FRMO Corp. Letter to Shareholders
Fiscal 2014

Dear Fellow Shareholders:

As we prepared to write the fiscal 2014 shareholder letter, we were confronted by a most interesting occurrence that properly may be utilized as an introduction to a shareholder letter. It seems that Institutional Shareholder Services (ISS), a well-known proxy advisory firm, recommended that an affirmative vote for current management of FRMO be withheld at this year's election of directors.

Some of the reasons for withholding an affirmative vote are, on their face, actually rather sound and convincing: FRMO has no compensation committee at the board of directors level, so that the management decides upon its own compensation; furthermore, the board does not contain genuinely independent directors who could serve on a compensation committee and amend this practice; in addition, there is no board nominating committee to select independent directors who might, theoretically, alter this situation.

Indeed, we agree that management compensation should be subject to independent director oversight. There really is no excuse for our conduct. We might only say in our own defense that we did not subject our compensation to independent director oversight, because we actually receive no compensation.

The facts are as follows. Technically, we do receive compensation of some $12,000 per year each. The amount was chosen to be roughly equivalent to the minimum wage rate. However, we do not actually take the money. The salaries are contributed back to the corporation. Although the reader may find this procedure to be somewhat bizarre, many years ago it was found by our auditors to be necessary in an accounting sense as well as a tax sense because our labor, inadequate as it may be, still has some value that must be recorded as an expense. Once the sum in question is expensed, it becomes momentarily our property, at which point we are at liberty to, essentially, decline to cash the check.

Viewed from our perspective, the procedure is very much like taking a test and being asked only one question. The question is: "What two days of the week start with the letter T?" Our answer would be today and tomorrow and we would get a passing grade. In other words, like much else in the field of classical administration, it is the victory of form over substance.

In its current incarnation, the form versus substance issue arises again. We have publicly undertaken not to pay ourselves anything apart from what we might earn as shareholders from our stock holdings. We have also disaggregated a revenue share from our investment in Horizon Kinetics that is paid directly to FRMO, essentially creating a type of special earnings that cannot be used to compensate management. Consequently, it is for these reasons that we have not undertaken to engage paid independent directors to make certain that we are not paid.

Incidentally, apart from board fees, the independent directors would undoubtedly require sufficient quantities of directors' insurance to insulate themselves from any liability arising from their own actions or omissions. Of course, one might well wonder how independent directors could possibly supervise our actions since, via our voting power in the corporation, we could dismiss any director whose views were not in accord with our own. As anyone can plainly see, we have made no effort to insulate ourselves from criticism if our enterprise should not prosper. In that event, all blame is ours. In this connection one might add that a considerable and growing proportion of our wealth is invested in FRMO.

All of this rule setting and benchmarking is part of the trend towards the mathematization and formalization of business. Investment indexation, as undoubtedly the largest extant investment strategy, is an important part of this trend. The mathematization of investing is founded upon the presumption of the existence of certain statistical phenomena regarding returns and volatility in a historical context. Since it can be documented that these patterns have existed for nearly nine decades, it is presumed that they will exist for the next nine decades and quite possibly forever. This, in turn, permits the reduction of investment management to a concrete, definable process and hence it can be mechanized. Indexation is ultimately the mechanization of investing and it is imagined that the index fund is akin to the steam engine. The efficient markets hypothesis, one might dare say, is almost as widely accepted as the principle of universal gravitational attraction. The only real recalcitrants reside in the indefinable reaches of behavioral finance theory or in the so-called Alternative Markets Hypothesis, which seeks to reconcile the notion of the Efficient Market with that of evolving theories of behavioral finance so that these systems may co-exist.

If investments are indeed to be mechanized, it surely follows that proxy voting is to be mechanized as well. If we accept that premise, there should be universally applicable principles of good corporate governance. Hence, corporate governance structures should be quite similar and arguably even identical. Although we have not quite done the other side justice, one can see the origin of our debate with such firms as ISS.

