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FRMO CORP
Form 10-Q
January 14, 2002

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, 2001

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

(Former name, former address and former fiscal year,
if changed since last report)

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 January 11, 2002: 36,083,459

FRMO CORP.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2001

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FRMO Corp

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PART I

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FRMO Corp.
Balance Sheets

| | |
|--------------|--------------|
| NOVEMBER 30, | FEBRUARY 28, |
| 2001 | 2001 |
| ----- | |
| (UNAUDITED) | |

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ASSETS

Current assets:

| | | |
|----------------------------|-----------|----------|
| Cash & cash equivalents | \$ 75,061 | \$44,957 |
| Consulting fees receivable | - | 1,800 |
| Other current assets | - | 1,137 |

| | | |
|----------------------|--------|--------|
| Total current assets | 75,061 | 47,894 |
|----------------------|--------|--------|

Other assets:

| | | |
|---|---------|-------|
| Intangible assets, net of accumulated amortization of \$6,430 | 127,119 | - |
| Investment in FRM NY Capital, LLC | 5,000 | 5,000 |

| | | |
|--------------------|---------|-------|
| Total other assets | 132,119 | 5,000 |
|--------------------|---------|-------|

| | | |
|--------------|-----------|----------|
| Total assets | \$207,180 | \$52,894 |
|--------------|-----------|----------|

See notes to interim financial statements.

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FRMO Corp.
Balance Sheets (continued)

NOVEMBER 30, 2001 FEBRUARY 28, 2001

(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|---------------------------------------|-----------|----------|
| Accounts payable and accrued expenses | \$ 14,571 | \$ 4,070 |
| Income taxes payable | 883 | - |
| Deferred income | 2,345 | - |

| | | |
|---------------------------|--------|-------|
| Total current liabilities | 17,799 | 4,070 |
|---------------------------|--------|-------|

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 - 36,083,459 shares at November 30, 2001 and 36,000,000 shares at February 28, 2001 | 36,083 | 36,000 |
| Capital in excess of par value | 3,365,376 | 3,232,000 |
| Retained earnings (accumulated deficit) | 6,547 | (551) |

| | | |
|--|-----------|-----------|
| | 3,408,006 | 3,267,449 |
|--|-----------|-----------|

| | | |
|--|-----------|-----------|
| Less: Receivables from shareholders for common stock issuance | 3,218,625 | 3,218,625 |
|--|-----------|-----------|

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| | | |
|--|------------|-----------|
| Total stockholders' equity | 189,381 | 48,824 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 207,180 | \$ 52,894 |
| | ===== | ===== |

See notes to interim financial statements.

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FRMO Corp.
Statements of Operations
(unaudited)

| | THREE MONTHS ENDED NOVEMBER 30, | | NINE M NOV |
|---|------------------------------------|-----------|---------------|
| | 2001 | 2000 | 2001 |
| | ----- | ----- | ----- |
| REVENUES | | | |
| Consulting | \$ 17,949 | \$ - | \$ 43,607 |
| Research fees | 2,811 | - | 5,170 |
| Subscription fees | 3,018 | - | 3,018 |
| Investments | 963 | - | 963 |
| | ----- | ----- | ----- |
| Total income | 24,741 | - | 52,758 |
| | ----- | ----- | ----- |
| COSTS AND EXPENSES | | | |
| Amortization | 2,920 | - | 6,340 |
| Accounting | 1,000 | - | 3,600 |
| Shareholder reporting | 6,338 | - | 29,889 |
| Office expenses | 1,563 | - | 4,620 |
| Other | 24 | - | 319 |
| | ----- | ----- | ----- |
| Total costs and expenses | 11,845 | - | 44,768 |
| | ----- | ----- | ----- |
| Income from operations | 12,896 | - | 7,990 |
| Dividend income | 296 | - | 1,062 |
| | ----- | ----- | ----- |
| Income from operations before provision for income taxes | 13,192 | - | 9,052 |
| Provision for income taxes | 1,954 | - | 1,954 |
| | ----- | ----- | ----- |
| Net income | \$ 11,238 | \$ - | \$ 7,098 |
| | ===== | ===== | ===== |
| 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 | 3,897,209 | 1,800,000 | 3,887,338 |
| | ===== | ===== | ===== |
| Diluted | 3,929,077 | 1,800,000 | 3,897,883 |
| | ===== | ===== | ===== |

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See notes to interim financial statements.

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FRMO Corp.
Statement of Stockholders' Equity
(unaudited)

| | SERIES R PREFERRED STOCK | | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS (ACCUMULATED DEFICIT) | RECEIVED FOR SHARES STOCK |
|--|-----------------------------|--------|--------------|----------|----------------------------------|--|------------------------------------|
| | SHARES | AMOUNT | SHARES | AMOUNT | | | |
| 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 | 83,376 | - | |
| Issuance of new stock for the assignment of subscription revenue | 50 | - | - | - | 50,000 | - | |
| Net income | - | - | - | - | - | 7,098 | |
| Comprehensive income | - | - | - | - | - | - | |
| Balance, November 30, 2001 | 50 | \$ - | 36,083,459 | \$36,083 | \$3,365,376 | \$6,547 | \$ (3, |

See notes to interim financial statements.

