

**FRMO CORPORATION  
AND SUBSIDIARY**

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**REPORT ON COMPILATIONS OF CONSOLIDATED  
FINANCIAL STATEMENTS**

*Three Months and Six Months Ended August 31, 2010 and 2009*

**Contents**

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*Three Months and Six Months Ended August 31, 2010 and 2009*

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## **Consolidated Financial Statements**

## Accountants' Compilation Report

To the Board of Directors and Stockholders  
FRMO Corporation and Subsidiary

We have compiled the accompanying consolidated balance sheet of FRMO Corporation and Subsidiary (the "Company") as of August 31, 2010, and the related consolidated statements of income for the three months and six months ended August 31, 2010 and 2009, statement of stockholders' equity for the six months ended August 31, 2010, and statements of cash flows for the six months ended August 31, 2010 and 2009, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The February 28, 2010 balance sheet was audited by us and our report thereon, dated July 6, 2010, expressed a qualified opinion with a departure from generally accepted accounting principles for the 8.44% membership interest in Kinetics Advisors, LLC as discussed below. However, we have not performed any auditing procedures since that date.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying consolidated financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, we did become aware of a departure from generally accepted accounting principles which is described in the following paragraph.

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. As the Company is unable to obtain audited financial statements from Kinetics Advisors, the effects of this departure have not been quantified. The Company accounts for its 8.44% interest in Kinetics Advisors under the cost method.

*Holtz Rubenstein Reminick LLP*

New York, New York  
October 22, 2010

**FRMO CORPORATION  
AND SUBSIDIARIES**

**Consolidated Balance Sheets**

	August 31, 2010	February 28, 2010
	(Unaudited)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 14,421,098	\$ 15,665,481
Accounts receivable	268,814	566,063
Prepaid income taxes	250,448	310,621
Other investments, available for sale, at fair value (cost of \$22,285,388 and \$17,869,035 at August 31, 2010 and February 28, 2010, respectively)	26,842,019	21,820,350
Total Current Assets	41,782,379	38,362,515
Other Assets, net	344,801	9,590
Total Assets	\$ 42,127,180	\$ 38,372,105
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 125,263	\$ 140,782
Income taxes payable	-	180,599
Total Current Liabilities	125,263	321,381
Deferred Tax Liability - non-current	877,615	759,551
Total Liabilities	1,002,878	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 August 31, 2010 and 38,913,812 shares at February 28, 2010	39,155	38,913
Additional paid-in capital	10,401,264	9,580,331
Other comprehensive income	2,877,135	2,513,945
Retained earnings	27,806,748	25,157,984
Total Stockholders' Equity	41,124,302	37,291,173
Total Liabilities and Stockholders' Equity	\$ 42,127,180	\$ 38,372,105

**FRMO CORPORATION  
AND SUBSIDIARIES**

**Consolidated Statements of Income**

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
<b>Revenue:</b>				
Consultancy and advisory fees	\$ 570,772	\$ 578,860	\$ 1,381,983	\$ 1,097,660
Dividends, interest and investment income, net	88,530	103,433	259,880	190,980
Revenue from unconsolidated subsidiary	-	-	3,048,523	896,900
<b>Total Revenue</b>	<b>659,302</b>	<b>682,293</b>	<b>4,690,386</b>	<b>2,185,540</b>
<b>Expenses:</b>				
Employee compensation and benefits	35,380	18,750	70,760	37,500
Professional fees	50,875	43,441	93,710	66,899
Other expenses	35,680	24,153	65,951	43,379
Equity compensation	39,489	-	78,978	-
Amortization	22,709	2,104	37,227	4,207
<b>Total Expenses</b>	<b>184,133</b>	<b>88,448</b>	<b>346,626</b>	<b>151,985</b>
Income from Operations	475,169	593,845	4,343,760	2,033,555
Provision for Income Taxes	173,044	237,538	1,694,996	813,422
<b>Net Income</b>	<b>\$ 302,125</b>	<b>\$ 356,307</b>	<b>\$ 2,648,764</b>	<b>\$ 1,220,133</b>
Basic and Diluted Earnings per Common Share	\$ 0.01	\$ 0.01	\$ 0.07	\$ 0.03
<b>Weighted Average Common Shares Outstanding:</b>				
Basic	39,155,140	36,238,500	39,090,642	36,194,931
Diluted	39,205,140	36,288,542	39,140,642	36,244,972

## FRMO CORPORATION AND SUBSIDIARIES

### Consolidated Statement of Stockholders' Equity

*Six Months Ended August 31, 2010 (Unaudited)*

	Preferred Stock		Common Stock		Additional Paid-In Capital	Other Comprehensive Income	Retained Earnings	Total Stockholder's Equity
	Shares	Amount	Shares	Amount				
Balance - March 1, 2010	50	\$ -	38,913	\$ 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	-	-	-	-	78,978	-	-	78,978
Non-cash Compensation	-	-	-	-	70,760	-	-	70,760
Other Comprehensive Income	-	-	-	-	-	363,190	-	363,190
Net Income	-	-	-	-	-	-	2,648,764	2,648,764
Balance - August 31, 2010	50	\$ -	39,155	\$ 39,155	\$ 10,401,264	\$ 2,877,135	\$ 27,806,748	\$ 41,124,302

