FRMO Corporation Q1 2013 Conference Call
Tuesday, October 23, 2012 4:15 PM ET

Operator

Good day ladies and gentlemen and welcome to FRMO Corporation's first quarter 2013 earnings conference call. As a reminder this call is being recorded. Now I'd like to turn the conference over to Ms. Thérèse Byars for opening remarks. Go ahead, ma'am.

Thérèse Byars – Corporate Secretary of FRMO Corp.

Thank you, Catherine. Good afternoon everyone. My name is Thérèse Byars. I'm corporate secretary of FRMO Corporation. We appreciate all of you joining us for today's discussion. The statements made on this call qualify 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 FRMO Corporation's 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 will review key points related to the quarter's earnings. Once Murray and Steven complete their remarks, we will move to Q&A. With that I'll turn the discussion over to Steven.

Steven Bregman – President and Chief Financial Officer of FRMO Corp.

Good afternoon, shareholders. I think that deserves, well I'm going to give my own round of applause quietly, because I've heard speeches like that before in great, big, dark rooms with lots of round tables that seat 12 for what I call the rubber chicken lunches or dinners, and those remarks are usually being read by someone who is a shareholder representative for companies with names like Xerox or IBM. Now, FRMO Corp reads such remarks, because we now have conference calls.

Anyway, thank you for joining. I will simply present an overview of that which you have observed on our income statements and balance sheets that were posted online about a week or more ago. Since our financial statements are straightforward, they ordinarily don't require much commentary. One can readily observe during the August quarter, the decline in revenues from our interests in what are now just a few investment programs. That decline simply reflects a lower level of assets under management ("AUM") in those programs. For the most part, those are equity-oriented underlying investment programs. We've remarked in the past that assets have been leaving actively managed equities and going into indexation funds, but that is a different discussion.

Dividend and interest income were higher and that simply reflects more dividend and interest earning assets because of the accumulation of earnings. There is no longer revenue from what's called "unconsolidated subsidiary," because that Kinetics hedge fund subsidiary was merged into the combined

Horizon Kinetics earlier this year in exchange for which FRMO received an equity interest in Horizon Kinetics LLC.

Per share book value is about $1.43 now, which is an all-time high. All of that is observable enough. In this quarter, though, there was a change of some importance, although it has yet to make its observable impact on the income statement, and that was that on August 15, as we alluded to in the annual shareholder letter, FRMO returned to Horizon Kinetics, in exchange for additional Horizon Kinetics stock, a revenue stream that it had purchase quite some years ago. This may be seen in the Consolidated Statement of Cash Flow on the last line in that schedule showing about a $511,000 new investment.

This particular program had been very successful at one point, but its AUM are far smaller than they were only a few years ago. And again, the underlying assets are invested exclusively in common stocks and the subadvisory fee associated with that is rather modest. In contrast, Horizon Kinetics is a firm with a diversified portfolio of strategies and distribution channels including rather innovative fixed income and hedge strategies as well as a new and expanding predictive index business. I can say that at the least FRMO traded away a single line of business with no strategic flexibility or control over asset flows for equity in a more diversified line of business, or set of businesses, with substantial strategic flexibility, which is to say avenues for gathering assets, for expanding revenues and, through the natural leverage of the operating business, enhancing profit margins.

