LESTER TANNER: Good afternoon, and welcome to the Annual Meeting of the shareholders of FRMO Corp. I am Lester Tanner, general counsel for the company. Before we hear Chairman Murray Stahl's report on the company's operations, we have to go through the formality of the one item on our agenda, which is the election of directors for the ensuing year.

I think you all have a copy of the short bios of each of the directors. Three of the four are seated at the head table. On your left is Steven Bregman, President of the company. Next to him is Murray Stahl, Chairman and Chief Executive Officer of the company. Next to me is Lawrence J. Goldstein, who is the Independent Director of the company. I would also like you to meet Paul Finegan, if he will stand. Paul is the Audit Partner of Holtz Rubenstein Reminick, which is the independent accountant for the company.

In the past three weeks, we have been tabulating the votes from the proxies that have been returned to the transfer agent. And I would like now to call on our Corporate Secretary, Thérèse Byars, to report on the conclusion of that vote.

THERESE BYARS: Thank you, Mr. Tanner. Mr. Chairman, I have before me four items. The first is the affidavit of mailing by Registrar & Transfer Company attesting to the mailing to the shareholders of the notice of this meeting, the proxy statement, and the proxy card. The second is the shareholders list as of the record date, July 12, 2012. The third is the report of the transfer agent on the proxy vote, and the fourth is the report of the inspectors of election stating that the four nominees have been reelected by 93.39 percent of the outstanding shares of the company. Mr. Chairman, we are ready to proceed with the discussion everyone has come for.

MURRAY STAHL: First, thank you for attending. Since the last shareholder meeting, we seem to have attracted more interest, so I'm gratified about that. During the brief period before the meeting began, I had a chance to talk to some of the attendees. It seemed to me that not everyone was acquainted with what FRMO does, which is, I think, rather unusual for a shareholder meeting. I will spend a couple of minutes discussing the history of the company, why we formed it, what we're in business to do, what our goals and aspirations are, and how we propose to accomplish them.

If you were to see our first balance sheet, we had virtually no capital. We were founded as what we called at the time an "intellectual capital company." The idea was that, given our positions in then-Horizon Asset Management, we would occasionally find an interesting investment idea that was at its inception stage and had virtually no revenue. Horizon would sell FRMO Corporation a revenue interest in that product and, if it was successful, the corporation would collect a certain amount of revenue from it with very little associated expenses. If it was not successful, there was very little capital placed at risk.

As the capital began to grow, because we did, in point of fact, have some successful investment products, we would invest that capital. This practice proceeded in a very intriguing way until 2008. No need to go into what happened in that year; we all know what happened. All investors—including us—were bedeviled by the events in 2008. I'll come back to that momentarily. Right now, I'm just going over the history. I'll give you more detail in just a minute.

Despite the fact that the investment business, especially the active equity business, which is the business we're de facto in, was not doing very well, the balance sheet actually prospered. I think that the current shareholders' equity is the highest we've ever had in the company. In terms of balance sheet structure, we're in as good a condition as we've ever been which, in itself, is very unusual for a company involved in a business that has not prospered in the way we would have liked.

I mentioned the investment products in which we buy revenue interests. Those investment products came from Horizon Asset Management. At the time of our inception, Horizon Asset Management had a sister company called Kinetics Asset Management. Horizon Asset Management was organized around two activities: one is investment research, which we would sell to other investment advisors; and the other is money management, primarily, but not exclusively, for wealthy individuals. Kinetics was organized to manage money for various mutual funds and for a variety of institutions.

In May of 2011, Horizon and Kinetics merged to form Horizon Kinetics LLC, of which we, FRMO, own a little bit less than one half of one percent (0.47%). We recently sold our smallest revenue interest to Horizon Kinetics in exchange for more Horizon Kinetics stock. I don't remember the share count; it's not going to move anything very much. We're shifting our strategy a little bit, in that now we'd much prefer to have an actual equity interest in Horizon Kinetics itself.

Now let me return to the topic of the events of 2008 that I mentioned briefly a minute ago. As I said, 2008 bedeviled me in a lot of ways. From your standpoint, the most interesting way would be in managing money. I have always had my failures, and I'd be happy to admit to them, but I never had a circumstance in my investment career in which every single investment I touched did poorly during the same investment period. Of course, some did more poorly than others but, in 2008, it was universally true.

I also began to look at companies I didn't own, but which I respected, and they weren't doing so well, either. I had my bad periods and I had my good periods; but I never had an experience like that. The year 2008 saw enormous market declines and turmoil. Nevertheless, I felt that what was going on in equities, apart and away from whatever was going on in my portfolios, was something unique and special. It wasn't merely that the market went down. It would have been better if I could just attribute it to my own failures as an analyst, and I'd be glad to do so, but I didn't think that was so.

I began to examine the whole question of indexation. As you know from the last five years, I would say that 55% of the equities in the United States are indexed, and that number is growing. The idea of the indexation phenomenon, which originates in part from the notion of the efficient-markets hypothesis, is that no one can really get an advantage over anyone in analyzing stocks, so why not buy a broader exposure to the market? Why not buy essentially the entire market itself? You'll take the good with the bad, and you'll get a return that is better than the average manager can obtain for you.

That point of view is not unreasonable unless carried to an extreme. Now, reductio ad absurdum, let's carry it to an extreme, just for the purposes of argument. What would happen if nearly all the money were indexed? Who would be doing the analysis? How does anything get properly valued if you carry it to an extreme?

I began looking at that question and looking at indices. If you look at some of my written work, which some of you have had the opportunity to do, you'll see that I've written a lot about this subject. It has led to some new investment products at Horizon Kinetics, which will explain why we're interested in owning more of Horizon Kinetics as opposed to just owning a revenue interest.

First, regarding indexation, there exists a group of companies that we call owner-operators. What is an owner-operator? It is a corporation in which the management is the management by dint of the fact that they own more stock than anyone else. They made themselves the management. That's a very unusual circumstance in publicly traded companies. Generally speaking, the board appoints management. The management may acquire stock during their employment period, usually most of it via stock options, grants, or similar mechanisms. In most cases, they are not risking their capital, although they may ultimately be enriched by the equity if circumstances favor them. But they're not actually risking any capital.