It is worthy of note that in an August 2014 Washington Legal Foundation paper entitled "Outsized Power and Influence: The Role of Proxy Advisors," SEC Commissioner Daniel M. Gallagher commented that investment advisers cannot exercise their fiduciary obligations by merely "rotely" [his words] following a proxy advisory firm's recommendations. The investment advisers should engage with the companies in question so as to permit the managements to tell their story.[1]

[1] Daniel M. Gallagher, *Outsized Power & Influence: The Role of Proxy Advisors*, Washington Legal Foundation: Critical Legal Issues Working Paper Series Number 167 August 2014.

Consequently, although not previously afforded the opportunity to discuss this matter with the proxy adviser in question, we take this opportunity to make use of the annual shareholders' letter as an appropriate forum. We apologize for the length of the discussion; nevertheless, we trust that shareholders will find these comments informative.

In our discussion of business affairs, we take this opportunity to segment FRMO into the following components:

1) Investment in Horizon Kinetics LLC
2) Horizon Kinetics LLC Revenue Share
3) Bermuda Stock Exchange
4) Securities Sold Short
5) Investment Securities divided as follows:
    a. South LaSalle Fund–Minneapolis Grain Exchange
    b. Investments in Horizon Kinetics Funds
    c. Marketable Bonds and Equities
6) Cash and Equivalents.

The thematic structure throughout will be the effort to maintain and hopefully increase the financial productivity of our assets.

1) **Horizon Kinetics LLC.** This is already a most productive asset, although it is not easy to judge given Generally Accepted Accounting Principles. Our cost basis will rise as long as Horizon Kinetics retains some portion of earnings. Horizon Kinetics generally retains about $1/6^{th}$ of its profits in any given year and pays out the remainder in dividends. However, since the FRMO fiscal year ends in May, and the Horizon Kinetics year ends in December, interim changes in dividend policy by Horizon Kinetics for tax purposes might sometimes affect the optics of the financials. However, our current rate of return is comfortably within the double-digit range.

   Horizon Kinetics has three initiatives in motion to enable it (hopefully) to increase its productivity in a financial sense. It is (1) devoting effort to building its already substantial business in separately managed direct individual accounts. These carry higher margins than indirect relationships via referral or subadvisory programs. It is (2) growing its index business. Thus far, it has three index products. These are the Japan Founders Fund, which is available exclusively in Japan; the Virtus Wealth Masters Fund (ticker VWMAX), which is a partnership with Virtus Investment Partners; and a Spinoff index, currently available only in the swap market. The wealth index is also available as a separately managed account via Envestnet. As a measure of how rapidly the index business is growing, our index assets amount to roughly \$200 million. In August of 2013, the Virtus Wealth Masters Fund had roughly \$7 million of assets under management, and the Spinoff index did not yet exist. Virtus Wealth Masters alone now has over \$130 million in assets under management.

This expansion of the index business is important since the return is primarily based upon intellectual capital. The capital investment needed to launch such products is relatively small.

Horizon Kinetics is also, (3), developing its performance fee based products. One such product, which will be referred to as Class E, was just launched in May, so that it is rather early to expect results. Nevertheless, Horizon Kinetics has three more new products awaiting launch in the performance fee space. The general thrust of the new products is to assist investors with the three great challenges of the contemporary investment era. These are the search for more productive bond assets, the search for generally uncorrelated assets, and the limitation, or perhaps control, of the potential drawdown experience.

More detail on Horizon Kinetics is always made available during our quarterly conference calls. We are using the forum of the annual report to provide a more detailed than customary discourse on our strategic thoughts about the enterprise.

2) **Horizon Kinetics Revenue Share.** In principle, all that has been written about Horizon Kinetics applies with equal force to the revenue share. Yet, the salient difference is that it is the most pure form of operating leverage possible. If the Horizon Kinetics revenues increase, the revenue share productivity increases as well, with no commensurate increase in expense.

   It was designed, in part, to protect shareholders of FRMO from the common practice of investment advisers of compensating themselves rather well for any investment success. As such, it was, albeit indirectly, intended to address the management compensation issue raised by the proxy advisor, ISS. The problem, of course, is that the proxy statement has no discussion of the revenue share and its value for FRMO shareholders. This is entirely appropriate since, after all, a proxy statement is not intended to be a financial review. In effect, we decided by this mechanism to reward the shareholders rather than the management in the event of success achieved, not merely planned. Since, in this particular instance, the management happens to be significant shareholders, the shareholder/management interest is well aligned, or so we believe.