*See accountants' compilation report and notes to consolidated financial statements.*

**FRMO CORPORATION  
AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

<i>Six Months Ended August 31,</i>	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 2,648,764	\$ 1,220,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash compensation	70,760	37,500
Stock-based payments	78,978	-
Amortization	37,227	4,207
Realized gain on investments	(39,842)	(16,933)
Net realized loss allocated from partnership investment	310,188	201,740
Deferred income tax benefit	(124,063)	-
Changes in operating assets and liabilities:		
Accounts receivable	297,249	588,319
Prepaid income taxes	60,173	573,422
Accounts payable and accrued expenses	(15,519)	(79,622)
Income taxes payable	(180,599)	-
<b>Net Cash Provided by Operating Activities</b>	<b>3,143,316</b>	<b>2,528,766</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of securities	20,017	-
Investment in securities	(4,407,716)	(3,275,494)
<b>Net Cash Used In Investing Activities</b>	<b>(4,387,699)</b>	<b>(3,275,494)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(1,244,383)</b>	<b>(746,728)</b>
Cash and Cash Equivalents - beginning of period	15,665,481	17,698,525
<b>Cash and Cash Equivalents - end of period</b>	<b>\$ 14,421,098</b>	<b>\$ 16,951,797</b>
<b>Supplemental Disclosures:</b>		
Cash paid during the periods for:		
Taxes	\$ 2,078,214	\$ 240,000
<b>Non-cash Investing Activities:</b>		
Investments acquired through the issuance of common stock	\$ 299,000	\$ 537,902
Acquisition of fee participation revenue through the issuance of common stock	\$ 372,437	\$ -



**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2010 and 2009*

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**1. Nature of Business and Significant Accounting Policies**

The accompanying unaudited consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. The principles for interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended February 28, 2010. The accompanying consolidated financial statements have not been audited by an independent public accounting firm but, in the opinion of management, such consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's consolidated financial position and results of operations.

The results of operations for the six months ended August 31, 2010 may not be indicative of the results that may be expected for the year ending February 28, 2011. All significant intercompany transactions have been eliminated in consolidation.

The Company has evaluated all subsequent events from the date of the consolidated balance sheet through October 22, 2010, which represents the date these consolidated financial statements are available to be issued. There were no events or transactions occurring during the subsequent events reporting period which require recognition or disclosure in the consolidated financial statements.

***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 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 ("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 Advisers, LLC, which controls and provides investment advice to Kinetics Partners and Kinetics Fund, both of which are hedge funds.

## Notes to Consolidated Financial Statements

*Three Months and Six Months Ended August 31, 2010 and 2009*

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(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).

(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.

**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 August 31, 2010 and throughout the period, the Company had balances in excess of federally insured limits on deposit with the 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.

**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. 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.

**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.

## Notes to Consolidated Financial Statements

*Three Months and Six Months Ended August 31, 2010 and 2009*

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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. 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 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.

*Comprehensive income (loss)* - 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 (loss) but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. For the six months ended August 31, 2010 and 2009, comprehensive income was \$363,190 and \$1,605,084, respectively. For the three months ended August 31, 2010 and 2009, comprehensive income was \$540,511 and \$526,761, respectively.

*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 from unconsolidated subsidiaries is recognized when received.

*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.

**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2010 and 2009*

**2. Investments**

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

<i>August 31, 2010 (Unaudited)</i>	Cost	Unrealized Gains/ (Losses)	Fair Value
Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	\$ 768,870	\$ 1,443,507	\$ 2,212,377
Jordan Partners, LP	500,000	(2,736)	497,264
Croupier Fund, LP	537,903	(10,956)	526,947
Polestar Fund, LP	4,540,546	(206,189)	4,334,357
Multi-Disciplinary Fund, LP	5,570	286	5,856
	<u>6,352,889</u>	<u>1,223,912</u>	<u>7,576,801</u>
Bond and equity securities	15,932,499	3,332,719	19,265,218
Total Investments	<u>\$ 22,285,388</u>	<u>\$ 4,556,631</u>	<u>\$ 26,842,019</u>

<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
	<u>6,505,653</u>	<u>1,283,809</u>	<u>7,789,462</u>
Bond and equity securities	11,363,382	2,667,506	14,030,888
Total Investments	<u>\$ 17,869,035</u>	<u>\$ 3,951,315</u>	<u>\$ 21,820,350</u>

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 1), is a member of both the General Partner and the Manager of Jordan Partners, LP.