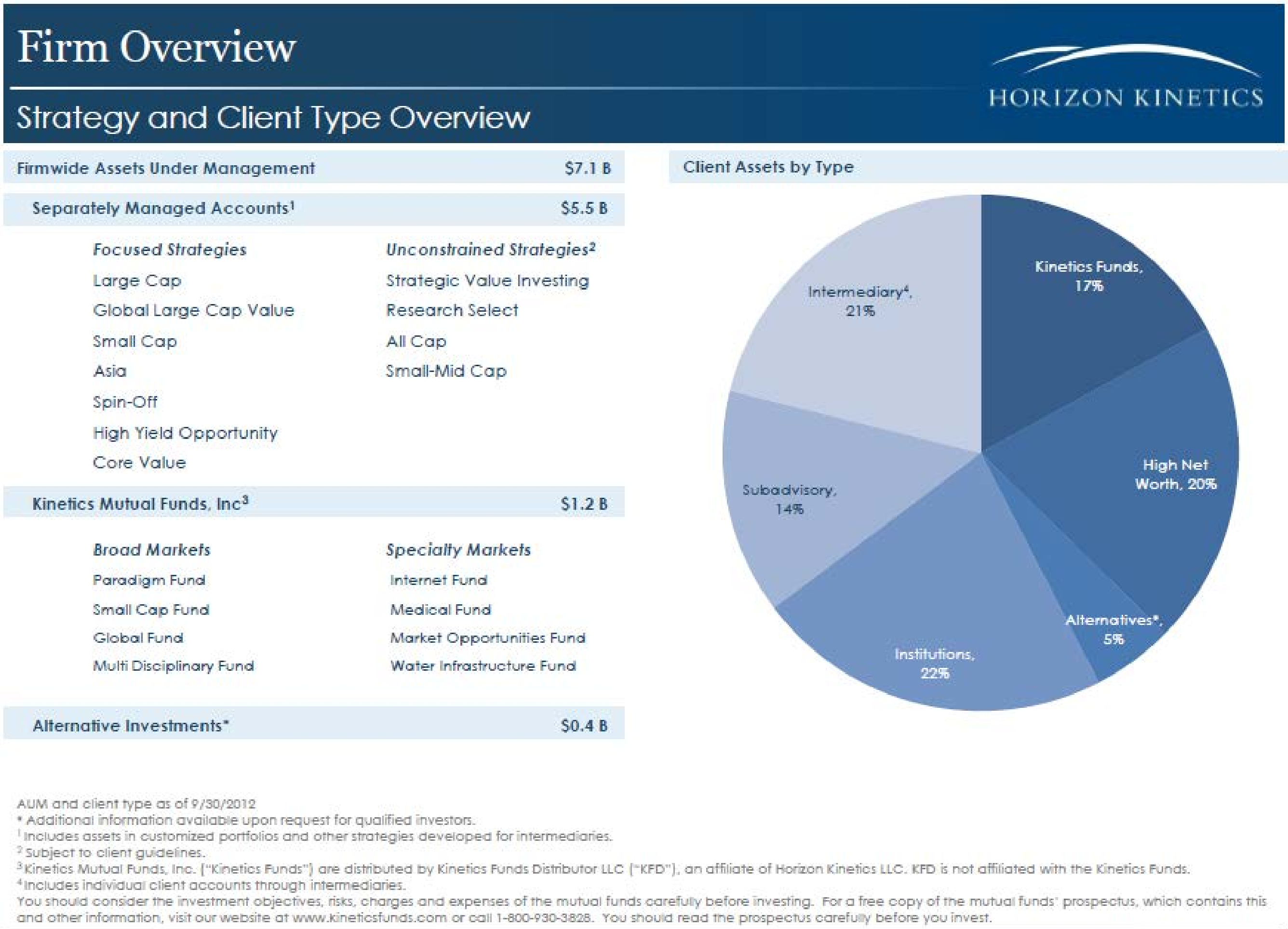
Further, the multiple used to value the Horizon Kinetics shares acquired by FRMO necessarily incorporated a private market discount, because Horizon Kinetics is a private company. Yet, the income that this interest in Horizon Kinetics will contribute to FRMO will be valued in the public market, however they choose to value it.

I would say that this was a beneficial transaction for FRMO on a number of fronts and it increased FRMO's proportional economic interest in Horizon Kinetics substantially. Granted, we now own, one could say, only 0.86% of Horizon Kinetics, but Horizon Kinetics is a fairly big company and the prior interest was 0.47%. So, it’s not so far from doubling our interest.

As to Horizon Kinetics, you'll want to know about that, and certainly at the Annual Shareholders Meeting there was a request for more information about Horizon Kinetics, given that FRMO Corp. now has an interest in it. So, I'll talk you through some brief numbers. When we post this discussion on our website there will be a chart to go with it so that you'll be able to view it for yourselves.

