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Operator

Welcome to the annual meeting for FRMO Corp. Our host for today's call is Jay Kesslen, General Counsel. At this time, all participants will be in the listen-only mode. I will now turn the call over to your host. Mr. Kesslen, you may begin, sir.

Jay Kesslen – General Counsel

Good afternoon, everyone, and welcome to the FRMO 2021 Annual Meeting of Shareholders. My name is Jay Kesslen. I'm General Counsel of the company, here replacing Thérèse Byars, who normally handles the calls, but she's out with a family matter.

The COVID-19 pandemic has made an in-person meeting unfeasible again this year, so we're hosting our second virtual-only annual meeting. We, of course, miss seeing those of you who normally attend in person. The silver lining of a virtual meeting is that it allows us to reach a greater number of our shareholders.

A bit of housekeeping, first. Please note the meeting is being recorded; however, no one attending via the webcast or telephone is permitted to use any audio recording devices. As is our custom, we'll conduct the business portion of our meeting first. Mr. Stahl and Mr. Bregman will answer questions at the end. Though we might not be able to answer every question, we'll do our best to provide a response to as many of you as possible and we'll address any unanswered questions in the summary transcript that we'll post after the meeting.

We've received several questions in advance. Only validated stockholders, however, may ask questions today in the designated field on the web portal. The FRMO Annual and Quarterly Reports, as well as the 2021 Letter to Shareholders, can be found on our website at www.frmocorp.com. These items can also be viewed on the FRMO listing on the OTC market's website by clicking on the disclosure tab.

It is now shortly after 3 p.m., the meeting is officially called to order. It's my pleasure to introduce FRMO's six directors, all of whom are candidates for reelection. They are Murray Stahl, Steven Bregman, Peter Doyle, Lawrence Goldstein, Alan Kornfeld and Jay Hirschson. Also present at the virtual meeting, from our auditors, Baker Tilly U.S., LLP, formerly known as Baker Tilly Virchow Krause, LLP, are John Basile and Patrick Warch. They will be available during the question-and-answer session after the formal meeting, to respond to any questions appropriate to them.

We now proceed to the report on the tabulation of the proxies for the two proposals. The Proxy Committee appointed by the FRMO Board of Directors is here this afternoon to represent those shareholders who have given their proxies to the Committee. The Board of Directors fixed July 26, 2021, as the record date for determining stockholders entitled to vote at the meeting. An affidavit has been delivered attesting to the fact that the notice of the meeting, the proxy statement and the proxy card were mailed on or about August 2, 2021.

The stockholder list shows that, as of the record date, there were 44,012,781 shares of common stock outstanding and entitled to vote at this meeting. The inspectors of election report that proxies were received from FRMO shareholders totaling approximately 29,492,107 shares of common stock, or roughly 67% of the voting power on the record date. Therefore, the meeting is properly organized with a quorum, and we may proceed.

The first item is the election of the six directors who were nominated in accordance with the company's governing documents. The second is the proposal to ratify the appointment of Baker Tilly U.S., LLP as the independent registered public accounting firm of the company for the fiscal year ending May 31, 2022. The Board, as you're aware, recommended a vote for both items.

It is now 3:04 on September 9, 2021, Eastern Standard Time. The polls are still open. Any stockholder who has not yet voted and wishes to change their vote or vote initially may do so by clicking on the Voting button on the web portal and following the instructions there. If you've already submitted your proxy, you do not need to vote again, unless you wish to change your vote, of course. So, we'll pause just for a moment here to allow time for the additional votes.

Okay, now everybody's had an opportunity to vote, so we are going to declare the polls closed for the 2021 FRMO Corp. Annual Meeting of Shareholders at 3:05 p.m. Eastern Standard Time, on September 9, 2021. Based on the preliminary reports of the inspectors of election, all six director nominees have been duly elected to the Board, with all nominees receiving 99% of the votes cast and 67% of the shares outstanding. The proposal will ratify the appointment of Baker Tilly U.S., LLP as the independent registered public accounting firm of the company for the fiscal year ending May 31, 2022. It has been approved with approximately 99% of votes cast and 67% of the shares outstanding.

