# FRMO Corp. Q3 2015 Conference Call

Tuesday, April 21, 2015

**Operator**

Good day and welcome to the FRMO Corp Third Quarter Conference Call. As a reminder, today's call is being recorded. At this time, I would like to turn the conference over to Thérèse Byars. Please go ahead.

**Thérèse Byars** – Corporate Secretary of FRMO Corp.

Thank you, Gwen. Good afternoon, everyone. My name is Thérèse Byars, and I'm the corporate secretary of FRMO Corp. We appreciate all of you joining us for today's call.

The statements made on this call apply only as of today. The information on this call should not be construed to be a recommendation to purchase or sell any particular security or investment fund. The opinions referenced on this call today are not intended to be a forecast of future events or a guarantee of future results. It should not be assumed that any of the security transactions referenced today have been or will prove to be profitable, or that future investment decisions will be profitable or will equal or exceed the past performance of the investments. For additional information, you may visit the FRMO Corp website at www.frmocorp.com.

Today's discussion will be led by Murray Stahl, Chairman and Chief Executive Officer of FRMO Corp, and Steven Bregman, President and Chief Financial Officer. They'll review key points related to the third quarter earnings.

The most recent press release neglected to include notice that questions should be submitted in advance. Therefore, if you have a question, please send it now to the following email address: info@frmocorp.com.

A summary transcript of the call will be posted on the FRMO website in the coming weeks. And now I'll turn the discussion over to Steven Bregman.

**Steven Bregman** – President & Chief Financial Officer

Good afternoon, fellow shareholders. If you'll permit me, I'm going to depart from a custom that I started, and that I now find a little, perhaps, uninformative. There are some observations that I might've made about the balance sheet, let's say, some quarters ago that I thought were intriguing to observe, but I repeat them each quarter, and it strikes me that many of our shareholders, certainly those who participate in these conference calls, are rather more astute than the average shareholder in terms of observing a balance sheet, and might find that tedious.

So, I could point out certain line-by-line items, such as to the percentage by which cash increased on the balance sheet, and that shareholders' equity, for instance, versus last year at this time, is 8.3% higher or, in terms of our shareholders' equity, that if you were to add back both the short-term and long-term deferred tax liabilities—which are calculated against appreciation on investments we have that are strategic and that we don't plan to sell any time soon, that the cash backing those deductions from shareholders' equity are really on the balance sheet and available for us—if you were to add that back, you'd see we're up to $112 million in adjusted shareholders' equity. We broke well past $100 million.

But I don't think I really need to go through those items. As for the numbers on the balance sheet, those are all pretty plain; they're not that complex, though there are some interesting subtleties here and there. By the way, the balance sheet has actually changed. If we compare this balance sheet to the one from last year at this time, there are some line items that really fall into the category of strategic or potentially strategic investments; there are two or three more lines than there were last year.

One that showed up last time was the investment in the Bermuda Stock Exchange. Then, we broke out our investment in South LaSalle Partners, which really is an investment in the Minneapolis Grain Exchange. And there's a new one—a small one—called "Investment in Winland Electronics." Hence, the numbers there are less important than what those strategic investments are, what they're about, or why they might be strategic.

One question that we received in advance of this meeting asks that we talk about Winland Electronics and the prospects for it. I will elucidate that transaction.

Winland is a very small publicly traded company. At the current share price of about $1, it has roughly a $3.9 million market cap. This past November, FRMO Corp. bought a 15% stake in it, at a price about $0.81 a share. Winland sells monitoring devices. What do they monitor? They monitor various types of environmental variables, such as temperature or humidity, and dozens of other similar measures. They can be used for monitoring everything from the temperature or humidity in refrigerated trucks to potato cellars, whatever the modern version of potato cellars are, to name but a couple.

An employee of Horizon Kinetics, Matthew Houk, and another party, identified this company, bought shares, got themselves on the board, and ultimately invited FRMO Corp to purchase shares. If you look at the ownership structure of Winland, you'll find that those parties are not officially related in any fashion, but you'll see that there are three sets of ownership that are fairly substantial. Consequently, we consider our investment in Winland to be relatively secure in terms of how it's being overseen and managed.

Winland is an unusually profitable company. Relative to the cash flow it produced in 2014, on its cash flow statement, it would seem that its net cash provided by operations is something like $380,000. I personally look at it without respect to the changes in current assets and liabilities. I just look at the net income plus depreciation and amortization and less the very minimal depreciation expense for property, plant, and equipment. I think of it more as $300,000, FRMO's 15% share being about $45,000. Relative to FRMO's cost of about $460,000, it looks as though we paid about 10x free cash flow.

But Winland also has cash on the balance sheet that it doesn't need at all for operating purposes. If you were to exclude cash, the remaining current assets exceed all the liabilities of the company by 2.3x. So, if you look at what we paid, less the cash—because they can pay the cash out—

maybe we paid something like 6x free cash flow. I just mention this to give a sense of what we paid for this investment. It also has a deferred tax asset valuation allowance of about $2.6 million, which means that, presently, the company doesn't pay any taxes.