Horizon Kinetics, as of September 30, 2012 had about $7.1 billion of AUM. For comparison purposes, that can be compared to $6.7 billion at June 30 of this year and $7.2 billion as of September 30 of last year.

That data alone says little more than that equity valuations were down for the year through June and that perhaps there were negative fund flows as occurred with most active equity managers, as opposed to index-based managers, and that equity valuations rose from June onward, perhaps with equity inflows. That's all that data really tells you. There is greater information content, though, in the alternatives class of investment strategies at Horizon Kinetics, and that's what you can't see right now, because we're on the phone, but this chart breaks down the various strategy categories: separately managed accounts, mutual funds and alternatives.



I'll read them to you. Out of $7.1 billion in AUM, what we call separately managed accounts, which includes a variety of different strategies, were $5.5 billion at September 30. Various mutual funds were $1.2 billion. Then there's a category called alternative investments with $0.4 billion. It doesn't seem like much, but that class of investment strategy called alternatives rose from 5% of our total AUM last year to 6% this year. Alternative investments include hedge funds and, let's say, indexation products. This is a present area of focus at Horizon Kinetics, one which will perhaps be the greatest determinant of future profitability.

That 1% expansion in alternative investments AUM is, although this might seem counterintuitive, more meaningful than if the balance of the $7 billion of assets, which is 16 times the size of alternative assets, were the beneficiary of a magnificent year, let us say, of performance in asset gathering, let's say, a 35% increase in AUM. You might wonder how can a one percentage point increase in something that's 5% of the total assets be worth that much, so I'll take you through kind of an example.

The Horizon Kinetics managed asset base includes both direct individually managed accounts, mutual funds, institutional accounts, and intermediary-based accounts including what we'll call wrap programs for other investment firms. Some of these have rather low fees, since outside distributors and administrators have to be paid. We also manage fixed income and liquidity accounts that by their nature charge lower fees.

I'll give a generic example without specific reference to Horizon Kinetics, and I'll just use some round numbers. A blend between standard equity account advisory fees and various lower fee, lower margin products might result in an average fee for the entire asset base of let's say one-half of one percent of the AUM. This being revenues before operating expenses associated with managing a great number of individual accounts.

For a real world example, you can look at a publicly traded asset management company. One might be Virtus Investment Partners, for instance. I mention Virtus not merely because it has a mix of individually managed accounts, mutual funds, and all kinds of investment vehicles such as we do, but also because last month Virtus launched the Virtus Wealth Masters Fund, which is based on the Horizon Kinetics ISE Wealth Index. Virtus earns just about 0.5% on AUM.

Let's just say that this average fee applies to 94% of the AUM of this generic company of $10 billion and those assets increase by 35%. That increase would amount to $10 billion x 94% of total assets x a 35% increase x 0.5% management fee. The increase in fees would be about $16.5 million.

We can contrast that $10 billion of AUM going up more or less by 35% and its impact on fees with the fee productivity of that 5% or 6% of Horizon Kinetics AUM that are in the alternatives class. Alternative assets will include hedge funds which, again in a generic case, we'll assume to charge let's say a 1% base fee and a 20% incentive fee. Let's just assume that the annualized investment return is going to be 15% on those assets. In this example, 6% of a total $10 billion of AUM, meaning $600 million in alternatives would earn the firm $24 million, which is a lot more than $16.5 million.

If one hasn't thought this through or come across it before, it's a rather startling example of the difference in profitability between one type of business within an asset management business and another. Accordingly, the future profitability of Horizon Kinetics will not be properly judged by the progress of total AUM, although that's what people like to see. What are AUM this month? What were they last quarter?

There will also be contribution from the success of indexation products such as that Wealth Index (RCH) that we can talk more about and which has only just begun. While the fees for index-based products are low, neither are there any operating expenses like those for the wrap program, for instance. The fee revenues are effectively pretax profits.

For the various revenue programs that FRMO Corp. has with Horizon Kinetics, we've provided the AUM by program and you'll see a table for that when we post these discussions.