Conversely, owner-operators do risk their own capital. The idea behind owner-operators is that the lion's share of their wealth must be in that investment. Therefore, if that investment performs poorly, not only do the shareholders not do well, but the management suffers disproportionately.

I began to examine the market indices, starting with the S&P 500. I examined it back to 1957. I wanted to see if I could extract how much of the S&P return was due to the owner-operators, to the extent that they existed in the S&P 500, and how much of the return was due to the so-called agent operators. I began looking at companies like Wal-Mart at the time when Sam Walton ran the company and he owned most of the stock, or Hewlett-Packard, in the days when Mr. Hewlett and Mr. Packard ran the company, or Microsoft in its Bill Gates era, or Teledyne in its Henry Singleton era, or Apple Computer in its two Steve Jobs incarnations.

If you tried to replicate that exercise, you would look at the S&P 500, look at all the holdings since the day it began in 1957, extract all the positions in which there were owner-operators that you could identify, and then recalculate the S&P as if there never were any owner-operators. In every time period, there would be a different number of owner-operators but, for ease of illustration, let's just make believe that there were an average of 50 companies of this type. You'd be calculating, on average, the S&P 450 instead of the S&P 500.

I absolutely promise you, if you did that calculation, you would never buy the S&P. What I'm telling you is that the bulk of the return of the indices—and not just in the United States, but in all nations, the bulk of the return was earned by these owner-operators.

Why am I even studying this? I'm studying it because I have to somehow respond to the idea of indexation in a business sense. There are currents in the marketplace that are overwhelming the efforts of active managers. I began to look at the position of the owner-operators in indices, when they are included in indices, and I learned a very interesting fact, which I'll share with you.

The indices are computed differently than in the past when the market value of a company was compared to that of other companies in the index to determine its weight. It might surprise you to learn that they are now computed using what's called a float-adjusted mechanism. Let's define float as the number of shares not owned by the insiders of a company—these are the shares that you could theoretically buy. For the purposes of deciding a company's weight in a given index—whether it is 1%, 2%, 3%, or another weight—the originators of the index determine the weight by comparing its float to that of the other companies in the index.

To illustrate the consequences, let's take an extreme case. It doesn't really happen this way in real life; this is merely for illustration. Let's say that the management members of an imaginary company are buying a lot of the company's stock with their own money. You, the shareholder, might take comfort in that but, for the purposes of calculating the company's weight in an index, the float would be diminishing. When the float diminishes, all things being equal (*ceteris paribus*, as they say in Latin) the company's weight in the index declines proportionately.

Let's take the reverse. Let's say the management took all their stock and sold it in the marketplace. You might take umbrage at that as a shareholder. But, from the point of view of the index, all things being equal, the company's weight in the index goes up.

What's happening in the index? It has developed an algorithm for doing the opposite of what everyone knows is the sensible action to take. The index will buy more of a company's stock—i.e., it will have a higher weight—when the management sells stock. The more the management sells, the higher the company's weight, at the margin. All these events happen at the margin. Conversely, the more aggressively the management buys the stock, all things being equal, the lower its weight in the index. It's actually astonishing. There are many more aspects of indexation that I wish I had time to cover. I could give you a very nice lecture about indexation, but I'm covering only one feature, because it's relevant to what we're talking about here.

While studying the many facets of indexation, it occurred to me that one could create investment products that use the opposite strategy of the float-adjusted indexation trend. At Horizon Kinetics, we created an index that we call the Wealth Index (Ticker: RCH). It's comprised of owner-operators; that is, members of the company's management who have a very substantial portion of their own wealth invested in the company. They have freedom of action by dint of the fact that they own a lot of stock, and they have a great amount of their own capital at risk.

We partnered with the International Securities Exchange (ISE), a subsidiary of the Deutsche Bourse, to calculate the index returns and list the index on Bloomberg. We didn't want to calculate the index returns, because we wanted the index to be as objective as possible. Since we have a vested interest in it, like every index creator has a vested interest in the success of their index, we wanted the returns calculated by an independent party, and that's the ISE. We also engaged another firm, Virtus (Ticker: VRTS), to start a mutual fund to track the index. That fund will be launched on September 5, 2012.

Let's consider the asset management business in general, and the index business in particular, in terms of its profitability characteristics. One of the reasons it's so alluring from the point of view of the index orchestrators is that, in terms of marginal profit, an index can provide the highest return you could ever have as a business entrepreneur in the investment management industry. The reason is that the index is nothing other than an algorithm. You set the criteria, whatever they are. They could be all the energy stocks above a certain market capitalization, or all the companies that start with the letter Q, or whatever you want them to be. The computer selects those companies, assigns weights to them in accordance with another algorithm, and that's the index.

You don't need portfolio managers; you don't need analysts; you don't really need anything. There's a trading desk, but not in the conventionally understood sense of the term. It's a trading desk in the sense that you're merely processing trades to have the portfolio conform to the outline of the index. When you raise money, the marginal profit is as close to 100% as it can possibly be. The cost of starting an index is nothing other than pure intellectual capital. If I have a pencil, a yellow pad and a calculator, all of which I own, I can design an index—not merely one, but two, three, five, or ten. I can design all sorts of investment products using those basic tools. One of our activities at Horizon Kinetics is launching that index—and we obviously intend to do more of these.

In addition to the float-adjusted mechanism, there are many other activities occurring in indexation that are completely and totally dysfunctional. I'll just touch on a few highlights, because I don't want to detail potential products, although there will be those.

For instance, you've noted the existence of international indices. What's an international index? It is comprised of companies that are domiciled in other nations. British Petroleum is in the UK index, but that company had the worst accident in its history in the United States, in the Gulf of Mexico. British Petroleum does more business as a percent of its total business in the United

States than Exxon does. In that case, does it really make sense to say that Exxon or British Petroleum are respectively American or British companies? They're global companies.