In terms of what might be done with it in the future, there are a number of possibilities. I'll leave Murray to talk about that aspect. But it's another vehicle and, although it's small, the history of FRMO Corp. from its very beginning demonstrates that initial size is really not indicative of what might occur in the future. Some of you might recall that the price paid for our original interest in the first Kinetics Hedge Fund, and also in the first Kinetics Mutual Fund, was essentially negligible. They ultimately produced an enormous amount of income for FRMO Corp.

Accordingly, Winland is just the latest investment. There's really not much more I want to say about the Winland balance sheet, except that it was perceived by Mr. Houk and his co-chairman, Thomas Braziel, that this company was not managed as well as it might have been. Over a period of time, the incumbent management team did, though, spend quite a bit of money developing software that would allow their product to be cloud-based which, in principle, could make it much more salable. The sales level could one day be far greater than it is now.

It was also undermanaged in other ways. I believe I heard an anecdotal story that some of the largest customers hadn't heard from the company salespeople as frequently as they might have, so much so that they were surprised to even have heard from Mr. Houk. Even within the scope of their own business, Winland has many opportunities to do much better. Anyway, that's what it is, in summary form. And now I'll turn it over to Murray.

**Murray Stahl** – Chairman & Chief Executive Officer

Thanks, everybody, for joining us. I'm going to talk about some higher-level strategic items pertaining to FRMO and a little about Horizon Kinetics. I will point out some balance sheet items that might not be obvious to you, and then we'll go to questions.

To begin with, on the highest level, we're approaching $100 million in shareholders' equity. That's a milestone for us, because one of the things we'd really like to do is acquire a company in its entirety. Historically, that was never really an option. When you're a small company, and you don't have a lot of cash on the balance sheet, the universe of targets that you're limited to considering are very small, and many are not all that attractive. So, as our balance sheet expanded in the last couple years—I would say quite considerably—many possibilities were opened to us that really hadn't been available before. Consequently, this is a milestone. It's a different world, from that point of view.

Before we even get to the question of acquiring a company, I'll talk a bit about Horizon Kinetics. It is basically an equity-oriented asset manager. Over the last year or two, we've been moving it into different asset classes, and we've had some degree of success with indexes—more about that in a minute—and with options. Hopefully, we'll continue that success.

Although we're not getting out of the investment management business, for FRMO to be a big, successful company, it can't just be two guys picking stocks. I think I've said that before, but it has to be something other than that. It's hard to imagine myself, at 100 years old, writing another version of the *Contrarian Research Report*. I would like to be able to do it, but I can't promise you that I'm going to be willing to do it, although maybe I will be.

If you look at where we stand strategically, the Minneapolis Grain Exchange provides exposure to commodities, specifically, wheat. Within the context of the Minneapolis Grain Exchange, we also, oddly enough, have exposure to real estate. How real estate? Because the Minneapolis Grain Exchange owns its building, which is on the border of a major urban renewal project in the city of Minneapolis. That three-ish year project has been underway for over a year.

I'll be in Minneapolis in another week, and I'll see what the neighborhood looks like. When I was there last December, I could see the Wells Fargo building going up. That building will be connected by a walkway to the Minneapolis Grain Exchange building, which can only be a positive development, not a negative development. Hopefully, that will lead to a reasonable improvement in the value of the grain exchange building; so, two exposures right there.

We purchased another 2% of The Bermuda Stock Exchange recently, which brings our ownership to about 40%. That exchange provides a different kind of exposure, because—I might have mentioned this in the past, but it's worth belaboring—the Bermuda Stock Exchange is the leading factor in the world of insurance-linked securities. Insurance-linked securities, known as ILS, offer an alternative way for companies to hedge their insurance risks: they're in the insurance business. It started with U.S. hurricane risk and, in the last year or so, it's expanded to Japan tsunami risks, earthquakes in Tokyo, and all sorts of other risks.

Essentially, what happens is an insurance company sells a bond at a relatively robust rate of interest, let's say 7.75% or 7.50%. In this rate environment, that's a good rate. They will have about a four-year maturity; so, in that sense, it offers a great rate relative to what's currently available in bonds. However, if you were to buy that bond, you'd have the risk, in certain contingencies, that if there were losses charged to the insurance company on a certain defined amount of business, your interest could be wiped out. The odds of that happening to you, I'm reliably informed, is about 3%. Consequently, if you're interested in that sort of rate of return, then you have to buy a diversified portfolio of insurance-linked securities, which is why the universe is growing so much. That's a different kind of exposure.

It's also, by the way, worth noting that it's an exposure in which we are a passive investor in the sense that we're not creating an insurance business. We're an investor in the company that is creating an insurance business, but in the way we like. By that I mean that the Bermuda Stock Exchange is not putting its capital at risk; it is simply facilitating the growth of a market.

We're exposed to commodities via wheat. We're exposed to real estate. We're exposed to the Bermuda Stock Exchange. And then there's Winland Electronics, which is a bit of a departure for us, because it is in the electronics industry. The other investments previously noted, although they are different and distinct from our basic forte, which is equities, are in the domain of finance. As Steve mentioned, Winland basically sells devices that provide environmental monitoring.

