FRMO CORP
Form 10-K
June 01, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: February 29, 2004

[_] TRANSITION REPORT PURSUANT TO SECTION 13(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

COMMISSION FILE NUMBER: 0-29346

FRMO CORP.
(Exact name of registrant as specified in its charter)

DELAWARE	13-3754422
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
30 HAIGHTS CROSS ROAD, CHAPPAQUA, NY	10514
(Address of principal executive offices)	(Zip Code)

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE): (914) 632-6730

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

Title of Each Class

Common Stock, $.001 par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (x) No(_)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (x)

The aggregate market value of the voting stock held by non-affiliates of the registrant at May 20, 2004 was $902,108.

The number of shares outstanding of the registrant's Common Stock as of

May 20, 2004 was 36,083,774 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the close of the year ended February 29, 2004.

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.

FRMO CORP.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2004

PART I

ITEM 1. BUSINESS

ORGANIZATION OF THE COMPANY

FRMO CORP. (the "Company or "FRMO") was incorporated in November 1993, under the laws of the State of Delaware under the name of PSI Settlement Corp, (initially changed to FRM Nexus, Inc. and then to FRMO Corp on November 29, 2001). One of the Company's former subsidiaries was MFC Development Corp.("MFC"). On August 31, 2000, FRMO transferred to MFC all of its assets (except for $10,000), including all the shares of its wholly owned subsidiaries, subject to all of its liabilities which were assumed by MFC. This transfer was made in contemplation of a spin-off of the common shares of MFC to the Company's shareholders.

SPIN-OFF OF MFC

On August 31, 2000, FRMO filed Form 8-K with the Securities and Exchange Commission, which disclosed that FRMO contemplated distributing to its shareholders one share of MFC common stock for each one share of FRMO's 1,800,000 shares of outstanding common stock at the close of business on November 1, 2000 (the record date). The MFC shares were distributed to shareholders of FRMO on January 23, 2001.

FRM CONTROL GROUP

After the spin-off, FRMO was recapitalized privately by the FRM Control Group (described below) purchasing 34,200,000 shares of common stock for $3,258,000 ($0.095 per share). By retaining only $10,000 in cash in FRMO, the shareholders' book value for the 1,800,000 shares outstanding was less than $.01 per share. By fixing the price that the new Control Group paid for their 95% ownership at $.095 per share, the existing shareholders realized an increase in book value from about $.01 per share to about $.091 per share and the shares of the new FRM Control Group were diluted from about $.095 to about $.091 per share. Book value of FRMO did not take into account its existing structure and status as a public company with a reporting history which was considered in the transaction. The FRM Control Group has benefited from that as well as the $10,000 in cash remaining in FRMO.

Murray Stahl and Steven Bregman, Chairman and President of the Company, respectively, are the principal persons in the FRM Control Group, which includes the other persons who purchased the shares for the consideration stated below. Messrs. Stahl and Bregman have worked together at Horizon Research Group since 1994 and before that at Bankers Trust Company. They are also part of the ownership of Kinetics Asset Management, Inc., which is the investment adviser to several mutual funds and hedge funds, including The Internet Fund, The Paradigm Fund and Kinetics Partners, L.P.

The 34,200,000 shares of common stock of FRMO sold after the spin-off distribution date were issued to the FRM Control Group as follows:

(i) 28,800,000 shares of common stock of FRMO Corp. were issued to Peter Doyle, as Voting Trustee of 8.1% of the issued and outstanding shares of Kinetics Asset Management Inc. ("Kinetics") and Murray Stahl (the "Stahl Bregman Group") for $2,880,000, payable as set forth below. The Stahl Bregman Group includes Murray Stahl, Steven Bregman, John Meditz, Peter Doyle, Catherine Bradford, Thomas C. Ewing and Katherine Ewing. That group will be in control of FRMO Corp. and together with the persons named below are the "FRM Control Group". The 28,800,000 shares were issued to the Stahl Bregman Group on January 23, 2001 but are held in escrow and delivered as paid at the rate of ten cents ($.10) per share. The Stahl Bregman Group is obligated to pay to FRMO the after tax amount (fixed at 54% of the dividend) of all dividends they receive from Kinetics until the total $2,880,000 has been paid. The Stahl Bregman Group expects the $2,880,000 to be paid to FRMO in about five years. The installment payments depend on actual future dividends received from Kinetics. The Stahl Bregman Group may make additional payments at its discretion but the payment based on the Kinetics dividend is obligatory until the fixed purchase is paid. The members of the Stahl Bregman Group have no obligation other than to pay the net dividends from Kinetics until the fixed purchase price is paid. The Stahl Bregman Group has agreed that it will not divest itself of any part of its Kinetics shares or change the character of its ownership so as to reduce the pro-rata share of the dividends it currently receives from Kinetics without, as a condition thereof, paying toward the fixed purchase price of its FRMO shares the after-tax proceeds of that part divested, as if the divestiture had not occurred.

(ii) 3,600,000 shares of common stock of FRMO were issued to Lestar Partners, LLC, ("LPC") a New York Limited Liability Company owned by Lester Tanner, Secretary and a director of FRMO, together with members of his family, for $360,000 payable as set forth below. The 3,600,000 shares were issued to LPC on January 23, 2001 but are held in escrow and delivered as paid at the rate of ten cents ($.10) per share. LPC is obligated to pay to FRMO in cash an amount equal to 12.5% of each payment made by the Stahl Bregman Group until the purchase price of $360,000 is paid.

(iii) 1,800,000 shares of common stock of FRMO were issued to Lawrence J. Goldstein for $18,000 paid on January 23, 2001. Mr. Goldstein is a director of FRMO and the General Partner of Santa Monica Partners, LP, a private fund, which owns 218,000 shares of common stock of FRMO.

BUSINESS OF FRMO

FRMO Corp. is an intellectual capital firm. The experience of its management has been in the analysis of public companies within a framework of identifying investment strategies and techniques that reduce risk. The business will include identification of assets, particularly in the early stages of the expression of their ultimate value, and the participation with them in ways that are calculated to increase the value of the shareholders' 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 Research Group to select and evaluate investment opportunities and strategies.

Horizon Research Group is a division of Horizon Asset Management, Inc., which was co-founded by Murray Stahl and Steven Bregman in 1994. It is an independent research firm serving primarily mutual fund managers and the hedge fund community. It provides in-depth analysis of under-researched companies and strategies to identify complex or overlooked situations that can offer asymmetric risk/return advantages to the investor. These publications are addressed to investment managers, but the concepts and process behind them are expected to serve FRMO's efforts to identify business opportunities in public and private ventures.