To be a little more tongue-in-cheek, if I may, if you bought a large position in Nestle, does that mean that you have a position in Switzerland? I tell you, also partially tongue-in-cheek, but partially seriously, if the Swiss government passed a law making the sale and consumption of chocolate illegal in Switzerland, as a shareholder of Nestle, I doubt if you'd notice it. It might even help you. The idea that international indexation should work on domicile is preposterous. There are many similar examples that demonstrate that the whole idea behind indexation is replete with error.

Another example of these errors involves two indices: a large-cap index and small-cap index that are considered to be objectively immune to influence. They are the Russell 1000 Index and the Russell 2000 Index. The Russell 1000 is comprised of the largest market capitalization companies in the United States, and the Russell 2000 is the next 2,000 companies. It sounds pretty easy.

The problem is, if you examine the smallest companies, let's say the bottom 10, in the Russell 1000, what you'll find is that they have tremendously lower valuations than the top 10 in the Russell 2000. That is because the Russell 1000 and the Russell 2000 are market capitalization-weighted, float-adjusted indices. Obviously, the Russell 1000 is going to be dominated by the largest companies—Apple, Exxon, and so forth. The bottom 10 companies have an average weight of three-tenths of one basis point. Since a basis point is a hundredth of a percent, that weight would be three hundredths of a hundredth of a percent.

Let's take the 1,000th company in the Russell 1000 index. It was nothing other than an accident that it happened to be the 1,000th company in market capitalization on the day it was so labeled. If its stock were a little bit lower on the day of rebalancing, it would have been the top company in the Russell 2000 Index, in which case it would have had a 27-basis-point position. When you examine the amount of money put into this company if it's the bottom company of the Russell 1000 or the top company in the Russell 2000, the difference, by order of magnitude, is more than 100x, because there's more money invested in the Russell 2000 than there is in the Russell 1000.

All sorts of things are happening with public companies, just by virtue of weight of money. And it's creating enormous opportunities. At FRMO, we're returning to our roots in the sense that we're employing our intellectual capital in a similar manner as we did before, but we're doing it in a slightly different way by having an equity interest as opposed to a revenue interest in the company that generates it. If the company is successful, as I believe it will be, I think that the equity interest might be much more valuable than the revenue interests, in the long run. That's what we're doing. We're still going to have cash flow, and hopefully it will grow a lot. This also holds true of the active management business of Horizon Kinetics as well—there are all sorts of opportunities opened up by this market shift.

Just to touch on the owner-operator aspect in an active management incarnation, if you listed all the owner-operators in the world, of which there are more or less 100, they're in different businesses, run by different people, in different companies with different mindsets. Some are very optimistic about the future of capital markets; some are gravely pessimistic. Almost all trade at big discounts to book value. In some cases, book value is not the appropriate metric, because the company might have intangible assets on the balance sheet, but they will be found to trade at discounts to what we would consider to be their net asset value.

What are the odds that we're talking about the managers with the 100 greatest records in the world, and the companies run by them should have the lowest valuations of all? That in itself is an investment opportunity. It shouldn't exist, yet it does. In my personal career, I have never seen anything like it. Might it get worse before it gets better? Perhaps. Time will tell. But I've never seen anything like it. So, that's what we're doing on the active management side of our business. Hopefully it will prosper.

Where possible, that's what we're doing with the FRMO balance sheet. We're making investments on our balance sheet that are not radically different from the investments that we're making for our active management clients. Understand, when we make these investments, that we're buying into—or being partners with, if you like—the 100 greatest business people in the world—although it's on a small scale relative to their own investment. That fact is, in itself, extraordinary.

Historically, we always tried to do it. And, occasionally, opportunistically, for whatever the reason—the market went down, or it took a dislike to the business plan of an individual entrepreneur—there was an opportunity to buy the stock cheap for some limited period of time. Now, it doesn't matter what they are, they are all undervalued.

That is basically a summary of what we have going on. It's only a summary. Maybe the best thing to do is give you an opportunity to ask me questions, and I'd be delighted to respond to anything you'd like to ask.

QUESTIONER 1: I'm a shareholder, and I have several questions. The first is, since the proxy doesn't contain this information, can you share with us how much the two of you and other insiders own in FRMO Corp.?

MURRAY STAHL: I own roughly 7.2 million shares. The exact numbers can be found on Bloomberg and www.sec.gov.

STEVEN BREGMAN: I own somewhere around 6.7 million.

QUESTIONER 1: The numbers found on Bloomberg are as of June 2010. Have there been ownership changes since then?

MURRAY STAHL: No changes since June 2010. I'm not selling any of my stock.

QUESTIONER 1: Ever?

MURRAY STAHL: Ever? Well, “never” is a very un-philosophical word to use. Let’s say that I have absolutely no plans to sell any stock.

QUESTIONER 1: Do you have plans to buy?

MURRAY STAHL: Do I have plans to buy? I don’t think I can legally disclose what my plans are in that regard. [LAUGHTER]

QUESTIONER 1: Do you two also own Horizon Kinetics?

MURRAY STAHL: Yes. We each own about about 10 percent of Horizon Kinetics, and the rest is owned by a handful of people who are all identified in the Horizon Kinetics form ADV, which is available at www.sec.gov.

QUESTIONER 1: Going back to the question of what it is you do exactly. You talked about starting index funds, which sounds very interesting, but is FRMO starting them? Is FRMO doing this investing, or is this Horizon Kinetics?

MURRAY STAHL: Horizon Kinetics is doing it, and FRMO will participate to the degree of its shareholder interest. The logic of it is very simple. When you’re in business, you run a certain number of risks by having capital investments and having employees. There are things that go right and things that go wrong. We didn’t want to expose FRMO to most of those. The idea was that we would expose it to the intellectual capital aspect of it, to the degree we could, which is the part that intrigued us the most.

QUESTIONER 1: Right. So, all these new products will be coming from Horizon Kinetics?

MURRAY STAHL: That is correct.

QUESTIONER 1: At Horizon Kinetics, are there other people behind you to step in, should a need arise, or is it just the two of you?

