

**FRMO CORPORATION  
AND SUBSIDIARY**

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**REPORT ON COMPILATIONS OF  
CONSOLIDATED FINANCIAL STATEMENTS**

*Three Months and Six Months  
Ended August 31, 2011 and 2010*

**Contents**

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*Three Months and Six Months Ended August 31, 2011 and 2010*

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**Consolidated Financial Statements**

## Independent 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, 2011, and the related consolidated statements of income for the three months and six months ended August 31, 2011 and 2010, statement of stockholders' equity for the six months ended August 31, 2011, and statements of cash flows for the six months ended August 31, 2011 and 2010. We have not audited or reviewed the accompanying consolidated financial statements and, accordingly, do not express an opinion or provide any assurance about whether the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the consolidated financial statements. During our compilation, we did become aware of a departure from generally accepted accounting principles which is described in the following paragraph.

As disclosed in Note 2 to the consolidated financial statements, accounting principles generally accepted in the United States of America 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 has informed us that they accounted for their 8.44% interest in Kinetics Advisors, LLC ("Kinetics Advisors") under the cost method and that the effects of this departure from accounting principles generally accepted in the United States of America on their consolidated financial statements have not been determined.

The February 28, 2011 balance sheet was audited by us and our report thereon, dated July 11, 2011, expressed a qualified opinion with a departure from generally accepted accounting principles for the 8.44% membership interest in Kinetics Advisors as discussed above. However, we have not performed any auditing procedures since that date.

*Holtz Rubenstein Reminick LLP*

New York, New York  
October 18, 2011

**FRMO CORPORATION  
AND SUBSIDIARY**

**Consolidated Balance Sheets**

	August 31, 2011	February 28, 2011
	(Unaudited)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 14,652,943	\$ 12,948,218
Accounts receivable (including due from broker of \$455,899 and \$75,623, at August 31, 2011 and February 28, 2011, respectively)	815,491	426,638
Prepaid income taxes	899,809	-
Investments, available for sale, at fair value (cost of \$28,112,546 and \$27,067,310 at August 31, 2011 and February 28, 2011, respectively)	34,916,907	32,726,740
Investment, held to maturity, at cost (fair value of \$782,550 and \$757,643 at August 31, 2011 and February 28, 2011, respectively)	720,388	750,473
Total Current Assets	<u>52,005,538</u>	46,852,069
Due from Previously Owned Unconsolidated Subsidiary	6,465,831	-
Other Assets, net	273,120	311,214
Total Assets	<u>\$ 58,744,489</u>	<u>\$ 47,163,283</u>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 157,893	\$ 128,264
Income taxes payable	-	217,191
Securities sold, not yet purchased (proceeds of \$1,659,982 and \$365,939 at August 31, 2011 and February 28, 2011, respectively)	1,658,022	378,375
Total Current Liabilities	<u>1,815,915</u>	723,830
Deferred Tax Liability - non-current	4,724,201	1,679,895
Total Liabilities	<u>6,540,116</u>	<u>2,403,725</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 - 39,158,140 and 39,155,140 shares at August 31, 2011 and February 28, 2011, respectively	39,158	39,155
Additional paid-in capital	10,712,438	10,559,703
Other comprehensive income	3,016,455	3,538,854
Retained earnings	38,436,322	30,621,846
Total Stockholders' Equity	<u>52,204,373</u>	44,759,558
Total Liabilities and Stockholders' Equity	<u>\$ 58,744,489</u>	<u>\$ 47,163,283</u>