While it may seem rather pedestrian to think of gas monitoring, humidity monitoring, temperature monitoring, or monitoring the presence of water, among others, you'd be amazed at how little it's done and how few companies actually do it. It requires some degree of expertise. The reason for the lack of competition in that area is that despite its being a big market, it's not that large relative to the market for, say, chips that might go into cell phones. It's actually much smaller than that. But, from the point of view of a company with a $3-plus million market capitalization, it's an absolutely enormous market.

Call around and ask people, if they needed such a device, who the leader in the field is, and you'll be surprised that the answer, in many cases, is Winland Electronics. From a competitive perspective, there's no point in reinventing the wheel if the wheel is already invented. The only issue is: can these devices be deployed in a sensible way?

There's enough technology now that, if you have the telemetrics and the device, you can monitor the temperature in a refrigerator in a hospital that stores pharmaceuticals, which needs to be monitored 24 hours a day. Why? Because, for instance, if a new piece of electronic equipment is being installed, and the electricians throw a circuit breaker in a given area of the hospital, because they don't want to be electrocuted, then, for a certain period of time, the refrigerator will not be maintaining the temperature necessary for the pharmaceuticals to retain their potency. The staff might not realize that even happened. It's not a trivial problem; it's a very serious problem.

Similarly, in New York City in the last year, there have been two huge gas explosions. Had those buildings been monitored 24 hours a day, 7 days of the week, for the presence of certain gases, a lot of lives could have been saved and a lot of property would not otherwise have been damaged. The relative cost of monitoring is very, very low. The current technology for protection against dangerous gas leaks is that somebody happens to be in a building, smells gas, and calls the utility company. As much as one encourages people to do that, that's not exactly as reliable as having a monitoring device.

What does Winland represent for us? It represents optionality. But it's not optionality that we ourselves personally create. We create optionality via a passive investment that we make. To the degree that we can help the situation along, we certainly will do so. But we're not running the company for the simple reason that we can't do everything.

There are some new activities at Horizon Kinetics that you might not have noticed. One of them is the emergence of an options business, which is an institutional business, for the most part. It has gone from a business that was almost nonexistent 24 months ago to being decently robust. We now have hundreds of millions of dollars under management in these options strategies. We're not personally managing those products on a day-by-day basis, which raises another important point. Even in the context of Horizon, Steve and I shouldn't be doing everything. The company is inherently more valuable if there are other products that, while we might have had a role in their development, are not dependent on us for day-to-day management.

Essentially, you can get a pretty good deal creating exposure via options. Why can you get a pretty good deal? Because you can actually create your own risk/reward patterns. Until these options businesses really evolved, the way to create your own risk/reward patterns was to have index exposure in certain weightings. You make assumptions about past performance and correlations of the indexes to each other and how these might behave in the future. The presumption always is that they're going to behave in the future like they've behaved in the past, which unfortunately they rarely do.

If you're going to engage in that sort of investing, the options business is the way to go, because you can control your downside. You can know specifically what your risk is, and you can create floors under your portfolio, which you really can't do with ordinary asset allocation. We expect much from that business.

Then there's the index business itself, in which Steve and I play a greater role. An example is the Virtus Wealth Masters Fund. I'm happy to report that, at least as of last night, the Virtus Wealth Masters Fund had in excess of $155 million in assets under management. At the 2014 annual meeting, roughly a year and a half ago, when it was a new product, I reported that the Virtus Wealth Masters Fund had $7-odd million in assets under management. Now it has $155-plus million.

If it were an exchange-traded fund (ETF)—it's not, it's a mutual fund and there are reasons for that—but if it were an ETF, and if it were ranked in terms of assets under management (the ranking changes every day, of course), it would be roughly the 580th largest ETF in the United States of America out of more than 1,700 ETFs.

If you're interested, you can monitor the ETF rankings on a day-to-day basis via a website called ETF Channel. You can compare our assets under management, which you can get on the Virtus Mutual Funds website, to the assets under management of all the ETFs, in order to see the rankings. You can see where the Virtus Wealth Masters Fund would fit in if it were an ETF. You will observe that, to be in the top 200, an ETF needs $400 million of assets under management. It's not a great leap of the imagination to see that the Virtus Wealth Masters Fund might reach that level of AUM. We may never get there but, so far, it's been a fairly successful product.

We have two new indexes coming out within, I think, 90 days. One revolves around spin-offs, where we have some degree of expertise; therefore, it's a kind of spin-off index. Another revolves around emerging markets. They'll be launched with reputable ETF partners, which are not small companies. That's another departure for us—a different form of optionality.

Our indexes are designed not merely to offer general exposure, but to provide exposure to a variable that's associated with a higher rate of return. You might even say that they're custom designed, although that might be a bit of a stretch. I think it is fair to say that they're outgrowths of the research business in which we've been engaged for 20 years, and we're known to have some degree of expertise in that area. Accordingly, there's a lot of optionality there.

Now, let's talk about some strategic items that follow from the balance sheet. You can calculate them yourselves, but you have to know where to look. Let's begin with one that's obvious. As of February 28, 2015, we have $41.8 million of cash on the balance sheet. It's the highest cash balance we've ever had. As noted at the 2014 Annual Meeting, we got there by selling the closed-end funds—largely bond funds—that we bought years ago in the aftermath of the 2008-2009 crisis. We bought a fairly robust rate of return. But, you can't get that return anymore, so we've been gradually exiting those funds.