SPECIFIC BUSINESS ACTIVITIES

Since its new start on January 23, 2001, FRMO completed the following transactions through February 29, 2004:

i. The Company invested $5,000 in FRM NY Capital, LLC, a limited liability venture capital company whereby the substantial investment of financial capital will be made by unrelated parties but where FRMO will have a

carried interest based on leveraging the creative services of its personnel (its intellectual capital). This interest was inactive and the investment was sold at cost during the fiscal 2004 year.

ii. A consulting agreement was signed effective January 1, 2001, whereby FRMO is currently receiving approximately $27,000 a year from the manager of Santa Monica Partners, LP, a director and shareholder of FRMO, for access to consultations with the Company's personnel. Santa Monica Partners, L.P. is a private fund, which owns 218,000 shares of common stock of FRMO.

iii. In March 2001, FRMO acquired the research service fees that Horizon Research Group had received from The Paradigm Fund in exchange for 80,003 shares of FRMO common stock. Management believes that the growth of that Fund in the current fiscal year and future years will increase the current level of research fees for which the stock consideration was paid. The Paradigm Fund outperformed the S&P 500 Index by approximately 13 percentage points in its first fiscal year of operation, Calendar 2000. From inception through Calendar 2003, it outperformed the S&P 500 Index by 68 percentage points, or in the parlance of investment professionals, by 6,800 basis points. In May 2003, The New Paradigm Fund was assigned a five-star rating by Morningstar, Inc., the fund rating service. This is Morningstar's highest rating and is often the basis on which mutual fund investors seek to select funds.

iv. In October 2001, FRMO acquired a 2% interest in the subscription revenues from The Capital Structure Arbitrage Report that Horizon Research Group and third party receive in exchange for 50 shares of Series R preferred stock. While the subscriptions were minimal at the time, they have advanced and management believes that they will continue to expand in future years.

v. In February 2002, FRMO acquired a 7.71% interest in Kinetics Advisors, LLC and the Finder's Fee Share Interest from the Stahl Bregman Group, in exchange for 315 shares of FRMO common stock. Kinetics Advisors, LLC controls and provides investment advice to Kinetics Partners, a hedge fund, and to The Kinetics Fund, an offshore version of Kinetics Partners. While these funds were quite small at the time of acquisition, they have expanded dramatically and management believes that they will grow in future years. From its first year of operation in 2000, through Calendar 2003, Kinetics Partners returned 95 percentage points more than the S&P 500 Index.

MARKETING

Currently, the marketing of the Company's services and programs is by the officers of the Company.

COMPETITION

The Company's business activities are founded on the independent research experience of its personnel who provide in-depth analysis of information-poor, under-researched or complex companies and securities, and develop related strategies that can offer an advantage to the investor. This research is distinct from but competes with the traditional "sell side" research supported by the trading commissions and corporate finance fees of brokerage firms that produce the great majority of "Wall Street" research. The Company also competes with a wide variety of independent entities, which sell periodicals and research that is paid for by subscription or fees of its readers. The Company is small in relation to such competitors but its services and programs are designed to reach a niche market of sophisticated analysts and accredited investors.

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TRADEMARKS - None.

EMPLOYEES

As of February 29, 2004, the Company had no paid employees.

REGULATORY LAWS

The Company is in compliance with the regulatory laws that relate to its business activities. Its operations do not fall within the definition of an investment company so as to require it to register under the Investment Company Act of 1940.

ITEM 2. PROPERTIES

None.

ITEM 3. LEGAL PROCEEDINGS

FRMO is not a party to any material litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS AND OTHER INFORMATION

None, other than the election of directors on July 17, 2003.

OTHER INFORMATION

CAUTIONARY STATEMENT

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby filing cautionary statements identifying important risk factors that could cause the Company's actual results to differ materially from those projected in forward looking statements of the Company made by or on behalf of the Company.

Such statements may relate, but are not limited, to projections of revenues, earnings, capital expenditures, plans for growth and future operations, competition as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted or quantified.

When the Company uses the words "estimates", "expects", "anticipates", "believes", "plans", "intends", and variations of such words or similar expressions, they are intended to identify forward-looking statements that involve risks and uncertainties. Future events and actual results could differ materially from those underlying the forward-looking statements. The factors that could cause actual results to differ materially from those suggested by any such statements include, but are not limited to, those discussed or identified from time to time in the Company's public filings, including general economic and market conditions, changes in domestic laws, regulations and taxes, changes in competition and pricing environments.

Undue reliance should not be placed on these forward-looking statements, which are applicable only as of the date they are made. The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after that date or to reflect the occurrence of anticipated events.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCK HOLDER MATTERS

REGISTRATION AND MARKET PRICES OF COMMON STOCK

The authorized capital stock of the Company consists of 92,000,000 shares, of which, 90,000,000 are shares of common stock, $.001 par value and 2,000,000 shares are preferred stock, $.001 par value. On February 29, 2004, there were 36,083,774 shares of common stock and 50 shares of series R preferred stock outstanding. Subject to any prior rights of the Company's preferred shareholders, FRMO's common shareholders are entitled:

- to receive dividends as are declared by FRMO's Board of Directors out of funds legally available; and

- to full voting rights, each share being entitled to one vote.

The FRMO Board of Directors may issue additional authorized shares of FRMO common stock without shareholder approval. FRMO shareholders do not have any cumulative rights or any preemptive rights to subscribe for additional securities that FRMO may issue without obtaining shareholder consent. Subject to any prior rights of the holders of any preferred stock then outstanding, in the event of liquidation, dissolution, or winding up of the company, common shareholders would be entitled to receive, on a pro rata basis, any assets distributable to shareholders in respect of shares by them.

The FRMO certificate of incorporation authorizes the issuance by FRMO of up to 2,000,000 shares of FRMO preferred stock, of which 50 shares are issued and outstanding. The FRMO Board of Directors may issue its preferred stock without obtaining shareholder consent in one or more series at a time or times and for consideration or considerations as its Board of Directors may determine. The Board of Directors is authorized by the FRMO certificate of incorporation to provide at any time for the issuance of FRMO preferred stock with the rights, preferences, and limitations as established by the Board.

The Company's common stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934 and trades on the NASDAQ Bulletin Board under the symbol FRMO. The following table sets forth the range of high and low bid quotations of the Company's common stock for the periods set forth below, as reported by the National Quotation Bureau, Inc. Such quotations represent inter-dealer quotations, without adjustment for retail markets, markdowns or commissions, and do not necessarily represent actual transactions.

