Operator

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

Thérèse Byars—Corporate Secretary

Thank you, Tulari.

Good afternoon, everyone. This is Thérèse Byars speaking and I'm the Corporate Secretary of FRMO Corp. We thank you all for joining us today. Before we begin, I have a few housekeeping items to read.

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

Today's discussion will be led by Murray Stahl, Chairman and Chief Executive Officer, and Steven Bregman, President and Chief Financial Officer. They will review key points related to the 2020 third quarter earnings.

A summary transcript of this call will be posted on the FRMO website in the coming weeks.

And now I'll turn the discussion over to Mr. Stahl.

Murray Stahl—Chairman & Chief Executive Officer

Thank you very much, Thérèse, and thank you all for joining us. First, let me apologize for a little bit of a delayed start. I'm going to indirectly blame COVID-19 for that. None of the participants on this call have the virus, to the best of my knowledge, but since we engage in social distancing, we're joining this conference call from different locations. To do that, we all have to have the same reference documents. In my case, I work with pencil, paper, ink, and hard copies, while nearly every other human being on the planet works with email and other electronic methods. To coordinate and orchestrate all those methods, in my humble opinion, is a lot harder than using pencil and paper. I recommend that the world go back to pencil and paper, but no one will listen to me. Anyway, that's my apology, and now we can get to the business at hand.

I'll talk about a number of matters, including, of course, the financial statements, which I'll try to explain, because they're actually rather complex. Then I'll talk about some of our strategic activities, and then we'll go to the questions.

If you look at the income statement, because that's actually harder to understand than the balance sheet, you'll see that we have some realized gains, some unrealized losses, and some dividends. Even though these statements are prepared according to the generally accepted accounting principles (GAAP) mandate, my sense is that people would be much more interested in, for example, how much money we made or lost from bitcoin, and how much we made or lost from Texas Pacific Land Trust (TPL), because those are salient assets. In looking at the income statement, let me explain it this way. When you see unrealized gains and losses, they can come from the partnerships, or they can come from Horizon Kinetics Hard Assets (HK Hard Assets), more than 90% of which is TPL.

Regarding the partnerships, using the Polestar Fund as an example—I may be slightly off, but I think it's 39.4% TPL, and the Horizon Multi-Strategy is roughly 43% TPL. So, when you see these movements up or down, they're largely—not entirely—but largely either TPL or bitcoin. I'll read you more numbers in a moment so you can zero in on what this is.

Going through the line items, dividends and interest income, theoretically, have almost nothing to do with TPL and bitcoin, except that you might be aware that TPL paid a very substantial dividend in March. Since we had a very sizable holding in TPL through the funds, this dividend and interest income number will be higher for the next quarter. Nevertheless, just by looking at it, you can't figure out how much TPL dividend income we actually had, because HK Hard Assets is consolidated, but the partnerships are not. If I understand my accounting principles properly, the entirety of the TPL dividend received by HK Hard Assets will be booked on FRMO's books, then the portion that FRMO doesn't own will be backed out, and that comes out in the second-to-bottom line for "net income attributable to non-controlling interests."

Regarding the equity earnings from partnerships and limited liability companies, a lot of that is actually Horizon Kinetics LLC (HK). The unrealized losses or gains, if we get them, are primarily from the partnerships and HK Hard Assets, because that's where the bulk of our money is. As to equity earnings from The Bermuda Stock Exchange, we don't own that anymore; we sold it for shares in Miami International Holdings, Inc. (MIAX), so that line will be eliminated eventually.

Obviously, subsequent to February 29th, various securities depreciated in value, and we have a very interesting situation going on here. There'll be certain unrealized losses and, if you go down further, you'll notice in this particular quarter end, at February 29th, we have a $1.2 million provision for income taxes, and we have almost three times that number for the last nine months. Even if we do nothing, we'll have a similar number in the fourth quarter. And even though we like to make money, we also want to minimize taxes. We have some interesting choices before us, and I just want to explain what they are.

If we were to do nothing, these estimated taxes, which we have to pay in advance, would become realized taxes. Or we could sell some securities at losses, because we might have mark to market loss opportunities, and we could take some or maybe even all of that. But then again, we don't really want to do that because we like the securities we have. Another possibility is that we might be able to take some mark to market losses in our short positions. But, we don't really want to do that, because they're almost all path dependent ETFs, and we know where they're going, which is down. Nevertheless, if we do sell some securities, the cash balance will go up, and we wouldn't want you to think that we're just adding to our cash balance. If we were to do that—and we haven't decided what we'll do yet—it would be to mitigate the tax liability.

On the other hand, if we decide to realize losses by buying back short positions, the cash balance obviously would have to go down, because you have to spend money to buy back short positions. In that event, we don't want to give you the idea that the cash balance is permanently lower, because after the required number of days—I think it's 30 days for the tax law—we would reestablish our positions, if that's the way we go. Or, we might do nothing. We don't know. Anyway, it's sort of an oddity when you get down to the fact that we're paying almost $3.3 million of taxes. That's a lot of money to pay in the year when we have mark to market losses. So, most people would say you should do some tax management. We could do some tax management, but I can't guarantee that we will. Just be aware that that eventuality might or might not come to pass.

Insofar as the balance sheet is concerned, you can see that it's pretty strong, tax liabilities aside. One of the more interesting aspects of having unrealized losses, is that, if you do nothing, some of those unrealized losses are actually subsidized by a deferred tax liability. If we do nothing and the market value is lower at the end of the quarter, the deferred tax liability actually goes down as well. So, we have that possibility, if you're interested in calculating our shareholders' equity. As we said, we like everything we have, and you know what we have, so let me give you more color on that.