MURRAY STAHL: Horizon Kinetics has roughly 80 employees, 12 of which are analysts. I count myself as an analyst. We hope that we have bench depth. All of these people are of long duration tenure. It’s not as if they haven’t been working with me for a long period of time. We can only hope that they’ve absorbed the investment philosophy and they’ll carry it on after my demise. But, I hope that will not be for a long period of time. I can’t guarantee that, but I can tell you this: I’ll do everything in my power to delay it as long as possible. [LAUGHTER]

QUESTIONER 1: How would you characterize your valuation of FRMO Corp. vis-à-vis other comparable companies in the industry? Would you buy your stock right now if you did not already own it? Would you find your stock very attractive at this point?

MURRAY STAHL: Well, let me respond to the parts that I think I can respond to, and I'll be silent on the rest of it. Here's what I believe I can talk about: you can take the share price, and you can multiply it by the shares outstanding. That'll give you the market capitalization. Then, you can subtract our investments, because they're on the balance sheet—our cash, our marketable securities, et cetera. That will give you the value that the market puts on the business elements.

What are the business elements? We have a variety of revenue interests, and you can see how much that contributes to FRMO's revenue. At the moment, the biggest one relates to the Kinetics Paradigm Fund (Ticker: WWNPX), which is roughly a $900 million fund. We get a certain amount of revenue from that fund. If the fund grows, our revenue grows. If the fund doesn't grow, our revenue doesn't grow from that dimension. In theory, however, if it were to grow, our expenses would not increase, so that could be a very lucrative investment. There's also our equity interest in Horizon Kinetics itself. It's for you to determine if the value the market places on FRMO is appropriate. I can just tell you that I'm not selling any of my stock. That's a fact.

QUESTIONER 1: But I was asking your opinion. Were you to be in the position of somebody on the outside, are there enough things that you would see right now in the future for this company?

MURRAY STAHL: I'm personally enthusiastic about the company. What action you take with the stock, you're going to have to figure it out yourself.

QUESTIONER 2: I'm a shareholder through a partnership that I manage. You said that one of your sources of revenue is collecting a share of the fees from the Kinetics Paradigm Fund. My question is: what percentage? Also, why do we have to attend the shareholder meeting to get that information? I guess you guys are partnered with Virtus, and if you look at that company's financials it's more straightforward regarding where they get their money and the sort of fee structures they have, and so on. I understand that you have 47 basis points of Horizon Kinetics, but the toughest thing I have to do when I have your financials is that I don't know how many assets are at Horizon Kinetics, so I can't really do the math. Why don't you just put that information in the documents?

MURRAY STAHL: I'll answer the second part of your question first. You may be aware that in the last four or five years FRMO Corp was not audited, technically speaking. I'll make everyone aware of it now. FRMO had an 8.5% interest in a hedge fund that entitled us to a certain amount of money. The fund was audited, which made it easy to know the amount, but entity that held the fund itself was a Subchapter S Corporation, and that wasn't audited. As a result, there were certain restrictions over what we could say in our annual report, and it was even debatable whether or not we should even be a publicly traded company that could make filings. We took a conservative approach and did not make filings. If you look at our website (www.frmocorp.com) or www.sec.gov, you'll see that our financials were not posted. One of the reasons for the Horizon Kinetics merger was to eliminate all that.

Basically, what happened is that all these various interests were collapsed into Horizon Kinetics. For our 8.5% interest in the Subchapter S Corporation that I just discussed, we were paid out a certain amount of marketable securities in cash, so that took care of that problem. The rest had a certain value in terms of Horizon Kinetics shares, and we took that in Horizon Kinetics shares. With that problem eliminated, we can be a more or less "normal" corporation, from the point of view of auditing control and reporting. This all happened fairly recently. We also changed our fiscal year. There were limitations on what we could disclose. In the future, we're going to be disclosing a lot more.

So, as I said, the Paradigm Fund has roughly $900 million of assets; it changes every day, but roughly $900 million of assets. It would be best to talk about how many basis points we get, and that number is—can you translate?

STEVEN BREGMAN: About 12 basis points, I believe.

MURRAY STAHL: Yes. There's a formula, so this estimate is not exact. But it's as close as we can come to here, so let's call it 12 basis points. If the fund had $1 billion, in theory, if we got 100 basis points, you'd multiply $1 billion by 0.01; that'd be our revenue. If we have 12 basis points, if it had $1 billion in assets at the fund, you'd multiply by 0.0012 and that would give you the approximate fee income. It wouldn't give you the exact fee income because, as you know, mutual fund fees are calculated on a dollar-a-day-weighted basis. We could have $1 billion at month-end, even though the market value during the month was never $1 billion. So, we'd get either more or less of that amount. That's what you can come to expect.

QUESTIONER 2: If it's $900 million under management, what fees are charged to that $900 million? I guess, 1%?

MURRAY STAHL: Ah. Now, that's a good question. The expense ratio of the fund—as a matter of fact, that's such a good question, you're going to get the answer to about half a dozen questions that you probably want to ask. So, here they come. The expense ratio of the fund is roughly 150 basis points, although I may be off a by a basis point or two. That doesn't mean that Horizon Kinetics gets 150 basis points because, first of all, the custodian has to be paid; the transfer agent has to be paid. There's a whole bunch of people that have to be paid.

Then, to the extent that Horizon Kinetics uses outside marketers, we have to pay them as well. Then there are the platform fees. To the extent that the money comes in from people who have their money at Morgan Stanley, Charles Schwab, Fidelity, TD Ameritrade, et al, we pay those firms as well. If somebody decides to put $10,000 in the Paradigm Fund, and they happen to have their $10,000 at Charles Schwab, we're not partners with Charles Schwab.

As you know, the platforms, at least most of them, have been raising the platform fees. So now you can understand why we were much more favorably inclined towards having 12 basis points rather than having an equity interest in the fund or an equity interest in the corporation, because we're just getting our 12 basis points. The market value will be whatever the market value is.

If we had a profits interest, as opposed to a revenue interest, let's say, for example, the platform fees rise. It would damage us in that sense. In point of fact, we're not immune to the market value fluctuation—you never really are—but we wanted to immunize ourselves as much as possible. That's the logic behind it.