FISCAL PERIOD	COMMON STOCK	
	HIGH BID	LOW BID

2003			
1st	Fiscal Quarter (3/1/02 - 5/31/02)	$ 0.65	$ 0.40
2nd	Fiscal Quarter (6/1/02 - 8/31/02)	0.41	0.25
3rd	Fiscal Quarter (9/1/02 - 11/30/02)	0.25	0.20
4th	Fiscal Quarter (12/1/02 - 2/28/03)	0.22	0.20
2004			
1st	Fiscal Quarter (3/1/03 - 5/31/03)	$ 0.21	$ 0.20
2nd	Fiscal Quarter (6/1/03 - 8/31/03)	1.01	0.20
3rd	Fiscal Quarter (9/1/03 - 11/30/03)	0.70	0.45
4th	Fiscal Quarter (12/1/03 - 2/29/04)	0.70	0.51

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The high bid and low asked quote on May 20, 2004 was $.55 bid and $.95 asked.

DIVIDENDS

No cash dividend has been paid by FRMO since its inception. The Company has no present intention of paying any cash dividends on its common stock.

HOLDERS

As of May 21, 2004, there were approximately 1,000 holders of record of FRMO common stock representing about 2,500 beneficial owners of its shares. A director and former director have each been granted options to purchase a total of 9,000 shares of the Company's common stock. There are no warrants to purchase common stock of the Company outstanding. The Company does not know of any shares of common stock of FRMO that are held by any director, officer or holder of as much as 5% of the outstanding stock for sale pursuant to a filing under Rule 144 of the Securities Act. The Company has not agreed to register any common stock for sale under the Securities Act by any shareholder or the Company, the offering of which could have a material effect on the market price of the Company's common equity.

ITEM 6. SELECTED FINANCIAL DATA

Prior to February 28, 2001, the Company's operations were included in the financial reports of MFC Development Corp. and subsidiaries, which were spun off to the shareholders of FRMO on January 23, 2001. This transaction has been accounted for in a manner similar to a reverse pooling of interests on the Company's books. The Company had no operations prior to January 23, 2001 and accordingly, there is no selected financial data to report before that date.

FRMO Corp
Selected Consolidated Financial Data

	Fiscal Year Ended			
	February 29, 2004	February 28, 2003	February 28, 2002	February 28, 2001
Income Statement Data:				
Total Revenue	$ 159,955	$ 103,748	$ 68,785	$ 3,600

Costs and expenses	60,335	52,409	59,254	4,151
Net Ordinary Income	99,619	51,339	9,531	(551)
Other income	1,370	1,017	1,304	--
Income (loss) from operations before provision for income taxes	100,990	52,356	10,835	(551)
Provision for income taxes	37,792	14,248	2,445	--
Net Income	$ 63,198	$ 38,108	$ 8,390	$ (551)
Earnings per common share:				
Basic earnings per common share	$ 0.01	$ 0.01	$ --	$ --
Diluted earnings per common share	$ 0.01	$ 0.01	$ --	$ --
Number of shares used in computation of basic and diluted earnings per share:				
Basic	4,840,207	3,897,524	3,899,772	1,998,616
Diluted	4,890,207	3,947,524	3,910,046	1,998,616

FRMO Corp
Selected Consolidated Financial Data (continued)

	As of February 29, 2004	As of February 28, 2003	February 28, 2002	February 28, 2001
Balance Sheet Data:				
Working Capital	$ 430,316	$ 116,561	$ 61,890	$ 43,824
Total Assets	$ 541,105	$ 224,687	$ 161,068	$ 52,894
Long-term Debt	$ --	$ --	$ --	$ --
Shareholders' Equity	$ 486,774	$ 185,745	$ 138,433	$ 48,824
Book Value per Share	$ 0.08	$ 0.05	$ 0.04	$ 0.02
Common Shares Outstanding (1)	6,197,524	3,897,524	3,890,087	1,998,616

(1) Common shares outstanding is recorded net of the shares being held in escrow (29,936,250 as of 2/29/04, and 32,186,250 as of 2/28/03 and 2/28/02) for shareholders who have not yet purchased their stock, as described in Note 7 of the financial statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

All statements contained herein that are not historical facts, including but not limited to, statements regarding future operations, financial condition and liquidity, capital requirements and the Company's future business plans are based on current expectations. These statements are forward looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Among the factors that could cause actual results to differ materially are changes in the financial markets that affect investment managers, investors, mutual funds and the Company's consulting clients, and other risk factors described herein and in the Company's reports filed and to be filed from time to time with the Commission. The discussion and analysis below is based on the Company's Financial Statements and related Notes thereto included herein and incorporated herein by reference.

OVERVIEW

By reason of the reverse pooling spin-off transaction described in Item 1, the Company had a new start in terms of its continuing business and its financial statement as of January 23, 2001, and there were no operations prior to that date. After the spin-off its balance sheet consisted of $10,000 in assets, no liabilities and 1,800,000 shares of common stock. On January 23, 2001 the Company issued an additional 34,200,000 shares of common stock for $3,258,000 to be paid as set forth in Item 1. The business engaged in by FRMO thereafter is described in Item 1.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of its financial position and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the

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CRITICAL ACCOUNTING POLICIES (CONTINUED)

reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management believes that the critical accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the financial statements are revenue recognition and accounting for investments in subsidiaries.

REVENUE RECOGNITION

The Company primarily generates revenue through consulting, research fees and subscription revenue.

Revenue relating to consulting agreements is earned primarily on a month-by-month basis.

Research fees are earned and recorded on a monthly basis based upon FRMO's pro rata share of The New Paradigm Fund assets.

Subscription revenues are earned and recorded on a monthly basis based upon FRMO's pro rata share of the subscription revenue generated from a certain research report provided by a related third party.

The accrual method of accounting is used to record all income.

ACCOUNTING FOR 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 currently accounted for using the cost method.

In March 2004, the FASB ratified Emerging Issues Task Force Issue No. 03-16, "Accounting for Investments in Limited Liability Companies". Under EITF 03-16, investments in limited liability companies that have separate ownership accounts for each investor greater than 3 to 5 percent should be accounted for under the equity method. The Company is currently accounting for its 8.44% investment in Kinetics Advisers, LLC ("Kinetics Advisers") under the cost method. Effective September 1, 2004, the Company will change its method of accounting for this investment so that it will record its pro rata share of Kinetics Advisers income (loss) each period. Had EITF 03-16 applied effective March 1, 2003, the Company's assets and pre-tax income would have been increased by $620,000 and $530,000, respectively.