The numbers I'm going to read first come from the partnerships. These are basically our portion of the cryptocurrency assets held in the partnerships. On a look-through, pro-rata basis, FRMO owns an implied quantity of 545,145 shares of the Grayscale Bitcoin Trust (GBTC); a comparatively small number of shares (5,684) of COINXBT, which is a bitcoin tracker; 204 units of Bitcoin Gold; 91 units of Bitcoin Cash; and 91 units of Bitcoin Silver. We have implied ownership of 1,493 shares of the Grayscale Ethereum Trust (ETHE); 4,833 shares of the Grayscale Bitcoin Cash Trust; 433 shares of the Grayscale XRP Trust, or Ripple as it is also known; 493 shares of Grayscale Litecoin Trust; and 522 shares of the Grayscale Zcash Trust. If you want the current values of the Grayscale Trust products, you can go to their website: https://grayscale.co. As of March 31, 2020, according to the materials provided to me, the investments I just listed are worth $4.12 million, and I think the prices are higher right now.

The coins we have mined and continue to hold directly are: 49 bitcoin, 342 Litecoin, 35 Ethereum, 641 Ethereum Classic, and 46 Zcash. FRMO also directly owns 7,644 shares of the Grayscale Bitcoin Trust (GBTC). Just to review, if you want to take the entirety of our holdings of GBTC, it is 545,145 shares through the funds and 7,644 that FRMO owns directly. Taken together, that's actually a fair amount of money.

With regard to HK Hard Assets, we keep increasing our position, and you'll see this in Note 1. As of the most recent quarter end, we own 18.86% of HK Hard Assets. We keep contributing to that partnership. In a few minutes I'll talk about the logic of what we're doing, but first I want to talk about cryptocurrency.

When you look at this balance sheet and you look at these assets, you'll see various investments in cryptocurrency endeavors. If you put it altogether, we could drop it into one LLC and call it a business because, in a way, it is a business. But, it's unclear to us how cryptocurrency will evolve.

Is it better to be a miner of assets? Is it better to be a holder of assets? If you're going to be a miner, is it better to lease out someone else's hosting facility or is it better to have you your own hosting facility? For example, you will see that challenge in other investments that we made, such as in HM Tech, LLC (formerly known as HashMaster), which is a hosting facility. Is it actually better to use your hosting facility to host only your own servers? Is it better just to own the real estate and in some indirect way participate in the profitability of mining?

You'll see we bought a building, and I think it is FRMO's first real estate asset. You'll see that investment under Cryptocurrency Mining Assets. Of course, there are servers included in that category as well. This particular month, we actually sold some servers and some parts of servers that we weren't using. It's the first time that we sold servers for scrap, and we were able to get some money from that. We'll be ordering more equipment in the coming months. If everything goes according to plan, you should see the cryptocurrency business gradually expand.

Now I'll talk about some strategic matters. It's basically related to HK Hard Assets in its own way, even though it doesn't seem like it. It's our belief, and it has been our belief for the last five years, that with all the money being created in the world, we're bound to get some inflation, at some point. It seems to be obvious to us that most currencies, certainly all of the leading currencies, are being debased. We used to say that the graph of the money supply in the United States shows, figuratively, almost a 90-degree slope. Now, if you look at the numbers on the website of the St. Louis Fed, it's literally—not figuratively— almost a 90-degree slope. So, that's the logic behind investing in cryptocurrencies and that's the logic of owning hard assets.

TPL is not the only asset in HK Hard Assets, even though it's the largest part of it. There are others, and they all have a similar characteristic. The idea is to invest in royalty companies that basically don't have a lot of operations, but receive a royalty on some other parties' assets and operations. When the price of that item goes up, the royalty company earns a lot more revenue, but the operational expenses don't increase proportionately. That's the basic idea of it. Whether that proves to be a sensible investment or not, we will see, but I'll say this for TPL: Roughly five years ago, when we started HK Hard Assets, the price of oil, if memory serves, was about $110 a barrel. Two days ago, you would have been paid to take oil at negative $36 a barrel, meaning they would have paid you $36 a barrel to take the oil that was scheduled for delivery. That's a pretty big collapse in oil prices. Maybe it could be bigger, but that's pretty dramatic. Five years ago, TPL was roughly $100 a share; now it's roughly $500 a share. If that's what happens when the price of oil collapses, can you imagine what might happen if oil actually goes up in value. So, now you get the idea of what we're trying to accomplish.

With cryptocurrency it's the same sort of thing. But not exactly, not really. We're used to saying that bitcoin goes up or bitcoin goes down, and I do it, too. But it's wrong and I need to remind myself to stop doing it, because bitcoin doesn't go up and bitcoin doesn't go down. Everybody should turn the bitcoin charts upside down. If you turn them upside down, what it would show is the value of the dollar in relation to bitcoin. When bitcoin "goes up," what's actually happening is the dollar is going down in relation to bitcoin, and the euro is going down in relation to bitcoin, as well as the Swiss franc, as well as sterling, as well as the yen, and so on. Basically, bitcoin is a long-oriented way of shorting fiat currencies. Why do you want to short them? Because, altogether, they are clearly losing purchasing power.

Ordinarily in currency trading, you short currencies in pairs, meaning that you might sell dollars for yen, or yen for euros, or euros for sterling, and so on. You're saying, basically, that Currency A will be better or worse than Currency B. When you buy bitcoin, you're saying that bitcoin will be better than all the currencies put together. (After all, if you think about it, we had to sell some dollars—because that's our functional currency—in order to buy, say, any of our GBTC.) That's what we're trying to do and towards that end, Horizon has created a number of partnerships that invest in cryptocurrency mining. Despite all the turmoil that happens in securities markets, they consistently pay dividends. It's my belief that, one day, the mining of currencies will be a much more important asset than buying bonds. Why do I say that? Because it's obvious that many bonds yield little to nothing. The idea of giving some entity—in many cases, a government—your money to hold for X number of years, and that they return it to you debased at a certain rate and a miniscule amount of stated interest—that's not a reasonable investment.