You can see the effect if you turn to the line under current assets called "other investments." We have roughly $41.5 million of investments. It now has a $19 million cost, because a lot of the closed-end funds have been sold. The other investments, which are equities, have not been sold. Now you can get a better idea of how much money we actually made on the closed-end funds.

To give you an even better idea, if you went back to the February 2011 balance sheet (which you can find on our website or on the OTC Markets website, under "Filings") you would see that we had $13 million of cash and $33 million of investments at market, with a $27 million cost. You can look at it this way: Relative to February 2011, $8 million of cost came out of it, and we have $8 million more market value. As we remove more closed-end funds—we still have some left—you'll see how much money was really made in the aftermath of the crisis when we moved very aggressively.

You can get an idea of how aggressively we moved because, in February 2009, if you turn to that balance sheet, we had $17.6 million of cash and $5.3 million of investments of any kind whatsoever. What's happened? Basically, we have a lot more investments and a lot more cash, which means we have a lot more opportunity or, let's say, scope for action, if we choose to exercise it.

Another item that I refer to sometimes but will discuss in more detail now is the current liabilities line. My point isn't immediately apparent, but if you look at the "Securities Sold, Not Yet Purchased" proceeds of $6,278,000, or thereabouts, those are securities that we sell short. They're largely what we call dysfunctional indices. The index business is a big theme that I'll elaborate more on in a moment. That strategy is a real business. We don't organize it as a business or recognize it as such—though maybe one day we will formalize it a bit more—but it's a real business, because those indices are structurally deformed. They're going to go down over time no matter what happens to markets: up, down, or sideways.

Now, if you turn your attention to the February 2011 balance sheet, you will see, "Securities Sold Short: $378,000," which was the market value at that time. We now have a little bit less than $2 million worth of securities sold short. The proceeds were almost $6.3 million. If you take the $6.3 million and compare it to our current cash balance of $41.8 million, you can see that in four years we generated roughly $6.3 million of float. Consequently, roughly 15% of the cash we have on the balance sheet today came from that source. It's really an incredible number when you think about it that way.

**Steven Bregman** – President & Chief Financial Officer

And we haven't paid taxes on it.

**Murray Stahl** – Chairman & Chief Executive Officer

That's right; we haven't even paid taxes on it. Of course, one day we're going to have to pay, but not yet. In any event, it's an even more notable number if you look at it another way. We have this $6.3 million, and we paid $5.7-odd million for our seats on the Minneapolis Grain Exchange. You could say that we generated the $6-plus million of cash and used it to buy the seats on the Minneapolis Grain Exchange, and we have change left over. You could look at it that way.

Or, if you prefer to look at it another way, you could consider the investment in the Bermuda Stock Exchange. The balance sheet shows the investment in the Bermuda Stock Exchange at cost as $2.6 million. That figure represents the cost in an accounting sense, not really what is commonly understood as being "at cost." We are required, under U.S. generally accepted accounting principles, to adjust our cost upwards as the Bermuda Stock Exchange earns money and reinvests it on its own balance sheet. But that amount is not the actual number of dollars that we expended; we paid somewhat less.

Nevertheless, if you take this $2.6 million and add the $460,000 that we paid for Winland Electronics, you get a number not far from $3 million. You could say that we generated over $6 million of cash from the shorting activity and used roughly half of it to make these two investments, and we have $3 million left over.

This shorting activity is a very important high return on equity business, and it's even more important now that we have a bigger balance sheet. We can safely expand the scope of this activity, because it's all a question of how much collateral you have. When you short a security, you're taking the other side of a trade. In a certain sense, you're providing insurance to the counterparty. That's basically what we're doing, except we're not an insurance company subject to all kinds of regulation.

We don't ever pay out, by the way, because we believe the securities will decline over time. We don't close the positions; we just leave them. Sometimes they'll be marked to market against us and sometimes they'll be marked to market in favor of us. Lately, happily, they've been marked to market in favor of us. We just let it build over time.

So, that's an interesting kind of business. As I said, maybe we can find a way to formalize it some way or other to make it more apparent, but the basic idea, formalized or not, is that it is throwing off cash, which can then be used for other investments.

If we threw off enough cash to buy a whole business, as opposed to buying a piece of a business, then we'd have access to that business's cash, too. Then we'd really be compounding, because what would we be getting? We would have the cash, at least in the form of dividends from our investment portfolio; we'd have the appreciation that comes from our investment portfolio; and that, of course, provides us with copious amounts of collateral with which to conduct this business which, in turn, hopefully generates more cash which, in turn, hopefully enables us to buy a whole business and generate cash from that, which makes the balance sheet even better. Then, we would have more collateral, and we would repeat the process.

In the world of indexation, the number of dysfunctional indices that are being created is nothing short of mind-boggling. I won't go into what they are, how they're structured, and how they compare. Those of you who subscribe to my written work have seen plenty of examples. I will tell you that I can't write about them all, because there aren't enough hours in the day. If I did nothing else but write about them, I still couldn't get to them all. It's just not conceivable. I don't know how I could do it. Even if there were two of me, I don't know how we could do it. The number of them is truly unbelievable.