QUESTIONER 2: So, basically, we get 12 basis points of the $900 million; the reality is the cash flow is 150 basis points less all these fees and things, but then it would get margin compression if everyone kept taking more and more share. Then we wouldn't have 12 basis points.

MURRAY STAHL: That's right.

QUESTIONER 2: But we can do the math, 12 bps on $900 million.

MURRAY STAHL: That's right.

QUESTIONER 2: Okay.

MURRAY STAHL: I'll just elaborate a little bit. That was the logic behind all the revenue interests. Don't forget, we're in the world of active management, which requires marketing, personnel, analysts, portfolio managers, and so on.

In the Wealth Index, we're partners with Virtus. From the point of view of that deal, Virtus is doing the marketing. Obviously, if we can convince people to be in it, we'll do that, but they're responsible for the marketing. We're splitting the fees 50/50. Therefore, the Horizon Kinetics share of the index effectively becomes a revenue interest, as opposed to an equity interest. It's a revenue interest for Horizon Kinetics, and FRMO has an equity interest in Horizon Kinetics.

QUESTIONER 2: You said that there would be more disclosure. I mean, I guess the biggest challenge is that I'd have a much easier time with this sitting at my computer with Excel and looking at these numbers than calculating them in my head, because eventually we all want to come up with a value. But I realize that, if you liquidate the company, we get $1.40 easy. So, the market is putting—for something that's compounded at book value, whatever, 40% a year for the past however long, something is wrong. The market is not seeing something.

STEVEN BREGMAN: I would just interject, to respond to that as well as some of the themes that Murray covered earlier, one of the best performing companies in the nation in the last 30 years, on a quantitative basis, whether it's share price performance or book value per share compounding, to put it in the same line of thought, is a company like Leucadia National. It is trading below book value, and it's a lot bigger than we are and has a lot bigger balance sheet and a lot better access to capital, and so forth and so on. So, granted, we exist in a different kind of universe, being a little microcap company, but the phenomenon is shared.

QUESTIONER 2: No, and I understand that. I see the value but, if I were to talk to a colleague and say, “Look, you know, there’s this really interesting company here, and you can be certain about the $1.40,” and they go, “All right, well, walk me through the math,” and I have a hard time doing it, because there’s not enough of it that’s disclosed.

That leads to the other point: how do we know we got a good deal when we did the exchange for the 50 basis points of the new entity? You guys are sort of owners of both, and, as investors in owner-operated businesses, if one of the businesses that you were looking at, actually, if the board was involved in two businesses, you’d wonder: where do their interests lie? Is FRMO subsidizing Horizon Kinetics? Is it vice-versa? Is it totally fair? Who decides this?

MURRAY STAHL: Well, obviously, we decide, because we’re the management of both companies. So, the answer to that question is pretty straightforward. We decide. Basically, the revenue interest was easy to value, because it’s just revenue. So, if you look at the trailing 12 months, that’s what it was. Then we look at the trailing 12 months of the EBITDA of Horizon Kinetics, which we valued, by taking the average of various other money managers. I don’t remember the exact multiple, but as close as I can recall, it was something like 6.3x EBITDA. We at FRMO were buying into a business which, by the way, itself has depressed assets under management and depressed financials. By the way, Horizon Kinetics also has a balance sheet of capital, which we didn’t even give any credit for. I think FRMO got a pretty good deal.

Understand, it’s in our interest that more of Horizon Kinetics should be shown to the public than less of it, because the private market value is lower than the public value. So, we have a vested interest in letting the world find out more, not less. We were basically impeded from doing so by these odd circumstances.

QUESTIONER 2: Out of curiosity, there’s a gap on the website of a few years where the financials aren’t up there. I know you weren’t an SEC sort of reporting company during that period, but is there a reason for that gap—because you have ’01-02, I think, and then a gap.

STEVEN BREGMAN: I believe that might be the period of time when we didn’t have audited financials. We didn’t have them audited at the time, because we weren’t permitted to file with the SEC. They wouldn’t permit us to do so, because we couldn’t file GAAP statements due to the 8.4% interest mentioned previously. As a small company, it didn’t make sense to go through the expense of a full audit when we wouldn’t be allowed to present it, because it wouldn’t be GAAP. That’s the reason.

QUESTIONER 2: One more question. In the interest of disclosure, have you thought about doing conference calls, and letting people see what’s happening quarter to quarter on a more granular level?

MURRAY STAHL: Absolutely, and you'll see more of that. Some of it you'll see on the website, some in venues like this, and some in the quarterly news announcements, press releases, or earnings filings. You'll see appropriate supplementary data along with the audited financials, which we now have.

STEVEN BREGMAN: And may I suggest, by your very presence here, which is quite heartening, compared to our prior shareholders meeting attendance, that actually motivates us to do so.

QUESTIONER 2: Great. Thank you.

QUESTIONER 3: How important is FRMO to you, relative to Horizon Kinetics?

MURRAY STAHL: Well, let me give you a little history to answer that question, so you can get an idea of who we are as people. When we founded Horizon Asset Management in 1994 and then Kinetics in 1996, the precursors of Horizon Kinetics, we weren't thinking about FRMO. We weren't involved in FRMO until 2001. In 1994, we had just left a large financial institution. All we wanted to do at the time was to make a reasonable living, manage a little money, have a few clients, and have a nice life. That's all we wanted to do. We had no other objective than that.

Now, my partner, to my right [Steven Bregman], tells the story slightly differently and more colorfully. You see, we didn't like the institutional framework of investing, so we were really running away from that. The way he describes it, if you ever saw the movie *Raiders of the Lost Ark*, you know the scene where Harrison Ford is running through the cave with the big rock rolling after him? He says that was us. [LAUGHTER]

In any event, we founded Horizon Asset Management. Then, roughly two years after, we founded Kinetics, which was for mutual funds. And we had success financially that, frankly, we never thought we would ever have. So, we became wealthy to the degree that we really didn't have to work anymore. We didn't have to. We could have gotten rid of every client, and stopped doing it.