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FRMO Corp.
Statements of Cash Flows
(unaudited)

| | NINE MONTHS ENDED NOVEMBER 30, 2001 2000 | |
|--|---|------|
| | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 7,098 | \$ - |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of research agreements | 6,340 | - |
| Deferred income | 2,345 | |
| Changes in operating assets and liabilities: | | |
| Consulting fees receivable | 1,800 | |

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| | | |
|--|-----------|----------|
| Other current assets | 1,137 | - |
| Accounts payable and accrued expenses | 11,384 | - |
| | ----- | |
| Net cash provided by operating activities | 30,104 | - |
| | ----- | |
| Net increase in cash and cash equivalents | 30,104 | - |
| Cash and cash equivalents, beginning of period | 44,957 | 10,000 |
| | ----- | |
| Cash and cash equivalents, end of period | \$ 75,061 | \$10,000 |
| | ===== | |
| ADDITIONAL CASH FLOW INFORMATION | | |
| Interest paid | \$ - | \$ - |
| | ===== | |
| Income taxes paid | \$ 155 | \$ - |
| | ===== | |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Preferred stock issued in consideration for the acquisition of research agreements | \$ 50,000 | \$ - |
| | ===== | |
| Common stock issued in consideration for the assignment of subscription revenues | \$ 83,459 | \$ - |
| | ===== | |

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 November 30, 2001; results of operations for the nine months and three months ended November 30, 2001 and 2000; cash flows for the nine months ended November 30, 2001 and 2000; and changes in stockholders' equity for the nine months ended November 30, 2001. 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, 2001. The balance sheet at February 28, 2001 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. ORGANIZATION OF THE COMPANY

FRMO CORP. (the "Company or "FRM") was incorporated in November 1993 under the

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laws of the State of Delaware under the name of PSI Settlement Corp, (initially changed to FRM Nexus, Inc. and to FRMO Corp on November 29, 2001). One of the Company's former subsidiaries was MFC Development Corp. ("MFC"). On August 31, 2000, FRM 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, FRM filed Form 8-K with the Securities and Exchange Commission, which disclosed that FRM contemplated distributing to its shareholders one share of MFC common stock for each share of FRM'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 on January 23, 2001.

Because FRM and MFC were under common control, the spin-off transaction has been accounted for on FRM's books in a manner similar to a reverse pooling of interests with FRM 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 Operations reflect the spin-off, as of the beginning of the periods presented, with no operations until January 23, 2001.

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FRMO Corp.
Notes to Financial Statements (continued)
(unaudited)

2. ORGANIZATION OF THE COMPANY (CONTINUED)

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 also include Lestar Partners, LLC and Lawrence J. Goldstein, who purchased the shares for the consideration set forth in Note 5 of the Financial Statements included in the Form 10-K for the year ended February 28, 2001.

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.

3. INTANGIBLE ASSETS

RESEARCH AGREEMENTS

In March 2001, the Company acquired the research service fees that Horizon

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Research Group receives from The New Paradigm Fund in exchange for 80,003 shares of common stock. In May 2001, the Company acquired the research service fees that Horizon Research Group receives from The Middle East Growth Fund in exchange for 3,456 shares of common stock. The shares in both of these transactions were issued at the rate of \$1.00 per share. The Company is amortizing the cost of these research agreements over ten years using the straight line method.

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FRMO Corp.
Notes to Financial Statements (continued)
(unaudited)

3. INTANGIBLE ASSETS (CONTINUED)

SUBSCRIPTION REVENUES

In October 2001, the Company 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. Consideration for this interest consisted of the issuance of 50 shares of Series R preferred stock. The shares in both of these transactions were issued at the rate of \$1,000 per share. The Company will amortize 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, 2001 | FEBRUARY 28, 2001 |
|-------------------------------|----------------------|----------------------|
| | ----- | ----- |
| Research agreements | \$ 83,459 | \$ - |
| Subscription revenue | 50,000 | - |
| | ----- | ----- |
| | 133,459 | - |
| Less accumulated amortization | 6,340 | - |
| | ----- | ----- |
| Intangible assets, net | \$127,119 | \$ - |
| | ===== | ===== |

For the three months and nine months ended November 30, 2001, amortization of intangible assets was \$2,920 and \$6,340.

