income per Common Share	<u>\$ 0.21</u>
Weighted Average Common Shares Outstanding:	
Basic	36,151,361
Diluted	<u>36,206,890</u>

**FRMO CORPORATION  
AND SUBSIDIARIES**

**Consolidated Statement of Stockholders' Equity**

*Year Ended February 28, 2009*

	Preferred Stock	Common Stock	Additional	Other	Retained	Receivable	Total
	Shares	Shares	Paid-In	Comprehensive	Earnings	from	Stockholder's
	Amount	Amount	Capital	Income (Loss)		Stockholders	Equity
						for	
						Issuance of	Stockholder's
						Common Stock	Equity
Balance - beginning of year	50 \$ -	36,151,361 \$	2,937,303 \$	81,107 \$	16,206,097 \$	(176,763) \$	19,083,895 \$
Proceeds from Stockholders	-	-	-	-	-	176,763	176,763
Stock-based Payments	-	-	8,040	-	-	-	8,040
Non-cash Compensation	-	-	75,000	-	-	-	75,000
Other Comprehensive Loss	-	-	-	(395,781)	-	-	(395,781)
Net Income	-	-	-	-	7,685,192	-	7,685,192
Balance - end of year	50 \$ -	36,151,361 \$	3,020,343 \$	(314,674) \$	23,891,289 \$	- \$	26,633,109 \$

*See notes to consolidated financial statements.*

**Consolidated Statement of Cash Flows**

*Year Ended February 28, 2009*

Cash Flows from Operating Activities:	
Net income from continuing operations	\$ 7,623,807
Adjustments to reconcile net income to net cash provided by operating activities:	
Exchange of interest receivable for additional investment in former subsidiary	(70,463)
Non-cash compensation	75,000
Stock-based payments	8,040
Amortization	66,600
Realized gain on investments	(24,511)
Deferred income tax benefit	(646,289)
Changes in operating assets and liabilities:	
Accounts receivable	1,295,626
Prepaid taxes	(2,497,770)
Other assets	8,413
Accounts payable and accrued expenses	183,305
Income taxes payable	(737,227)
Net Cash Provided by Operating Activities of Continuing Operations	<u>5,284,531</u>
Operating Activities of Discontinued Operations	<u>(700,393)</u>
Net Cash Provided By Operating Activities	<u>4,584,138</u>
Cash Flows from Investing Activities:	
Proceeds from sale of short-term investments in money market mutual funds	679,783
Proceeds from sale of securities	149,511
Investment in securities	(3,735,935)
Proceeds from stock subscription	176,762
Net Cash Used in Investing Activities of Continuing Operations	<u>(2,729,879)</u>
Investing Activities of Discontinued Operations	-
Net Cash Used In Investing Activities	<u>(2,729,879)</u>
Cash Flows from Financing Activities:	
Distribution from former subsidiary	1,292,978
Net Cash Provided by Financing Activities of Continuing Operations	<u>1,292,978</u>
Financing Activities of Discontinued Operations	-
Net Cash Provided By Financing Activities	<u>1,292,978</u>
Net Increase in Cash and Cash Equivalents	3,147,237
Cash and Cash Equivalents - beginning of year	<u>2,223,332</u>
Cash and Cash Equivalents - end of year	<u>\$ 5,370,569</u>
Supplemental Disclosures:	
Cash paid during the year for:	
Taxes	<u>\$ 7,855,383</u>



## Notes to Consolidated Financial Statements

Year Ended February 28, 2009

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### 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.

On August 31, 2000, FRMO filed Form 8-K with the Securities and Exchange Commission, which disclosed that FRMO contemplated distributing to its stockholders one share of MFC common stock for each share of FRMO's 1,800,000 shares of outstanding common stock at the close of business on November 1, 2000 (the record date). 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.

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. The consolidated statements of stockholders' equity reflect the spin-off as of the beginning of the periods presented, with no operations until January 23, 2001.

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. Stockholders' equity for prior periods was restated to reflect this change.

On January 23, 2001, 34,200,000 shares of common stock were issued to the FRM Control Group. Murray Stahl and Steven Bregman, Chairman and President of the Company, respectively, are the principal persons in the FRM Control Group.

On July 2, 2001, the Company authorized the establishment of Series R preferred stock. The number of authorized 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 the 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 are paid on the preferred stock.

### 2. Nature of Business and Significant Accounting Policies

**Basis of presentation** - The consolidated financial statements include the accounts of FRMO, its wholly owned subsidiary, Fromex Equity Corp. ("Fromex"), and the discontinued operations of Fromex's subsidiaries. The Company maintains its corporate office in Pleasantville, New York.