What's really going on in the index business—and this is another strategic approach that's worth contemplating—is that, in principle, it is passive management. They call it the index business, but the phrase used to describe it years ago was "passive management." What does that mean? It means actually being passive. It means you buy a list of securities—it might be the S&P 500—and you hold those securities over time. What will happen? *Qué será, será*. They might go up; they might go down. You have exposure to the market, and whatever will be, will be.

But today, the fees on indexes in general, especially the ones that are known as the main line indexes, are collapsing. People being what people are, a manager might have a lot of money indexed, but at a five-basis-point expense ratio—if it's even that high—and a management fee that's even lower, that might be a tremendous pool of money under management, and people might salivate over it, but there's not a lot of meat on that bone.

You can see it very clearly in the last four-plus months: all sorts of what you might call specialty indices are being created. To the degree that some of them are becoming very popular, they dominate a certain group of securities. The market value of the assets in ETFs, relative to what's available to be purchased, is so big you can't say they're merely passive. It's the biggest factor in buying and selling. It's no longer passive; it influences the price. You can disagree or agree about how much indexation influences the price, but you can't say it doesn't influence the price. This trend will continue for quite a period of time, and it's opening up all sorts of intriguing possibilities to us, which we intend to exploit.

That's where we stand strategically. We're in the best financial position we've ever been in. I'll just give you two other statistics that you might find bizarre just in the world of securities lending. This example probably relates more to Winland Electronics than anything else. We described the characteristics of Winland, how much cash it has on the balance sheet, what its market capitalization is, what its earnings are. It actually has a very low valuation. Why does it have a low valuation? Because Winland Electronics trades in the pink sheets; therefore, it's not a marginable security.

If you're willing to buy a non-marginable security, you will get a lot better deal than if you were buying a marginable security because, however undervalued a given security might be, if you can't buy a lot of it, it doesn't do the typical investment manager a great deal of good, because managers are in the asset gathering business, at least most of them are. They're not in the investing business. At FRMO, if we make an interesting strategic investment, we're not going to sell it because it appreciated 15% or 20% and then go on to the next investment because it happens to beat the S&P 500 in a given quarter. We're going to hang on to it for many, many years and, hopefully, fruitfully enjoy the compounding effect.

We have the cash on the balance sheet. We don't need to worry about whether it's marginable or not when we look at our balance sheet, because we're not borrowing any money. However, if we wanted to borrow money, which we don't, but if we wanted to, believe it or not, we could buy, if we chose to, many hundreds of millions of dollars in United States Treasury securities and not exhaust our margin lines. If we wanted to, we could buy conventional equity securities that are marginable. We could probably buy somewhere between $90–$100 million worth and not have to liquidate $1 of an investment. There are no plans to do anything like that, but we could do it. I only mention that because we're in a vastly different strategic position than we've ever been before. We don't have to swing at any pitch if we don't like it. Sooner or later, we'll find something interesting to do with the cash we're throwing off and, hopefully, it will be a cash-generative business, and it'll just generate more cash.

Now you can see the way we will be compounding, hopefully, at a reasonable rate. And then there's this optionality, which might or might not work. If it does work, it'll add considerably to our net assets.

That's the way we're running the company. We're trying to develop beyond being two guys picking stocks. We'll still be two guys picking stocks, but there are some other activities going on. We are investing in them, but we're not necessarily the ones executing them. If we want this company to have real value in the future, that's what we have to do.

That's the end of my prepared remarks, and we'll move on to questions.

**Question 1**

For what purpose were the number of shares outstanding increased during the period?

**Murray Stahl** – Chairman & Chief Executive Officer

With personal funds, outside of FRMO, we owned an interest in South LaSalle Partners which, as you know, is the fund that owns several Minneapolis Grain Exchange memberships. We sold our personal interest in South LaSalle to FRMO in exchange for FRMO shares. Basically, we sold an asset to FRMO and received more FRMO shares at the current valuation. As a matter of fact, we exchanged our interest for shares of FRMO when those shares were trading at a higher price than they currently trade. But we're happy with our investment, and we're pretty confident in the Minneapolis Grain Exchange.

Incidentally, if you want to follow the prospects of the Minneapolis Grain Exchange on a day-by-day basis, you can do so by logging onto the Minneapolis Grain Exchange website (http://www.mgex.com). It's a private company, but you'll find a lot of interesting information there. You can see the membership prices, both current and historical. You can see what the open interest is. You can see the daily volume. You can see that despite wheat being in a bear market, as are many commodities, the contract volume is frequently hitting record highs.

I'm looking at the news section on the MGEX website right now, and I'll read a couple of headlines. April 1, 2015: "MGEX Has 3rd-Best March of All Time." April 14, 2015: "MGEX Sets Top 20 Electronic Volume Record." Again, I'm just reading off the website. April 15, 2015 (tax day): "MGEX Has Second-Consecutive Record Day." April 16, 2015: "MGEX Sets Another Pair of Volume Records." April 17, 2015 "MGEX Extends Volume Record Streak to Four Days." That should give you an idea of what's going on. And that's what the increased shares outstanding were used to purchase.