   In terms of productivity, the bulk of our revenues come from the Horizon Kinetics revenue share. It should be obvious that the revenue share is a most productive asset, given its approximate $10 million value. It must also be observed that for purposes of the 2013 Annual Report we were required to assign a value to the revenue share. This was because the various individual product shares were exchanged for the numerically equivalent revenue share. The individual product revenue shares had, in aggregate, essentially zero cost basis.

   It is arguable, as discussed in the 2013 shareholder letter, that the revenue share has a greater value than that carried on the balance sheet. Irrespective of the balance sheet value assigned to the asset in question, the true economic cost, as opposed to the official GAAP cost, is mere intellectual capital, not financial capital. As such, it is an extremely productive asset.

3) **Bermuda Stock Exchange.** The Bermuda Stock Exchange is a strategic asset. Consequently, its productivity must be considered on two levels. First, in conventional terms, the Exchange is currently profitable. The trading volume is below that experienced prior to 2008. The Bermuda economy is still experiencing, as are many national economies, the lingering impacts of the recession of 2008-2009. However, many of its domestic firms trade below book value. There are also listed a number of US insurance companies as well as several extremely large global concerns such as Hong Kong Land, Jardine Matheson, HSBC, and Mandarin Oriental. Hong Kong Land and HSBC routinely trade millions of shares per day. Jardine Matheson and Mandarin Oriental frequently trade hundreds of thousands of shares per day. Obviously, there exists the opportunity to attract more secondary listings.

   There also exists on the Bermuda Stock Exchange a unique market in insurance linked bonds. These pay a much higher than normal interest rate in exchange for the liability, on behalf of the purchaser, to absorb the risks of events like hurricanes and cyclones in different parts of the world.

   We control two Board seats, although the Board is referred to as a council. We do not expect that the Bermuda Stock Exchange will pay a dividend in the foreseeable future.

   Second, in non-conventional or strategic terms, the Bermuda Stock Exchange has state of the art trading technology. It also owns the Bermuda Securities Depository. Americans often forget how important a depository can be to an exchange since, in the United States, the Depository Trust Company (DTC) is separate from the exchanges. In other areas of the world, this is not the case.

   Many shareholders of stocks in Bermuda still own shares in certificate form, which usually are kept in a bank vault. The next generation of investors is more likely to use the Bermuda Securities Depository function to hold their shares in book entry, which could become a source of earnings for the exchange.

   Also, it should be remarked that the nature of investing is changing throughout the world. Historically, creation of securities resulted from issuance by a company, with the assistance of an underwriter, usually in corporate form. Most people forget that until rather late in the 19th Century, the formation of a corporation required an act of legislation. The passage of corporate enabling laws gave entrepreneurs the ability to raise capital without incurring certain liabilities in the form of lawsuits if the entity was unsuccessful. Corporate powers, since that time, have been widely defined. As a consequence, investors assume the risks of owning a limited liability firm with very broad powers.

Yet, the modern notion of investing is the effort to control risk. Investors require portfolios to exhibit certain precise risk/reward tradeoffs. Securities in general, as they exist today, do not exhibit such characteristics. In order to achieve their risk preferences, investors have tried to blend various combinations of securities in portfolios, with the result—as a function of their persistent aggregate demand—that the various equity indexes of the world have been exhibiting increasing correlations with each other. This is also true for individual companies as well.

In the field of bonds, efforts have been made to disaggregate risks by so-called 'tranching.' The result was certainly less than satisfactory. One of the consequences was the creation of various tranches of sub-prime mortgage backed securities. The basic idea behind sub-prime and its various tranches was to appropriately price each tranche for risk by adjusting the yield.