($ mill.)	As of Sept. 30, 2012
FRMO AUM – gross, by program	
Kinetics Paradigm Mutual Fund	$ 833
Horizon Multi-Disciplinary Fund	33
Horizon Global Advisers LLC:	
Multi-Strategy Fund	94
Horizon Opportunistic Value Fund	42
Separately managed accounts	12

Anyhow, that's kind of a broad overview from my perspective. I think Mr. Stahl has some more to say.

Murray Stahl – Chairman and Chief Executive Officer FRMO Corp.

Okay, I'm going to do three things. I'll make some qualitative remarks about the portfolios at Horizon and how they relate to the general world of investments. I'll make some qualitative remarks about the balance sheet of FRMO; things that might not be necessarily obvious, but I'll simply refer you to numbers and line items on the balance sheet that I think you'll find interesting. Then I'll talk about philosophically and strategically, if all went right in FRMO—of course there's no guarantee it would—of what we're actually trying to accomplish, and how we're trying to accomplish it.

Horizon Kinetics

Qualitatively, it's important to understand that indexation, which I read recently has collectively in the United States of America about $6.1 trillion of assets, is creating anomalies in pricing assets that never happened before in history. You have only to look at certain indices, like let's say an REIT index, which is all the rage, because people are interested in income generating properties in light of the low bond yields that they unfortunately receive. You will observe leading REITs in the United States of America, as they are represented in the REIT indices, having price-to-earnings ratios of not far from 50x earnings.

There are many, many more examples of distortions going on, but there are positive distortions and negative distortions. Positive distortion doesn't mean it actually has a good attribute. Positive distortion simply means that the index funds collectively own a type of asset that manifests itself in a certain way in the price of the security; meaning that they're doing something to the price of the security. But there are other things that are being done to other securities that we'll refer to as negative. It's not really negative in the general sense of the word, it's just that the indices choose not to own certain companies and, therefore, their lack of interest in certain companies actually creates a different kind of valuation anomaly.

One thing I've written about a lot over many, many years—and you probably have access to some of that information—is the expression of “owner-operator” companies. The owner-operator companies are those in which management is the management simply by virtue of the fact that they control more shares than anyone else and they vote themselves to be the management. Historically, if you were to look at the

S&P from its inception in 1957 to the current day and you were to pick out the owner-operators, so for example Wal-Mart is an obvious owner-operator. Apple Computer in its two Steve Jobs incarnations is an obvious owner-operator. Hewlett-Packard in the Dave Packard, William Hewlett era is an obvious owner-operator. If you were to select those companies, withdraw them from the S&P 500 as if they never existed, and recalculate the S&P 500 without those companies, you would observe that a very significant part of the absolute rate of return earned by the S&P 500 was earned by those companies.

For example, Wal-Mart performed substantially greater than the S&P 500 during the Sam Walton era. Obviously, if you removed that company from the S&P 500, there would have been nothing other than 499 companies in the index when Wal-Mart was run by Sam Walton, and clearly the S&P would have had a lower rate of return. The same is true for Hewlett Packard and so on and so forth.

We're buying a lot of those companies. We're buying what the indices have been excluding systemically from their companies and I would tell you that in my humble opinion, I think qualitatively we have the best portfolios we've ever had in our careers—qualitatively—and I'm very enthusiastic about their prospects. Whether the world recognizes that or not is a subject we can debate, but I personally am very enthusiastic about the portfolios. I think we have a high likelihood of investment success in those portfolios and, usually if you have investment success, that bodes well for your asset management business. The challenge in the asset management business is not merely to produce excellent investment results, which we hope to do, it is also to find appropriate channels for the expression of those investment results in such ways that we are not in entirely low fee businesses.

We're doing two things. One, we're building the portfolios in a way we've never done before or, to phrase it alternatively, we have the opportunity to build the portfolios in ways we have never done before in that the quality of the merchandise that's available is, in our opinion, of a higher order than we've ever had to work with. That's the first point. The second point is that we want to find higher margins channels. Steve talked a lot about that so I won't reprise it. Those are the two challenges and we're trying to do it. So, that's some color on Horizon Kinetics.