I view the thrust of your question as to get an appreciation for what sort of person I am. Don't forget, I write research almost every week. No doubt you see it. It's usually 15 or 20 pages long. Imagine if your job was writing a term paper every week for the rest of your life. You have to like it to do it. If you don't like it, you can't do it. Now, it's for you to judge, by reading it, whether I execute that task well or poorly. But, to merely do it at all, you have to like it.

For me, the ultimate destiny of FRMO is that I don't intend to sell my stock. I intend to build up the market value and place either all my shares or—close to my demise; hopefully I won't do it on the day of my demise; hopefully I'll prepare my demise a little bit—I want to set up a family foundation, and I want my kids to basically run the family foundation and give money to charity, because I want them to think that their home and their world is not a place that you just eat and sleep in, that you do things with it.

So, that's the idea. It's not that I should become personally wealthy out of it. I'm already personally wealthy, and I don't live on such a high standard of living that I couldn't afford to increase it mightily if I wanted to. But I don't want to. That's really why it exists.

Now, for tax purposes, Horizon Kinetics is a Subchapter S corporation. If you're a Subchapter S corporation based in the city of New York, they hit you with every tax you can possibly imagine. If you're a C Corp, you're advantaged in taxes, at least from that point of view. And you can judge the rest of it. It's better to have more of your cash flow in a C Corp than it is an S Corp, if you want to maximize your wealth for the charitable purpose that I enumerated.

QUESTIONER 3: So, can we expect a merger or some kind of corporate event down the road where Horizon Kinetics becomes part of FRMO?

MURRAY STAHL: Well, it's not as easy as all that. There are tax issues to consider.

QUESTIONER 3: Can you describe in numbers what percentage of your wealth is in FRMO versus Horizon Kinetics versus other outside investments?

MURRAY STAHL: Well, I can do this. All my money is managed by Horizon Kinetics, other than my checking accounts, and you can consider my house as part of my net worth. At the moment, I believe that my ownership interest in FRMO, its market value, is somewhat less than the market value of my interest in Horizon Kinetics. And then I have my marketable securities. So, I would say, all together—I probably shouldn't disclose my net worth, but I would say maybe—this is off the top of my head—let's say at least 20-plus percent of my net worth is in FRMO. Of course, that fluctuates on a daily basis, so you'll need to view that accordingly.

QUESTIONER 3: Is there any conflict of interest with the research that you publish—I mean, you're kind of talking your own book. Does that create a conflict of interest with the asset management side of the business?

MURRAY STAHL: Okay, that's a good question. This is the 17th year I've been asked that question. It's one that I answer about once a week. There's no conflict of interest, for a number of reasons. First of all, we don't write about companies—at least, new companies—that we own. We're an SEC-regulated company, and there are rules about what you can write about or not. There's no more conflict of interest than you would get if I bought stock for clients or on my own behalf, then went on CNBC and talked about it. We don't do that. We write a report. We give out as much information as we think is necessary to understand the investment.

We're long-term investors. We don't trade. We hold positions for a very long time. As you could see if you were to look at my personal portfolios, with some very rare exceptions, I just buy; I almost never sell. But let's say that we were people who were so inclined. In that case, I would buy a stock, then write a report on it and get everyone enthusiastic about it. They'd go out and buy it; the market value would go up; and I'd hold it for 15 or 20 years. It seems like a lot of effort for very little reward to do it that way. Ultimately, the financials and the fundamentals of a company will determine its price in the open market, and we don't do much about it.

I'll tell you a story, if you'd like an anecdote. There was a magazine company on which I was writing a report. The weekend before I was going to issue it, that Friday night, the company issued a press release saying that they were getting bought out. On Monday, the stock opened up, and that was the end of the investment. I couldn't even get the report out.

However, another time when I was working on a report on a different company and a similar situation arose. I said, "I'm going to rush to get this thing out." That company announced it had put itself up for sale. I was racing and racing to get the report out, and I got the report out. The company announced it was for sale. The stock went up a little bit for a day or two. I was restricted; I couldn't buy the stock for myself or for the clients. When I finally was able to buy it for the clients, the stock price was lower than the price on the report. So, what was I rushing for? I think it was two months later that the company actually got bought out.

QUESTIONER 4: Can you tell us a little bit about the background of Horizon and Kinetics? They were separate companies until recently. What was the character of each of them? How successful is the combined entity, and what are the assets under management? How have they been growing?

MURRAY STAHL: Well, I'll do more than that. I'll give you a complete history. So, Horizon was founded in the fall of 1994. It only got its first money management clients in 1995, which is why the Horizon record actually starts in 1995. Horizon grew at a rather fast pace until 2008. Figures will follow momentarily.

Kinetics was founded in 1996, two years after Horizon. Kinetics, you might be aware, started the Internet Fund. Kinetics was made a separate company, because Horizon was a classical value-oriented investment advisor. Kinetics was founded to start the Internet Fund. It was one of the first internet funds ever started. For the first two years, it attracted no money. I believe this fund had either—I forget now, either $100,000 or $200,000 in it for two years. It had no assets whatsoever, other than those that we put into it. I think it was in August of 1998, somebody put in $10,000. They actually sent a check in the mail, and we didn't know what to do with it. We didn't know how you got the check into the client's account—that shows you what Kinetics really was.

Believe it or not, from September 1998 to the peak of the bubble in March of 2000, the Internet Fund went, I think, from $200,000 in assets under management to $1.7 billion. Then, of course, the internet bubble burst. If you were a follower of the company, at that time, it was an Internet Fund, and it had to follow its charter. It had to buy internet stocks. There's a limit to how much cash the fund is allowed to have.

We knew it was going to be bad. We would post comments on the website, and basically we expressed our feelings many times and in many ways on what we thought of the internet bubble.

But it was an internet fund, at the end of the day. All you could really do was to encourage people to get into other funds, which we created, one of which was the Paradigm Fund. The Internet Fund still exists. It has about $100-plus million in assets now. For an internet/technology fund, if you put it in the technology category, it's actually got, if I may say so, a pretty darn good record. But that's something else.