There being no further business to come before the meeting, the formal part of the meeting is now adjourned. The next item on the agenda is the Chairman's Report to the Shareholders. Joining me on the line, as always, Murray Stahl, Chairman and Chief Executive Officer, and Steven Bregman, President and Chief Financial Officer. Mr. Stahl will review key points related to the 2021 financial results. And when he's finished his remarks, he and Mr. Bregman will answer questions. At that time, we'll begin with questions we received in advance of today's meeting. We'll then do our best to take the questions that were entered on the web portal. And, again, we'll answer as many as we can, and do our best to respond to those we cannot after the meeting. As noted earlier, unanswered questions will be answered in the summary transcript.

With that, I'll turn the meeting over to the Chairman of the Board, Mr. Stahl.

Murray Stahl – Chairman & Chief Executive Officer

Thank you so much, Jay, for your introduction and thank you so much, everyone, for attending today. Let me just lay out, in the housekeeping sense, how we intend to proceed because in virtual mode, we seem to get a lot more questions than we do in real-time mode. I want to answer all of them. So, what we're going to do, because some of the questions always pertain to facts and figures or numbers, is ask Steven Bregman to relate an amount of numerical information—how much we own of this, that and the other thing—then I'll take the floor back and kick off from where, essentially, I left off in the shareholder letter.

There are a lot of things going on in FRMO that I personally find intriguing and I think you will as well, and I'd like to elaborate on some of those. But, more importantly, which one doesn't really have an opportunity to do in the shareholder letter, I'm going to give you more of a sense of the historical thought pattern that led us to this point and why we're doing what we're doing. And, of course, I'm going to answer as many questions as I possibly can.

So, Steve, if I may ask you to read some of the figures that I know people are interested in, and we can read it nice and slow so they can have time to write everything down.

Steven Bregman – President & Chief Financial Officer

Sure. I'm going to read you some figures, and I'm reading to you because they show up in a variety of the questions that were forwarded to us. In one sense, it's out of sequence. I'm giving you some numbers and Murray will later speak about these very same issues again. But, on the other hand, if we save the figures for the qualitative response, that can break up the sequence of, let's just call it, business and qualitative discussion, going back and forth between talking about the essential qualitative issues and the quantitative – the numbers of shares held, or dollars of value owned and so forth. So, I'll give you some of these figures first. I hope I've got them all. And at least you'll have that information for later.

Maybe I'll stop with the top five holdings on the FRMO Corp. balance sheet as of May 31st. There are going to be market values and shares. In the case of the largest, that would be Texas Pacific Land Corp. (TPL). And there are 56,839 shares held, with a market value of $82.594 million. I'll give you a breakdown of what comprises that in a little bit. The second largest is cash, $44.1 million, that's on the balance sheet. Number three is the Bitcoin Investment Trust, ticker GBTC. Total shares. on a comprehensive basis, 578,876, with a market value—the price is probably as of June 30th, but you can make the divisions yourself—of $17.494 million.

Number four was Miami International Holdings, 1,874,960 shares, market value $13.179 million. And then fifth, Winland actually makes it, symbol WELX, with 1,281,807 shares worth $5.774 million. Altogether, those five largest positions, including the cash, total $163.2 million.

Now, some breakdown of those holdings. For the Texas Pacific Land Corp. holdings as of May 31st, that's combined FRMO Corp. and Fromex, there were 7,296 shares held directly. And then indirectly or implied, meaning including various private funds like hedge funds or whatnot in which FRMO Corp. has an interest, looking at its percentage of ownership, the look-through holdings of TPL in those funds account for an additional 49,543 shares. And we're using a price of $1,453 a share. That would get you to the $82.594 million of market value I gave you earlier.

There were some questions about HK Hard Assets, about what the total assets were and what percentage of those assets were represented by TPL. As of August 31st, HK Hard Assets had $144,065,000 of value. And TPL was $139,432,700, over 96.8% of the total assets.

In the realm of cryptocurrencies—there are a number of questions about that—on a consolidated basis, the total market value held direct and implied, same reasoning as for TPL—and I believe this will be valued as of June 30th—FRMO Corp. held $22.448 million of cryptocurrency. And that's divisible between direct ownership, where we have 100 percent ownership, and pro rata ownership through various private investment funds. The private investment fund ownership figure is the larger one. So, of that 22-odd million dollars, $18.287 million is held through private investment funds, and $3.890 million is held directly. Within that, we're going to see that the great bulk of the private investment funds, $17.028 million of the $18.287 million, is Bitcoin Investment Trust.

We can talk about the other holdings, but they're going to be relatively marginal. The next largest is Bitcoin Tracker One, which has the symbol COINXBT, that's $948,000. And the rest are much smaller. For the held-directly cryptocurrency, of the $3.9 million, bitcoin held directly, and that's bitcoin that was mined, was $3.4 million out of the $3.9 million. The next largest is Grayscale Bitcoin Trust, $228,000. And, obviously, the rest of them are marginal.