However, there are two significant problems with this approach. The first is that yield is not merely compensation for the assumption of risk; it is also the price paid for capital by the person who wishes to access capital. If a given borrower is a so-called "high-risk" and might default on a 6% mortgage, surely the risk is magnified if the person in question must pay 9%. Hence, the question of risk pricing is reflexive; it is a paradox. If the bond is adequately priced, given the risk, it actually has the consequence of increasing the risk.

The second problem is that the various mortgage pools or tranches are composed of heterogeneous entities. Not all sub-prime borrowers actually do default. It is possible in theory to purchase a sub-prime tranche that has few, if any, defaults. It is also possible to purchase a sub-prime tranche with an enormous number of defaults. Yet, it is extraordinarily difficult to determine in advance what the default rate might be for any individual tranche. Consequently, since the default risk could not be quantified on a case-by-case basis, in practice the risk could not be controlled. In order to better achieve this result, it is necessary that the various elements be homogeneous, not heterogeneous. This quantification is not something easily done by an underwriter that wishes to earn a deal spread and that has an incentive to promote high volume issues.

Given modern computer technology, it is possible to better segregate risk categories. One day, exchanges will be places in which investors refashion portfolios to more precise risk/reward characteristics. The so-called buy side will predominate over the so-called sell side. The relationship between buyers of securities and exchanges might possibly be altered in currently unimaginable ways. Hence, we wish to retain an economic interest in one or more exchanges for entirely strategic reasons. This is not to say that our investment in the Bermuda Stock Exchange will not prosper for the customary reasons of increased volume and listing activity.

4) **Securities Sold Short.** Our short positions consist primarily of path dependent indexes and ETFs. Although it might be rather hard to believe, the formal definition of a path dependent index is an index or ETF that will ultimately achieve a price of virtually zero. We wish to pursue this investment since we can use our existing assets as collateral, and no investment as such is necessary since it is a short sale.

   As of fiscal year end, our short sale position had a cost basis of $5,634,323 and a market value of $1,709,985. Hence, we now have an unrealized profit of $3,924,338, earned without the actual deployment of firm capital (aside from nominal financing costs), although it must certainly be said that our capital was and remains at risk.

   Path dependent indexes and ETFs experience net asset value decay due to several factors. First among these is if the ETFs in question are commodity oriented. The question of contango versus backwardation arises. Generally, commodities are in contango position. This means that the forward months trade at higher prices than the current or spot months. Let us assume that a given commodity ETF represents a one-month future. Of course, the ETF can purchase a one-month future. The problem is that after one day the ETF no longer represents a one-month future, since that contract is one day closer to expiration. It will be a 29-day future. However, since it is an index it must be formulaically consistent. Ergo, it will sell one-thirtieth of its one-month-less-one-day future and use the money to buy a one-thirtieth position in the two-month-less-one-day future. It will then still have, on a weighted basis, a one-month future position. This forward contract is more expensive if the commodity in question is in contango. In this manner the ETF constantly repeats the process and earns that which is called in the futures industry negative roll yield. If one wishes to earn this yield, one establishes a short position in the product that engages in this practice.

   Another source of decay is leverage. There are many 2X and 3X leveraged ETFs. The leverage itself ultimately becomes a source of decay, since the formulaic constraint placed upon the ETF results from its identity in an index that must have the same leverage ratio on each trading day.

   An example, albeit extreme, will make this clear. Let us assume that a given investor wishes to purchase the S&P 500 on leverage. In this case the investor will use 2X leverage. A $10,000 investment in equity will be added to $10,000 of borrowings for a $20,000 position in the S&P 500. The investor's position on day one is as follows:

$10,000 initial deposit equity
+ 10,000 margin loan
= $20,000 gross exposure

Let us now assume for illustrative purposes only that the S&P 500 doubles in value. The position, if this occurs, is as follows:

$10,000 initial deposit equity
+ 10,000 margin loan
+ 20,000 unrealized gain
= $40,000 gross exposure
- 10,000 margin loan
= $30,000 new equity

If the S&P 500 were then to lose 50% in value, the $40,000 in gross exposure would become $20,000 and the investor would unfortunately, in this example, return to the original position. This would be as follows:

$10,000 initial deposit equity
+ 10,000 margin loan
= $20,000 gross exposure

In contradistinction, here is what occurs when the same strategy is attempted in an index ETF format. It will be recalled that the example is deliberately extreme for illustrative purposes. In this case an investor places $10,000 in an ETF, perhaps based on the S&P 500, and leveraged 2X. Initially, the position is no different from that of an individual investor, with the exception that the leverage is applied within a fund context.

