

Edgar Filing: FRMO CORP - Form 10-Q

FRMO CORP
Form 10-Q
January 15, 2004

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: November 30, 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) 632-6730

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 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 January 8, 2004: 36,083,774

FRMO CORP.

QUARTERLY REPORT ON FORM 10-Q

Edgar Filing: FRMO CORP - Form 10-Q

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2003

Page No.

PART I - FINANCIAL INFORMATION

ITEM 1.	Financial Statements	2
	Balance Sheets - November 30, 2003 (Unaudited) and February 28, 2003	2
	Statements of Income (Unaudited) - Three and nine months ended November 30, 2003 and 2002	3
	Statements of Cash Flows (Unaudited) - Nine months ended November 30, 2003 and 2002	4
	Notes to Financial Statements (Unaudited)	5
ITEM 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	7
ITEM 3.	Quantitative and Qualitative Disclosures about Market Risk .	9
ITEM 4.	Controls and Procedures	9

PART II - OTHER INFORMATION

ITEM 6.	Exhibits and Reports on Form 8-K	10
SIGNATURES		10
CERTIFICATIONS		11

- 1 -

FRMO CORP.
BALANCE SHEETS

	NOVEMBER 30, 2003 ----	FEBRUARY 28, 2003 ----
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 354,472	\$ 135,003
Accounts receivable	13,051	20,500
	-----	-----
Total current assets	367,523	155,503
	-----	-----
Other assets:		
Intangible assets, net of accumulated amortization of \$18,863 at November 30, 2003 and \$13,069 at February 28, 2003	58,390	64,184
Investments in unconsolidated subsidiaries	5,000	5,000
	-----	-----
Total other assets	63,390	69,184
	-----	-----

Edgar Filing: FRMO CORP - Form 10-Q

Total assets	\$ 430,913	\$ 224,687
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 19,115	\$ 20,551
Income taxes payable	1,993	11,587
Deferred income	1,556	7,008
	-----	-----
Total current liabilities	22,664	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	36,084	36,083
Capital in excess of par value	3,331,135	3,322,136
Retained earnings	81,135	45,947
	-----	-----
	3,448,354	3,404,166
Less: Receivables from shareholders for		
common stock issuance	3,040,105	3,218,625
	-----	-----
Total stockholders' equity	408,249	185,541
	-----	-----
Total liabilities and stockholders' equity	\$ 430,913	\$ 224,687
	=====	=====

See notes to interim financial statements.

- 2 -

FRMO CORP.
STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED NOVEMBER 30,		NINE MONTH NOVEMBER
	2003	2002	2003
	----	----	----
Revenues			
Consulting	\$ 27,907	\$ 23,686	\$ 63,586
Research fees	9,496	2,928	20,833
Subscription fees	3,111	--	5,778
Income from investments in			
unconsolidated subsidiaries	--	8,351	--
	-----	-----	-----
Total income	40,514	34,965	90,197
	-----	-----	-----
Costs and expenses			

Edgar Filing: FRMO CORP - Form 10-Q

Amortization	1,931	1,931	5,794
Contributed services	3,000	3,000	9,000
Accounting	2,250	1,667	6,750
Shareholder reporting	5,000	5,625	20,363
Office expenses	234	1,586	480
Other	371	280	606
	-----	-----	-----
Total costs and expenses	12,786	14,089	42,993
	-----	-----	-----
Income from operations	27,728	20,876	47,204
Dividend income	273	258	747
	-----	-----	-----
Income from operations before provision for income taxes	28,801	21,134	47,951
Provision for income taxes	6,954	10,744	12,762
	-----	-----	-----
Net income	\$ 21,047	\$ 10,390	\$ 35,189
	=====	=====	=====
Basic earnings per common share	\$ 0.00	\$ 0.00	\$ 0.01
	=====	=====	=====
Diluted earnings per common share	\$ 0.00	\$ 0.00	\$ 0.01
	=====	=====	=====
Average shares of common stock outstanding:			
Basic	4,485,902	3,897,524	4,093,650
	=====	=====	=====
Diluted	4,535,902	3,947,524	4,143,650
	=====	=====	=====

See notes to interim financial statements.