**FRMO CORPORATION  
AND SUBSIDIARY**

**Consolidated Statements of Income**

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
<b>Revenue:</b>				
Consultancy and advisory fees	\$ 673,193	\$ 570,772	\$ 1,602,865	\$ 1,381,983
Dividends and interest income, net	366,068	276,494	720,986	513,888
Realized gains	24,179	997	128,707	1,027
Income (loss) from investment partnerships	252,566	(196,487)	412,785	(270,346)
Revenue from unconsolidated subsidiary	500,073	-	3,891,648	3,048,523
Revenue from previously owned unconsolidated subsidiary	13,851	-	6,465,831	-
<b>Total Revenue</b>	<b>1,829,930</b>	<b>651,776</b>	<b>13,222,822</b>	<b>4,675,075</b>
<b>Expenses:</b>				
Employee compensation and benefits	35,380	35,380	70,760	70,760
Professional fees	50,875	50,875	98,925	93,710
Other expenses	99,781	28,154	147,230	50,640
Equity compensation	39,489	39,489	78,978	78,978
Amortization	18,622	22,709	38,094	37,227
<b>Total Expenses</b>	<b>244,147</b>	<b>176,607</b>	<b>433,987</b>	<b>331,315</b>
Income from Operations	1,585,783	475,169	12,788,835	4,343,760
Provision for Income Taxes	549,209	173,044	4,974,359	1,694,996
<b>Net Income</b>	<b>\$ 1,036,574</b>	<b>\$ 302,125</b>	<b>\$ 7,814,476</b>	<b>\$ 2,648,764</b>
<b>Basic and Diluted Earnings per Common Share</b>	<b>\$ 0.03</b>	<b>\$ 0.01</b>	<b>\$ 0.20</b>	<b>\$ 0.07</b>
<b>Weighted Average Common Shares Outstanding:</b>				
Basic	39,157,944	39,155,140	39,156,542	39,090,642
Diluted	39,207,944	39,205,140	39,206,542	39,140,642

**FRMO CORPORATION  
AND SUBSIDIARY**

**Consolidated Statement of Stockholders' Equity**

*Six Months Ended August 31, 2011 (Unaudited)*

	Preferred Stock		Common Stock		Additional Paid-in Capital	Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance - March 1, 2011	50	\$ -	39,155,140	\$ 39,155	\$ 10,559,703	\$ 3,538,854	\$ 30,621,846	\$ 44,759,558
Exercise of stock options	-	-	3,000	3	2,997	-	-	3,000
Stock-based payments	-	-	-	-	78,978	-	-	78,978
Non-cash compensation	-	-	-	-	70,760	-	-	70,760
Other comprehensive income	-	-	-	-	-	(522,399)	-	(522,399)
Net income	-	-	-	-	-	-	7,814,476	7,814,476
Balance - August 31, 2011	50	\$ -	39,158,140	\$ 39,158	\$ 10,712,438	\$ 3,016,455	\$ 38,436,322	\$ 52,204,373

FRMO CORPORATION  
AND SUBSIDIARY

**Consolidated Statements of Cash Flows**

<i>Six Months Ended August 31,</i>	2011	2010
	(Unaudited)	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 7,814,476	\$ 2,648,764
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash compensation	70,760	70,760
Stock-based payments	78,978	78,978
Amortization	38,094	37,227
Realized gain on investments	(128,707)	(1,027)
Net (income) loss allocated from partnership investments	(412,785)	270,346
Deferred income tax expense (benefit)	2,586,332	(124,063)
Changes in operating assets and liabilities:		
Accounts receivable	(388,853)	297,249
Prepaid income taxes	(899,809)	60,173
Due from previously owned unconsolidated subsidiary	(6,465,831)	-
Accounts payable and accrued expenses	29,629	(15,519)
Income taxes payable	(217,191)	(180,599)
<b>Net Cash Provided by Operating Activities</b>	<b>2,105,093</b>	<b>3,142,289</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds - investments available for sale	735,141	21,044
Purchases - investments available for sale	(2,448,241)	(4,407,716)
Return of capital - investment held to maturity	30,085	-
Proceeds from securities sold, not yet purchased	1,853,165	-
Purchases to cover securities previously sold	(573,518)	-
<b>Net Cash Used in Investing Activities</b>	<b>(403,368)</b>	<b>(4,386,672)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from exercise of stock options	3,000	-
<b>Net Cash Provided by Financing Activities</b>	<b>3,000</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,704,725</b>	<b>(1,244,383)</b>
Cash and Cash Equivalents - beginning of period	12,948,218	15,665,481
<b>Cash and Cash Equivalents - end of period</b>	<b>\$ 14,652,943</b>	<b>\$ 14,421,098</b>
<b>Supplemental Disclosures:</b>		
Cash paid during the periods for:		
Taxes	\$ 3,505,000	\$ 2,078,214
Interest	\$ 1,212	\$ -
<b>Non-cash Investing Activities:</b>		
Investments acquired through the issuance of common stock	\$ -	\$ 299,000
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, 2011 and 2010

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### 1. Organization of the Company

FRMO Corporation ("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 of 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 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 (renamed Horizon Kinetics, LLC on May 1, 2011) ("Horizon" or "Horizon Kinetics"), to select and evaluate investment opportunities and strategies. Horizon was co-founded by Murray Stahl and Steven Bregman, officers and principal stockholders 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.