That's how we structure these investments, and we get an idea of what's going on. As we increase our exposure to various crypto assets, we might choose to combine all of them into one company and make it easy for you to see. At the moment, we don't do it. Not because we want to obscure anything. We just don't know what's going to happen. What are some of the uncertainties? Well, we have a halving coming up for bitcoin in a couple of weeks. We don't know what the hash power will be thereafter. The hash power refers to the computational power of the network. We don't know what the price of servers will be. We don't know what the power or power consumption of the servers will be.

There are many uncertainties, so to throw a lot of money into it is actually dangerous. I think that to gradually build a business that throws off cash flow, then to reinvest that cash flow is rather risk averse. We may be able to expand and avoid calamitous events by proceeding gradually, taking our time, and pacing ourselves, which I think is the realistic way to go.

To give you an idea of what's happened in the equipment market, if you were to buy new equipment today, it's likely to use a quarter of the electric power per terahash that it would've used two or two-and-a-half years ago. The equipment prices are down similarly; they're much cheaper and much more efficient. I would also argue they're more durable, meaning that fewer of them break down. To summarize, we're in mining; we own cryptocurrency we've mined; we invest in cryptocurrencies; we own part of a hosting business; we own part of a mining equipment repair business; and we own related real estate. Altogether, it is a complete business; it just doesn't look like it yet, because it's not consolidated in one structure.

In the future, we'll try to make these financial statements a little more manageable to read, but I think you get the sense of what's going on. To the extent we have interim appreciation or depreciation, it's largely from TPL and bitcoin, if you like. With that, I'll invite Steve to add to his comments.

Steven Bregman—President & Chief Financial Officer

Thanks, Murray. I gave a presentation to Horizon Kinetics investment clients yesterday, and the idea was to provide the background and framework to help people understand what's happening. Basically, it was about a global money-printing juggernaut on a scale that's never occurred before. And the reason I thought I was at risk for going on for an hour and a half was that if you just tell people, as is the usual fare, we like this sector, we like that, we think inflation is going up and we like this company because it's got this pristine balance sheet, it's just opinions. They're just facts, and people get them all day long from every corner. Particularly nowadays in the current environment, people are distracted and agitated, and what is it they're going to choose to remember?

I thought that the most important thing I could do would be to paint the process of how we've gotten here, what the central banks are doing, why they're doing it, why they're compelled to keep interest rates low: because of the huge amounts of debt they already have accumulated, and that they're simply multiplying that. I wanted to give our clients the sense of what $2 trillion means as just the first step of our stimulus package, an amount that will be dwarfed—even if there's no other spending—by this Special Purpose Vehicle Program that is all of $454 million of the $2 trillion package. But the Treasury, working with the

Federal Reserve, is going to put in ten times that amount, just creating more money, so that can be $3 trillion or $4 trillion more, even if there are no further spending programs.

I wanted to put that in context for people with respect to the size of the various significant economies, with respect to the amount of their debt and debt service burdens, to take them through that process, so as to gain an understanding of it. If you understand, then it's no longer an opinion. If you understand it, if you buy into it, if you accept it, then you know it. If you know it, then when one talks about what bitcoin might do, or how a royalty-structured business like TPL, or a precious metals royalty company might actually do under an inflationary circumstance relative to what else you might own, such as the typical more asset-heavy or operations-heavy structures, then at least you're providing something someone can take with them, and they will have a framework for understanding the choices before them.

I dare say that if you were to look for any publicly traded company in the world, and look for the exposures that FRMO Corp has—TPL as an example. TPL is just a stock ticker, and you think it's an oil company. But, as Murray has referred to it, it's a royalty pass-through vehicle. That's an entirely different business. Take the water complication out of it, and TPL has no meaningful operating expenses. It can be just hugely profitable on so many levels. The same will be true for bitcoin if it comes to be accepted as an alternative currency. As Murray might've said a week or so ago, it was invented specifically for an eventuality like the one we're in now.

And then, beside the other securities we own, FRMO has cash, which is a strategic asset, in and of itself. It has the extraordinary feature that its true value or purchasing power is highly elastic; it rises as the prices of other assets decline, because a fixed amount of cash can then buy more of some other asset or business. You've got two of possibly the most strategic inflation beneficiary assets you can think of with the bitcoin and the cash. I don't think you can find another business with those exposures. I would think that for anybody who understood what FRMO incorporates, I daresay they couldn't get that in one package anywhere else. Anyway, that's what I've got to say. It may be self-promotional, but I'm trying to be analytical about it. It's actually the way I see it.

Murray Stahl—Chairman & Chief Executive Officer

Okay, thank you, Steve. So, now we'll turn to some of the questions.

Questioner 1

Would you walk us through each line item in the table that reconciles the net income excluding the effect of unrealized gain (loss) from equity securities to provide more specifics? It is not clear which line items are related to HK Hard Assets and which to TPL.

Murray Stahl—Chairman & Chief Executive Officer

In the introductory remarks I tried to do that, because some are not related, some are slightly related, and some are highly related. Here's another way to view it that I think will be easier. I provided all of the cryptocurrency assets in my opening remarks. If you took all the partnerships and the TPL that we own directly—by the way, almost all of the TPL that FRMO owns is indirect through the partnerships. But directly, in FRMO at the consolidated level, we only own 888 shares of TPL. However, looking through the various partnerships, like HK Hard Assets, the Polestar Fund, and other entities, altogether it comes to 41,240 shares. If you price that out, that's actually many times the size of the bitcoin investments. As of the quarter end, the market value of TPL relative to the market value of all of the crypto currencies owned—that is the actual crypto, not the cryptocurrency mining machines and related items—in round numbers, the TPL market value is roughly seven times that of the crypto. They're both volatile, but I think that should make it clear that when you see appreciation or depreciation, the lion's share of it is clearly related to TPL, although bitcoin quite frequently provides its share of volatility.

I hope that provides an easier way to look at it and understand, and you can get an idea of what it is.