**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2010 and 2009*

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.

**3. 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 August 31, 2010 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:

		<i>August 31, 2010 (Unaudited)</i>		
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)
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 13,842,227	\$ 13,842,227	\$ -	\$ -
Investments:				
Bond and equity securities	19,265,218	19,265,218	-	-
Investments in Limited Partnerships	7,576,801	-	7,576,801	-
Total Investments	26,842,019	19,265,218	7,576,801	-
	\$ 40,684,246	\$ 33,107,445	\$ 7,576,801	\$ -

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**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2010 and 2009*

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)
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	-
	\$ 31,843,697	\$ 24,054,235	\$ 7,789,462	\$ -

**4. Income Taxes**

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.

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

	August 31, 2010	February 28, 2009
	(Unaudited)	
Non-current Deferred Tax Assets:		
Unrealized loss from investment	\$ -	\$ 5,206
Capital loss carryforward	361,199	237,136
Total Non-current Deferred Tax Assets	361,199	242,342
Current Deferred Tax Liabilities:		
Unrealized gain from stock investment	1,238,814	1,001,893
Total Current Deferred Tax Liabilities	1,238,814	1,001,893
Net Deferred Tax Liability	\$ (877,615)	\$ (759,551)

**5. 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

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*Three Months and Six Months Ended August 31, 2010 and 2009*

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>August 31,</i>	<b>2010</b>	2009
	<b>(Unaudited)</b>	
Convertible Preferred Stock	<b>50,000</b>	50,000
Options	<b>607,888</b>	24,000
Total	<b>657,888</b>	74,000

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Weighted Average Common Shares Outstanding	<b>39,155,140</b>	38,238,500	<b>39,090,642</b>	36,194,931
Effect of Dilutive Securities, common share equivalents:				
Conversion of preferred stock	<b>50,000</b>	50,000	<b>50,000</b>	50,000
Exercise of stock options	-	42	-	42
Dilutive Potential Common Share Equivalents	<b>39,205,140</b>	38,288,542	<b>39,140,642</b>	36,244,973

**6. Major Customers**

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Customer A	<b>82.9%</b>	55.0%	<b>21.6%</b>	36.0%
Customer B	<b>n/a</b>	21.6%	<b>n/a</b>	10.8%
Revenue from Unconsolidated Subsidiary	<b>n/a</b>	n/a	<b>66.2%</b>	41.0%

**7. 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.

**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2010 and 2009*

**8. 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 August 31, 2010 and February 28, 2010, there were 50 shares of Series R preferred stock outstanding.

*Common stock*

Shares Issued in Exchange for Investments

On March 31, 2010, the Company acquired, from a third party, a fee participation of 20% of all management fees, incentive fees, and performance allocations that Horizon, a related party (see Note 1), receives from Horizon Multi Disciplinary Fund, LP and Horizon Multi Disciplinary Offshore Fund, Ltd in exchange for 151,807 shares of the Company's common stock. The fair value of the shares issued was \$372,437 based on the average trading price of the Company's common stock for the ten days prior to the acquisition and is included in other assets on the consolidated balance sheet as of August 31, 2010.

On May 19, 2010, the Company acquired 115,000 shares of Wisdom Tree Investments, Inc. from Horizon, a related party (see Note 1), in exchange for 89,521 shares of the Company's common stock. The fair value of the shares issued was \$299,000 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.

*Stock options*

A summary of option activity as of August 31, 2010, and changes during the six months ended August 31, 2010 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, 2010	607,888	\$ 2.14	9.54	\$ 55,910
Granted	-	\$ -	-	\$ -
Exercised	-	\$ -	-	\$ -
Forfeited	-	\$ -	-	\$ -
Outstanding at August 31, 2010	607,888	\$ 2.14	9.54	\$ 127,056
Vested and Exercisable at August 31, 2010	222,629	\$ 2.41	8.59	\$ 46,152



**FRMO CORPORATION  
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2010 and 2009*

The following table represents non-vested stock options granted, vested, and forfeited during the six months ended August 31, 2010:

Non-Vested Options	Option	Weighted Average Grant Date Fair Value
Non-vested - March 1, 2010	385,259	\$ 0.82
Granted	-	\$ -
Vested	-	\$ -
Forfeited/Expired	-	\$ -
Non-vested - August 31, 2010	<u>\$ 385,259</u>	<u>\$ 0.82</u>

The aggregate intrinsic value of options outstanding and options exercisable at August 31, 2010 and February 28, 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 \$2.20 and \$2.08 closing price of FRMO's common stock on August 31, 2010 and February 28, 2010, respectively. No options were exercised during the six months ended August 31, 2010.

As of August 31, 2010, unrecognized compensation cost of \$294,000 related to unvested options is expected to be recognized over a remaining weighted-average life of 0.79 years.