4. EARNINGS PER SHARE

Basic earnings per common share for the three months and nine months ended November 30, 2001 and 2000, are calculated by dividing net income by weighted average common shares outstanding during the period. Diluted earnings per common share for the three months and nine months ended November 30, 2001, 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:

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| | THREE MONTHS ENDED NOVEMBER 30, | | NINE MONTHS ENDED NOVEMBER 30, | |
|----------------------------------|------------------------------------|-----------|-----------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Weighted average common shares | 3,897,209 | 1,800,000 | 3,887,338 | 1,800,000 |
| Effect of dilutive securities: | | | | |
| Conversion of preferred stock | 31,868 | - | 10,545 | - |
| Dilutive potential common shares | 3,929,077 | 1,800,000 | 3,897,883 | 1,800,000 |

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FRMO Corp.
Notes to Financial Statements (continued)
(unaudited)

5. INCOME TAXES

The provision for income taxes consist of the following:

| | THREE MONTHS ENDED NOVEMBER 30, | | NINE MONTHS ENDED NOVEMBER 30, | |
|----------------|------------------------------------|------|-----------------------------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Current: | | | | |
| Federal | \$ 1,253 | \$ - | \$ 1,253 | \$ - |
| State | 701 | - | 701 | - |
| Total current | 1,954 | - | 1,954 | - |
| Deferred: | | | | |
| Federal | - | - | - | - |
| State | - | - | - | - |
| Total deferred | - | - | - | - |
| Total | \$ 1,954 | \$ - | \$ 1,954 | \$ - |

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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

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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 and nine months ended November 30, 2001 and 2000. 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, 2001.

OVERVIEW

By reason of the spin-off transaction described in Note 2, 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, 2001:

- 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 has been signed effective January 1, 2001 whereby FRM will receive \$21,600 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 New 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 New Paradigm Fund outperformed the S & P 500 Index by approximately 13 percentage points in its first fiscal year of operation,
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- Calendar 2000. During the first half of 2001, it outperformed the S & P 500 Index by a further 13.9 percentage points.
- iv. In May 2001, FRM acquired the research service fees that Horizon Research Group will receive from The Middle East Growth Fund in exchange for 3,456 shares of FRM common stock. While the fees are minimal at the present time, management believes that they will grow in future years.
 - v. In October 2001, FRM 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 the subscriptions are minimal at the present time, management believes that

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they will grow in future years.

- vi. FRM has established three programs based on different investment strategies for which consultant fees are paid to the Company that are asset based in nature. One program is a private hedge fund of accredited investors including the Company operated by a limited partnership in which FRM will be the General Partner. A second program involves managers of private investment funds who will implement an investment strategy designed for those funds whereby consulting fees are paid to the Company or for its personnel who may be outsourced to the managers. The third program is to enhance the growth of small mutual funds, which will enter into new research agreements with FRMO to focus on the funds' market sector or corporate strategy. These programs are new, are in a development stage and are not necessarily expected to provide substantial revenues in the current fiscal year, although one such program is currently active.

RESULTS OF OPERATIONS

2001 PERIOD COMPARED TO THE 2000 PERIOD

Due to the new start of FRM on January 23, 2001 and the accounting for the spin-off as a reverse pooling, there were no operations prior to January 23, 2001.

The Company's revenues from operations increased by \$25,000 for the three months ended November 30, 2001 ("2001") from \$0 for the three months ended November 30, 2000 ("2000"). Revenues increased by \$53,000 for the nine months ended November 30, 2001 ("2001") from \$0 for the nine months ended November 30, 2000 ("2000"). The increases in both periods were due to income from (i) research fees, (ii) consulting fees, which included the consulting agreement with the manager of Santa Monica Partners, L.P., (iii) subscription fees and (iv) from its minority interest ownership of FRM NY Capital, LLC.

Costs and expenses increased by \$12,000 and \$45,000 in both the three month and nine month periods ended in 2001, as compared to \$0 for both periods in 2000. The increases in both periods in 2001 were due primarily to shareholder reporting expenses, accounting fees, amortization and office expenses.

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For the reasons noted above, the Company's net income for the three months and nine months ended November 30, 2001 increased by \$11,000 and \$7,000 as compared to net income of \$0 for the same periods in 2000.

LIQUIDITY AND CAPITAL RESOURCES

As part of the spin-off agreement, the Company retained \$10,000 in cash. The Company's activities during the nine months ended November 30, 2001, resulted in an increase in cash of \$30,000. The \$30,000 increase in cash in 2001 was due to net income (after adjusting for amortization) of \$13,000 and \$17,000 net increase of payables and deferrals over receivables, which are normal fluctuations primarily caused by timing differences. There were no cash flows provided by or used in investing or financing activities during the nine months ended in 2001 and 2000. 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.

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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 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.

EFFECTS OF NEW ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company adopted Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective March 1, 2001. The adoption of this Statement has not had any material effect on the Company's results of operations or financial position.

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. The events of September 11, 2001 have not had a material effect on the Company's operations.

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PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) EXHIBITS.
None
- b) REPORTS ON FORM 8k.
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/ VICTOR BRODSKY

Victor Brodsky
Treasurer and
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Date: January 11, 2002