$10,000 equity
+ 10,000 loan
= $20,000 gross exposure

Let us now assume that in one day the S&P 500 were to double, as preposterous as this assumption will seem. The position at the end of the trading day is identical to that of the individual investor.

$10,000 equity
+ 10,000 loan
+ 20,000 unrealized appreciation
= $40,000 gross exposure
- 10,000 margin loan
= $30,000 net equity

However, since the fund in question is an index, it must have the same exposure for each trading day. Consequently, since the fund now has $30,000 of net equity, it must leverage 2X and will purchase, with new debt, another $20,000 of the S&P 500. Its position now become the following:

$30,000 equity
\+ 30,000 debt
= $60,000 gross exposure

Let us now assume that the S&P 500 were to decline by 50% in one day. A 50% loss on $60,000 of gross exposure would result in $30,000 of gross exposure. Hence there would be no remaining equity. The position at this point is therefore as follows:

$ 0 equity
\+ 30,000 debt
= $30,000 gross exposure

The investor has lost 100% of the equity merely as a consequence of the underlying index rising, then falling, by the same 50%. The example is deliberately extreme to avoid using calculus. However, in slower motion this is essentially the path dependent phenomenon. The constancy of leverage necessary to maintain legal status as an index essentially guarantees that the maximum leverage will be used at the high point of the index. Maximum should be understood in this context to mean that the leverage is maximized in dollar, not percentage terms. Of course, the maintenance of maximum leverage at a market high makes possible maximum portfolio damage. Those readers who recall the concept of maxima from calculus can perhaps visualize this circumstance in a Cartesian plane.

In reality, the market variability is not nearly this extreme. Nevertheless, the leverage doubles the market variability and the portfolio must constantly trade to maintain an invariant leverage position. This trading exacts its inevitable toll on the portfolio in terms of transaction costs.

One final minor point is interesting in this regard. When one is short the ETF, the management fee charged against the ETF helps to depreciate the investment, which is the purpose of a short position. Hence, short positions on ETFs actually enable the short seller to effectively “earn” the management fee.

It is for this reason that we maintain short positions in path dependent ETFs. In the short run, the strategy is not devoid of mark-to-market risk. However, in the intermediate run and longer, this should prove to be a highly productive investment.

5) Investment Securities

A) **South LaSalle Fund.** The South LaSalle Fund is not really a fund in the ordinarily understood sense of the term; rather, it is a vehicle for holding interests in the Minneapolis Grain Exchange. However, South LaSalle does take some outside capital. Horizon Kinetics controls another vehicle known as Croupier Prive in which another firm controlled by the Stahl-Bregman Group has an interest. Altogether, as of this writing, Horizon Kinetics controls 74 seats on the Minneapolis Grain Exchange, or approximately 18.4% of the 402 seats outstanding.

Viewed as an investment, the Minneapolis Grain Exchange has two intriguing characteristics. First, the volume of trading in Hard Red Spring Wheat has been rising rather dramatically in 2014. Hard Red Spring Wheat is a major part of the US wheat crop. It is grown primarily in the northern plains states such as Minnesota, North Dakota, South Dakota, Montana, Idaho, Oregon and Washington. Given the high protein content of Hard Red Spring Wheat as well as its superior gluten quality, it is used for products such as whole grain breads and pizza crusts. In 2013, the Hard Red Spring Wheat crop measured about 489 million bushels. Over the past several years, it has averaged over 500 million bushels. That is about 20% of all US wheat production and 25% of the three types of wheat that trade on commodity exchanges. The other two varieties are Hard Red Winter Wheat and Soft Red Winter Wheat. However, volume traded on the Minneapolis Grain Exchange has historically been much lower than on the Chicago Mercantile Exchange. The Minneapolis Grain Exchange adopted electronic trading at a later date than the primary exchanges and this may have been a factor. Electronic trading tends to reduce spreads, which frequently has a positive impact upon trading volume.