We update those numbers every quarter because they change. For example, as we keep mining coins in the next quarter, we'll have more coins and the ratios will change slightly. And, of course, we'll give you the numbers then.

Questioner 2

FRMO previously instituted a stock buyback program. Has any FRMO stock been bought back? Has any of the Company's cash been invested since the stock market decline?

Given the decline in the market, do you see this event as opening up any potential opportunities to make a significant investment in the near future?

Murray Stahl—Chairman & Chief Executive Officer

As of the end of the third quarter, we hadn't bought back any stock. We can't guarantee it, but it's likely to happen during the course of the next quarter. We'll know the amount at the end of the quarter, which is also the end of our fiscal year.

Regarding potential investment opportunities, given the market decline, theoretically, what we always wanted to do was to buy a company in its entirety, but we never did. Why didn't we do it? Well, two reasons. The first is that some of the businesses were outside our circle of competence, so we didn't seriously consider them. Other businesses were in our circle of competence, but to buy a company in its entirety, to pay a control premium at today's lower interest rates, you wouldn't get a business like that for less than 25 times earnings, and you probably wouldn't get it for 25 times earnings; it would cost more, and that was the problem. You start with a 4% return on capital, if you get it for 25 times earnings. If it's a well-run business, what are we going to add to make it significantly better? Chances are, very little, and you're always taking a risk. So, we never did it.

Having said all that, there are now other possibilities that are very interesting, and we are in the process of making some new investments, no question about that. It's premature to talk about them right now, because we're still buying them. Maybe we'll talk about it at the end of the quarter, but we can say that they're likely to be in the same inflation beneficiary class.

Questioner 3

Since FRMO and Horizon Kinetics share the same management and some investments, wouldn't a merger make good financial sense?

Murray Stahl—Chairman & Chief Executive Officer

It might, and it might happen. However, there's something called the Affiliate Rule that could make it difficult to accomplish, but it might happen. It's a possibility that we've thought about. If it were to happen in the right way, it might make things simpler for everyone. We're constantly thinking about ways to simplify the financial statements, because they're actually very complicated. As a matter of fact, I know what's going on and yet, when I see it done in the style of generally accepted accounting principles, some of it is difficult for even an insider to understand. I'll explain why.

I've been talking about TPL and bitcoin, but from the point of view of generally accepted accounting principles, there is no bitcoin, there is no TPL; there's HK Hard Assets, which is a fund. There is the Polestar Fund. There is the Multi-Strategy Fund. These are funds that need to be accounted for because those are the instrumentalities that are used to build a financial statement. Those are interesting financial instrumentalities and, of course, they're following the generally accepted accounting principles. But everybody who looks at the FRMO stock is thinking about cryptocurrency, they're thinking about TPL; they're not thinking in terms of the Multi-Strategy Fund or the Polestar Fund, or HK Hard Assets because, as funds without an explanation, they're just inscrutable. That's one of the problems that we want to solve. If we put the two companies together, that might solve the problem, so we're thinking about it. Anyway, you understand what the accounting issue is. We all have to follow the rules, and the rules don't lend themselves to making what we're doing easy to understand.

All right, here's a series of questions that I'll read them one by one, because they are different questions from one person.

Questioner 4

If one 42-gallon barrel of oil creates 19.4 gallons of gasoline, and the rest (over half) is used to make 6,000 other things, can the portion used to make gasoline be used to make other things, or must it be thrown away if gasoline is no longer needed? If it must be thrown away, where and how would it be done, do you imagine? If it can be used to make other things, then won't there be diminished demand for oil for a period of time?"

Murray Stahl—Chairman & Chief Executive Officer

Well, to begin with, what is an oil refinery? Basically, it's just a big boiler, and different products boil out at different temperatures. Gasoline boils out at one point, kerosene at another, jet fuel at another, asphalt at another, and so on and so forth. Everything in the barrel of oil is used to produce something. So, if no one wanted any gasoline, but wanted everything else, there's a portion of the barrel that would have to be disposed of, and that would be quite a disposal problem. But I don't see that as a probable outcome because, since the oil refinery is basically a big boiler, if there were less demand for gasoline, theoretically, you could burn the gasoline to create heat to boil everything else out. You could use a barrel to create the various products, at least in a chemistry sense of the word.

In any event, it's a very long discussion, and I don't know if I should go into it, but I don't see the displacement of gasoline as a realistic possibility at any time in the foreseeable future. I know I'm a minority in saying that, and it's probably not even politically correct. But I'm not making a political statement. As far as I'm concerned, it's a fact of nature. If anybody wants to discuss it, I'm glad to do so, but I won't go into it anymore in this part of the call.

Questioner 4 (cont.)

Texas Pacific Land Trust (TPL) states on page 8 of its recent Investor Presentation that it has existing relationships with 85% of the top exploration and production (E&P) companies and also blue-chip midstream companies, and "High Margin, Fixed-fee Revenue Streams" that it notes are "Resistant to Commodity Price Fluctuations." Would you clarify what this means for us? Specifically, what is meant by high margin, fixed fee, resistant to commodity price fluctuations? How is this so? How does this work exactly?

Murray Stahl—Chairman & Chief Executive Officer

I will answer this but with the qualification that I am certainly *not* speaking for TPL. I'm *only* speaking for myself and what this means to me.

It's important to understand that TPL is a royalty company in a variety of ways, one of which is that it receives easements for allowing people to cross its land. In some cases, even when there is no activity on TPL's land, if operators are active on land not owned by TPL, those operators must traverse TPL's property. They might have to, as an example, bring water to the property.