Until April 30, 2011, the Company owned an 8.44% interest in Kinetics Advisers, LLC ("Kinetics Advisers"). Effective May 1, 2011, the members of Kinetics Advisers contributed all of their membership interests in Kinetics Advisers to Horizon Kinetics and in exchange, Kinetics Advisers members received certain membership interests of Horizon Kinetics and Kinetics Advisers became a wholly-owned subsidiary of Horizon Kinetics (the "Exchange"). As result of the Exchange, the Company exchanged its original 8.44% membership interest in Kinetics Advisers for a 0.47% membership interest in Horizon Kinetics, and a receivable of approximately \$6,452,000, which represents the Company's proportionate shares of fees that were earned and payable to Kinetics Advisers prior to the Exchange (see Note 4).

## Notes to Consolidated Financial Statements

*Three Months and Six Months Ended August 31, 2011 and 2010*

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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 as follows:

(i) Kinetics Advisers' Hedge Funds. Until April 30, 2011, the Company owned an 8.44% interest in Kinetics Advisors, LLC, which controls and provides investment advice to Kinetics Partners and Kinetics Fund, both of which are hedge funds. Effective May 1, 2011, the Company's 8.44% ownership interest in Kinetics Advisors was exchanged for a .47% interest in Horizon Kinetics. Fees that were earned and received by the Company before May 1, 2011 are included in the consolidated statements of income as "Revenue from unconsolidated subsidiary". Fees that were earned and not received by the Company before May 1, 2011 are included in the consolidated statements of income as "Revenue from previously owned unconsolidated subsidiary".

(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.

(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.

The results of operations for the three months and six months ended August 31, 2011 may not be indicative of the results that may be expected for the year ending February 29, 2012.

The Company has evaluated all subsequent events from the date of the consolidated balance sheets through October 18, 2011, 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.

**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, 2011 and February 28, 2011 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 and cash equivalents.

## Notes to Consolidated Financial Statements

*Three Months and Six Months Ended August 31, 2011 and 2010*

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**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.

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 did not exert a significant influence over operations or financial policies of Kinetics Advisors, in which the Company previously held an 8.44% membership interest. Until April 30, 2011, due to the lack of significant influence, the Company was not able to obtain audited financial statements from Kinetics Advisors which were necessary to account for this investment under the equity method. Therefore, in the consolidated financial statements for the three months ended May 31, 2011, the Company accounted for its 8.44% investment in Kinetics Advisors under the cost method, which was a departure from accounting principles generally accepted in the United States of America ("GAAP").

Effective May 1, 2011, the members of Kinetics Advisors contributed all of their membership interests in Kinetics Advisors to Horizon Kinetics and in exchange, Kinetics Advisors members received certain membership interests of Horizon Kinetics and Kinetics Advisors became a wholly-owned subsidiary of Horizon Kinetics (the "Exchange"). As result of the Exchange, the Company exchanged its original 8.44% membership interest in Kinetics Advisors for a 0.47% membership interest in Horizon Kinetics, and a receivable of approximately \$6,452,000, which represents the Company's proportionate shares of fees that

**Notes to Consolidated Financial Statements***Three Months and Six Months Ended August 31, 2011 and 2010*

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were earned and payable to Kinetics Advisors prior to the merger (see Note 4). The Company's investment in Horizon Kinetics is required to be accounted for using the cost method. Accordingly, the use of the cost method, which approximates fair value, in the consolidated balance sheet as of August 31, 2011 is no longer a departure from GAAP. However, there was a departure from GAAP in the consolidated statement of income for the periods prior to the Exchange. The fair value adjustment recorded during the six months ended August 31, 2011 was an unrealized gain of approximately \$159,000, which is included in "Other comprehensive income" in the Company's consolidated balance sheet as of August 31, 2011.

**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 three months and six months ended August 31, 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 six months ended August 31, 2011 and 2010, comprehensive (loss) income was \$(522,399) and \$363,190, respectively. For the three months ended August 31, 2011 and 2010, comprehensive (loss) income was \$(876,551) and \$540,511, 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 August 31, 2011 and February 28, 2011 since, in the opinion of management, all of its accounts are deemed collectible.