Next, there was a question about Horizon Kinetics Cryptocurrency Mining II, and how much that holds. Obviously, that figure will be incorporated within the numbers I just gave you. It holds 108 bitcoin, 77 Zcash, 1,258 Litecoin, plus de minimis amounts of some others like Bitcoin Cash, Ethereum and ATC.

And, last, there was a question about FRMO Corp.'s investment in Diamond Standard, with which some of you are familiar obviously, or at least one person is. FRMO invested $25,000 in Diamond Standard, and that amounts to 0.28% which, in our lingo, would be 28 basis points.

Murray Stahl – Chairman & Chief Executive Officer

Sorry to interrupt you, Steve. I just want to tell you I have a little bit more, indirect holdings, through the funds. I just need to mention that.

Steven Bregman – President & Chief Financial Officer

Thank you. You should be aware, just so as not to confuse you, that when I gave you the information on cryptocurrencies, the quantities held through the private investment funds, the ones that total 18-odd million dollars – those quantities were as of May 31st. There was a lag between getting information from funds held and getting the data to us. Those quantities of cryptocurrencies held directly are as of June 30th. It doesn't make a tremendous difference in terms of ownership numbers, but you should be aware of that.

Murray Stahl – Chairman & Chief Executive Officer

Thank you, Steve. Having concluded that portion, let's go back a few years, to a decision we had to make maybe 15 years ago. At the beginning of FRMO, it was really the investment arm, if you wish, of Horizon Kinetics. One decision we could've gone with is we could have made FRMO an investment management company. There's a problem with that. The problem—you might not want to hear this, but it's worthwhile talking about—is that nobody is here forever. I'm not going anywhere, Steve's not going anywhere but, you know, we're all mortal human beings. We have to think about that. So, to give the company life, we had to create a business alongside investment management, and hope it would throw off a lot of cash. We looked at a lot of different possibilities.

One we looked at over the years, which we never really considered seriously, but the opportunity was presented to us, is using the insurance model. And we rejected it for a lot of reasons. One of the reasons we rejected it is because the idea of investing the float in insurance was nowhere near as appealing as it once had been, historically, because interest rates had declined so low that you really couldn't get the return on your float the way you once did. Secondly, there's the possibility of underwriting loss, maybe even substantial, and we just didn't want to undertake that risk. So, presented to us as it was, the insurance business never was a serious consideration.

The next possibility, which we certainly could have pursued, because we continue to have significant financial resources, was to just buy another business. The problem with that was twofold. All of the businesses that we found to be desirable—and in this sense, it almost relates to insurance in the sense of the return on float being very low because of low interest rates—had very high valuations, and we didn't want to pay that. Secondarily, there are those businesses that we just couldn't see ourselves in a managerial position; we just didn't have the knowledge.

So, the only thing we could do was to create a business. But we never really had a good idea of what that could be until we encountered cryptocurrency. That was about six years ago, when not very many people knew a lot about it, and I would say we were in that category. I knew the term cryptocurrency, I'd heard of bitcoin, I knew it had something to do with cryptology. And I must tell you in all honesty that, six years ago, that would more or less have exhausted my knowledge of the subject. But we believed we could educate ourselves. And in the kind of business that everyone's educating themselves about, you can actually have a competitive advantage if you're willing to work hard and you're willing to gradually learn, so it was very exciting. We ended up building the components of a cryptocurrency business, but not a whole cryptocurrency business. I made some reference to that in the shareholder letter and it's worthwhile elaborating on it.

Why not just build an integrated cryptocurrency business? At the time, it wasn't clear that cryptocurrency was a winnable proposition. It was fraught with considerable risk, and the amount of capital we were willing to put into it was correspondingly very small. We did, however, make what I'd say is a broad-based, almost diversified, effort in cryptocurrency. It wasn't merely buying some cryptocurrency. We also decided to mine cryptocurrency.

When we started to mine, the idea of taking a couple hundred thousand dollars and sending it to China, not knowing if we would actually be getting any machines back, seemed at the time like an outlandish thing to do. Yet, we did it and it seemed to work out very well. We actually got the machines, and it ended up being a very good investment. We still operate machines and we're very, very interested in growing our cryptocurrency mining business.

