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FRMO CORP
Form 10-Q
July 10, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: May 31, 2003

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
(State or other jurisdiction of incorporation or organization)

13-3754422
(I.R.S. Employer Identification No.)

271 North Avenue, New Rochelle, NY
(Address of principal executive offices)

10801
(Zip Code)

(Registrant's telephone number, including area code): (914) 636-3432

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 / /

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by checkmark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes () No ()

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, at June 2, 2003: 36,083,774

FRMO CORP.

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QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MAY 31, 2003

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FRMO Corp.
Balance Sheets
(Unaudited)

	May 31, 2003	February 28, 2003
----- (Unaudited)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 148,525	\$ 135,003
Accounts receivable	12,000	20,500

Total current assets	160,525	155,503

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Other assets:

Intangible assets, net of accumulated
amortization of \$11,138 at
November 30, 2002 and \$9,676
at February 28, 2002

	62,252	64,184
Investments in unconsolidated subsidiaries	5,000	5,000
Total other assets	67,252	69,184
Total assets	\$ 227,777	\$ 224,687

Liabilities and stockholders' equity

Current liabilities:

Accounts payable and accrued expenses	\$ 22,973	\$ 20,551
Income taxes payable	1,856	11,587
Deferred income	6,333	7,008

Total current liabilities	31,162	39,146
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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	3,325,136	3,322,136
Retained earnings	54,021	45,947

	3,415,240	3,404,166
Less: Receivables from shareholders for common stock issuance	3,218,625	3,218,625
Total stockholders' equity	196,615	185,541

Total liabilities and stockholders' equity	\$ 227,777	\$ 224,687
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See notes to interim financial statements.

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FRMO Corp.
Statements of Operations
(Unaudited)

	Three months ended
	May 31,
2003	2002

Revenues

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Consulting	\$ 18,526	\$ 18,726
Research fees	3,730	4,048
Subscription fees	1,000	3,009
Income from investments in unconsolidated subsidiaries	-	5,668
Total income	23,256	31,451
Costs and expenses		
Amortization	1,931	1,565
Contributed services	3,000	3,000
Accounting	2,250	1,500
Shareholder reporting	5,000	6,272
Office expenses	-	1,500
Other	82	48
Total costs and expenses	12,263	13,885
Income from operations	10,993	17,566
Dividend income	276	266
Income from operations before provision for income taxes	11,269	17,832
Provision for income taxes	3,194	2,655
Net income	\$ 8,075	\$ 15,177
Basic earnings per common share	\$ 0.00	\$ 0.00
Diluted earnings per common share	\$ 0.00	\$ 0.00
Average shares of common stock outstanding:		
Basic	3,897,524	3,897,524
Diluted	3,947,524	3,947,524

See notes to interim financial statements.

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FRMO Corp.
Statements of Cash Flows
(Unaudited)

	Three Months Ended May 31,	
	2003	2002
Cash flows from operating activities		
Net income	\$ 8,074	\$ 15,177
Adjustments to reconcile net income to net cash provided by operating activities		
Reinvested income	-	(5,668)
Amortization	1,932	1,565
Contributed services	3,000	3,000
Changes in operating assets and liabilities:		
Accounts receivable	8,500	(8,633)
Other current assets	-	-
Accounts payable and accrued expenses	(7,309)	8,952
Deferred income	(675)	211
Net cash provided by operating activities	13,522	14,604
Net increase in cash and cash equivalents	13,522	14,604
Cash and cash equivalents, beginning of period	\$ 135,003	\$ 83,411
Cash and cash equivalents, end of period	148,525	98,015
Additional cash flow information		
Interest paid	\$ -	\$ -
Income taxes paid	\$ 12,926	\$ 2,983
Non-cash investing and financing activities		
Reinvested income from investments in unconsolidated subsidiaries	\$ -	\$ 5,668

See notes to interim financial statements.

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FRMO Corp. Notes to Financial Statements (unaudited)

1. Basis Of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information in response to the requirements of Article 10 of Regulation S-X. Accordingly they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the financial position as of May 31, 2003; results of operations for the three months ended May 31, 2003 and 2002; cash flows for the three months ended May 31, 2003 and 2002; and changes in stockholders' equity for the three months ended May 31, 2003. For further information, refer to the Company's financial statements and notes thereto included in the Company's Form 10-K for the year ended February 28, 2003. The balance sheet at February 28, 2003 was derived from the audited financial statements as of that date. Results of operations for interim periods are not necessarily indicative of annual results of operations.