FRMO Balance Sheet

I'm going to read some numbers from the most recent balance sheet and compare them to the August 31, 2011 balance sheet, one year ago. You'll first observe that shareholders' equity is about $55.9 million, a record amount, and that can be compared with the August 31, 2011 balance sheet of $52.2 million. That's a $3 plus million increase. On the balance sheet from one year ago, you'll find a line item called 'due from previously owned subsidiary' of nearly $6.5 million. That was the then mark-to-market value of the Kinetics hedge fund that ultimately became part of Horizon Kinetics. When we took that money in, that figure was not the mark-to-market value. The shareholders' equity rose by $3.7 million even though the actual mark-to-market value at the time this became consolidated into Horizon Kinetics was more like $4-plus million. That's the first point.

The second point is that we have $20.6 million of cash and equivalents, while a year ago we had $14.6 million of cash and equivalents. You'll observe that now we have $39.9 million of investments available for sale. A year ago we had $34.9 million, so that's a $5 million increase. Looking at cash, a $6 million increase and, looking at investments, a $5 million increase. That's an $11 million increase in the basic raw material of how a company is actually grown. You'll see that total assets a year ago were $58.7 million and now they are $61.8 million. So that's a little over a $3 million increase.

In the world of current liabilities, we have roughly $2.6 million, while a year ago we had a little more than $1.8 million in current liabilities. That's an $800,000 increase. You'll see that the current liabilities in the most recent quarter have $665,000 of income taxes payable. Essentially, we had the income taxes payable, because we earned profits and have those payable. In the prior year, we had paid those income taxes so, in essence, the current liabilities are unchanged. The deferred tax liabilities are roughly $1.4 million less than they were one year ago. Some of that decrease is attributable to a line item you might not pay attention to. If you look at the 'securities sold, not yet purchased' line, which provides the proceeds from short sales, they were $3.2 million having a market value on August 31, 2012 of a little bit less than $1.8 million. That's a big change from what things were a year ago.

There are a lot of anomalies occurring in indexes that are possible to exploit. I won't go into exactly what they are, but I've written enough about them in my research work that you can get a pretty good idea of what those things might be.

Philosophy and Strategy

In a larger sense, this is what we'd like to achieve over the course of time if we can do it: that the investments do reasonably well on both the long side and the short side, which would give us a rate of return on equity of X. The question is, can it be supplemented by cash flow from the investment company itself? To the degree it's supplemented by cash flow from the investment company itself, if the AUM, or fees earned on the AUM net of expenses, grow net to the bottom line of FRMO, there's no incremental expense to us. Those expenses are borne in their entirety by the underlying company, Horizon Kinetics.

We can achieve a high return on equity in three ways. It can be from success in investments, it can be from success in investments and all that implies inside of Horizon Kinetics, or it can be some combination of the two. Presumably, one would think it's going to be some combination of the two. As long as we have cash flow with which to further our investments, you should see these investment amounts increase.

You will see there is also a fair amount of unrealized profit in a lot of these investments. In the case of 'investments available for sale,' that's nearly $10 million of unrealized profit. I mentioned the unrealized profit on the short sale as well. To the extent that divergence can continue to grow, it's essentially a tax free loan from the government that you don't have to repay until such time as we decide to alter our investment portfolio and realize such gains. That might one day be an area of value for us. At the moment, it clearly has a value. It's not a value that you can see in the book value, because the book value is calculated net of taxes, but it clearly has some value. Reasonable minds may differ as to what that value is. We're not going to engage in high turnover practices so, at least for the foreseeable future, we don't expect to realize very many gains. We expect to hold our investment portfolio. As we mentioned earlier, we're rather excited about it. That's philosophically how things might work if things work well.

It's worthy of mention, and it deserves no more than a mention, that it would be nice if we had some other operating business within the context of FRMO for the purposes of generating cash for investment purposes, and we are actively exploring two possibilities. There is no guarantee that we'll be able to consummate any type of transaction whatsoever, and we could lose interest at any time for any number of reasons. But, we are pursuing that, and it would be nice if it happened. We can't promise that it's going to happen, but we are reflecting on it. If it does happen, hopefully, there will be a lot more cash available for investment purposes.