Until December 31, 2008, Fromex owned a 60% interest in Horizon Global Advisers LLC ("HGA"), a Delaware Limited Liability Company. HGA is a registered investment advisor founded on August 29, 2005 to carry on an investment management business and act as an investment advisor for various funds and other investment vehicles. HGA maintains its offices in New York City and Pelham, New York.

## Notes to Consolidated Financial Statements

*Year Ended February 28, 2009*

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HGA is the sole owner of Horizon Multi-Strategy GP, LLC and Horizon Core Value Fund GP, LLC (Delaware Limited Liability Companies). Horizon Multi-Strategy GP, LLC is a General Partner in Horizon Multi-Strategy Fund, LP (a Delaware Limited Partnership), which commenced operations during 2007. Horizon Core Value Fund GP, LLC is an inactive entity formed in May 2006.

Horizon Multi-Strategy Fund, LP (the "Fund") was organized as a limited partnership in May 2006 under the laws of the State of Delaware and commenced operations in January 2007. Limited partnership interests are offered and sold through private placements under the exemptive provisions of the Securities Act of 1933. The Fund was formed for the purpose of investing in a broad range of securities as stated in the limited partnership agreement to achieve capital appreciation. The Fund maintains its general office in New York City.

Horizon Multi-Strategy GP, LLC, a Delaware limited liability company, serves as the General Partner of the Fund. As the General Partner of the Fund, Horizon Multi-Strategy GP, LLC has complete and exclusive control of the management of the business and affairs of the Fund. The General Partner has made a contribution to the capital of the Fund.

HGA serves as the investment manager of the Fund. The Fund has entered into an investment management agreement pursuant to which the investment manager invests the assets of the Fund in accordance with the Fund's objective and strategy. The investment manager provides the Fund with office space, utilities, investment management services, general administrative services and personnel, recordkeeping, and day to day operating requirements of the Fund.

As of the close of business on December 31, 2008, Fromex withdrew its 60% interest in HGA in exchange for a cash payment of \$1,292,978 which was equal to 60% of the net assets of HGA, except for HGA's capital investment in the Fund. Fromex received its capital investment in the fund upon the withdrawal from HGA. As a result of the exchange on December 31, 2008, the accounts of HGA and its subsidiaries have been presented as discontinued operations.

The consolidated financial statements for the fiscal year ended February 28, 2009 include the accounts of Fromex for the fiscal years ended February 28, 2009 and the operations of HGA and the Fund for their respective fiscal years ended December 31, 2008. All significant intercompany accounts have been eliminated in consolidation.

For investments in which the Company owns less than 20% of the voting shares and does not have significant influence, the cost method of accounting is used. 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.

**Nature of business** - FRMO Corp. 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 will include 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 to select and evaluate investment opportunities and strategies. Horizon Asset Management was

## Notes to Consolidated Financial Statements

Year Ended February 28, 2009

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co-founded by Murray Stahl and Steven Bregman in 1994. 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 Asset Management, Inc., some of the principals of which are the officers of FRMO. The programs significant to FRMO's fees are:

(i) Kinetics Advisers' Hedge Funds. The Company acquired a 8.44% interest in Kinetics Advisers, LLC in exchange for 315 shares of FRMO common stock. Kinetics Advisers, LLC controls and provides investment advice to Kinetics Partners and Kinetics Fund, both of which are hedge funds.

(ii) Kinetics Paradigm Mutual Fund. The Company acquired for 80,003 shares of FRMO common stock 100% of the research fees to which Horizon Asset Management, Inc. is entitled from the open-end mutual fund, Kinetics Paradigm Fund (trading symbol WWNPX).

(iii) Sub-Advisory Fees. The Company acquired for 4,587 shares of FRMO common stock a one-third interest in the Sub-Advisory Fee Revenue that Horizon Asset Management, Inc. receives in its sub-advisory program for a large investment firm. Under this program, Horizon Asset Management, Inc. provides investment advisory services to certain clients of the investment firm, its fees being calculated on the basis of assets under management.

(iv) HGA. Effective January 1, 2009, the Company's subsidiary, Fromex, entered into a research agreement with HGA. Fromex will provide to HGA research and strategy services for HGA to execute trades in the security positions of the funds under management by HGA, including periodic reviews of, and recommendation for, the portfolios of such funds. Funds under management excludes the amount of capital investment of the limited members of HGA in Horizon Multi-Strategy, LP. Fromex will receive 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. The research agreement will continue until December 31, 2011, and for each 12 month period thereafter, unless terminated in writing by either party with 30 days advance written notification.