In those cases, just for the privilege of letting someone run a water hose across the property—which, incidentally, is called a lay flat and looks very much like a firehose—TPL receives a payment. It's like a ground lease or rent. It's not commodity sensitive; it's just a number. It's a lease that goes on for five years and it's renewable. In my personal opinion—and this is nothing other than my personal opinion—those leases have a very high propensity to be renewed and probably at higher prices. Why would they be renewed at higher prices? Because, in my opinion, in TPL's geographic area, which is the Delaware Basin and the western reaches of the Permian Basin, the development activity there is just starting and it's going to go on for many, many decades. But, again, that's just my opinion.

Questioner 4 (cont.)

How much of the royalty revenue from oil is from fixed fees in dollars and percentage of the total in years past, and how much is expected looking forward?

Murray Stahl—Chairman & Chief Executive Officer

That information is in the financial statements, so I'll refer the questioner to the TPL financial statements. It's all there; anyone can look at it.

Questioner 4 (cont.)

What rights do the lessees have in terms of capping the wells they have drilled? Are they able to leave them capped for long periods of time without any penalties? How does it work?

Murray Stahl—Chairman & Chief Executive Officer

The royalties are based on land that was disposed of by TPL many, many decades ago. Somebody else owns the land, and that land owner has contracted with some entity to drill a well. TPL retained the royalty rights to any hydrocarbon produced on that property. TPL has no ability to control what the landowner does; it's just that TPL retains the royalty interest. If hydrocarbon is produced on that property, TPL gets the appropriate royalties. The landowner works with the company that does the drilling. That's basically how the royalty interests work.

Questioner 4 (cont.)

How many shares of TPL does FRMO presently own directly, and how many do we own indirectly?

Murray Stahl—Chairman & Chief Executive Officer

I gave those figures earlier, but let me just restate them. FRMO directly owns 888 shares. In total, it owns 41,240 shares, including shares owned directly and indirectly. If you want to know how many shares FRMO owns indirectly, obviously, you'd subtract 888 from 41,240 and that would be the number.

Questioner 4 (cont.)

We have observed that there has been a hiatus for quite a while now in the 13-D filings of new purchases of TPL and affiliates, such as FRMO, despite its recent price decline and recovery. Why have you stopped buying virtually daily?"

Murray Stahl—Chairman & Chief Executive Officer

All I can do to answer that question is to direct you to another part of the SEC website. There is a daily filing of a Form 4. There are certain SEC rules that determine what you need to put in a 13-D filing, and there are other SEC rules that determine what you put in Form 4. If you go to the SEC website and key in the Form 4s that pertain to us, I think all your questions will be answered succinctly.

Questioner 5

I believe Mr. Stahl is familiar with Lacy Hunt of Hoisington Investment Management. In a nutshell, my interpretation of Mr. Hunt's thesis is that the burden of debt is so great that it's crippling the system and will keep rates low, barring Modern Monetary Theory (MMT). Do you or Mr. Bregman have any thoughts on Mr. Hunt's thesis or how it might comport with yours?

Murray Stahl—Chairman & Chief Executive Officer

I invite you to answer this, Steve, but I'll just start off and say that if you take all the debt in America, including everything—federal debt, government bonds, car loans, student loans, etc.—the total amount is over $77 trillion. The U.S. GDP is about $21 trillion, so every time you raise rates by a percentage point—and, by the way, that debt goes up by many, many billions of dollars every single day—1% of $77 trillion is $770 billion. So, 1% is nearly 4% of GDP, and 2% is nearly 8% of GDP. At the moment, the GDP is actually contracting.

Given that situation, it's not possible to raise interest rates in any material way without collapsing the economy. It just isn't. As a consequence, if you accept that as a given—I accept it, you need not accept it, but I accept it as a given—that means, looking at the current interest rates, every bond is getting debased right now. It seems pretty ridiculous to me that all of the bondholders will accept that position forever. At the moment, I can see why they accept it, because for quite some time interest rates have done nothing other than go down and the price of the bonds went up. There has been no reason not to accept that condition, including this year to date. But you reach a point where you can't lower interest rates further, and then the policy becomes problematic.

I think it's a big problem and people need to find a solution to it. We proposed our own, but I guess there are many ways around this problem, which will be a big challenge. A related problem is how do people get income, in general, on their bond portfolio? And we proposed our alternative, which is mining cryptocurrency, but maybe other people have ideas. Steve, I don't know if you have any comments to make on this particular question.

Steven Bregman—President& Chief Financial Officer

No, it's really just a comment on how people always get caught late and they get hurt, and how they are misled by the popular provisions of news. You've talked about this recently and I observe it over and over again. Whenever there is some change from whatever the norm is, you get newscasters, maybe they're financial newscasters, maybe they're just regular newscasters, but they don't actually do any of the research themselves; they simply repeat or collect opinions from other people. It's all secondary. And you find over and over again that they make statements that are actually false and misleading. If you have expertise in any particular field, you tend to notice it when you hear it on television. It could be a police officer, a surgeon, and the newscasters make statements about police work or surgery that the professionals know are incorrect.

The same happens in investments. The most prominent problem I see is that if you listen to the financial news networks, whether it's Bloomberg, CNN, or whatnot, what they're talking about with respect to the economy, with respect to all of these extraordinary changes, which will be the stuff of history books, is simply the usual fare: which quarter will the recovery be in. Is it going to be the third quarter? Is it going to be the fourth quarter? Will the GDP this year be down 2% or 5%? And, as you said, Murray, it's amazing that they're not talking about the inflationary impact, which is going to be huge. It's not even arguable if one simply collected a series of historical examples going back hundreds of years or thousands of years, that every single society that's ever produced huge amounts of new money, whether it's in the form of gold or paper or any other form, has suffered tremendous societal upheaval and debasement of savings. It's right there; it's inarguable. But that's not what they're talking about.

As usual, the average person and the average newscaster will not know it until it actually hits them. It'll be totally unexpected, but by then it will be too late. It's amazing that it's so big, and it's right in front of us but nobody's talking about it.

Questioner 6

Here's the next question: Why won't cryptocurrency mining become a low commodity-return-like business?