2. Intangible Assets

Research Agreements

In March 2001, the Company acquired the research service fees that Horizon Research Group receives from The Kinetics Paradigm Fund in exchange for 80,003 shares of common stock. The value of the shares issued in this transaction was \$51,003. The Company is amortizing the cost of The Kinetics Paradigm Fund research agreement over ten years using the straight-line method.

Subscription Revenues

In October 2001, the Company acquired a 2% interest in the subscription revenues from subscribers to The Capital Structure Arbitrage Report that Horizon Research Group and another third party receive. Consideration for this interest consisted of the issuance of 50 shares of Series R preferred stock. The value of the shares issued in both of these transactions aggregated \$26,250. The Company is amortizing the purchase of these subscription agreements over ten years using the straight-line method. At the time of these transactions, a 2% interest in the subscription revenues amounted to \$3,018 per annum.

Intangible assets consist of the following:

	May 31, 2003	February 28, 2003
Research agreements	\$ 51,003	\$ 51,003
Subscription revenue	26,250	26,250
	77,253	77,253
Less accumulated amortization	15,001	13,069
Intangible assets, net	\$ 62,252	\$ 64,184

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For the three months ended May 31, 2003 and 2002, amortization of intangible assets was \$1,932 and \$1,565.

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3. Net Income Per Common Share And Per Common Share Equivalent

Basic earnings per common share for the three ended May 31, 2003 and 2002 are calculated by dividing net income by weighted average common shares outstanding during the period. Diluted earnings per common share for the three months ended May 31, 2003 and 2002, 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:

	Three months ended May 31,	
	2003	2002
Weighted average common shares	3,897,524	3,897,524
Effect of dilutive securities:		
Conversion of preferred stock	50,000	50,000
Dilutive potential common shares	3,947,524	3,947,524

4. Compensation For Contributed Services

Two officers/shareholders performed services for the Company during the three months ended May 31, 2003 and 2002 for which no compensation was paid. The Company recorded a charge to operations for these contributed services of \$3,000 and a corresponding credit to paid in capital for each period.

5. Income Taxes

The provision for income taxes consist of the following:

	Three months ended May 31,	
	2003	2002
Current:		
Federal	\$ 1,954	\$ 2,364
State	1,240	291
Total current	3,194	2,655
Deferred:		
Federal	-	-

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State	-	-
	-----	-----
Total deferred	-	-
	-----	-----
Total	\$ 3,194	\$ 2,655
	=====	=====

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ITEM 2. 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, which 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 unaudited Financial Statements for the three months ended May 31, 2003 and 2002. The following should be read in conjunction with the Management's Discussion and Analysis of results of operations and financial condition included in Form 10-K for the year ended February 28, 2003.

OVERVIEW

By reason of the spin-off transaction described in Form 10-K for the year ended February 28, 2002, the Company had a new start in terms of its continuing business and its financial statements. 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 of Form 10-K for the year ended February 28, 2001.

Since its new start on January 23, 2001, FRM completed the following transactions through May 31, 2003:

- 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 FRM will have a carried interest based on leveraging the creative services of its personnel (its intellectual capital).
- ii. A consulting agreement was signed effective January 1, 2001, whereby FRM is currently receiving approximately \$20,000 a year from the manager of Santa Monica Partners, LP, a director and shareholder of FRM, 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 FRM.

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- iii. In March 2001 FRM acquired the research service fees that Horizon Research Group had received from The Kinetics Paradigm Fund in exchange for 80,003 shares of FRM 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 Kinetics Paradigm Fund outperformed the S&P 500 Index by approximately 13 percentage points in its first fiscal year of operation, Calendar 2000. During 2001, it outperformed the S&P 500 Index by 14 percentage points and, during 2002, by 17 percentage points. In May 2003, The Kinetics 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. During calendar 2003, through June 30th, the Fund outperformed the S&P 500 by a further 9 percentage points.
- iv. In October 2001, FRM acquired a 2% interest in the subscription revenues from The Capital Structure Arbitrage Report that Horizon Research Group and another third party receive, in exchange for 50 shares of Series R preferred stock. While the subscriptions are minimal at the present time, management believes that they will grow in future years.
- v. In February 2002, FRM 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 FRM common stock. Kinetics Advisors, LLC controls and provides investment advice to Kinetics Partners, LP, a hedge fund and to Kinetics Fund, Inc., an offshore version of Kinetics Partners. While these funds were quite small at the time

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of acquisition, they have expanded significantly and management believes that they will continue to grow in future years. During its first year of operation in 2000, and in 2001, Kinetics Partners returned 23.7 and 21.6 percentage points more than the S&P 500 Index. In 2002, it outperformed the S&P 500 Index by 33 percentage points. Through June 30, 2003, it has outperformed the S&P 500 Index by a further 12 percentage points.