**Question 2**

Please comment on the market cap of FRMO relative to the implied market cap of Horizon Kinetics. There seems to be a disconnect. As a value investor, I would sell FRMO and buy Horizon Kinetics if it were public. But, alas, it is not.

**Murray Stahl** – Chairman & Chief Executive Officer

There are several questions here. Part of it I can answer and part of it I can't. Let's first deal with the part that I can't answer. You're really asking me to comment on what the FRMO Corp. market capitalization is, and its appropriateness. With great respect, for reasons that are obvious—some of which are regulatory—I cannot do that. The market cap is whatever it is.

Regarding the implied market value of Horizon Kinetics, I presume you're getting that off FRMO's balance sheet. You're saying that we own roughly 5% of it, and you're looking at the value of that and its prospects relative to the prospects of FRMO. I can't guide you more than this, but I personally wouldn't recommend doing that kind of analysis, for the following reason: FRMO is in the process of becoming—as you can see by looking at what we covered today in the review and by looking at our own balance sheet—it's in the process of becoming a diversified, multi-asset-class company that's now, in a very slight way, evolving outside of traditional financial management into other interesting areas.

FRMO's capital is permanent capital, and we can make many kinds of investments, including engaging in the dysfunctional shorts that I described earlier. It's more difficult to participate in those activities in the context of Horizon Kinetics, because the majority of the $9-plus billion of money we manage is other people's money. They can take it out; they might add to it; or they might not. To some degree at least, that's outside of our control. As a result, the business prospects wax and wane in ways that really don't happen in FRMO.

Then, there's another point that is worth making, which you can see on the balance sheet. On the FRMO balance sheet, you can see the line called "Participation in Horizon Kinetics LLC Revenue Stream." Revenue stream means that FRMO gets paid off the top, to the extent that we have revenue participation. There might or might not be, at various times, higher or lower levels of expenses in Horizon Kinetics but, as far as FRMO is concerned, that is a matter of indifference with regard to the revenue stream, because it gets paid from the top. By definition, the margin on that part of the business is 100%.

Of course, FRMO is a C corporation, and is taxed at the standard corporate rate. Horizon Kinetics is an LLC, and the profits flow through to the individual shareholders. For individual shareholders of Horizon Kinetics LLC, their profits are taxed at a higher rate. You have to take all that into consideration. Of course, you'll have to make your own judgment, but I hope that helps you figure out whether or not there's a disconnect and whether or not you would sell FRMO to buy Horizon Kinetics. Or maybe you'd sell Horizon Kinetics to buy FRMO. But that's for you to determine, not me.

**Question 3**

Are there any extraordinary items in either quarter that would explain the decline in the consultancy and advisory fees from $2.34 million to $758 thousand?

**Murray Stahl** – Chairman & Chief Executive Officer

First, let's define what the consultancy and advisory fees represent. Those fees are the Horizon Kinetics revenue share. For 2013, Horizon Kinetics earned performance fees, which are accounted for at year-end. FRMO accrues for those fees, but does not receive them as part of the revenue share until they can be calculated after the Horizon Kinetics fiscal year-end in December. The performance fees are necessarily reported and paid to FRMO on a lag and are reported in FRMO's third quarter (February) financial statements. The performance fees from 2013 were reported in the February 28, 2014 FRMO third quarter financial statements. No meaningful performance fees were earned by Horizon Kinetics in 2014, which accounts for the decline in the consultancy and advisory fees as reported in the February 28, 2015 FRMO third quarter financial statements.

**Question 4**

I noted in the commentary about investing in the publicly traded private equity firms as possibly being more efficient than investing in one of their specific funds with the friction of fees in the funds and correlation of returns being noted. In that same spirit, I can't help but wonder if that thinking may also imply that an investor would be better suited to invest in FRMO vs. one or all of the suite of Horizon Kinetics portfolios, with the valuation of FRMO as an obvious consideration? In other words, am I better off investing in FRMO than in the suite of Horizon Kinetics portfolios?

**Murray Stahl** – Chairman & Chief Executive Officer

I can't answer your question directly, because I can't recommend my own stock. I can just point to facts, and one fact is that we're actively trying to get certain exposures into FRMO that can't be done in Horizon Kinetics, examples of which are the Bermuda Stock Exchange and Winland.

Investors should be noticing already, but in future years they'll notice more, that FRMO is not simply a compilation of the Horizon Kinetics portfolios. Of course, we receive revenue from Horizon Kinetics and we own an interest in it, but Horizon Kinetics has no exposure to the Bermuda Stock Exchange or to Winland Electronics. It doesn't have an investment in the Minneapolis Grain Exchange—although it does have South LaSalle Partners, through which one could theoretically invest in the Minneapolis Grain Exchange, but the bulk of the investment in that product is FRMO's. There might be some revenue coming from that, but it's not all that meaningful.