Murray Stahl—Chairman & Chief Executive Officer

I'm glad you asked that question. In any business, generally speaking, there are usually one or two companies that get really, really efficient and they have what is for them an acceptable rate of return. No one can approach their efficiency, and everybody else is forced to either accept a very low rate of return or just get out of the business. Why doesn't that happen to cryptocurrency? Well, it could, but it just won't, because if cryptocurrency were dominated by one or two efficient companies, no one would buy that cryptocurrency, because that domination would make it possible for somebody to manipulate the currency. The whole idea of cryptocurrency is that it's not controlled by anyone.

To avoid that situation, the following has happened and I believe it will continue for a very long time. In a normal business, the most efficient company sets the ceiling on what the return on equity will be. In the case of search engines, you could say Google sets the ceiling. Google has a certain return on equity, and everybody else who wants to be in that business will have to live with a much lower return on equity than Google's. The opposite is true in cryptocurrency mining: the least efficient company sets the floor. There has to be at least enough profitability for a not very efficient company to make an acceptable rate of return, while everybody else earns a higher rate of return.

If you try to dominate the business by becoming efficient enough to drive your competitors out, you'll destroy your own business, because you'll destroy your own cryptocurrency. If you read the original working papers on bitcoin from when it was created, you'll see that what I just described was the intent of the creator, or creators if it was created by a team. We don't know who actually created it. They say that it's some fellow named Satoshi, but we don't know if such a person ever existed. It might just be a pseudonym. In any event, the idea was that it forces people to collaborate against their normal instincts. For the last decade, it's actually worked. It's worked in every cryptocurrency and, since there are over 5,000 cryptocurrencies, one would think that a crowding out by the most efficient producer would have happened to at least some of them. But it hasn't happened yet and, in my humble opinion, it's not going to happen.

Questioner 7

This question has several parts, and I'll answer them one at a time.

If inflation is your biggest concern, what do you do about the massive cash allocation that will continue to lose purchasing power?

Murray Stahl—Chairman & Chief Executive Officer

Well, we have a lot of cash on the balance sheet, but we don't have a cash allocation, because that cash, generally speaking, is used as collateral for shorting path-dependent ETFs. Again, in generally accepted accounting principles (GAAP), cash is cash. It has a line on the balance sheet; the number is X, and there it is. According to GAAP, there's an asset: it's cash, it has a certain number, and you figure out what that number is. Then there's another number that goes on the liabilities side of the balance sheet and that's your short exposure. You're not supposed to combine them under GAAP, but in our minds, that's what we do.

We're not sitting there holding cash and letting it erode. As a matter of fact, in our various positions over the years, whatever minimal interest income we earned—which was taxed long ago—that return on the shorts paid for a lot of our assets. I think in fact it paid for most of them. Basically, we don't have a cash allocation in that sense of the word; we only have a cash allocation of X in the GAAP sense, because that's what's required. There's no way that an auditor would let you combine cash and shorts on one line on the balance sheet. That's just not the way it works. Obviously, we have to comply with the rules, but we can think whatever we like, and that's the way we look at it.

Questioner 7 (cont.)

If the Fed will prop up the equity prices, why not just go long the liquid names and the ETFs that are concentrated in those names?

Murray Stahl—Chairman & Chief Executive Officer

That's a question I get asked a lot. A lot of people believe that, so let me say a couple things. First of all, the Fed did not prop up the asset prices, despite what everyone says. Because if central banks could prop up the asset prices and make them whatever they wanted, the Japanese Stock Market would be at its 1988 levels, but it's not. So, let me tell you about the most liquid names, first indirectly, then directly.

Pay attention to a telephone company known as Frontier Communications. Its stock trades at about 22 cents a share. Why should you pay attention to that company? Let's say you want to know what the price of FRMO was three years ago. It takes a fraction of a second to get that information. When you use the internet, when you use Google for internet searches, for instance, when you download a movie on Netflix, when you use email, or whatever it is you're doing, the journey of that piece of data as it travels to your device, whether it's an iPad, an iPhone, or maybe it's a desktop computer, it's traveling over the telephone network. Because of net neutrality, the big liquid names, Microsoft, Amazon, Facebook, Google, Netflix, etc., are using a tremendous amount of the available bandwidth. For example, on a normal day, I think Netflix uses something like 27% of the bandwidth of the world, and they don't pay for it. The telephone company pays for it.

The telephone companies are getting to the point where they can't do it anymore. Frontier Communications is going bankrupt. I don't think there's a lot of doubt about that. Look at Century Link, the company that merged with Level 3, another big network provider. Look at their dividend yield and see how secure people think it is. If you don't believe that, look at AT&T, a large cap company. It yields, I think, 6.6% or 6.7%. In this interest rate environment, it doesn't look very secure. In any event, they pay out 100% of their earnings, and every day more people turn off their landlines.

Basically, the big liquid names, Microsoft, Amazon, Facebook, Google, Netflix, and so on, trade at their current levels for one reason and one reason alone: externalization. They have the ability to take their most significant cost, which is the cost of bandwidth, and get someone else to pay for it because of net neutrality. If net neutrality didn't work that way, they wouldn't be even remotely as profitable as they are right now. You might say, so what? It'll go on forever, right? Well, maybe not.

Pay attention to another small company known as Cincinnati Bell, which is in dire straits, perhaps not as dire as Frontier, but I think it qualifies as being dire. Cincinnati Bell, despite its name, owns Hawaiian Telecom, the landline telephone system in Hawaii. It is uniquely expensive because, after all, it serves a group of islands that all need to be connected. Some months ago, the Hawaiian state legislature decreed that the company could pass its network costs on to various users, despite net neutrality. A year and a half ago, the FCC also ruled to change net neutrality. As soon as the Hawaiian legislature did that, two companies began bidding for Cincinnati Bell: Brookfield Asset Management and Macquarie Infrastructure. Macquarie won. I don't believe the deal has closed yet, but I think you're going to see some fireworks.

