

FRMO Corp.
President's Letter

Dear Shareholder:

With the close of the February 2011 fiscal year, FRMO Corp ("FRMO") now has a full 10-year operating history. A one-decade anniversary seems as good a moment as any to assess the company's progress. FRMO completed its first year on February 28, 2001, with \$3,600 of revenue and book value of \$0.244 per share. Book value as of February 28, 2011 was \$1.135 per share. This equates to an annualized rate increase of 46.8%. For the most recent five years, from February 2006 to February 2011, per-share book value expanded from \$0.153 to \$1.163, or by 49.3% per year.

Feb 28	Shareholders' Equity	Average Shares Outstanding (Diluted)	Per Share Tangible Book Value	Increase
2001	48,824	1,998,616	0.0244	46.1%
2002	138,433	3,910,046	0.0354	45.1%
2003	185,541	3,947,524	0.0470	32.8%
2004	486,775	4,890,207	0.0995	111.7%
2005	927,800	7,107,691	0.1305	31.2%
2006	3,992,609	36,083,774	0.1531	17.3%
2007	10,521,582	36,137,774	0.2912	90.2%
2008	19,083,895	36,151,361	0.5279	81.3%
2009	26,633,109	36,206,890	0.7356	39.3%
2010	37,291,173	36,758,749	1.0145	37.9%
2011	44,759,558	39,172,626	1.1347	11.8%

This growth has brought another dimension to FRMO – a more sizable balance sheet. There were \$47 million of assets at February 2011, with only \$2.4 million of liabilities. Of the liabilities, none were borrowings, and the largest was \$1.7 million of deferred taxes. Of the assets, somewhat over one-quarter was liquid, in the sense that it was invested in cash equivalent securities such as money market funds. Nevertheless, despite the large cash balance and an absence of leverage, the combination of net income and other comprehensive income (consisting largely of unrealized gains on investment securities) produced a return on F2010 equity of 17%. A more sizable balance sheet will make available a wider range of investment opportunities than would have been possible only a few years ago.

This past year, FRMO continued its practice of acquiring interests in the fee revenues of relatively new investment products. Such fees are like royalties in that there are no associated operating costs and, so, are highly profitable. The dollar cost to purchase such interests before they have proven successful at gathering a large base of assets is modest, such that failure to achieve critical mass should not meaningfully harm the company; FRMO has experienced more than one such failure. Yet, should such a program succeed in securing a substantial quantity of fee-paying assets, the return can be many orders of magnitude greater than the original investment. The most successful of these investments has just undergone a meaningful change.

This is the interest in Kinetics Advisers, LLC, acquired in February 2002 in exchange for 315 shares of FRMO stock, then valued at \$204.75. During the 12-month period ending February 2011, FRMO received \$3.05 million of distributions from Kinetics Advisers. Ignoring previous distributions, as well as any that may arrive thereafter, the 2011 distribution amounts to a return in excess of 14,000%.

Effective May 1, 2011, Kinetics Advisers together with its affiliates, including Kinetics Asset Management LLC (collectively, "KAM"), merged with Horizon Asset Management LLC ("Horizon") to form Horizon Kinetics LLC. Accordingly, FRMO's 8.4% interest in Kinetics Advisers was exchanged for an interest in Horizon Kinetics, albeit a much smaller one, at approximately 0.5%, since Horizon Kinetics is a much larger (and more diversified) entity. Horizon Kinetics, with \$9.8 billion of client assets as of March 2011, manages investment portfolios for institutions and wealthy individuals, as well as mutual funds and hedge funds, is a major publisher of independent research for institutional investors, and is an innovator in indexation (more information is available at the company's website, www.horizonkinetics.com).

One consequence the KAM and Horizon merger is that the reduction in FRMO's ownership interest from 8.4% to 0.5% means that the cost method of accounting for this part of FRMO's business, which has been the accounting method for quite some years, is no longer a departure from GAAP practice. (For the history of how this most successful of all of FRMO's endeavors came to prevent FRMO from reporting its financial statements to the SEC, readers are referred to the 2005 Shareholders' Letter, which can be found on our website, www.frmocorp.com.) Accordingly, the prospect of FRMO again being able to file its statements with the SEC has improved markedly, although we cannot as yet determine the precise requirements or timing; the solution to this question will be determined in large part by our accountants and their guidance.


Another consequence of the merger is that the FRMO balance sheet, as of May 2011, now includes an additional \$6.4 million of assets, denoted as "due from previously unconsolidated subsidiary". This represents FRMO's proportionate share of deferred management fees payable to Kinetics Advisers from funds it controls and advises. On a pre-tax basis, these deferred fees represent an additional 14% increase in shareholders' equity above the figure recorded at year-end, February 28th.

As to ongoing investment activity, FRMO recently acquired an additional revenue interest. In March 2010, we purchased a 20% interest in all of the management and incentive fees that Horizon Kinetics receives from the domestic and off-shore versions of a private fund. This fund engages in a distinctive strategy that seeks to generate lower-volatility equity returns with a very high cash flow component. Those are attributes much in demand by institutional investors. Despite an inception date that only briefly pre-dates the 2008-2009 financial crisis, the fund has developed a highly successful record, and we believe the prospects for asset growth are substantial.

With the pleasant experience of this first decade as a backdrop, we look forward expectantly to the next.

Thank you for your continued interest in FRMO.

September 27, 2011



Steven Bregman, President