FRMO Corp.

May 25, 2004

Dear Fellow Shareholder:

The writers of the following passages still choose to use such adjectives as "small" in reference to FRMO Corp. As evidence of the appropriate use to the term, please observe that our shareholders' equity as of fiscal year end is only $486,774, rounded to the nearest dollar. This is far greater than the $185,541 recorded as of February 2003. Its purchasing power is 486 years of round trip NYC subway rides based on the assumption of 5 round trips per week for 50 weeks each year.

However, as small as this figure is, it will surely astonish the reader to learn that it is substantially more shareholders' equity than certain publicly traded multi-billion dollar market capitalization firms. This remark is not made as a prelude to a valuation claim on behalf of our firm. It is merely an illustration of the temper of the times

Our primary assets are clearly related to equity markets and must function in an environment of historically expensive valuations. Nonetheless, our assets continue to progress. For instance, the research fees that FRMO Corp. receives from the Paradigm Fund have increased substantially. Last year, the Paradigm Fund had $25 million in assets under management. As of this writing, assets under management for this fund now exceed $60 million. The fund outperformed the S&P 500 Index in 2000, 2001, 2002 and 2003. It continues to be rated 5 star by Morningstar.

A more substantive asset is our interest in the Kinetics Advisors hedge funds. The FRMO Corp. proportionate capital interest is estimated to exceed $644,000 as of April 30, 2004. It was $620,000 at fiscal year end. This is over a three-fold increase from the past year. Of course, we have not been permitted to display this asset on our balance sheet at its actual value due to the requirements of GAAP accounting. However, we are permitted to disclose this fact. The reality of this asset should be at least partially apparent to our shareholders, since we were compelled for tax reasons to recognize and collect $34,196 of income from Kinetics Advisors in fiscal 2004. We would have much preferred not to collect such income, since collection exposes the capital to taxation and this eliminates our theoretical "interest free" loan from the government. We will try to defer taxation on our asset for as long as this is legally permissible. The capital can be subject to appreciation or depreciation, since it is invested in securities both long and short. Of course, we will do our best to see that this asset appreciates. Yet, we can offer no guarantees.

Another fact that might intrigue readers is that the assets under management at Kinetics Advisors now exceed $500 million. The fund collects a fee of 1% on assets under management as well as 20% of profits. Kinetics Advisors does have a variety of expenses. However, given the arithmetic characteristics of the hedge fund business, the FRMO proportionate 8.44% interest could appreciate quite substantially. We must again caution the reader that we can offer no guarantees.

In order for a hedge to be successful, at least several remunerative investment ideas are required. The current environment does not lend itself to the discovery of very many such ideas. The investment world is quite literally awash in funds of every conceivable type. Money continues to be invested most unwisely, although we hope not by us. In any case, current share valuations are a circumstance that cannot possibly endure. History will repeat itself, we believe, funds will one day exit the business, perhaps in the customary state of panic, and opportunities will thereby be created. Some investment patience is therefore required and we will endeavor to exhibit such patience.

Although it might seem hard to believe, patient inactivity is hard, demanding and exhausting work. Yet, management continues to accept no cash or equity compensation. This fact does not stop our auditors from recording such compensation as if it were accepted, with the caveat that it is recorded as a non-cash charge, since we don't accept any cash. We also don't accept non-cash compensation. Accounting conventions as well as other regulations require such entries that have the effect or reducing our company accounting profits although our actual cash profits are not reduced. In the days of Soviet era communism, the local wits had an expression for this type of situation. It was "We pretend to work and they pretend to pay us." In our situation, we promise you that we will work and we further pledge that we will pretend to pay ourselves as long as this pretense is legally required.

In essence, if one sums current shareholders' equity and the FRMO unrecognized proportionate capital interest in Kinetics Advisors, shareholders now have one $1.1 million of capital employed on their behalf. This is a milestone of sorts and we are pleased to be able to report these facts. Doing something intelligent with one million dollars once it has been earned has generally proven to be far more difficult than actually obtaining one million dollars. A certain lassitude regarding the expenditure of such sums is required merely to retain such sums. Lassitude is most assuredly a character trait that we possess. It is in this light that the management would like to be regarded. We feel confident that at least in this aspect our shareholders will agree with management.

Steven Bregman, President
and Chief Operating Officer

Murray Stahl, Chairman
and Chief Executive Officer

Postscript:

Such is the speed and fluidity with which the accounting profession, perhaps necessarily, must adjust to the investing profession that between the time that this letter was drafted and its publication date, our auditors have informed us of a new accounting standard that has significance to FRMO and to this very letter. In March 2004, a seemingly obscure accounting convention was ratified by the body known as the Financial Accounting Standards Board, more specifically by its Emerging Issues Task Force. The accounting convention ratified by the Task Force is known as Issue No. 03-16. This will require that FRMO must, after all, reflect the income from its proportional interest in Kinetics Advisors on the FRMO income statement, whereas FRMO was previously prohibited from doing so. This will become effective for us as of September 1st of this year. Perhaps, as is the practice in preparing accounting documents, some elements of paragraph 4 of this letter should therefore be revised for being outmoded. However, we are informed that the Shareholders' Letter grants somewhat broader artistic license.