Let me repeat that I am not recommending that you buy or sell FRMO. Clearly, there's a part of FRMO that benefits from Horizon Kinetics, but we're also doing other things. Horizon Kinetics is one of several investments and, as the future unfolds, we'll be making more strategic investments. FRMO is branching out in ways that are not really possible for Horizon Kinetics. Nevertheless, as we noted in our prepared remarks, Horizon Kinetics has the options business, the index business, including the Virtus Wealth Masters Fund and some new index products that utilize our research expertise and provide a lot of optionality.

At FRMO, we are clearly gravitating into other areas. As we build out the company more, it'll be less and less dependent upon Horizon Kinetics because, as I said earlier, we don't want to be just two guys picking stocks. We will still be here doing that—we're not stopping that—in fact we enjoy doing that. And I'll write the research reports and continue my other activities, but we're expanding into other areas.

**Question 5**

What will FRMO look like in ten years?

**Murray Stahl** – Chairman & Chief Executive Officer

FRMO will build on its current foundation so that the Horizon Kinetics part of it will have a greater range of products covering a greater range of asset classes, and people will see that we'll have unique products. In the case of FRMO itself, there'll be other sources of cash flow besides Horizon Kinetics and, ultimately, we're going to acquire one or more other businesses that will not necessarily be financial services related. They'll throw off cash, and we'll use it for interesting investment purposes.

**Question 6**

In the past, you've mentioned new Horizon Kinetics investment products for international markets—India, as an example. Would you give us an update on how these are progressing and whether we should expect anything to happen anytime soon?

**Murray Stahl** – Chairman & Chief Executive Officer

That's a great question. I made some slight reference to that already, but I'll elaborate on it. Basically, we have two new indices coming out: one regards spin-offs and one regards emerging markets. One of the problems with the index business is that the fee structure around indexation is collapsing. You don't want to come out with a conventional index, because it only provides undifferentiated exposure, and the fees would be only a handful of basis points. We're not interested in doing that. We engage in proprietary research, and we want to get paid for our work. We're not doing anything for a handful of basis points. That, by the way, wasn't always true in the past. Many years ago, we did do things for a handful of basis points. In retrospect, maybe that wasn't such a smart thing to do.

Now, we are ready to go with a product in India. The only reason we're not going with it yet is me; I'm holding it back. We could launch it very, very quickly, but I don't want to. The reason I don't want to is because the Indian market is at a level such that we could certainly buy a lot of Indian stocks—and we're now fully licensed to trade on the Indian exchanges—but we wouldn't make a lot of money at it right now. What does that mean? It means that our clients wouldn't make a lot of money at it. I'd rather keep our reputation and raise less in the way of assets under management if that's what it comes to, and that's what it might come to. So, until we feel that the investment opportunity is suitable, we're not going to launch it.

Having said that, some products should be visible in the next three months. We're partnering with two fairly decent-sized respectable outfits and, hopefully, those products will be successful.

There's a new phenomenon in the world of spin-offs that differs significantly from the typical approach that we've seen in the past. Every spin-off is a divestiture. Historically, in a spin-off transaction, the parent company would spin-off a division or an asset that wasn't recognized by the market, that wasn't well understood by the market, or that might even have been tangential to the basic thrust of the parent company. Now, the thematic structure—if you could say that it has a theme—in the spin-off arena is that the business being spun off is not necessarily tangential, undervalued, or misunderstood; it's just that it happens to have a meaningfully lower margin than the parent business.

Think of it this way: imagine a university classroom with 10 students. Somebody's going to be the worst student. If you expel that student from the class, the average grade goes up, but is the average grade really higher? Mathematically, it is, but it's not as if the average student learned more; it's just a different way of calculating. This is really what's happening in the world of spin-offs. Therefore, the opportunity is really with the parent, meaning that the parent is perceived as having higher margins than it had before, and it might actually increase in value at a higher rate than otherwise would have been possible without the spin-off transaction.

One of the interesting features of spin-offs is that because the opportunity set is now, to a great extent, with the parent, there's a lot more capacity, because the parent is larger than the spin-off entity. Not that we won't buy the spun-off entities; we will, but the size of the parent means that there is a lot more capacity to raise a lot more money. In many cases, it's happening at a pretty decent valuation. It could be a good deal for both the client base and the manager, which is really what we want: We want a fair deal for everybody.

In the world of emerging markets, the opportunity is different. With emerging markets, you face a couple of problems. The first is that, in many countries, you as an outsider can't buy every stock that trades there, nor have access to everything. There are various restrictions, and you have to go to the trouble of getting the various licenses, which many are loathe to do. It's expensive; it's time-consuming; I would almost go so far as to say it's slightly maddening, because the bureaucracy you deal with is far, far more labyrinthine than anything you're likely to see in the United States, or even in Europe, despite all the bureaucracy of the European community.

As a matter of fact, just to share a slight anecdote: having obtained all the licenses to trade on the Indian securities exchanges, I wanted to test whether or not we could do it. We tried to wire $500 to an account in India as an operational test. Our logic was that if we lost the $500, it wouldn't be the end of the world. Well, it took us a month to wire $500 to India and confirm that it was actually in the account there. That is an example of the kinds of challenges that arise. That's the first problem. In fact, we've developed quite a lot of expertise in this area, and we now believe we can solve the operational difficulties.