At the moment, we continue in exactly the same manner as we've been continuing for some number of years and we thank you for your attention and your interest in our company. We'd be delighted to answer your questions if any of our remarks have elicited any questions.

Questioner 1

First off thanks for having the conference call. It's great to hear from you quarterly. A bookkeeping question: in the fourth dot in the notes there is mention of the $4.8 million of receivable that we had for, I guess, fees earned from Kinetics Advisers. Where does that appear?

Murray Stahl

What page are you referring to in the notes so I can just follow you?

Questioner 1

Sure, so page seven. The line says, "As a result of the Exchange, the Company exchanged its original 8.44% membership interest in Kinetics Advisers for a 0.47% membership interest in Horizon Kinetics and a receivable of approximately $4.8 million."

Steven Bregman

Kinetics Advisers was the solely owned hedge fund corporation of Kinetics. That $4.8 million receivable represents undistributed income—accumulation of fees and whatnot—from Kinetics Advisers that was FRMO's proportionate interest, as opposed to the operating business of Kinetics Advisers that was merged effectively into Horizon Kinetics. So, when Kinetics and Horizon Asset Management merged to form Horizon Kinetics, Kinetics Advisers was a wholly owned subsidiary of Kinetics and, therefore, it was also merged into Horizon Kinetics. But there was undistributed income at the Kinetics Advisers hedge fund level that was due proportionately to all the owners of that and that was what was due to FRMO Corp.

Murray Stahl

We actually collected that money. As I mentioned in my remarks, in the August 31, 2011 balance sheet, the roughly $6.4 million line item called 'due from previously owned unconsolidated subsidiary' represents the fees receivable. The reason it's not carried as a line item on the August 31, 2012 balance sheet is because we received that money, some of which we invested. It's in the ‘Cash and cash equivalents’ and ‘Investments’ lines. Therefore, the difference between the $4.8 million and the $6.4 million is, in a certain sense, a drag on the change of shareholders’ equity year-over–year. When we carried it at roughly $6.4 million, it was the auditors' best idea of what its value might be and, in point of fact, it proved to be closer to $4.8 million, much of which was not in cash, but invested in securities, so the value fluctuated from quarter to quarter.

Questioner 1

Okay great. Thank you for the clarification. One last question. I happen to think that Virtus does a phenomenal job with the breakdown of their products and their fees. You can see all AUM aren't the same and closed-end funds are infinitely better than, let's say, a money market fund, although they're both under AUM. If you decided to use them as a template for disclosure I applaud you.

Steven Bregman

Well, you'll see what happens when it comes out, and we will listen to feedback as to whether it's helpful or not as we go forward. We have to start somewhere.

Murray Stahl

Right. So we'll be attentive to your comments and, as Steve said, we have to start somewhere and, if we can provide more data, we'll be glad to provide it.

Steven Bregman

I've always wanted to get a question like the one I’ve heard at so many of those rubber chicken lunches when someone always stands up in the dark and says, “Great quarter guys. What do you think EBITDA is going to be in the next couple of quarters?” [Laughter] I'd love to get a question like that. I can't answer it, and neither can they. I think they make it up.

Questioner 2

I have just a quick question regarding your allocation decisions. I'm just wondering if you would ever consider actively going out in the open market to buy back some shares or, alternatively, to issue shares in accordance with the level of the implied valuation.

Murray Stahl

Well, in answer to the first part of your question, we have the authorization right now to buy back shares, and we effectively did it even though it doesn't look like a standard buy back. You might recall that some number of quarters ago, we did a reverse-forward split, which had the impact of slightly reducing the number of shares that were outstanding. In May 2011, we had 39,155,000 shares and now we have 39,138,000 shares.

One can debate in a stock as illiquid as ours if we bought back a meaningful amount of shares would it even be a publicly traded stock. That's something that we may debate internally. We need to reflect on that question.