If you look at the different pieces of the overall cryptocurrency business now, we own cryptocurrencies, we mine cryptocurrencies, and we made an investment in a company called Winland Electronics a number of years ago. At the time, it was merely an electronics company; basically, they make temperature and water sensors and other devices like that. They still do that, by the way. It's a profitable business. But we thought one day it might play a role in cryptocurrency mining. And, sure enough, over the years, we gradually increased our position. If you look back about 14 or so months ago, you might see we made a bigger investment in Winland. We bought some cryptocurrency mining equipment, which we swapped with Winland for a bigger piece of the company, making it a much more important investment, as far as we're concerned. More importantly, it put Winland into the cryptocurrency business itself.

As a matter of fact—I believe a press release was issued yesterday—we just made another investment. Not as big as the one we did last year, but not small either. We now own something on the order of 30% of Winland. We also bought some Winland shares in the open market. So, this is an effort to expand Winland's cryptocurrency mining business meaningfully.

Obviously, we have the capital to make a much, much more meaningful position, so it's worthwhile dwelling on why we don't do that. We don't do it because, even though I believe the future of cryptocurrency is far more secure than it was even a year ago, and it looks like it's actually become a legitimate, viable asset class with lots of opportunities in it, you still have to contend with a lot of considerations that are unique to cryptocurrency.

For example, there's something called a halving. What is a halving? Basically, cryptocurrencies were designed to be beneficiaries of inflation, and so they approach a fixed final issuance, or supply. The rate of issuance before that final amount, unlike the money supply of fiat money, declines every four years. So, what's really happening, if you're a miner, if the price of the coin didn't change, your revenue's going to be cut in half every four years. And that's a big issue—a really big issue—because say that right now, for instance, we might need new equipment; the equipment we own might be obsolete. Without state-of-the-art power efficient machines, we have some disadvantages. But to put too much money in any new-generation equipment risks their obsolescence if a halving is approaching and, therefore, places in peril the whole cryptocurrency mining effort, so we can't do that. So, we have to move in a step-by-step function in terms of capital investment. We have no idea when people might get very creative in terms of making the various machines more power efficient. More about that in just a couple of seconds.

Now, it's worthwhile noting that in the last—I believe it's six—years, the change in, let's say, using the Bitmain mining equipment, beginning with the S6 to today's S19 Pro, the electric consumption per terahash, believe it or not—I may be off a percent or so—is down 93%. I don't think there's any other electrical device with which I'm familiar that's had a similar experience in terms of efficiency gains. Now, it's really great for the planet and really great for the environment but, much more importantly, we can't put too much money into any generation of equipment, not being able to predict when that generation is going to be made obsolete and replaced by something better.

Now, when you mine cryptocurrency—it's worthwhile stressing this—what are you actually doing? You're taking a machine and operating it until it can't operate anymore, until it's worn out, and, effectively—we want to think of it this way—you're converting it into cryptocurrency. You're taking a temporal asset, one that has a limited life and for which it's hard to judge the lifespan at point of purchase, to convert it into crypto. By the way, we depreciated our equipment over the course of three years. It turned out that was unduly conservative. We operate equipment right now that we bought more than three years ago. But, in any event, we don't know. It's not a statement of ignorance. We just make the best estimates we possibly can in the matter.

In any event, you're basically converting a temporal piece of electrical machinery into coins. The coins are a permanent, non-temporal asset. So, there's a time arbitrage there, if you want to look at it that way. And, of course, there's an inflation arbitrage.

Now, a lot of what we do lately relates to inflation, so just to show you how many dimensions there are to this whole cryptocurrency effort, you might have observed natural gas prices and how much they're up in the last several months. Relative to a year ago, the price is probably up over 100%. In not that many weeks—maybe 10 or 12—the utilities that distribute natural gas are going to get rate increases. Natural gas is the fuel that's most used in the generation of electrical power, it's also used in heating homes and for cooking.

The utilities haven't received their rate increases yet, because the utility commissions are reluctant to grant increases for commodity prices that they view as possibly transitory. But the price change is so huge, they can't delay it much longer. Also, this is done at the state level, so it's not a national phenomenon. But every state is going to act, and with dispatch, I'd think, in a matter like this. There can be much more inflation three months hence than we're already seeing right now.

The reason I mention this in the context of cryptocurrency, rather than in the context of investment management and buying securities, is because the largest operating cost of mining is electric power. If the higher natural gas prices are passed on to consumers and reflected in electric power charges, that's going to affect the cryptocurrency prices, at least those that are mined. This is another important variable or type of risk to bear in mind with respect to our capital allocation approach, why we didn't feel we were in the position to just make one huge capital commitment as the way to build one integrated business.