- 3 -

FRMO CORP.
Statements of Cash Flows
(Unaudited)

	NINE MONTHS ENDED NOVEMBER 30,	
	2003	2002
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 35,189	\$ 36,910
Adjustments to reconcile net income to net cash provided by operating activities		
Reinvested income	--	(22,102)
Amortization	5,794	5,428
Contributed services	9,000	9,000
Changes in operating assets and liabilities:		
Accounts receivable	7,449	(40,302)
Accounts payable and other current liabilities	(11,030)	18,844

Edgar Filing: FRMO CORP - Form 10-Q

Deferred income	(5,453)	4,241
	-----	-----
Net cash provided by operations	40,949	12,019
Cash flows from financing activities		
Proceeds from common stock subscriptions receivable	178,520	--
	-----	-----
Net cash provided by financing activities	178,520	--
	-----	-----
Net increase in cash and cash equivalents	219,469	12,019
Cash and cash equivalents, beginning of period	135,003	83,411
	-----	-----
Cash and cash equivalents, end of period	\$ 354,472	\$ 95,430
	=====	=====
ADDITIONAL CASH FLOW INFORMATION		
Interest paid	\$ --	\$ --
	-----	-----
Income taxes paid	\$ 3,590	\$ 2,983
	=====	=====
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Reinvested income from investments in unconsolidated subsidiaries	\$ --	\$ 22,102
	=====	=====

See notes to interim financial statements.

- 4 -

FRMO CORP.
NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED NOVEMBER 30, 2003
(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 November 30, 2003; results of operations for the three and nine months ended November 30, 2003 and 2002; and cash flows for the nine months ended November 30, 2003 and 2002. 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

Edgar Filing: FRMO CORP - Form 10-Q

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:

	NOVEMBER 30, 2003 ----	FEBRUARY 28, 2003 ----
Research agreements	\$51,003	\$51,003
Subscription revenue	26,250	26,250
	-----	-----
	77,253	77,253
Less accumulated amortization	18,863	13,069
	-----	-----
Intangible assets, net	\$58,390	\$64,184
	=====	=====

For the nine months ended November 30, 2003 and 2002, amortization of intangible assets was \$5,794 and \$5,428.

- 5 -

FRMO CORP.
NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED NOVEMBER 30, 2003
(UNAUDITED)

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

Basic earnings per common share for the three and nine months ended November 30, 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 and nine months ended November 30, 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 AND NINE MONTHS ENDED NOVEMBER 30, -----	
2003	2002
----	----

Edgar Filing: FRMO CORP - Form 10-Q

Weighted average common shares	4,485,902	3,897,524
Effect of dilutive securities:		
Conversion of preferred stock	50,000	50,000
	-----	-----
Dilutive potential common shares	4,535,902	3,947,524
	=====	=====

4. COMPENSATION FOR CONTRIBUTED SERVICES

Two officers/shareholders performed services for the Company during the nine months ended November 30, 2003 and 2002 for which no compensation was paid. The Company recorded a charge to operations for these contributed services of \$9,000 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 NOVEMBER 30,		NINE MONTHS ENDED NOVEMBER 30,	
	2003	2002	2003	2002
	----	----	----	----
Current:				
Federal	\$ 4,245	\$ 7,837	\$ 7,800	\$15,219
State	2,709	2,907	4,962	4,524
	-----	-----	-----	-----
Total current	6,954	10,744	12,762	19,743
	-----	-----	-----	-----
Deferred:				
Federal	--	--	--	--
State	--	--	--	--
	-----	-----	-----	-----
Total deferred	--	--	--	--
	-----	-----	-----	-----
Total	\$ 6,954	\$10,744	\$12,762	\$19,743
	=====	=====	=====	=====