Horizon and Kinetics together today have roughly $7-ish billion of assets under management. One of the problems with Horizon Kinetics is that a lot of that money comes from WRAP programs and dual contract business, which is a very low-margin business. So, that's an abbreviated history, in any event.

LESTER TANNER: We'll take two more questions.

QUESTIONER 5: What would you like to accomplish by having FRMO as a public company that you might not accomplish if you took out the public stock?

MURRAY STAHL: What would I like to accomplish? Well, I believe a couple of things. First of all, I believe that, at the end of the day, we'll get a higher value for the company in the public domain than in the private domain. There may come a time—although we're nowhere close to that time—when, if we do a good job, it may be possible to use shares to effect a transaction that we could not have done otherwise.

For example, there was a transaction years ago—I can't tell you what it was—but there was a small mutual fund outfit that wanted to sell. They wanted X millions of dollars. At the time—this was years ago—we didn't have the money. We would have had to borrow the money, and we didn't want to borrow money, so we didn't do it. That was a lot of money to us then. However, by modern standards, that's not a lot of money, because that fund complex now has, I believe, $19 billion of assets under management. We could have had that but for want of capital. That's why.

There comes a time, every so often, although it's very rare, when it's possible to engage in a transaction with common stock as the currency. It'll happen very infrequently, and there's nothing on the horizon, so to speak, like that now. The stock isn't even at a valuation at which I would undertake it in any event. But it might happen one day. Hopefully it will.

QUESTIONER 5: Any other reason?

MURRAY STAHL: Well, if I'm ultimately going to put the assets, the shares, in a charitable foundation, you have to give a certain amount of money. If it's a private company, how can you do that? So, at some point, my heirs are going to have to sell some shares. It's much easier to sell publicly traded shares than privately traded shares. Hopefully, they will have a mindset to help other people, and I'll set it up that way.

I myself have been very fortunate in my life. I've been successful beyond my wildest dreams. I will never spend the money I have, not because I'm a cheapskate, even though I am, but because I just don't have the desire to live at that standard. My wife is friendly with a real estate broker who wanted to show us a house. We have no intention of buying it, but it was just to have someone walk through it. So, last Friday, we walked through that 16,000-square-foot house. Architectural tastes vary, of course, and I have been in houses of that size before, but this was the nicest 16,000-square-foot house I'd ever seen. One of its features is a three-story atrium that actually has a tree growing in the middle of the house. I thought it was great.

So, the broker asked me, "Could you ever see yourself living in this house?" I said, "You know what would be really great? I would like to live in it for a long weekend, just to experience what it's like. But I wouldn't want to buy it and live there, because it would ruin my kids." It's not a good thing if you grow up with that kind of wealth. It's bad for you, at the end of the day. So, I wouldn't want to do it. I might like to spend a long weekend in it, maybe come in on Thursday and leave on Tuesday and see what it's like to be in it. [LAUGHTER] But, other than that, I don't really have the desire to do it. If the owner wants to rent it to me for a five-day weekend, I'll take him up on it.

QUESTIONER 5: What's the asking price?

MURRAY STAHL: The asking price is $7.9 million. I know, a mere trifle. And you get 60 acres of land with it, so it's an estate.

LESTER TANNER: We have time for one last question

QUESTIONER 6: I'd like to ask a question that might appear a little bit irrelevant to what you've said. But I'd like to come away and understand how you and Steve think on an individual stock, because you're both very much in the stock business and in the index business. I'd like each of you to tell us about one stock that you think is attractive that has a market capitalization of over $1 billion and why, so we can have a sense of understanding how you think on a particular stock.

STEVEN BREGMAN: Well, I like the Malone company. One of John Malone's many publicly traded companies is known as Liberty Media. As you might know, he trades securities kind of like playing Hearts. If Wall Street likes a certain type of business or a piece of paper, he'll sell it to them. If they don't like it, and it's cheap enough, he might buy it back.

Liberty Media, which underwent some recent capital changes, is undergoing some new capital changes. To keep it simple, their basic operating business is the Starz and Encore cable channels. It's one of the more successful cable channel properties around. Starz itself has some 54 million subscribers. They get new subscribers every year, sometimes more, sometimes fewer, but let's say it grows on the order of 5%. It produces tremendous amounts of free cash flow.

John Malone has an extraordinary record for value creation over many, many periods of time, in many different companies. It's not by accident; it's too long a period of time. His capabilities are well known. Technically, if you look at the balance sheet, you'll see some small amount of debt, but it's truly de minimis. Cash, net of all the debt, is quite a large number at well over $1 billion.

The company owns shares in Time Warner, Sprint, Sirius Satellite Radio, and so forth. Just as an exercise, you could subtract the value of all the securities and cash from the stock market capitalization and, as of the last time I did it with a little bit of care a few months ago, depending on the day or the week in terms of the price of the stock, you might actually be paying only one, two, three, or zero times the earnings of the cable channel.

Malone is not a passive investor; he's an active investor. If the earnings from the cable channel business were priced anything like comparable companies, the stock would be much higher. But there are layers to it. Even the exercise I just described is a little too simplistic, because John Malone, although he periodically hedges many of these equity ownerships he's received over time, such as the Time Warner or the Sprint, he does not choose to hedge Sirius Satellite Radio. In fact, he's endeavoring to buy more. And he is buying more to get control of it. The question is: is that worth very much?

On a P/E basis, to some analysts, Sirius Satellite Radio might look like a high P/E stock. But it's only now achieving a certain scale economy that has been over a decade in the making. If you go back three years ago, on a free cash flow basis, that company lost a half a billion dollars. Then, a couple of years ago, it was sort of at break-even. A year ago, it made $100 million and, this past year, it made $500 million. That's a $1 billion swing in just a few years. It's only now achieving a certain scale economy. It should be a lot bigger, and be worth a lot more, in the future. And this is a large market capitalization company.

