FRMO CORP
Form 10-Q
July 14, 2004

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: May 31, 2004

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

For the transition period from ________ to________

COMMISSION FILE NUMBER: 0-29346

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

DELAWARE
(State or other jurisdiction of incorporation (I.
or organization)

30 HAIGHTS CROSS ROAD, CHAPPAQUA, NY
(Address of principal executive offices)

(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 /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 July 12, 2005: 36,083,774

FRMO CORP.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MAY 31, 2004

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

FRMO CORP.
BALANCE SHEETS

	MAY 31, 2004 (UNAUDITED)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 522,280
Accounts receivable	24,000
Investment in marketable securities	20,700
Total current assets	566,980
Other assets:	
Intangible assets, net of accumulated amortization	54,527
Total other assets	54,527

Total assets	$ 621,507
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	$ 26,885
Income taxes payable	29,180
Deferred income	12,455
Total current liabilities	68,520
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
Capital in excess of par value	3,337,136
Unrealized (loss) gain on marketable securities	(15,164)
Retained earnings	188,557
	3,546,612
Less: Receivables from shareholders for common stock issuance	2,993,625
Total stockholders' equity	552,987
Total liabilities and stockholders' equity	$ 621,507

See notes to interim financial statements.

FRMO CORP.
STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED MAY 31, 2004	2003
Revenues		
Consulting	$ 40,132	$ 18,526
Research fees	29,262	3,730
Subscription fees	1,909	1,000
Income from investments in unconsolidated subsidiaries	48,757	--
Total income	120,060	23,256
Costs and expenses		

Amortization	1,931	1,931
Contributed services	3,000	3,000
Accounting	2,500	2,250
Shareholder reporting	6,000	5,000
Office expenses	118	--
Other	60	82
Total costs and expenses	13,609	12,263
Income from operations	106,451	10,993
Dividend income	11,080	276
Income from operations before provision for income taxes	117,531	11,269
Provision for income taxes	38,118	3,194
Net income	$ 79,413	$ 8,075
Basic earnings per common share	$ 0.01	$ 0.00
Diluted earnings per common share	$ 0.01	$ 0.00
Average shares of common stock outstanding:		
Basic	6,147,524	3,897,524
Diluted	6,197,524	3,947,524

See notes to interim financial statements.

FRMO CORP.
Statements of Cash Flows
(Unaudited)

	THREE MONTHS ENDED MAY 31, 2004	200
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 79,413	$ 8
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of research agreements	1,931	1
Non-cash compensation	3,000	3
Changes in operating assets and liabilities:		
Other current assets	17,637	8

Accounts payable and accrued expenses	13,765	(7
Deferred income	424	
Net cash provided by operating activities and net increase in cash and cash equivalents	116,170	13
Cash and cash equivalents, beginning of period	406,110	135
Cash and cash equivalents, end of period	$ 522,280	$ 148
ADDITIONAL CASH FLOW INFORMATION		
Interest paid	$ --	$
Income taxes paid	$ 31,050	$ 12

See notes to interim financial statements.

FRMO CORP.
NOTES TO FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2004
(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, 2004; results of operations for the three months ended May 31, 2004 and 2003; and cash flows for the three months ended May 31, 2004 and 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 29, 2004. The balance sheet at February 29, 2004 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, 2004	FEBRUARY 29, 2004
Research agreements	$ 51,003	$ 51,003
Subscription revenue	26,250	26,250
	77,253	77,253
Less accumulated amortization	22,726	20,795
Intangible assets, net	$ 54,527	$ 56,458

For each of the three months ended May 31, 2004 and 2003, amortization of intangible assets was $1,931.

FRMO CORP.
NOTES TO FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2004
(UNAUDITED)

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

Basic earnings per common share for the three months ended May 31, 2004 and 2003 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, 2004 and 2003, 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,	
	2004	2003
Weighted average common shares	6,147,524	3,897,524
Effect of dilutive securities:		
Conversion of preferred stock	50,000	50,000
Dilutive potential common shares	6,197,524	3,947,524

4. COMPENSATION FOR CONTRIBUTED SERVICES

Two officers/shareholders performed services for the Company during the three months ended May 31, 2004 and 2003 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, 2004	THREE MONTHS ENDED MAY 31, 2003
Current:		
Federal	$ 28,475	$ 1,954
State	9,643	1,240
Total current	38,118	3,194
Deferred:		
Federal	--	--
State	--	--
Total deferred	--	--
Total	$ 38,118	$ 3,194

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, 2004 and 2003. 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 29, 2004.