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

Edgar Filing: FRMO CORP - Form 10-Q

is based on the Company's unaudited Financial Statements for the three and nine months ended November 30, 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 November 30, 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.
- 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 August 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. For calendar 2003, the Fund outperformed the S&P 500 by a further 19 percentage points. On a cumulative basis, over the four-year period from inception through year-end 2003, the Kinetics Paradigm Fund has returned 50%, whereas the S&P 500 Index has lost (20%).
- 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

Edgar Filing: FRMO CORP - Form 10-Q

Kinetics Partners, LP, a hedge fund and to

- 7 -

Kinetics Fund, Inc., an offshore version of Kinetics Partners. While these funds were quite small at the time 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, net of management and incentive fees. In 2002, it outperformed the S&P 500 Index by 33 percentage points. Through December 31, 2003, it has outperformed the S&P 500 Index by a further 23 percentage points. On a cumulative basis, over the 3-year 4-month period from inception through year-end 2003, the Kinetics Partners Fund has returned 92%, whereas the S&P 500 Index has lost (23%).

RESULTS OF OPERATIONS

2003 PERIOD COMPARED TO THE 2002 PERIOD

The Company's revenues from operations for the three months ended November 30, 2003 ("2003") were \$40,500, an increase of \$5,500 or 16% as compared to the three months ended November 30, 2002 ("2002"). The net increase in the three-month period was due to increases in consulting, research and subscription revenues. The 2002 period included \$8,400 of income from investments in unconsolidated subsidiaries, which for comparative purposes 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 Advisers, LLC and recorded an adjustment that reduced second quarter revenues by approximately \$8,400. The Company's revenues from operations for the nine months ended November 30, 2003 ("2003") was \$90,200, a decrease of \$11,300 or 11% as compared to the nine months ended November 30, 2002 ("2002"). The net decrease in the nine-month period was due primarily to the inclusion in 2002 of \$22,100 of income from investments in unconsolidated subsidiaries. However, for comparative purposes, the \$22,100 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 Advisers, LLC and recorded an adjustment that reduced first half revenues by approximately \$22,100. These decreases in 2003 revenues were partially offset by an increase of \$10,700 in research fees.

Costs and expenses from operations were \$12,800 during the three months ended in November 2003, a decrease of \$1,300 or (9%) from the comparable 2002 period. During the nine-month period ended in 2003 costs and expenses from operations decreased by \$2,600 (6%) to \$43,000. The result for the three-month period was primarily due to an increase in accounting expenses, offset by declines in shareholder reporting and office expenses. The decrease for the nine months ended in 2003 was primarily due to an increase in shareholder reporting expenses, offset by decreases in accounting and office expenses.

For the reasons noted above, the Company's net income for the three months ended November 30, 2003 increased by \$10,600 to \$21,000, as compared to net income of \$10,400 in 2002. For the same reasons, net income for the nine months ended November 30, 2003 was \$35,200, as compared to net income of \$36,900 for the same period 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 nine months ended November 30,

Edgar Filing: FRMO CORP - Form 10-Q

2003, yet which has 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 \$708,600 (pre-tax and unaudited) as of November 30, 2003, predominantly from fee income and appreciation (also pre-tax and unaudited).

- 8 -

LIQUIDITY AND CAPITAL RESOURCES

The Company's activities during the nine months ended November 30, 2003 resulted in an increase in cash of \$219,500. The \$219,500 increase in cash in 2003 was due to income, after adjusting for amortization and contributed services, of \$50,000, reduced by (\$9,000) due to fluctuations in operating assets and liabilities primarily caused by timing differences, and increased by the receipt of \$178,520 in proceeds from common stock subscriptions for 1,785,200 shares. The subscription proceeds represent partial payment for shares of common stock held in escrow as set forth in Item 1 of Form 10-K for the year ended February 28, 2001. 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 nine-month periods ended in 2003 and 2002. The Company expects its business to develop without the outlay of cash, since growth is expected to be a function of its intellectual property as presently represented by consulting, research and subscription fees as well as its asset-based general partner interest.

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 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

Edgar Filing: FRMO CORP - Form 10-Q

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.

- 9 -

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) EXHIBITS

- 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.

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: January 8, 2004

- 10 -