RESULTS OF OPERATIONS

YEAR ENDED FEBRUARY 29, 2004 COMPARED TO YEAR ENDED FEBRUARY 28, 2003

The Company's revenues from operations increased by $56,000 for the year ended February 29, 2004 ("2004") from $104,000 for the year ended February 28, 2003 ("2003"). The increases in 2003 were due primarily to income from (i) research fees and (ii) income from unconsolidated subsidiaries.

Costs and expenses increased by $8,000 in 2004, from $52,000 in 2003. The increase in 2004 was due primarily to increases in shareholder reporting and accounting expenses, and higher franchise fees.

For the reasons noted above, the Company's net income for the year ended February 29, 2004, increased by $25,000 to $63,000, as compared to net income of $38,000 in 2003.

Some discussion is required with respect to an asset that is presently carried at zero cost on the FRMO balance sheet and which had a negligible accounting impact on fiscal 2003 earnings, yet which has had a very significant economic

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impact on FRMO. This is the investment in Kinetics Advisors, LLC, ("Kinetics Advisors"), which was acquired in February 2002 (as discussed in Part I, Item 1, under the heading Specific Business Activities, of this Form 10-K). This investment takes the form of a minority interest in Kinetics Advisors, which controls and provides investment advice to two hedge funds. Kinetics Advisors has elected to reinvest in these two funds the major portion of the fees to which it is entitled from them. As a consequence, FRMO does not receive its proportional interest in those fees until such time that Kinetics Advisors itself elects to or is required to receive them. Under generally accepted accounting principles, as they applied in fiscal 2003 and 2004, FRMO must record this investment on a cost basis, which was $0 as of February 29, 2004. However, on an economic basis, FRMO's proportional share of Kinetics Advisors' capital accounts in those funds was approximately $620,000 (pre-tax and unaudited) as of February 29, 2004. FRMO's proportional share of the increase in the value of Kinetics Advisors' capital accounts in those funds during the period, predominantly from fee income and appreciation (also pre-tax and unaudited), was approximately $530,000 during 2004. As disclosed in the Critical Accounting Policies section, in accordance with EITF 03-16, "Accounting for Investments in Limited Liability Companies", the Company will change its accounting policy regarding this investment effective September 1, 2004 to the equity method.

YEAR ENDED FEBRUARY 28, 2003 COMPARED TO YEAR ENDED FEBRUARY 29, 2002

The Company's revenues from operations increased by $35,000 for the year ended February 28, 2003 ("2003") from $69,000 for the year ended February 28, 2002 ("2002"). The increases in 2003 were due primarily to income from (i) research fees and (ii) consulting fees.

Costs and expenses decreased by $7,000 in 2003, from $59,000 in 2002. The decrease in 2003 was due primarily to a decrease in shareholder reporting expenses and lower administrative fees, partially offset by higher accounting fees and the recording of non-cash compensation expense. The 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 during the period of formation.

For the reasons noted above, the Company's net income for the year ended February 28, 2003, increased by $30,000 to $38,000, as compared to net income of $8,000 in 2002.

LIQUIDITY AND CAPITAL RESOURCES

The Company's activities during the year ended February 29, 2004 resulted in an increase in cash of $271,000. This increase was due to net income (after adjusting for amortization and non-cash compensation) of $83,000, less $6,000 net increase of receivables over payables and deferrals, which, are normal fluctuations primarily caused by timing differences. Investing activities, primarily accounted for by the purchase of marketable securities of $36,000 and the sale of the Company's investment in an unconsolidated subsidiary, decreased the cash balance by $31,000; there were no cash flows provided by or used in investing activities during fiscal 2003. Financing activities during the year ended in 2004 provided cash flow of $225,000 and is attributable to the payment of common shares held in escrow, as described in Item 1; there were no such activities in 2003. The Company expects its business with prospective new clients to develop without the outlay of cash, since the growth will come from the services of its officers who will not receive salaries until the Company's operations and revenues warrant the payment.

On January 23, 2001 the Company issued 34,200,000 shares of $.001 par value stock for $3,258,000. Only $39,375 was paid for at the time, and the balance remaining as of February 29, 2004 of $2,993,625 will be paid to the Company as set forth in Item 1. The Company believes that its present cash resources will be sufficient on a short-term basis and over the next 12 months to fund continued expansion of its business.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK.

See subsections (i) and (ii) at page 2 relating to the obligations of the Stahl Bregman Group and LPC to pay for the shares of common stock of the Company based on dividends from Kinetics and the income generated from the management of the mutual funds for which Horizon is the investment advisor.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Financial Statements and supplementary data required by this Item 8 are set forth at the pages indicated in Item 15(a) below.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

During the 90-day period prior to the date of this report, an evaluation was performed under the supervision and with the participation of our Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective. Subsequent to the date of this evaluation, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, and no corrective actions taken with regard to significant deficiencies or material weaknesses in such controls.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days of February 29, 2004. Such information is incorporated herein by reference and made a part hereof.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days of February 29, 2004. Such information is incorporated herein by reference and made a part hereof.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item is set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days of February 29, 2004. Such information is incorporated herein by reference and made a part hereof.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days of February 29, 2004. Such information is incorporated herein by reference and made a part thereof.

PART IV

ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

The information required by this item is set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days of February 29, 2004. Such information is incorporated herein by reference and made a part hereof.

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ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES, AND REPORTS ON FORM 8-K

(A) FINANCIAL STATEMENTS, SCHEDULES AND EXHIBITS

(1) FINANCIAL STATEMENTS:

(2) FINANCIAL STATEMENT SCHEDULES:

All schedules are omitted because they are not applicable, not required, or because the required information is included in the financial statements or notes thereto.

(3) EXHIBITS:

Exhibits 3.01 and 21.01 are incorporated herein by reference to Form 8-K dated January 25, 2001 with which said exhibits were previously filed. Exhibits 3.01 and 5.01 are incorporated herein by reference to Form 10 dated June 27, 1997 with which said exhibits were previously filed.

