FRMO CORP
Form 10-Q
October 15, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

/x/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: August 31, 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	13-3754422
(State or other jurisdiction of incorporation or organization)	(I.R.S.Employer Identification No.)

271 NORTH AVENUE, NEW ROCHELLE, NY	10801
(Address of principal executive offices)	(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 October 12, 2001: 36,083,459

FRMO CORP.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2001

Page No.

PART I

PART II

FRMO Corp

Index to Financial Statements

PART I

ITEM 1. FINANCIAL STATEMENTS

FRMO Corp.
Balance Sheets

	AUGUST 31, 2001 (Unaudited)	FEBRUARY 28, 2001
ASSETS		
Current assets:		
Cash & cash equivalents	$ 54,114	$ 44,957
Consulting fees receivable	-	1,800
Other current assets	-	1,137
Total current assets	54,114	47,894
Other assets:		
Research agreements, net of accumulated amortization of $3,420	80,039	-
Investment in FRM NY Capital, LLC	5,000	5,000
Total other assets	85,039	5,000
Total assets	$ 139,153	$ 52,894

See notes to interim financial statements.

3

FRMO Corp.
Balance Sheets (continued)

	AUGUST 31, 2001 (UNAUDITED)	FEBRUARY 28, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 11,010	$ 4,070
Total current liabilities	11,010	4,070
Stockholders' equity:		
Preferred stock - $.001 par value; Authorized - 2,000,000 shares; Issued and outstanding - 0 shares	--	--
Common stock - $.001 par value; Authorized - 90,000,000 shares; Issued and outstanding - 36,083,459 shares at August 31, 2001 and 36,000,000 shares at February 28, 2001	36,083	36,000
Capital in excess of par value	3,315,376	3,232,000

Accumulated deficit	(4,691)	(551)
	3,346,768	3,267,449
Less: Receivables from shareholders for common stock issuance	3,218,625	3,218,625
Total stockholders' equity	128,143	48,824
Total liabilities and stockholders' equity	$ 139,153	$ 52,894

See notes to interim financial statements.

FRMO Corp.
Statements of Operations
(unaudited)

	THREE MONTHS ENDED AUGUST 31, 2001	2000
REVENUES		
Consulting	$ 12,909	$ --
Research fees	1,924	--
Total income	14,833	--
COSTS AND EXPENSES		
Amortization of research agreements	2,087	--
Accounting	1,600	--
Shareholder reporting	17,335	--
Office expenses	1,500	--
Other	92	--
Total costs and expenses	22,614	--
Net loss from operations	(7,781)	--
Dividend income	395	--
Net loss	$ (7,386)	$ --
Earnings (loss) per common share:		
Basic and diluted earnings (loss) per common share	$ (0.00)	$ --

	=========	=========
Number of shares used in computation of basic and diluted earnings (loss) per share	3,897,209	1,800,000
	=========	=========

See notes to interim financial statements.

5

FRMO Corp.
Statement of Stockholders' Equity
(unaudited)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT
Balance, February 28, 2001	36,000,000	$ 36,000	$ 3,232,000	$ (551)
Issuance of new stock for the assignment of research agreements	83,459	83	83,376	--
Net loss	--	--	--	(4,140)
Comprehensive loss	--	--	--	--
Balance, August 31, 2001	36,083,459	$ 36,083	$ 3,315,376	$ (4,691)

	RECEIVABLES FROM SHAREHOLDERS FOR COMMON STOCK ISSUANCE	TOTAL STOCKHOLDERS' EQUITY	COMPREHENSIVE LOSS
Balance, February 28, 2001	$(3,218,625)	$ 48,824	
Issuance of new stock for the assignment of research agreements		83,459	
Net loss		(4,140)	$ (4,140)
Comprehensive loss			$ (4,140)
Balance, August 31, 2001	$(3,218,625)	$ 128,143	

See notes to interim financial statements.

FRMO Corp.
Statements of Cash Flows
(unaudited)

	SIX MONTHS ENDED AUGUST 31, 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (4,140)	$ --
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of research agreements	3,420	--
Changes in operating assets and liabilities:		
Consulting fees receivable	1,800	
Other current assets	1,137	--
Accounts payable and accrued expenses	6,940	--
Net cash provided by operating activities	9,157	--
Net increase in cash and cash equivalents	9,157	--
Cash and cash equivalents, beginning of period	44,957	10,000
Cash and cash equivalents, end of period	$ 54,114	$ 10,000
ADDITIONAL CASH FLOW INFORMATION		
Interest paid	$ --	$ --
Income taxes paid	$ 155	$ --
NONCASH INVESTING AND FINANCING ACTIVITIES		
Common stock issued in consideration for the acquisition of research agreements	$ 83,459	$ --

See notes to interim financial statements.

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 August 31, 2001; results of operations for the six months and three months ended August 31, 2001 and 2000; cash flows for the six months ended August 31, 2001 and 2000; and changes in stockholders' equity for the six months ended August 31, 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 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.

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 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. RESEARCH AGREEMENTS

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

9

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

4. SUBSEQUENT EVENT

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 (together "the Sellers") 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.

10

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 six months and three months ended August 31, 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 August 31, 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

11

the S & P 500 Index by approximately 13 percentage points in its first fiscal year of operation, Calendar 2000. During the first half of 2001, it outperformed the S & P 500 Index by a further 11.6 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) 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 $15,000 for the three months ended August 31, 2001 ("2001") from $0 for the three months ended August 31, 2000 ("2000"). Revenues increased by $28,000 for the six months ended August 31, 2001 ("2001") from $0 for the six months ended August 31, 2000 ("2000"). The increases in both periods were due to income from (i) research fees and (ii) consulting fees, which included the consulting agreement with the manager of Santa Monica Partners, L.P.

Costs and expenses increased by $23,000 and $33,000 in both the three month and six 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 of research agreements and office expenses.

For the reasons noted above, the Company's net loss for the three months and six months ended August 31, 2001 increased by $7,000 and $4,000 as compared to net income of $0 for the same periods in 2000.

12

LIQUIDITY AND CAPITAL RESOURCES

As part of the spin-off agreement, the Company retained $10,000 in cash. The Company's activities during the six months ended August 31, 2001, resulted in an increase in cash of $9,000. The $9,000 increase in cash in 2001 was due to a $10,000 net increase of payables over receivables, which are normal fluctuations primarily caused by timing differences, offset by a net loss (after adjusting for amortization of research agreements) of $1,000. There were no cash flows provided by or used in investing or financing activities during the six 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.

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 Company does not anticipate that the adoption of this Statement will have any effect on its 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 are not expected to have a material effect on the Company's operations.

13

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)

Date: October 12, 2001