To me, when you have massive large capitalization companies whose stock prices do nothing but go up and have astronomical returns on equity that don't have any historical precedent whatsoever, I suppose you can say it's because of the Fed, or I suppose you can say it's because the CEOs are brilliant. Or perhaps you can say it's because there's some cost externalization going on. Anyway, there's something unusual happening, and I would recommend that you pay attention to it. I don't think very many people will, but they should.

If you take this situation it to its reductio ad absurdum conclusion, eventually no one will have a landline, because people keep cutting the cord, so to speak. That could take five years, three years, or ten years, I don't really know. But I do know that people are turning off their landlines every day, so there's much less subsidy available to support the telephone networks. This trend is happening in every country in the world, not just the U.S. If you look at Portugal Telecom, Telecom Italia, British Telecom, Orange in France, Magyar Telephone in Hungary, and the list goes on, you'll see more or less the same thing going on. Somebody has to support the bandwidth. At the end of the day, if the large liquid companies are forced to support the bandwidth, then the people who believe the Fed can prop up equity prices forever are in for a great big and very unpleasant surprise. In any event, I could be wrong, but that's why I don't own those large liquid companies. I don't get involved in them, because I don't believe that the current situation is sustainable.

Questioner 7 (cont.)

What you call Miller-Modigliani is what private equity calls an LBO. Unless, of course, you have reason to believe that the debt will never be able to take over the equity. Is there any foreseeable scenario whereby Civeo assets are taken over by their lenders at the expense of the equity holders? If not, why not go all in on what would otherwise be a crazy cheap call option?

Murray Stahl—Chairman & Chief Executive Officer

Well, I suppose we own a lot of Civeo and, to be fair to them, they are paying down a fair amount of debt. I wish they would've done it sooner, but if you look at the most recent communications from the company, they are paying down a fair amount of debt. It's not entirely clear to me that the lenders want to take it over, and I don't know what they would do with it if they did that, but we'll just have to see how that works. I guess the way I would express it is that it's unfortunate that they didn't pay down the debt faster, and we'll have to see what happens.

Questioner 7 (cont.)

Is there any new line of business or potential new earnings vector that you think has high potential for FRMO?

Murray Stahl—Chairman & Chief Executive Officer

Well, all I can say to that is stay tuned for further developments and you'll see what happens.

Questioner 8

I am a RENN Fund shareholder and listen to the FRMO calls as well as the Horizon Kinetics calls on a regular basis. I was hoping Murray or Steven could spend a few minutes on the RENN Fund during the call today just to give a general update of what has been happening in the fund, if anything. I have read its SEC filings so I have an idea of the fund's direction, but an honorable mention would be good.

Murray Stahl—Chairman & Chief Executive Officer

Well, I'll give it an honorable mention. As you probably know, we have had a big cash balance in the RENN Fund, and we've kept a big cash balance. We had no idea that there was such a thing as COVID-19. We had never heard of it. We just thought that sooner or later there would be a shock to the system. It could've been anything. It could've been a war, it could've been an earthquake in California; it could've been anything. It just so happened that it was COVID-19.

If the valuations are too high, they will contract when a new risk phenomenon comes into the marketplace. The market has to price that. That's number one. Number two, apart from valuation, if it's a big systemic problem like the coronavirus, it's not a problem that any individual can really deal with on their own. Yes, they can seek out a physician, yes, they can be hospitalized but, in the aggregate, because there are many people, it just takes a long time, a lot of resources, and usually some type of government intervention to deal with it. The various governments around the world don't have the money. They have to print it up and, when they print up money, it changes the value of everything.

So, we were disinclined to buy stuff, and in this most recent decline, we haven't really bought much, except maybe a little bit in the gold oriented royalty companies, but not enough to make a difference in the cash balance as a practical matter. We really haven't invested anything other than that minor amount; we stayed put with the cash.

That's the most recent update. As we have more information, of course, we'll share it.

Questioner 9

Where on the balance sheet can we see the cryptocurrencies that FRMO has mined? I assume it is in cash and cash equivalents, but I am not sure.

Murray Stahl—Chairman & Chief Executive Officer

Well, to tell you the truth, before this call, I had to ask the accountants, and they had to look it up. I thought at first that it would be in Other investments, but Other investments are a noncurrent asset, and crypto is regarded as a current asset. I know it isn't in Other assets or in Current Assets, and it's not in cash, so it had to be booked with the equity securities. That would be logical because GBTC is clearly a security and that's part of it. So, the answer is that it is booked under Equity securities, at fair value.

Questioner 9 (cont.)

What are your thoughts on the coming bitcoin halving in light of the slowdown in mining equipment shipments?

Murray Stahl—Chairman & Chief Executive Officer

The slowdown in mining equipment shipments is related to the COVID-19 pandemic. To a lesser extent, there was an effect even before the pandemic, because of the tariff. To avoid the tariff, there was an effort to stop producing the equipment in China and move it to Malaysia. Then came COVID-19.

There's a certain amount of equipment that will be unprofitable when the halving happens in about a couple weeks. All things being equal, it's hard to imagine the hash rate not going down. If the hash rate goes down, that by itself might lower the price of bitcoin. On the other hand, there's a lot of equipment on order that will come to market in a very short period of time. For example, some of the main companies producing the equipment are issuing coupons for large orders, so that market is opening up. If the hash rate goes up, that will help the price of bitcoin. I'm not clear about what will happen on the halving date. I can just say this: The halving of bitcoin cash actually happened, so at least we have an idea. We know that the hash rate went down, but the price stayed the same, more or less. Actually, the price went up slightly. This is purely conjectural, but I think the same thing will happen with the bitcoin hash rate. Logically, you would think the same thing would happen with the price, which will maybe go up slightly, but I don't know that. It's nothing other than a reasoned conjecture, so don't hold me to it.

Questioner 9 (cont.)