As far as issuing shares, if we get value at least equivalent to what we provide in value, we would not be averse to issuing shares for that purpose. But understand, our book value right now is $1.43. The book value by itself, before you get to businesses, doesn't even reflect the value of the float on the not inconsiderable group of assets that we clearly have tax liabilities against that we're not at the moment paying. You can debate what that value is, but it has a value. So, add in a certain number for that, whatever you like, and the difference between that number and our current stock price is how the market assesses all the revenue streams and business opportunities as it is right now. Reasonable minds can differ as to whether that's an appropriate valuation in the market or not.

We ourselves don't regard it as an appropriate valuation, and we're certainly not issuing shares at that level unless we get back pro rata at least as much value in whatever we might wish to do. I hope that answers your question.

Questioner 2

Yes, absolutely. Just another quick question: do you have a timeline in mind for when you might move from the OTC?

Murray Stahl

We know what we'd like to do, but there are a number of things that have to happen before we can move from the OTC markets. Most of it has to do with the passage of time. We have to have a certain period of time of audited financials. I forget what that period is, but I don't think we have it yet.

Steven Bregman

I believe we need two full years in order to accelerate the timeframe. As you are aware, we changed our fiscal year so we could do it a partial year earlier. But we need to get two full years.

Questioner 3

Hi Murray and Steven. I'm just curious; why keep Horizon Kinetics separate from FRMO?

Murray Stahl

I'll answer that question. There are a number of reasons the first of which is a tax reason. Historically, Horizon and Kinetics were separate companies. In order to merge them on a tax free basis, we had to preserve the Subchapter S nature of the two corporations. What that basically meant is we had to take the historical Horizon as it existed, take the historical Kinetics as it existed, create two new Subchapter S corporations and roll the old businesses into the new Subchapter S corporations, then take those two, technically speaking, separate businesses, and build an LLC around them.

What might well happen if we took the entire business as it is right now and merged it into FRMO, which I think is really the thrust of your question if I may be so bold as to presume, I believe that we would trigger very, very substantial taxes. In a Subchapter S corporation those taxes would fall on the shareholders, which would dramatically reduce the cash and markup of the securities that we have in our possession and we don't wish to do that. So, that's one reason.

The second reason, however, is if we were to do that, we actually would create, for SEC regulatory purposes, a change in control of the business. Essentially, under SEC rules, when 25% or more of the business changes hands, as it clearly would in a transaction like that, what basically happens is you have to re-paper every single investment advisory agreement, which means that every investment client effectively is giving consent, not to the merger, but they're asked to basically re-sign the investment advisory agreement. That's a very, very substantive task that we'd rather not undertake at this time, particularly since there might be other ways to ultimately accomplish the same objective, although we might have to do it slower.

So there are two major considerations which militate against taking that action at this time.

Steven Bregman

Which is not to say that we can't make progress in that direction. You saw the first evidence of that on August 15 when FRMO acquired a greater interest in Horizon Kinetics.

Murray Stahl

Right. It may not seem like much progress from anyone's point of view, but it's closer to a bigger position. There may well be other ways of doing it and we're actively reflecting upon those.

Steven Bregman

To reiterate my new favorite phrase for the evening, "you have to start somewhere," which we did.

Questioner 4

Thank you. Great quarter guys.

Murray Stahl

[Laughter] Oh, thank you for that. Thank you so much. We very much appreciate that. Whether it was or wasn't, we can leave that question aside.

Questioner 4

I know you were looking forward to that comment. Firstly, I want to thank you as well for having the Annual Meeting and this conference call. I found them both extremely informative. I'm going to preface my question by saying that I'm definitely a long-term holder, certainly based on information that I derived from the Annual Meeting and this conference call.

My question is, is this the first step in gaining a little more visibility on the market in general for our FRMO stock?

Murray Stahl

Well, yes. One of the problems with FRMO is that we're just too illiquid as a share. I guess in one sense you could say there is nothing so bad that you can't find a little good in it. It's sort of nice that everybody who knows us wants to be a long-term investor, but then if anyone new wants to buy, it's actually very difficult to purchase shares. So, we're trying to reflect on a way to change that, but change it in such a way that we increase liquidity yet, at the same time, don't damage the interest to the shareholders. Meaning that at any time you could always put stock in the marketplace if you really want to. But you don't want to give away more value than you would get in exchange. You would like, if anything, to take in more value than you give in exchange. I guess that's the ideal transaction and, if we can effect such a transaction that would increase the liquidity and thereby increase the market capitalization and, presumably, increase the visibility, we will pursue such an action. We're actively thinking about such actions, we just have nothing to report to you at the moment that we've actually done. Although, one day, we hope that we will have something to report.