In addition, for the year ended February 28, 2009, the Company received approximately \$46,000 of consulting fees pursuant to an agreement whereby FRMO receives fees from the manager of Santa Monica Partners, LP, a director and stockholder of FRMO, for access to consultations with the Company's personnel designated by Murray Stahl and Steven Bregman. Santa Monica Partners, L.P. is a private fund, which owns 672,813 shares of common stock of FRMO.

**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. Cash and cash equivalents consist of funds maintained in checking and money market accounts maintained at financial institutions.

At year-end and throughout the year, the Company had balances in excess of federally insured limits on deposit with a bank. 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.

**Notes to Consolidated Financial Statements***Year Ended February 28, 2009*

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**Investment valuation** - The Company accounts for its investments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), 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. In accordance with SFAS 115, the Company has classified its equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs, or other factors.

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.

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.

**Investment 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.

In March 2004, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 03-16, "Accounting for Investments in Limited Liability Companies". Under EITF 03-16, 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. 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. Accordingly, the Company accounts for its 8.44% investment in Kinetics Advisers under the cost method, which is a departure from generally accepted accounting principles.

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles 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 year ended February 28, 2009.

**Comprehensive income (loss)** - Other comprehensive income (loss) refers to revenues, expenses, gains, and losses that under generally accepted accounting principles 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. Comprehensive loss was \$395,781 for the year ended February 28, 2009.

**Notes to Consolidated Financial Statements***Year Ended February 28, 2009*

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**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, 2009 since, in the opinion of management, all of its accounts are deemed collectible.

**Intangible assets** - Intangible assets are amortized over their estimated lives, ten years, using the straight-line method.

**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 relating to consulting agreements is earned primarily on a month-by-month 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 Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). 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 SFAS 123(R) 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 year ended February 28, 2009 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. The Company's taxable income includes its allocated portion of HGA's earnings, which also includes its share of the Fund's taxable income.

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 the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits, and 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.

**Notes to Consolidated Financial Statements**

*Year Ended February 28, 2009*

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 FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), and interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS 109"), which clarifies the accounting for uncertainty in tax positions and requires that the Company recognize in financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The adoption of FIN 48 did not have an impact on the Company's financial statements.

**3. Investments**

All of the Company's investments are classified as available for sale. Investments consist of the following

<i>February 28, 2009,</i>	Cost	Unrealized Gains/ (Losses)	Fair Value
Short-Term Investments in Money Market Mutual Funds	\$ 12,327,956	\$ -	\$ 12,327,956
Other Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	\$ 1,156,970	\$ (182,983)	\$ 973,987
Jordan Partners, LP	500,000	(193,558)	306,442
	1,656,970	(376,541)	1,280,429
Equity securities	4,163,242	(147,001)	4,016,241
Total Other Investments	\$ 5,820,212	\$ (523,542)	\$ 5,296,670

As a result of Fromex's withdrawal from HGA on December 31, 2008, the Company received its 60% interest in HGA's capital investment in the Horizon Multi-Strategy Fund, LP valued at \$1,156,970. A limited partner may, on 45 days prior written notice to the General Partner, 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 Asset Management, Inc. is a member of both the General Partner and the Manager of Jordan Partners, LP.

**4. Fair Value Measurements**

**Investments** - Effective March 1, 2008, the Company implemented SFAS No. 157, "Fair Value Measurement" ("SFAS 157"), for its financial assets and liabilities that are re-measured and reported as fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually.

**Notes to Consolidated Financial Statements**

*Year Ended February 28, 2009*

The adoption of SFAS 157 to the Company's financial assets and liabilities and non-financial assets and liabilities that are re-measured and reported at fair value at least annually did not have a material impact on the Company's financial results.

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, 2009, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. 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	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)
Short-term Investments in Money				
Market Mutual Funds	\$ 12,327,956	\$ 12,327,956	\$ -	\$ -
Other Investments:				
Equity securities	4,016,241	4,016,241	-	-
Investments in Limited Partnerships	1,280,429	-	1,280,429	-
Total Other Investments	5,296,670	4,016,241	1,280,429	-
Total	\$ 17,624,626	\$ 16,344,197	\$ 1,280,429	\$ -

**5. Income Taxes**

The provision for (benefit from) income taxes from continuing operations is comprised of the following:

*Year Ended February 28, 2009*

Current:	
Federal	\$ 3,160,290
State and local	966,707
	<u>4,126,997</u>
Deferred:	
Federal	(519,642)
State and local	(126,647)
	<u>(646,289)</u>
	<u>\$ 3,480,708</u>

**Notes to Consolidated Financial Statements**

*Year Ended February 28, 2009*

The Company files a consolidated federal income tax return and a combined state tax return with its subsidiary, Fromex. FRMO and Fromex file separate local income tax returns.