Would you please discuss recent developments since your latest write-up on Civeo?

Murray Stahl—Chairman & Chief Executive Officer

I'll repeat what I said earlier in this call: It's gratifying that they paid down a lot of debt in the most recent quarter and, in the prior quarter, they paid down some lesser debt, but not an insignificant amount. All I can say is that I hope it continues. It would've been a lot better if they had done more of that sooner, but I guess we can't go back and change the past, as much as I'd like to, and I guess that's what I've got to say about it.

Questioner 10

What effect has the COVID-19 crisis had on the bitcoin mining business/sector, if any?

Murray Stahl—Chairman & Chief Executive Officer

Well, you could say it's had a modest effect in that shipments and production of new crypto mining equipment has been reduced. The pandemic is basically a disruption to the whole world economy. On the other hand, if there's a business that will not be greatly affected by COVID-19, it is cryptocurrency, because it's hard to imagine the virus actually surviving in one of these datacenters, because they generate so much heat that it would likely kill anything on the machines. Even with the air conditioning on, the ambient temperature can reach 140 degrees. I'm not sure that the virus could even survive in that environment.

You could say that almost every business is negatively affected by COVID-19, but crypto might be the exception in that it's a business that benefits from inflation, and inflation is a monetary phenomenon. That's what we read in the textbooks. Just look at the money creation all over the world. Theoretically, if you believe that the fiat currencies are being debased, and that money creation is a form of debasement, which it is, that debasement is happening at the greatest rate since the end of the Second World War. I guess you could say that COVID-19 in that limited sense is probably a positive for bitcoin and every other cryptocurrency, although it's a negative for everything else.

Ironically, if we look at it in more general terms, virtually everything in FRMO is a beneficiary of the inflation that's being created as a result of the pandemic. I'd rather not make money off human misery. I'd rather have less money and have people be healthy and safe, but it doesn't look like it's going to work out that way. I hate to say it, but this pandemic could have a very favorable effect on crypto.

Questioner 10 (cont.)

Have you employed any of your cash to make investments during the market meltdown three weeks ago?

Murray Stahl—Chairman & Chief Executive Officer

Not a lot, just a little bit. The cash we use for investments is the cash flow thrown off by our various businesses, including the shorts. Generally speaking, when the shorts are throwing off cash, we're investing, and we're doing it in a measured way anyway. The whole idea is to invest over time, because there's no time at which we can predict this is the best point or the worst point.

For example, when the decline first started, you might've said that securities were at very attractive prices. We had no idea how serious the COVID-19 crisis was going to be, what would happen, how much of the world would be affected, how many people die, how serious it would be, how many people would need to be hospitalized, and so on and so forth. There are so many things you just can't predict; all you can say is that there's a general trend towards the printing of money. We had no idea that the price of oil would go to negative $36 a barrel. It was impossible to predict that. So, rather than make a decision on any given date to commit a lot of cash, we just kind of gradually commit cash to the investments we like and leave it at that.

Questioner 10 (cont.)

What effect will the low oil prices have on the drilling activity on TPL lands? We think the Permian Basin has some of the most attractive cost per barrel economics in North America, but surely the devastating drop in the oil price must have some impact. Is there a way to quantify this?

Murray Stahl—Chairman & Chief Executive Officer

Yes, there are two ways to quantify it. The first is to visit the Baker Hughes website and look at the Baker Hughes Rig Count, where you can see how many rigs are committed to every region. You'll see the obvious contraction in drilling activity resulting in fewer rigs being employed, but that the Permian Basin has the lion's share of the rigs that remain and it has had the smallest contraction.

The second way to quantify it, if you want more detail on different sectors of Texas, is to visit the website of the Texas Railroad Commission. That information is provided by district numbers. There's a legend so you can look up where the Delaware Basin is and then see not only how many rigs are there but how much oil is being produced on a monthly basis. Between the Baker Hughes website and the Texas Railroad Commission website, I think you can get a very good idea of exactly what's happening on a month by month basis.

That was the last question, so thanks everybody for the questions and the attention. We'll reprise this at the annual meeting and hope that we can do this from our offices because COVID-19 will not be as much of a problem as it is today. We hope that everything will be a lot better. Thanks everybody for the call and for your support.

Operator

Thank you, ladies and gentlemen, this concludes today's presentation. You may now disconnect.

DISCLAIMERS:

THE INFORMATION CONTAINED HERE IS INTENDED TO PROVIDE A SUMMARY OF THE COMPANY'S THIRD QUARTER 2020 EARNINGS CONFERENCE CALL, AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE PRESENTATIONS. AS SUCH, THE COMPANY DOES NOT ASSUME RESPONSIBILITY FOR ANY INVESTMENT DECISIONS MADE BASED UPON THE INFORMATION CONTAINED HEREIN. READERS ARE ENCOURAGED TO READ THE COMPANY'S FILINGS WITH OTC MARKETS AND THE SECURITIES AND EXCHANGE COMMISSION BEFORE MAKING INVESTMENTS OR OTHER DECISIONS.

Past performance is not a guarantee of future results. The information and opinions contained herein should not be construed to be a recommendation to purchase or sell any particular security or investment fund. Furthermore, the views expressed herein may change at any time subsequent to the date of issue. It should not be assumed that any of the security transactions referenced herein have been, or will prove to be, profitable or that future investment decisions will be profitable or will equal or exceed the past performance of the investments referenced.

During the course of this transcript, certain investment products may have been mentioned, specifically, exchange traded funds. You should refer to each respective exchange traded fund's applicable disclosure documents for a complete set of risks, expenses and other pertinent details. Index returns assume that dividends are reinvested and do not include the effect of management fees or expenses. You cannot invest directly in an index.

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

No part of this material may be copied, photocopied, or duplicated in any form, by any means, or redistributed, without the prior written consent of FRMO Corp. All rights reserved. ©FRMO Corp. 2020.