In any event, as can readily be seen by anyone who undertakes to visit the Minneapolis Grain Exchange website, the trading volume is expanding vis-à-vis prior years. The cost structure of an exchange is relatively fixed, so that as volume creates additional revenue, the revenue in turn has intrinsically high operating leverage, so that the profits of the exchange frequently increase in a manner quite disproportionate to the revenue growth.

The Minneapolis Grain Exchange also owns its own building, which is, technically speaking, actually three buildings with roughly 325,000 square feet of space. Approximately one third of the space is currently vacant, and rents in the remainder of the building are not high. However, East Minneapolis is currently undergoing a very extensive urban renewal project. This is adjacent to the area in which the Minneapolis Grain Exchange building is located. In fewer than three years, the neighborhood should be substantially improved. At that time, the building might have more value and participate in a more robust commercial real estate market.

It should also be noted that the licenses of the Minneapolis Grain Exchange for trading commodities and for clearing are in themselves valuable since these licenses are extremely difficult to obtain. As a result, although it may be right and proper to classify the Minneapolis Grain Exchange investment via the South LaSalle Fund as a mere investment available for sale, we regard this as a strategic investment.

B) **Investments in Horizon Kinetics Funds**. If one accepts the proposition that South LaSalle is essentially a strategic investment, our other ‘genuine’ fund investments total slightly in excess of $24 million. Excluding South LaSalle, we have slightly less than a $10 million unrealized gain on these assets, and that is net of realized gains that the funds have passed to FRMO over time. Accordingly, they have been very productive investments.

Of course even these other fund investments are not solely investments, since they provide the asset basis for Horizon Kinetics to increase its assets under management of performance fee type funds. Moreover, besides the role played by these investments for our other investments in Horizon Kinetics and the Horizon Kinetics Revenue share, it should be noted that Horizon Kinetics funds also engage in the short sale of path dependent ETFs. Hence, were it possible to disaggregate and reclassify these investments under GAAP, our exposure to the short sale category would be higher and the corporate total assets would be higher. This is merely an observation to illustrate the limitations of any classification system. Reality is actually far more complex than any system of classification designed by human beings.

As the past several years have progressed, the thrust of the funds’ investments has been counter to the general investment trends of the majority of the public. The public has devoted much effort to international diversification. One can gain some sense of this from the study of the statistics of the Investment Company Institute. Domestic Equity Mutual Funds have been experiencing outflows since 2007. The money flows have been gravitating towards international investments, index funds and bonds. In contrast, our investments have become far more United States centric. To the degree that we invest outside of the United States, our effort has been concentrated in Canada. Most international investors have a tendency to avoid Canada, as it is believed that its correlation coefficient with the United States is very high.

Our own belief is that international investing, as it is currently practiced, does not genuinely provide diversification, since the bulk of the international indexes are comprised of companies that export goods and services to the United States and Europe. In fact, over 50% of the revenue of the companies that comprise the S&P 500 originates outside of the United States.

It is our belief that in order to achieve genuine diversification, it will be necessary for a fund to become more idiosyncratic. It will be necessary to invest in firms that are not dependent upon business from the large companies around the globe. A company that serves a diversification role should be one that undertakes a genuinely independent and possibly even unique investment policy for its capital. We believe that our portfolios are replete with such firms. As such, our portfolios increasingly differ and diverge from the common indexes, and we intend to continue this practice. We remain very satisfied with our investments in the various limited partnerships.