RESULTS OF OPERATIONS

2003 Period Compared to the 2002 Period

The Company's revenues from operations for the three months ended May 31, 2003 ("2003") was \$23,000, a decrease of \$8,100 or 26% as compared to the three months ended May 31, 2002 ("2002"). The net decrease in the three-month period was due primarily to the inclusion in 2002 of \$6,000 of income from investments in unconsolidated subsidiaries. However, for comparative purposes, the \$6,000 of income was completely offset during the fourth quarter of the fiscal year ended February 28, 2003, when the Company reevaluated its accounting for its investment in Kinetics Advisors, LLC and recorded an adjustment that reduced first quarter revenues by approximately \$6,000. The balance of the decrease in 2003 revenues reflects a decrease of \$2,000 in subscription fees versus the 2002 period. However, this was due to the timing of revenue recognition of the subscription fees; management of the Company expect that subscription fees over

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the course of fiscal 2003 will be higher than in 2002.

Costs and expenses from operations decreased by \$2,000 (14%) to \$12,000 for the three months ended in 2003. The decrease for the three month period was due to decreases in shareholder reporting and office expenses, partially offset by an increase in accounting expense.

For the reasons noted above, the Company's net income for the three months ended May 31, 2003 decreased by \$7,000 to \$8,000, as compared to net income of \$15,000 in 2002.

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 earnings in fiscal 2003 and during the three months ended May 31, 2003, yet which could have a very significant economic impact on FRMO. This is the investment in Kinetics Advisers, LLC ("Kinetics Advisers"), which was acquired in February 2002 (as discussed in Part I, Item 1, under the heading Specific Business Activities, of the Form 10-K for the fiscal 2003 year). This investment takes the form of a minority interest in Kinetics Advisers, which controls and provides investment advice to two hedge funds. Kinetics Advisers has elected to reinvest in these two funds the fees to which it is entitled from them. As a consequence, FRMO will not receive its proportional interest in those fees until such time that Kinetics Advisers itself elects to receive them. Under generally accepted accounting principles, FRMO must record this investment on a cost basis, which was \$205 as of February 28, 2002. However, on an economic basis, FRMO's proportional share of Kinetics Advisers' capital accounts in those funds was approximately \$333,000 (pre-tax and unaudited) as of May 31, 2003. FRMO's proportional share of the increase in the value of Kinetics Advisers' capital accounts in those funds during three months ended May 31, 2003, predominantly from fee income and appreciation (also pre-tax and unaudited), was approximately \$242,000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's activities during the three months ended May 31, 2003 resulted in an increase in cash of \$14,000. The \$14,000 increase in cash in 2003 was due to an increase in net income (after adjusting for amortization and contributed services) of \$5,000, offset by fluctuations in operating assets and liabilities primarily caused by timing differences. In 2002, the Company started recording non-cash compensation for contributed services from two of its executives. In 2001, those executives, who are responsible for all of the company's operations, agreed not to draw any salaries during the period of formation. There were no cash flows provided by or used in investing or financing activities during both of the three-month periods ended in 2002 and 2001. 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 cash salaries until the Company's operations and revenues warrant the payment.

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Effects Of New Accounting Pronouncements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 of \$3,218,625 will be paid to the Company as set forth in Item 1 of Form 10-K for

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the year ended February 28, 2001. The Company's market risk arises principally from the obligations of the shareholders to pay for the shares of common stock of the Company based on dividends from outside sources and the income generated from the management of mutual funds.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits
None.

b) Reports on Form 8-K
None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRMO CORP.

By: /s/ Steven Bregman

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

Dated: June 9, 2003

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CERTIFICATION

Each of the undersigned hereby certifies in his capacity as an officer of FRMO Corp. (the "Company") that the Quarterly Report of the Company on Form 10-Q for the period ended May 31, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition of the Company at the end of such period and the results of operations of the Company for such period.

Dated: June 9, 2003

By: /S/ MURRAY STAHL

Murray Stahl
Chairman of the Board and Chief Executive Officer

By: /S/ STEVEN BREGMAN

Steven Bregman
President and Chief Financial Officer

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CERTIFICATIONS

I, Murray Stahl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FRMO Corp;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly

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- report is being prepared;
- b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: June 9, 2003

By: /S/ MURRAY STAHL

Murray Stahl
Chairman of the Board and Chief Executive Officer

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CERTIFICATIONS

I, Steven Bregman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FRMO Corp;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all

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material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - d. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - e. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: June 9, 2003

By: /S/ STEVEN BREGMAN

Steven Bregman
President and Chief Operating Officer