**Intangible assets** - Net intangible assets as of August 31, 2011 and February 28, 2011 were approximately \$273,000 and \$311,000, 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 six months ended August 31, 2011 and 2010 was approximately \$38,000 and \$37,000, respectively. Amortization expense for the three months ended August 31, 2011 and 2010 was approximately \$19,000 and \$23,000, respectively. The Company will incur approximately \$74,000 per year of amortization expense over the 3.7 year remaining life of intangible assets.

**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.

## Notes to Consolidated Financial Statements

*Three Months and Six Months Ended August 31, 2011 and 2010*

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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 partnership's pass through of income and expenses to its partners on a calendar year basis.

Revenue from unconsolidated subsidiaries is recognized when received.

Revenue from previously owned unconsolidated subsidiaries is recognized when earned.

**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 and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107. Stock option compensation expense for the six months ended August 31, 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 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 statement of income and consolidated statement of cash flows for the six months ended August 31, 2010 to conform to the August 31, 2011 presentation. The Company has reclassified certain amounts on its consolidated balance sheet as of February 28, 2011 to conform to the August 31, 2011 presentation. None of these reclassifications had an effect on the Company's consolidated net earnings, total stockholders' equity, or cash flows.

**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2011 and 2010*

**3. Investments**

*Available for Sale*

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

<i>August 31, 2011 (Unaudited)</i>	Cost	Unrealized Gains	Fair Value
Investments:			
Investments in limited partnerships:			
Horizon Multi-Strategy Fund, LP	\$ 2,303,250	\$ 1,342,974	\$ 3,646,224
Jordan Partners, LP	499,132	108,839	607,971
Croupier Fund, LP	534,760	188,659	723,419
Polestar Fund, LP	5,387,996	758,567	6,146,563
Multi-Disciplinary Fund, LP	172,712	(7,815)	164,897
	<u>8,897,850</u>	<u>2,391,224</u>	<u>11,289,074</u>
Other investment - Investment in Horizon Kinetics, LLC	22,471	159,487	181,958
Bond and equity securities	19,192,225	4,253,650	23,445,875
<b>Total Investments</b>	<b>\$ 28,112,546</b>	<b>\$ 6,804,361</b>	<b>\$ 34,916,907</b>

<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
	<u>8,264,464</u>	<u>1,722,102</u>	<u>9,986,566</u>
Bond and equity securities	18,802,846	3,937,328	22,740,174
<b>Total Investments</b>	<b>\$ 27,067,310</b>	<b>\$ 5,659,430</b>	<b>\$ 32,726,740</b>

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.

## Notes to Consolidated Financial Statements

*Three Months and Six Months Ended August 31, 2011 and 2010*

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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 consist of a participation agreement with Horizon Kinetics, 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. There were no unrealized losses for investments held to maturity as of August 31, 2011 and February 28, 2011.

### *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. Securities sold, not yet purchased are recorded as a liability at fair value.

#### **4. Due from Previously Owned Unconsolidated Subsidiary**

Until April 30, 2011, the Company held an 8.44% ownership interest Kinetics Advisors, which controls and provides investment advice to Kinetics Partners and Kinetics Fund, both of which are hedge funds (the "Funds") (see Note 2). The Funds have elected to defer payment on certain fees earned and payable to Kinetics Advisors. Due from previously owned unconsolidated subsidiary represents the Company's proportionate share of fees to be paid by the Funds to Kinetics Advisors.

#### **5. 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, 2011 and February 28, 2011, 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:

**FRMO CORPORATION  
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**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2011 and 2010*

*August 31, 2011 (Unaudited)*

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)
<b>Assets (at fair value):</b>				
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 13,879,066	\$ 13,879,066	\$ -	\$ -
Investments:				
Available for Sale:				
Bond and Equity Securities	23,445,875	23,445,875	-	-
Investments in Limited Partnerships	11,289,074	-	11,289,074	-
Other Investments	181,958	-	181,958	-
Total Investments Available for Sale	34,916,907	23,445,875	11,471,032	-
Total	\$ 48,795,973	\$ 37,324,941	\$ 11,471,032	\$ -
<b>Liabilities (at fair value):</b>				
Common Stocks	\$ 1,658,022	\$ 1,658,022	\$ -	\$ -