C) **Bond and Equity Securities**. This segment represents, at fiscal year end, a market value of over $30 million. It is comprised largely, but not entirely, of closed end bond funds. Although we are satisfied with our closed end bond fund position in the sense that it provided an adequate or perhaps more than adequate return for the risk that was assumed, that is not to say that we are complacent regarding the position. We do try to avoid the use of emotive terminology such as "asset bubbles." Nevertheless, it should be obvious that whatever the direction of interest rates in the future, these investments cannot possibly provide an adequate return on capital at risk. The prevailing bond coupons are simply too low. In addition, one must not forget that however low the coupons may be, we must share a generous portion of these coupons with various government authorities in the form of taxes. Hence, investment capital devoted to this segment will need to be gradually redeployed. At fiscal year end, the investment in question represented 27.7% of firm total assets. We simply cannot maintain that level of exposure to an essentially low return asset and maintain our desired level of return on equity capital.

The bond question is also one of the many reasons that we have avoided entering the insurance business. Insurance requires a large permanent allocation to the bond segment at low coupons that we are absolutely unwilling to make. However, it should be stated that this is not our only or even most important reason for avoiding the insurance business.

Consequently, the exposure to the closed end bond fund segment will need to be altered. It is with some modest amount of regret that we undertake this action since closed end funds trade, not infrequently, at discounts to net asset value and are considered to be one of the few anomalous exceptions to the efficient markets hypothesis.

6) **Cash and Equivalents**. This segment comprises roughly 24.6% of total corporate assets. Ordinarily, since cash produces essentially no return, this would severely limit our possibilities for earning a robust return on shareholders' equity. In fact, we were able to avoid this problem for two reasons. First, as noted previously in this text, we were easily able to use the cash as collateral for our short sale activity. A successful short sale of one dollar of a path dependent ETF is over 200 times as productive as cash, even if interest rates were somewhat higher. Moreover, we only needed to use a very small proportion of our cash balances as collateral. In fact, the short sales themselves produce cash.

Second, the revenue share from Horizon Kinetics is structured to be a high return vehicle that generates cash with no reinvestment requirement. Most corporate earnings streams require the reinvestment of a significant quantity of the earnings generated. It is therefore obvious that our situation is unique.

It should also be obvious that our cash balances vastly exceed our normal operating requirements. We are therefore in a position to invest a substantial amount of capital should the opportunity arise. In fact, given that shareholders' equity now exceeds $94 million, we could, in principle, borrow against that sum, as we are a debt free company. This is not to assert that we are about to engage in such an undertaking. The purpose is merely to observe that we could theoretically write a very substantial check if such an action were desirable.

Thus, cash is a quasi dormant asset that can be mobilized to increase return on equity. It is only quasi dormant as it does serve a collateral purpose, in part. This cash sum, when considered as only part of our liquidity in addition to our closed end bond fund assets and potential borrowing capacity, should give the reader a proper sense of our total available liquidity. Such a figure, even calculated most conservatively, comfortably exceeds 50% of corporate assets.

Miscellaneous Remarks

It is worthwhile remembering that in February 2009, a low point in the fortunes of many firms, we had roughly $17.7 million in cash and equivalents, $26.6 million in shareholders' equity, and roughly $26.9 million in total assets. At fiscal year end 2014, five years and three months later, we had:

- $27.2 million cash and equivalents
- $94.0 million shareholders' equity
- $110.4 million total assets

In addition,

- shareholders' equity has grown over 3.5X
- total assets have grown by roughly 4.1X
- we have almost $10 million more cash than we possessed in February 2009

As we view these figures today in the light of historical circumstance, we are only able to remark that we should have done better. We believe it is much more salutary to reflect upon the missed or forsaken opportunities than the successes, however gladdening the latter can be. As a result, as we review our performance we are forced to conclude that we will continue our zero compensation policy for management. Perhaps it will inspire management to improve upon past results. We can only hope that this will be the case.

The zero compensation policy towards management might seem rather draconian to many objective observers. However, since management insists upon the retention of the power to decide upon compensation without independent review, it is an appropriate sanction.

We do not wish to make light of the very serious subject of corporate governance. However, in our position we are somewhat like politicians who must continually run for office in elections. The positions in question are those corporate offices we now hold. We have been told, at least figuratively, that those withholding votes for us would rather vote for the devil. Consequently, we would ask in all humility that if such a person is not running for election, may we count on your support?

We cordially and humbly thank our shareholders for their support over the years, especially in the past very challenging times.

Murray Stahl Steven Bregman