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, FRMO completed the following transactions through May 31, 2004:

i. The Company invested $5,000 in FRM NY Capital, LLC, a limited liability venture capital company whereby the substantial investment of financial capital will be made by unrelated parties but where 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 FRMO is currently receiving approximately $27,000 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 FRMO acquired the research service fees that Horizon Research Group had received from The Kinetics Paradigm Fund in exchange for 80,003 shares of FRMO common stock. Management believes that the growth of that Fund in the current fiscal year and future years will increase the current level of research fees for which the stock consideration was paid. The Paradigm Fund outperformed the S&P 500 Index by approximately 13 percentage points in its first fiscal year of operation, Calendar 2000. From inception through Calendar 2003, it outperformed the S&P 500 Index by 68 percentage points, or in the parlance of investment professionals, by 6,800 basis points. In May 2003, The New Paradigm Fund was assigned a five-star rating by Morningstar, Inc., the fund rating service. This is Morningstar's highest rating and is often the basis on which mutual fund investors seek to select funds.

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

v. In February 2002, FRMO acquired a 7.71% interest in Kinetics Advisors, LLC and the Finder's Fee Share Interest from the Stahl Bregman Group, in exchange for 315 shares of FRMO common stock. Kinetics Advisors, LLC controls and provides investment advice to Kinetics Partners, LP, a hedge fund and to 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

2004 PERIOD COMPARED TO THE 2003 PERIOD

The Company's revenues from operations for the three months ended May 31, 2004 ("2004") were $120,100, an increase of $96,800 or 416% as compared to the three months ended May 31, 2003 ("2003"). The net increase in the three-month period was due to increases in consulting, research and subscription revenues, as well as revenue from investments in unconsolidated subsidiaries (Kinetics Advisors, LLC) from which there was no revenue in the 2003 quarter.

Costs and expenses from operations were $13,600 during the three months ended in May 2004, an increase of $1,300 or (11%) from the comparable 2003 period. The result for the three-month period was primarily due to an increase in accounting and shareholder reporting expenses, as well as by office expenses for which there was no expense in the comparable 2003 quarter.

For the reasons noted above, the Company's net income for the three months ended May 31, 2004 increased by $71,300 to $79,400, as compared to net income of $8,100 in 2003.

Some discussion is required with respect to an asset that is presently carried at zero cost on the FRMO balance sheet and which had a negligible accounting impact on fiscal 2003 earnings, yet which had a quite measurable impact (40% of revenues) on the May 2004 quarter and has had a much more significant economic impact on FRMO. This is the investment in Kinetics Advisors, LLC, ("Kinetics Advisors"), which was acquired in February 2002 (as discussed in Part I, Item 1, under the heading Specific Business Activities, of this Form 10-K). This investment takes the form of a minority interest in Kinetics Advisors, which controls and provides investment advice to two hedge funds. Kinetics Advisors has elected to reinvest in these two funds the major portion of the fees to which it is entitled from them. As a consequence, FRMO does not receive its proportional interest in those fees until such time that Kinetics Advisors itself elects to or is required to receive them. Under generally accepted accounting principles, as they applied in fiscal 2003 and 2004, FRMO must record this investment on a cost basis, which was $0 as of May 31, 2004. However, on an economic basis, FRMO's proportional share of Kinetics Advisors' capital accounts in those funds was approximately $702,000 (pre-tax and unaudited) as of May 31, 2004. FRMO's proportional share of the increase in the value of Kinetics Advisors' capital accounts in those funds during the period, predominantly from fee income and appreciation (also pre-tax and unaudited), was approximately $81,000 during the quarter ended May 2004. In accordance with EITF 03-16, "Accounting for Investments in Limited Liability Companies", the Company will change its accounting policy regarding this investment effective September 1, 2004 to the equity method.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's activities during the three months ended May 31, 2004 resulted in an increase in cash of $116,000. This increase was due to income, after adjusting for amortization and contributed services, of $74,700, increased by $25,300 due to 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 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 remaining as of May 31, 2004 of $2,993,625 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 the mutual and hedge 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.

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: ___________________________________

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

Dated: July 12, 2004