*February 28, 2011*

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)
<b>Assets (at fair value):</b>				
Money Market Mutual Funds included in Cash and Cash Equivalents	\$ 11,666,319	\$ 11,666,319	\$ -	\$ -
Investments:				
Available for Sale:				
Bond and Equity Securities	22,740,174	22,740,174	-	-
Investments in Limited Partnerships	9,986,566	-	9,986,566	-
Total Investments Available for Sale	32,726,740	22,740,174	9,986,566	-
Total	\$ 44,393,059	\$ 34,406,493	\$ 9,986,566	\$ -
<b>Liabilities (at fair value):</b>				
Common Stocks	\$ 378,375	\$ 378,375	\$ -	\$ -



**FRMO CORPORATION  
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**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2011 and 2010*

**6. Income Taxes**

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

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

	August 31, 2011	February 28, 2011
	(Unaudited)	
Non-current Deferred Tax Liabilities:		
Receivables	\$ 2,580,792	\$ -
Unrealized gain from investments	2,143,409	1,679,895
Total Non-current Deferred Tax Liabilities	<u>4,724,201</u>	<u>1,679,895</u>
Net Deferred Tax Liability	<u>\$ 4,724,201</u>	<u>\$ 1,679,895</u>

**7. 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>August 31,</i>	2011	2010
	(Unaudited)	
Convertible Preferred Stock	50,000	50,000
Options	610,888	607,888
Total	<u>660,888</u>	<u>657,888</u>

As of August 31, 2011 and 2010, respectively, there were 403,258 and 207,626 vested options with an exercise price in excess of the weighted average market price of the Company's common stock during the period.

For the three months ended August 31, 2011 and 2010, respectively, the inclusion of 136,645 and 13,144 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. For the six months ended August 31, 2011 and 2010, respectively, the inclusion of 137,892 and 13,144 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**

*Three Months and Six Months Ended August 31, 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:

	Three Months Ended August 31,		Six Months Ended August 31,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Weighted Average Common Shares Outstanding	39,157,944	39,155,140	39,156,542	39,090,642
Effect of Dilutive Securities, common share equivalents:				
Conversion of preferred stock	50,000	50,000	50,000	50,000
Dilutive Potential Common Share Equivalents	39,207,944	39,205,140	39,206,542	39,140,642

**8. 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,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Customer A	22.8%	72.6%	n/a	21.3%
Revenue from Unconsolidated Subsidiary	27.3%	n/a	29.4%	65.2%
Revenue from Previously Owned Unconsolidated Subsidiary	n/a	n/a	48.9%	n/a

**9. 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.

**10. 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, 2011 and February 28, 2011, there were 50 shares of Series R preferred stock outstanding.

**Notes to Consolidated Financial Statements**

*Three Months and Six Months Ended August 31, 2011 and 2010*

*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 Kinetics, 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 Kinetics, 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, 2011, and changes during the six months ended August 31, 2011 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, 2011	613,888	\$ 2.15	8.52	\$ 605,867
Granted	-	-	-	-
Exercised	(3,000)	1.00	-	6,600
Forfeited	-	-	-	-
Outstanding at August 31, 2011	610,888	\$ 2.15	8.06	\$ 599,867
Vested and Exercisable at August 31, 2011	418,258	\$ 2.22	7.95	\$ 405,311

The following table represents non-vested stock options granted, vested, and forfeited during the six months ended August 31, 2011:

Non-Vested Options	Options	Weighted Average Grant Date Fair Value
Non-vested - March 1, 2011	192,630	\$ 0.82
Granted	-	-
Vested	-	-
Forfeited/Expired	-	-
Non-vested - August 31, 2011	\$ 192,630	\$ 0.82

**Notes to Consolidated Financial Statements**

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*Three Months and Six Months Ended August 31, 2011 and 2010*

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The aggregate intrinsic value of options outstanding and options exercisable at August 31, 2011 and February 28, 2011 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 closing price of FRMO's common stock on August 31, 2011 and February 28, 2011. There were 3,000 options exercised at an exercise price of \$1.00 per share during the six months ended August 31, 2011. No other options were exercised during the six months ended August 31, 2010.

As of August 31, 2011, unrecognized compensation cost of \$94,000 related to unvested options is expected to be recognized over a remaining weighted-average life of .29 years.