Exhibit Number	Description
3.01	Amended Certificate of Incorporation of the Company*.
3.03	Amended By-Laws of the Company*.
5.01	Opinion of Tanner Propp, LLP*
21.01	The Company has no subsidiaries. The spin-off on January 23, 2001 of MFC Development Corp, a former subsidiary ("MFC"), is described in Form

10, the General Form for Registration of Common Stock of MFC pursuant to Section 12(g) of The Securities Exchange Act of 1934, as amended, which was incorporated by reference as an exhibit in the Company's Form 8-K Current Report filed on January 25, 2001.*

31.1 Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Previously filed

(B) REPORTS ON FORMS 8-K

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d)2 of the Securities Exchange Act of 1934 as amended, the Registrant has duly cause this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 28, 2004.

FRMO CORP.

By:

Steven Bregman
President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on May 28, 2004.

Signature	Title
------------------------------ Murray Stahl	Chairman of the Board (Principal Executive Officer)
------------------------------ Steven Bregman	President, Director

	Secretary, Director
------------------------------ Lester Tanner	
	Director
------------------------------ Allan Kornfeld	
	Director
------------------------------ Peter Doyle	

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FRMO Corp.
Index to Financial Statements

The data required by all other schedules is either included in the financial statements or is not required.

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Report of Independent Auditors

The Board of Directors and Shareholders
FRMO Corp.

We have audited the accompanying balance sheets of FRMO Corp. as of February 29, 2004 and February 28, 2003 and the related statements of income, stockholders' equity and cash flows for the three years ended February 29, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FRMO Corp. at February 29, 2004 and February 28, 2003, and the results of its operations and its cash flows for the three years ended February 29, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ HOLTZ RUBENSTEIN & CO., LLP

Melville, New York
May 17, 2004

FRMO Corp.
Balance Sheets

	FEBRUARY 29, 2004	FEBRUARY 28, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 406,110	$ 135,003
Accounts receivable	41,637	20,500
Investment in marketable securities	36,900	--
Total current assets	484,647	155,503
Other assets:		
Intangible assets, net	56,458	64,184
Investments in unconsolidated subsidiaries	--	5,000
Total other assets	56,458	69,184
Total assets	$ 541,105	$ 224,687
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 20,187	$ 20,551
Income taxes payable	22,112	11,587
Deferred income	12,031	7,008
Total current liabilities	54,330	39,146

Stockholders' equity:		
Preferred stock - $.001 par value;		
Authorized - 2,000,000 shares;		
Issued and outstanding - 50 shares Series R	--	--
Common stock - $.001 par value;		
Authorized - 90,000,000 shares;		
Issued and outstanding - 36,083,774 shares	36,083	36,083
Capital in excess of par value	3,334,136	3,322,136
Unrealized gain on marketable securities	1,036	--
Retained earnings	109,145	45,947
	3,480,400	3,404,166
Less: Receivables from shareholders for common stock issuance	2,993,625	3,218,625
Total stockholders' equity	486,775	185,541
Total liabilities and stockholders' equity	$ 541,105	$ 224,687

See accompanying notes.

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FRMO CORP.
STATEMENTS OF INCOME

	YEAR ENDED FEBRUARY 29, 2004	YEAR ENDED FEBRUARY 28, 2003	Y FE
REVENUES			
Consulting	$ 84,022	$87,839	
Research Fees	33,130	12,438	
Subscriptions	8,606	3,676	
Investments	34,197	(205)	
Total Income	159,955	103,748	
COSTS AND EXPENSES			
Amortization	7,725	7,359	
Accounting	9,250	7,030	
Shareholder reporting	26,363	23,775	
Office expenses	12,586	13,500	
Other	4,411	744	
	60,335	52,409	
Income from operations	99,620	51,339	
Dividend income	1,370	1,017	
Income from operations before provision for income taxes	100,990	52,356	

Provision for income taxes	37,792	14,248
Net income	$63,198	$ 38,108
Basic earnings per common share	$0.01	$ 0.01
Diluted earnings per common share	$0.01	$0.01
Average shares of common stock outstanding:		
Basic	4,840,207	3,897,524
Diluted	4,890,207	3,947,524

See accompanying notes

FRMO CORP.
STATEMENT OF STOCKHOLDERS' EQUITY

	SERIES R PREFERRED STOCK SHARES	SERIES R PREFERRED STOCK AMOUNT	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	RECE FROM HOLD COMM IS
Balance, February 28, 2001	-	$-	36,000,000	$36,000	$3,232,000	$ (551)	$(3,
Issuance of new stock for the assignment of research agreements	-	-	83,459	83	54,886	-	
Issuance of new stock for the assignment of subscription revenue	50	-	-	-	26,250	-	
Issuance of new stock for the acquisition of 7.71% of Kinetics Advisors, LLC and 50% of Finder's Fee Share Interest	-	-	315	-	-	-	
Net income (loss)	-	-	-	-	-	8,390	
Balance, February 28, 2002	50	-	36,083,774	36,083	3,313,136	7,839	(3,
Non-cash compensation expense	-	-	-	-	9,000	-	
Net income (loss)	-	-	-	-	-	38,108	
Balance, February 28, 2003	50	-	36,083,774	36,083	3,322,136	45,947	(3,
SUBSCRIPTION PAYMENT FOR STOCK HELD IN ESCROW	-	-	-	-	-	-	
UNREALIZED GAIN ON MARKETABLE	-	-	-	-	-	-	
SECURITIES	-	-	-	-	-	-	
NON-CASH COMPENSATION EXPENSE	-	-	-	-	12,000	-	
NET INCOME (LOSS)	-	-	-	-	-	63,198	

BALANCE, FEBRUARY 29, 2004	50	$-	36,083,774	$36,083	$3,334,136	$109,145	$(2,

See accompanying notes

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FRMO CORP.
STATEMENTS OF CASH FLOWS

	YEAR ENDED FEBRUARY 29, 2004	YEAR ENDED FEBRUARY 29, 2004	YEAR FEBRUA 20
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 63,198	$ 38,108	$
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of research agreements	7,725	7,359	
Non-cash loss from unconsolidated subsidiary	--	205	
Non-cash compensation	12,000	9,000	
Changes in operating assets and liabilities:			
Other currentassets	(21,137)	(19,386)	
Accounts payable and accrued expenses	10,162	12,004	
Deferred income	5,023	4,302	
Net cash provided by operating activities	76,971	51,592	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of marketable securities	(35,864)	--	
Proceeds from sale of FRM NY Capital, LLC	5,000	--	
Net cash used in investing activities	(30,864)	--	
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for release of stock held in escrow	225,000	--	
Net cash provided by financing activities	225,000	--	
Net increase in cash and cash equivalents	271,107	51,592	
Cash and cash equivalents, beginning of year	135,003	83,411	
Cash and cash equivalents, end of year	$ 406,110	$ 135,003	$
ADDITIONAL CASH FLOW INFORMATION			
Interest paid	$ --	$ --	$