Then you come to the second problem, which is much, much bigger. The basic problem in the emerging markets, once you get past the operational problems, is that the emerging market companies are not really emerging market companies. Let's take an example to clarify that point. If I wanted to make a global emerging market index, meaning take all the countries in the world that would qualify as emerging markets and make a big emerging markets index, an obvious candidate for inclusion would be the Korean company Samsung. Since Samsung is definitely a Korean company, and Korea is definitely an emerging market, you might ask: What is the problem?

The problem is that the bulk of the revenue that Samsung earns does not come from Korea. It comes from elsewhere. And that elsewhere, in most cases, consists of developed countries like the United States. You can ask the question: What is the difference between buying Samsung—which makes electronic goods in Asia and sells them in the United States and Europe—and buying Hewlett-Packard—which makes electronic goods in Asia and sells them in the United States and Europe? It doesn't offer diversification.

What is needed is access to companies that do business—meaning, generate their revenue—in their local countries. Between the operational challenges and just identifying the companies, it's easier said than done. But we were able to deal with that difficulty.

Then you come to the third problem, which is the biggest problem of all: governance. Let's say that you find companies that appear to fit your requirements, and you solve the operational problems, and you identify the companies that, for good or ill, derive their revenue in that nation. Let's also say that they are not a big part of the conventional emerging markets indices. In fact, you might say that they're a little bit off the radar screen, even though they're not small companies. How do you know that the companies are even honest? What do you do about the problem of governance?

For instance, the balance sheet might show $41.8 million of cash, as we have at FRMO, and the financial statements might have been audited by a reputable auditor. In this example, odds are that the company really has $41.8 million; it's highly probable that it's really there. However, if FRMO were in one of the emerging market nations, you couldn't necessarily rely on that figure being true. The issue of governance is the biggest problem of all. How do you solve that? How do you know that what you think you're buying is actually there? They say they have factories. They say they have a balance sheet with certain assets. How do you know it's really there? In other words, how do you know that someone didn't take a 2 and just make it a 7?

We believe that we've solved that problem, and we're very proud of it. I think it's very creative, if I do say so myself. I won't reveal the solution yet, but you will see it in not that many months. The deal is done, and it's going to be launched. Whatever is going to happen is going to happen. That's coming out as well.

And, finally—I referred to it, but maybe I should refer to it again—within the context of Horizon Kinetics, there are different ways of investing in indices than just buying indices, meaning you can change your risk/reward pattern via options. Within the last year, we didn't manage a lot of money in that type of strategy, but now, from a standing start of basically zero, we have well in excess of $300 million of assets in it, and it's all institutional. From a standing start of nothing, and without a real track record, I would say that's quite an accomplishment.

As you know, an institution doesn't just open $2 million or $500,000 accounts; they open big accounts. That could end up being a very substantial business and, if it is, there are many more things that can be done. I leave it to your imagination to figure out what they are. I hope I've answered your question in some degree of detail.

Well, there are no more questions, and I guess we've spoken for a long time as we reviewed many of the more subtle aspects of the business. We thank you for your attention. We're really happy that you joined us today. Thanks for now and good afternoon.

**DISCLAIMERS:**

**THE INFORMATION CONTAINED HERE IS INTENDED TO PROVIDE A SUMMARY OF THE COMPANY'S THIRD QUARTER 2015 EARNINGS CONFERENCE CALL, AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE PRESENTATIONS. AS SUCH, THE COMPANY DOES NOT ASSUME RESPONSIBILITY FOR ANY INVESTMENT DECISIONS MADE BASED UPON THE INFORMATION CONTAINED HEREIN. READERS ARE ENCOURAGED TO READ THE COMPANY'S FILINGS WITH OTC MARKETS AND THE SECURITIES AND EXCHANGE COMMISSION BEFORE MAKING INVESTMENT OR OTHER DECISIONS.**

Past performance is not a guarantee for future results. The information and opinions contained herein should not be construed to be a recommendation to purchase or sell any particular security or investment fund. Furthermore, the views expressed herein may change at any time subsequent to the date of issue. It should not be assumed that any of the security transactions referenced herein have been or will prove to be profitable or that future investment decisions will be profitable or will equal or exceed the past performance of the investments referenced. Investors should carefully consider the investment objectives, risks, charges and expenses of the Virtus Wealth Masters Fund before investing. Visit www.virtus.com to obtain a current prospectus. You should read it carefully before you invest or send money.

During the course of this transcript, certain investment products may have been mentioned, specifically, investment companies. You should refer to each respective investment company's applicable disclosure document for a complete set of risks, expenses and other pertinent details.

Horizon Kinetics LLC is the parent holding company to certain SEC-registered investment advisers, including Horizon Asset Management LLC and Kinetics Asset Management LLC. For additional information on these entities, you may refer to the website of the Securities and Exchange Commission, which contains Parts 1A and 2A of Forms ADV, located here: www.adviserinfo.sec.gov. Horizon Kinetics, on behalf of its registered subsidiaries, may collect management fees for certain of the investment products referenced herein. Additionally, Horizon Kinetics, through its subsidiaries, may hold positions in certain of the securities referenced herein.