The price right now is probably about $104 a share. If I think about a company in terms of the quality of the business platform, and I might say that in terms of cable channels—not cable infrastructure, which he left quite a long time ago and sold to AT&T, which was a fool for buying it from him—that's on the right side of the content divide. There's a lot of foment in the media and technology sector.

It's really a very, very high quality business, with a very, very long product lifecycle. It's got a lot of intangible assets associated with it, a lot of free cash flow. It's a wonderful business in terms of quality of platform. It is bizarrely priced. It's really a wonderful investment. In terms of risk/reward profile, I would say that comes near the top in terms of selection.

MURRAY STAHL: OK. Thank you, Steve. In my case, I'm going to talk about three stocks, because they're related. One is a very large capitalization stock—many billions of dollars. The second has about a $1 billion-and-change market cap, and the third is a small cap—about $600 million.

The first is a large company that has some similarity to FRMO, although maybe it's too audacious to say that there is a large company that has a similarity to FRMO. It's probably more proper to say that there is a large company to which FRMO bears some slight resemblance. It is Brookfield Asset Management. The second company, which is related to the first, is called BAM Investments. The third is called Rouse Properties, which is controlled by Brookfield Asset Management. BAM Investments actually controls shares of Brookfield.

An aspect of Brookfield that you'll come to understand in a second is that it's very similar to Steve's example of Liberty Media. These are companies that engage in spin-offs. A spin-off is a predictive variable. If I said that I had a portfolio that was 10%-15% energy, I may or may not be right on energy prices, but being in energy or some other industry is not predictive; it's just descriptive. But spin-offs have been documented by academicians as having a tendency to provide excess rate of return.

What Brookfield has done over the years is to create value by engaging in various spin-offs. Historically, it had been a holding company that basically managed its capital in natural resources and hard assets, including real estate, precious metals, oil and gas. Roughly a decade ago, they got the idea of making the same investments they always made, but allowing outside investors to co-invest with them and charging a fee for that service. They weren't doing anything radically different than they did before, but the idea was to get a higher valuation on the shares.

These businesses—because they are businesses—when they invest in these hard assets, they have a value, not merely from the cash flow stream to the corporation, but actually to outside shareholders. When a business achieves scale, as with the company's purchase of assets in hydropower, they retain some shares, and spin off some shares to the public. When analysts value the company as a business entirely owned by Brookfield, it gets valued one way. These businesses throw off a lot of cash, because they're usually in partnership form and provide high dividends So when they are spun off, the market values them entirely differently.

Brookfield is now in the process of taking a lot of its real estate assets in the form of Brookfield Properties and spinning off about 10% of it to the public. It's going to have a robust dividend yield. With the market's current focus on dividend yields, in light of the historical level of interest rates, this spin-off promises to have some success.

The second company, BAM Investments is a holding company for shares of Brookfield. Technically speaking, it's a leveraged company, although the real term in Canada for that is what's called a split-share. BAM issued preferred stock in Canada with a view to buying more shares of Brookfield common. For every share of BAM Investments, there is, I think, 0.73, or some number like that, shares of Brookfield Asset Management.

The value of 0.73 shares of Brookfield Asset Management is more than the value of the stock, even though, when you net out the preferred, it's not as big a discount to net asset value as you might think. But the preferred is effectively perpetual debt. So, it's a leveraged company. That's an example of making use of capital in an efficient way, and it's another way to own Brookfield.

Brookfield does it with its own capital, and there are many incarnations of Brookfield. I can't talk about all of them, because we don't have the time.

Brookfield took an interest in a company called Rouse, which is the third company that I'll talk about. Rouse Properties is a spin-off from General Growth Properties. General Growth is a company that's roughly 50% controlled, by Brookfield itself. General Growth is going to be part of a spin-off of the Brookfield Properties.

Rouse holds the B-malls of General Growth. General Growth holds A-malls. The B-malls, generally speaking, have lower occupancy. Of course, every mall is different but, on average, the B-malls have a 15% vacancy rate. One of the reasons for the 15% vacancy rate is not the weakness of the economy necessarily, but that General Growth, you might recall, went bankrupt in 2008, before Brookfield became involved with them. Brookfield came in to restructure and bring General Growth out of bankruptcy. One of the problems General Growth had was that it wasn't able to raise money for renovating the malls, which was sorely needed. Brookfield engaged in a rights offering about a half year ago, and raised $200 million with the idea of using that capital to renovate the malls. In due course, if Brookfield is successful, the Rouse malls should have a higher occupancy rate.

If you assume that the rental income goes up by 15%, the cost of the business isn't going to change very much, so that will go to the bottom line. If you take 15% of the revenue, roughly speaking, add that to the net profit and divide by the number of shares, you will see that it is an incredibly cheap stock.

That's an example of what we call "the equity yield curve." If that wasn't a publicly traded stock, if you and I just owned the malls, and we bought them at today's prices, we'd be fairly confident that, once we completed the renovations, we would be able to attract the tenants. It might take three years, but so be it. We would look beyond the current cash flow, although we'd be concerned about that, and we would focus on what the cash flow will be 36 months hence, six of which have already elapsed.

However, the market won't pay for that potential. Why? Because of the equity yield curve. More than anything else, professional investors are interested in raising assets under management. How do you raise assets under management? You have to show a good investment result in a specific time period. The danger always exists that the market won't compensate a company like Rouse for what might be increased cash flow two or three years hence. If it doesn't, that will be one contributing factor to perhaps not such a robust result today. But still, it's publicly traded; somebody has to own those shares.

The market discounts that future cash flow at such a compelling rate that it pays you to own the shares. Merely the changing valuation between now and 36 months from now—actually, 30 months from now—will get you a pretty robust return. As a matter of fact, it'll give you such a robust return that it affords you a margin of safety. Even if the rental income doesn't increase in the manner I described, you're fairly likely to have a fairly robust rate of return. So, that gives you an idea of some of the things we're about.

LESTER TANNER: We will adjourn this meeting, since we have to start our annual meeting of directors in 15 minutes. So, for the next 15 minutes, you can have a casual conversation with the directors, then we'll go into executive session. Thank you all for attending, and we appreciate your comments.

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