Income taxes paid	$ 12,926	$ --	$
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Preferred stock issued in consideration for the acquisition of research agreements	$ --	$ --	$
Common stock issued in consideration for the assignment of subscription revenues	$ --	$ --	$

See accompanying notes

FRMO Corp.
Notes to Financial Statements

1. ORGANIZATION OF THE COMPANY

FRMO CORP. (the "Company or "FRMO") was incorporated in November 1993 under the laws of the State of Delaware under the name of PSI Settlement Corp, (initially changed to FRM Nexus, Inc. and then to FRMO Corp on November 29, 2001). One of the Company's former subsidiaries was MFC Development Corp.("MFC"). On August 31, 2000, FRMO transferred to MFC all of its assets (except for $10,000), including all the shares of its wholly owned subsidiaries subject to all of its liabilities which were assumed by MFC. This transfer was made in contemplation of a spin-off of MFC.

On August 31, 2000, FRMO filed Form 8-K with the Securities and Exchange Commission, which disclosed that FRMO contemplated distributing to its shareholders one share of MFC common stock for each share of FRMO's 1,800,000 shares of outstanding common stock at the close of business on November 1, 2000 (the record date). In fiscal 2001, MFC filed a Form 10 to register its common stock and on January 23, 2001, 1,800,000 shares of MFC were distributed to FRMO's shareholders.

Because FRMO and MFC were under common control, the spin-off transaction has been accounted for on FRMO's books in a manner similar to a reverse pooling of interests with FRMO having a new start on January 23, 2001 with $10,000 in assets, no liabilities and 1,800,000 shares of common stock outstanding. The Statements of Shareholders' Equity reflect the spin-off as of the beginning of the periods presented, with no operations until January 23, 2001.

On November 29, 2000, the Company increased authorized capital stock from 2,000,000 shares common stock, par value $.10 per share to 2,000,000 shares preferred stock, par value $.001 per share and 90,000,000 shares common stock, par value $.001 per share. Stockholders' equity for prior periods was restated to reflect this change.

On January 23, 2001, 34,200,000 shares of common stock were issued to the FRM Control Group. Murray Stahl and Steven Bregman, Chairman and President of the Company, respectively, are the principal persons in the FRM Control Group, which includes the other persons who purchased the shares for the consideration set forth in Note 6.

On July 2, 2001, the Company authorized the establishment of Series R preferred stock. The number of authorized shares is 5,000 with a par value of $.001 per share. These shares are each convertible to 1,000 shares of the Company's common stock at the option of the Company at any time and at the option of the holder after March 1, 2006. The Company may redeem the shares at $1,000 per share at any time after March 1, 2011 and shall be required to redeem them at $1,000 per share upon the request of a holder after March 1, 2012. These shares have one vote per share on all matters that common stock can vote upon. Upon liquidation, there is preference to the extent of $1,000 per share. No dividends may be paid on common stock unless a dividend per share of 1,000% of common stock dividends are paid on the preferred stock.

2. BASIS OF PRESENTATION

BUSINESS ACTIVITIES OF THE COMPANY

FRMO Corp. is an intellectual capital firm. The experience of its management has been in the analysis of public companies within a framework of identifying investment strategies and techniques that reduce risk. The business will include identification of assets, particularly in the early stages of the expression of their ultimate value, and the participation with them in ways that are calculated to increase the value of the shareholders' 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 Research Group to select and evaluate investment opportunities and strategies.

Horizon Research Group was co-founded by Murray Stahl and Steven Bregman in 1994. It is an independent research firm serving primarily mutual fund managers and the hedge fund community. 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.

Since its new start on January 23, 2001, FRMO completed the following transactions by February 29, 2004, the close of its fiscal year:

i. The Company invested $5,000 in FRM NY Capital, LLC, a limited liability venture capital company whereby the substantial investment of financial capital will be made by unrelated parties but where FRMO will have a carried interest based on leveraging the creative services of its personnel (its intellectual capital). This interest was inactive and the investment was sold at cost during the fiscal 2004 year.

ii. A consulting agreement was signed effective January 1, 2001 whereby FRMO is currently receiving approximately $27,000 a year from the manager of Santa Monica Partners, LP, a director and shareholder of FRMO, for access to consultations with the Company's personnel designated by Murray Stahl and Steven Bregman. Santa Monica Partners, L.P. is a private fund, which owns 218,000 shares of common stock of FRMO.

iii. In March 2001, FRMO acquired the research service fees that Horizon Research Group had received from The New Paradigm Fund in exchange for 80,003 shares of FRMO common stock. Management believes that the growth of that Fund in the current fiscal year and future years will increase the current level of research fees for which the stock consideration was paid.

iv. In October 2001, FRMO acquired a 2% interest in the subscription revenues from subscribers to The Convertible/High Yield Arbitrage Report that Horizon Research Group and another third party receive in exchange for 50 shares of Series R preferred stock. While these funds were quite small at the time of acquisition, they have advanced and management believes that they will continue to expand in future years.

v. In February 2002, FRMO acquired a 7.71% interest in Kinetics Advisors, LLC and the Finder's Fee Share Interest (0.73%) from the Stahl Bregman Group, in exchange for 315 shares of FRMO common stock. Kinetics Advisors, LLC controls and provides investment advice to Kinetics Partners and Kinetics Fund, both of which are hedge funds. While the funds were quite

2. BASIS OF PRESENTATION (CONTINUED)

BUSINESS ACTIVITIES OF THE COMPANY (CONTINUED)

small at the time of acquisition, they have expanded dramatically and management believes that they will grow in future years.

3. SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company primarily generates revenue through consulting, research fees and subscription revenue.

Revenue relating to consulting agreements is earned primarily on a month-by-month basis.

Research fees are earned and recorded on a monthly basis based upon FRMO's pro rata share of The New Paradigm Fund assets.

Subscription revenues are earned and recorded on a monthly basis based upon FRMO's pro rata share of the subscription revenue generated from a certain research report provided by a related third party.

The accrual method of accounting is used to record all income.

RECEIVABLES

Receivables consist of monthly consulting fees. All receivables are current and management believes they are fully collectible.

INVESTMENT IN FRM NY CAPITAL, LLC

The investment in FRM NY CAPITAL, LLC represents a 7% Class B membership interest. This investment is accounted for under the cost method of accounting. This investment was liquidated in 2004, and the Company received a return of its $5,000 investment.