Questioner 4

Well good. I appreciate that and, you know, it certainly doesn't hurt to see the stock selling at more than 1.25 times book value. Even though we're in for the long term, we do like to look at our statements every once in a while.

Murray Stahl

It's not a bad idea and, you'll recall, I believe I have over seven million shares of stocks so, clearly, it's important to me.

Questioner 4

Well I appreciate it. Thank you again guys.

Murray Stahl

You're welcome.

Questioner 5

Hi. Thanks guys for taking my call. I'm just wondering, based on the fact that the structure right now is an expense-light one, how does that play into possible acquisition?

Murray Stahl

Well, if we were going to do it, we would like—it doesn't have to be a similar business, but we'd like it to be a similar business in the following sense: that we want it to be an expense-light structure and we want the balance sheet to be free of any meaningful liabilities. I guess you can't find a balance sheet that has zero liabilities. I guess such an animal doesn't exist. We want an expense-light business and a balance sheet liability-light business. It doesn't have to be asset rich. It doesn't have to be cash rich. We certainly have adequate cash resources, but we would like to see low expenses and low balance sheet liabilities.

The whole idea behind the enterprise is that we don't want to put ourselves in the circumstance where we have an army of people whose expenses increase every year, and we have to pay them. Generally speaking, we would have to pay them more money. In a certain sense, your employees are your preferred stockholders, because their expenses are constantly going up. The first order of revenue increase you get goes to pay the higher expenses related to the employees. So, the shareholders get the second order of revenue increase.

We don't want to create that sort of circumstance here, which is why we worked as slowly as we have; hopefully, we worked diligently as well, to set up that circumstance. Now, if the balance sheet is the right size so that it will always have increasing cash assets to cover that, then we can afford to have more people in the company and make an acquisition that's somewhat more people intensive than we have right now. But, we've only just arrived at that balance sheet level. So, step-by-step, that's what we intend to do.

Questioner 3

I have a follow-up question. How should we calculate or project free cash flow going into the future?

Murray Stahl

Well, in essence, the truthful answer is no one really can do it, including us. The reason is, we have an investment portfolio that has predictable characteristics and, on a mark-to-market basis, it has some unpredictable characteristics, although we try to make them as predictable as possible. Then, of course, there is the asset management business. We like to think that the asset management business is at its nadir. But, obviously, it's affected by developments in the capital markets to the extent that the cash flow, or the revenue if you prefer, of the various programs in which we have a revenue interest, and the inherently variable cash flow from Horizon Kinetics, are largely equity dependent. One of the things we're doing in Horizon itself to mitigate some of that variability is in the alternative space we're doing things that are not necessarily equity dependent. If we're successful, we should have more of those products available. At that time, presumably, it will be less equity dependent and more predictable. We'll give you as much transparency and color about that as we can.

At the moment, it's fair to say that from a revenue standpoint most, but not all, of what we have is equity market correlated and, therefore, it's highly unpredictable. All you can say is it's very, very slightly, modestly, infinitesimally less unpredictable than it was a year ago. Whether that's helpful or not I don't know, but we have a lot of work to do to make it so that the cash flow is meaningfully less volatile than it is at the moment. We've only just started that process. I hope that helps you.

Questioner 3

It does.

Murray Stahl

I'd like to thank everyone for taking the time to listen to what we had to say and even for your interest in the company and your continued support as long-term shareholders. We'll do our best to be worthy of the confidence you placed in us and we will certainly reprise this conversation in about three months. We look forward to your suggestions and remarks during that period of time and you shouldn't hesitate to email us. Do look at our website: www.frmocorp.com. Once again, thank you for your kind attention and we look forward to doing it again. Thank you so much.

Operator

Ladies and gentlemen that concludes today's conference. Thank you all for your participation.

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