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

*Year Ended February 28, 2009*

Statutory Federal Income Expense Rate	34.0%
Permanent Differences	(7.6)
State/Local Taxes, less federal tax effect	5.0
Total Tax	<u>31.4%</u>

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

*Year Ended February 28, 2009*

Non-current Deferred Tax Assets:	
Unrealized loss from investment	\$ 604,805
Capital loss carryforward	44,744
Total Non-current Deferred Tax Assets	<u>\$ 649,549</u>

**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 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 if the exercise price and the conversion price exceeds 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:

*February 28, 2009*

Convertible Preferred Stock	50,000
Options	24,000
Total	<u>74,000</u>

For the year ended February 28, 2009, there were 6,000 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 6,000 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**

*Year Ended February 28, 2009*

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

*Year Ended February 28, 2009*

Weighted Average Common Shares Outstanding	36,151,361
Effect of Dilutive Securities, common share equivalents:	
Conversion of preferred stock	50,000
Exercise of stock options	5,529
Dilutive Potential Common Share Equivalents	<u>36,206,890</u>

**7. Major Customers**

The Company derived 40.7% of its revenue from one customer. Income from unconsolidated subsidiary comprised 43.9% of total revenue.

**8. Non-cash Compensation**

Non-cash compensation expense represents a notional salary allocation for the Company's senior officers, as required under generally accepted accounting principles. 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* - On July 2, 2001, the Company authorized the establishment of Series R preferred stock. The number of authorized 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 the 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 are paid on the preferred stock.

As of February 28, 2009, there were 50 shares of Series R preferred stock outstanding.

*Stock options* - During the year ended February 28, 2009, 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 \$2.00 per share, through October 23, 2015. All outstanding options 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 year ended February 28, 2009 includes share-based compensation expense totaling approximately \$8,000.

The weighted average estimated fair value of stock options granted during the year ended February 28, 2009 was \$1.34 per share. 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 SFAS 123(R) 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**

*Year Ended February 28, 2009*

The following weighted average assumptions were used for grants:

*Year Ended February 28, 2009*

Dividend Yield	0.00 %
Volatility	67.93 %
Risk-Free Interest Rate	3.00 %
Expected Life	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, 2009, and changes during the year then ended, is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	18,000	\$ 7.00	4.09	\$ 87,000
Granted	6,000	2.00	6.65	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding, end of year	24,000	\$ 5.88	5.01	\$ -
Vested and Exercisable, end of year	24,000	\$ 5.88	5.01	\$ -

The aggregate intrinsic value of options outstanding and options exercisable at February 28, 2009 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 \$0.76 closing price of FRMO's common stock on February 28, 2009. No options were exercised in the year ended February 28, 2009. All options were vested as of February 28, 2009.

The total fair value of shares vested during the year ended February 28, 2009 was approximately \$8,000.

**10. Discontinued Operations**

As of the close of business on December 31, 2008, Fromex withdrew its 60% interest in HGA in exchange for a cash payment of \$1,292,978 which was equal to 60% of the net assets of HGA, except for HGA's capital investment in the fund, which such account was transferred to Fromex. As a result of the exchange on December 31, 2008, the operating results of HGA and its subsidiaries for the year ended February 28, 2009 have been presented as discontinued operations.

**Notes to Consolidated Financial Statements**

*Year Ended February 28, 2009*

Summarized financial information of discontinued operations follows:

*Year Ended February 28, 2009*

Revenue:	
Investment management fees	\$ 1,838,912
Dividends and interest income	4,543,934
Net realized and unrealized losses	(177,545,709)
Other income	10,000
Total Revenue	<u>(171,152,863)</u>
Expenses:	
Management fee	1,767,453
Interest expenses	2,451,117
Research	185,911
Marketing	159,943
Employee compensation and benefits	249,533
Professional fees	322,930
Administrative and other expenses	118,246
Total Expenses	<u>5,255,133</u>
Loss from Operations	(176,407,996)
Minority Interest in Net Loss of Subsidiary	<u>176,564,128</u>
Income before Provision for Income Taxes	156,132
Provision for Income Taxes	94,747
Income from Discontinued Operations, net of income taxes	<u>\$ 61,385</u>