INVESTMENT IN KINETICS ADVISERS, LLC

The Company accounts for its 8.44% investment in Kinetics Advisers, LLC using the cost method of accounting at February 29, 2004. In March 2004, the FASB ratified Emerging Issues Task Force Issue No. 03-16, "Accounting for Investments in Limited Liability Companies". Under EITF 03-16, investments in limited liability companies that have separate ownership accounts for each investor greater than 3 to 5 percent should be accounted for under the equity method. Effective September 1, 2004, the Company will change its method of accounting for this investment so that it will record its pro rata share of Kinetics Advisers income (loss) each period. Had EITF 03-16 applied effective March 1, 2004, the Company's assets and pre-tax income would have been increased by $620,000 and $530,000, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT IN MARKETABLE SECURITIES

Investments in debt and equity securities are designated as trading, held-to-maturity or available-for-sale. Available-for-sale securities are reported at amounts that approximate fair value. Temporary declines in the market value of any available-for-sale security below cost are charged against stockholders' equity; meanwhile, declines deemed other than temporary are charged to earnings, resulting in the establishment of a new cost basis for the security.

INCOME TAXES

Deferred income taxes are recognized for all temporary differences between the tax and financial reporting bases of the Company's assets and liabilities based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Company considers all highly liquid, short-term investments with an original maturity of three months or less to be cash equivalents.

INTANGIBLE ASSETS

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

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, money market mutual funds, and trade receivables. The Company maintains cash and cash equivalents with major financial institutions, and at times such amounts may exceed the FDIC limits.

Trade receivables arise from consulting fees in the New York City area. For the year ended February 29, 2004, fees earned from one client, which is a related party, represented 40% of all income, and fees earned from another client represented 21% of all income. For the year ended February 28, 2003, fees earned from one client represented 40% of all income, and fees earned from another client, which is a related party, represented 24% of all income. As of February 29, 2004, trade receivables from one client comprised 83% of total trade receivables. As of February 28, 2003, trade receivables from one client comprised 51% of total trade receivables.

ADVERTISING COSTS

The Company's policy is to expense the cost of advertising as incurred. There were no advertising expenses for the years ended February 29, 2004 and February 28, 2003 and 2002.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments". The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies.Considerable judgment is required in interpreting market data to develop the estimates

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a sale. The carrying amount of financial instruments at the Balance Sheet dates, except for the investment in unconsolidated subsidiaries, approximated their estimated fair value at those dates.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMPREHENSIVE INCOME (LOSS)

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net income, as these amounts are recorded directly as an adjustment to stockholders' equity. Comprehensive income was $64,234 for the year ended February 29, 2004. Comprehensive income (loss) was equivalent to net income (loss) for the years ended February 28, 2003 and 2004.

EFFECTS OF NEW ACCOUNTING PRONOUNCEMENTS

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standard No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued. This statement provides guidance on the classification of gains and losses from the extinguishment of debt and on the accounting for certain specified lease transactions. Certain provisions of this statement related to the classification of gains and losses from extinguishment of debt were adopted by the Company beginning March 1, 2003. All other provisions were adopted after May 15, 2002. In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement provides guidance on the recognition and measurement of liabilities associated with disposal activities and became effective for the Company on January 1, 2003. The adoption of these statements did not have a material impact on the financial position, results of operations or liquidity of the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123," which amends SFAS No, 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The transition and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

the method used on reported results. The Company will continue to account for stock-based compensation to employees under APB Opinion No. 25 and related interpretations.

STOCK BASED COMPENSATION

The Company applies APB Opinion No. 25 and related interpretations in accounting for stock based compensation to employees and directors. Stock compensation to non-employees is accounted for at fair value in accordance with Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation ("SFAS 123").

During the year ended February 29, 2004, the Company granted a director and former director options to acquire a total of 6,000 shares of common stock, at an exercise price of $0.40 per share, through July 17, 2008. During the year ended February 28, 2003, the Company granted an officer and two directors options to acquire a total of 36,000 shares of common stock, at an exercise price of $0.40 per share, through July 18, 2007. All options are exercisable upon issuance. The Company has elected the disclosure-only provisions of SFAS 123 in accounting for its employee stock options. Accordingly, no compensation expense has been recognized for these options. Had the Company recorded compensation expense for the stock options based on the fair value at the date for awards, consistent with the provisions of SFAS 123, the Company's net income for the years ended February 29, 2004 and February 28, 2003 would have been reduced by approximately $2,000 ($0.00 per share) and $11,000 ($0.00 per share), respectively.

4. INVESTMENT IN MARKETABLE SECURITIES

During the year ended February 29, 2004, the Company acquired marketable equity securities with a cost of $35,864. The securities are classified as an available for sale investment. The carrying value at February 29, 2004 of $36,900 includes an unrealized gain of $1,036.

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	FEBRUARY 29, 2004	FEBRUARY 28, 2003
Research agreements	$ 51,003	$ 51,003
Subscription revenue	26,250	26,250
	77,253	77,253
Less accumulated amortization	20,795	13,069
Intangible assets, net	$ 56,458	$ 64,184

Amortization of intangible assets was $7,725, $7,359, and $9,676 for the years ended February 29, 2004, and February 28, 2003, and 2002, respectively. Annual amortization expense for the next five years is estimated to approximate $7,700.

6. COMMITMENTS AND CONTINGENCIES

As of February 29, 2004, the Company did not enter into any commitments and management believes that there were no contingencies.

7. RECEIVABLES FROM SHAREHOLDERS FOR ISSUANCE OF COMMON STOCK

The 34,200,000 shares of common stock of FRMO sold after the spin-off distribution date were issued to the FRM Control Group as follows:

i. 28,800,000 shares of common stock of FRMO Corp. were issued to Peter Doyle, as Voting Trustee of 8.1% of the issued and outstanding shares of Kinetics Asset Management Inc. ("Kinetics") and Murray Stahl (the "Stahl Bregman Group") for $2,880,000, payable as set forth below. The Stahl Bregman Group includes Murray Stahl, Steven Bregman, John Meditz, Peter Doyle, Catherine Bradford, Thomas C. Ewing and Katherine Ewing. That group is in control of FRMO Corp. and together with the persons named below are the "FRM Control Group". The 28,800,000 shares were issued to the Stahl Bregman Group on January 23, 2001 but are held in escrow and delivered as paid at the rate of ten cents ($.10) per share. The Stahl Bregman Group is obligated to pay to FRMO the after tax amount (fixed at 54% of the dividend) of all dividends they receive from Kinetics until the total $2,880,000 has been paid. The Stahl Bregman Group expects the $2,880,000 to be paid to FRMO in about five years. The installment payments depend on actual future dividends received from Kinetics. The Stahl Bregman Group may make additional payments at its discretion but the payment based on the Kinetics dividend is obligatory until the fixed purchase price is paid. The members of the Stahl Bregman Group have no obligation other than to pay the net dividends from Kinetics until the fixed purchase price is paid. The Stahl Bregman Group has agreed that it will not divest itself of any part of its Kinetics shares or change the character of its ownership so as to reduce the pro-rata share of the dividends it currently receives from Kinetics without, as a condition thereof, paying toward the fixed purchase price of its FRMO shares the after-tax proceeds of that part divested, as if the divestiture had not occurred. During the year ended February 29, 2004, the Stahl Bregman Group paid $200,000 of this receivable balance.

ii. 3,600,000 shares of common stock of FRMO were issued to Lestar Partners, LLC, ("LPC") a New York Limited Liability Company owned by Lester Tanner, Secretary and a director of FRMO, together with members of his family, for $360,000 payable as set forth below. The 3,600,000 shares were issued to LPC on January 23, 2001 but are held in escrow and delivered as paid at the rate of ten cents ($.10) per share. LPC is obligated to pay to FRMO in cash an amount equal to 12.5% of each payment made by the Stahl Bregman Group until the purchase price of $360,000 is paid. During the year ended February 29, 2004, LPC paid $25,000 of this receivable balance.

iii. 1,800,000 shares of common stock of FRMO were issued to Lawrence J. Goldstein for $18,000 paid on January 23, 2001. Mr. Goldstein is a director of FRMO and the General Partner of Santa Monica Partners, LP, a private fund, which owns 218,000 shares of common stock of FRMO.

iv. There now remain a total of 29,936,250 shares held in escrow.

8. NET INCOME PER COMMON SHARE AND PER COMMON SHARE EQUIVALENT

Basic earnings per common share for each of the three years ended February 29, 2004 are calculated by dividing net income by the weighted average common shares outstanding during the period. Diluted earnings per common share for each of the three years ended February 29, 2004 are calculated by dividing net income by weighted average common shares outstanding during the period plus dilutive potential common shares, which are determined as follows:

	YEAR ENDED FEBRUARY 29, 2004	YEAR ENDED FEBRUARY 28, 2003	YEAR ENDED FEBRUARY 28, 2002
Weighted average common shares	4,840,207	3,897,524	3,889,772
Effect of dilutive securities:			
Conversion of preferred stock	50,000	50,000	20,274
Dilutive potential shares	4,890,207	3,947,524	3,910,046

9. INCOME TAXES

The provision for income taxes consist of the following:

	YEAR ENDED FEBRUARY 29, 2004	YEAR ENDED FEBRUARY 28, 2003	YEAR ENDED FEBRUARY 28, 2002
Current:			
Federal	$ 27,130	$ 8,952	$ 1,497
State	10,662	5,296	948
Total current	37,792	14,248	2,445

Deferred:			
Federal	-	-	-
State	-	-	-
Total deferred	-	-	-
Total	$ 37,792	$ 14,248	$ 2,445

FRMO and its former subsidiaries filed consolidated tax returns through January 23, 2001. There was no federal tax liability due to current and prior year net operating losses. After January 23, 2001, FRMO began filing individual tax returns. FRMO and its former subsidiaries filed individual state tax returns. The Company has net operating loss carry forwards for Federal purposes of approximately $1,091,000 arising from FRMO's share of losses from the consolidated tax returns that were filed through January 23, 2001. The use of these NOLs is restricted, subject to the provisions of Internal Revenue Code section 382 and accordingly, the Company has taken a 100% reserve against the deferred tax asset resulting from these NOLs.

10. INCOME TAXES (CONTINUED)

The following is a reconciliation of the statutory federal and effective income tax rates for the years ended:

	FEBRUARY 29, 2004	FEBRUARY 28, 2003	FEBRUARY 28, 2002
Statutory federal income tax expense rate	34.0 %	34.0 %	34.0 %
Adjustment for utilization of lower tax brackets	(12.5)	(19.2)	(19.0)
State taxes, less federal tax effect	6.1	2.3	7.6
Permanent differences	5.8	5.8	-
Other	4.0	4.3	-
	37.4 %	27.2 %	22.6 %

11. SUPPLEMENTAL FINANCIAL INFORMATION SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter				
	First	Second	Third	Fourth	Total
YEAR ENDED FEBRUARY 29, 2004					
Total revenue	$ 23,257	$ 26,427	$ 40,514	$ 69,757	$ 159,955

Income from operations	$ 10,993	$ 8,482	$ 27,707	$ 52,438	$ 99,620
Net income	$ 8,075	$ 6,067	$ 21,026	$ 28,030	$ 63,198
Earnings per common share:					
Basic	$ --	$ --	$ --	$ --	$ 0.01
Diluted	$ --	$ --	$ --	$ --	$ 0.01
Number of shares used in computation of earnings per share:					
Basic	3,897,524	3,897,524	4,485,902	6,137,195	4,840,207
Diluted	3,947,524	3,947,524	4,535,902	6,187,195	4,890,207
YEAR ENDED FEBRUARY 28, 2003					
Total revenue	$ 31,451	$ 35,054	$ 34,965	$ 2,278	$ 103,748
Income (loss) from operations	$ 17,566	$ 17,440	$ 20,876	$ (4,543)	$ 51,339
Net income (loss)	$ 15,177	$ 11,343	$ 10,390	$ 1,198	$ 38,108
Earnings (loss) per common share:					
Basic	$ --	$ --	$ --	$ --	$ 0.01
Diluted	$ --	$ --	$ --	$ --	$ 0.01
Number of shares used in computation of earnings per share:					
Basic	3,897,524	3,897,524	3,897,524	3,897,524	3,897,524
Diluted	3,947,524	3,947,524	3,947,524	3,947,524	3,947,524

During the fourth quarter of the fiscal year ended February 28, 2003, the Company reevaluated its accounting for its investment in Kinetics Advisers, LLC. As a result of this reevaluation, the Company recorded an adjustment that reduced revenues by $22,000. Of this amount, approximately $6,000, $8,000 and $8,000 are allocable to the first, second, and third quarters, respectively. The adjustment also reduced net incomes by the same amount.