Another cryptocurrency line of investment we made was getting into the business of doing our own hosting. We made a small investment in a company called HashMaster. Horizon Kinetics, the company we (FRMO) own roughly 5% of, made a much bigger investment. Horizon Kinetics owns, I believe, 51.4% of HashMaster, and FRMO owns 7.1%. The idea of buying a hosting business was also about risk control, as in what would happen if there wasn't hosting space available and we needed it? We don't necessarily host all our equipment at HashMaster, although we host some there.

There's a second thing that HashMaster does for us, and this is really interesting. HashMaster actually repairs cryptocurrency mining equipment. That became really important because if you're operating equipment, obviously you're going to have a need to repair it. That business, of late, has really flourished. I don't mind telling you that during the so-called crypto winter—the period 2017 to early 2020—all cryptocurrency businesses, not the least of which was hosting, they had their challenges. Anyway, we stuck with it and it's doing very well.

And then we have the cryptocurrency mining LLCs, which, in my opinion, have actually done remarkably well. We're in the process of getting a public listing for them. We intend to merge the various cryptocurrency LLCs, raise some outside capital, and make it a publicly traded vehicle, which means it will be available to sell. On the listing, Horizon Kinetics, is actually going to buy more stock in it. What's important, here, is not that Horizon is buying more stock; it's why Horizon is getting more stock.

An aspect of operating these mining LLCs is that when we bought machinery for them, we—meaning Horizon Kinetics—actually paid for it ourselves. Why do it that way? You never know if you're going to get a bad batch. It might need to be repaired, in which case it might not be operating for a while. We never allowed the LLCs to take that risk. What we did was buy a batch of equipment. It requires some number of days, sometimes a couple of weeks of testing to make sure that is operating properly. It was fine, and then we turned it over to the LLCs to be operated. What we didn't do is, we didn't take the cash from the cryptocurrency mining LLCs. We forgot. So, the mining LLCs kept the cash, because they never spent it; we paid for the machines, and we never got paid from the mining LLCs.

Now that this capital raising and listing process in taking place, rather than eliminate that payable, we're actually going to translate that payable into more stock ownership in this business. That's how enthusiastic we are about cryptocurrency mining.

You might look at it this way, that there are three discrete components to FRMO's cryptocurrency mining efforts: the Winland investment; the HashMaster investment; and there's the cryptocurrency mining LLC, soon to be a publicly traded company that we have yet to give a name to. Then there's the direct mining effort of FRMO itself. So, you might even say there are four pieces to it. Somehow, we've got to figure out a way to stitch those various elements together into an integrated business, and that's the next challenge that we face. No decisions have been made about how we might do that, other than what I just told you about in the press release from yesterday – we're increasing our investment in Winland.

So, a lot is going on there. Now, those aren't the only inflation beneficiaries that we've been focusing on. The securities exchanges themselves, in general, are inflation beneficiaries. The biggest investment we have in that field is MIAX, which is Miami Options Exchange. We got into it years ago, and we've since greatly increased our position via the mergers of the Bermuda Stock Exchange and the Minneapolis Grain Exchange with MIAX. Now, we're a significant shareholder of MIAX. If you follow it, you'll see that it's passing a number of milestones.

MIAX is listing some very interesting securities that are being issued. One of the features of exchanges, one I think that is going to develop a lot further, is that they can have proprietary securities. Historically, exchanges were just vehicles for listing companies. Many investors expressed their views about the economy with a portfolio of companies. The trouble with doing that, is that individual equities, even the entire equity market, is very, very idiosyncratic.

For example, you might think the economy is going to do well, or poorly, perhaps, and you might therefore be long or short a security or an index like the S&P 500. The real problem, or limitation, is that you might be precisely right about the economy but wrong about valuation, and all your brilliant economic analysis doesn't work, at least not in the applied sense. I believe that the future of securities is going to be securities that can relate directly to a specific economic phenomenon or measure.

I don't know of any plans for a GDP-based security trade, for instance, but I believe one day somebody's going to do it. It might be a derivative keyed to the GDP, so if that reported figure goes up enough, you get paid, and if the GDP goes down or is flat, you pay someone else. I believe a lot of the future growth of exchanges is going to relate to that type of innovation, that exchanges are going to be places where you can actually apply your macroeconomic or microeconomic view through a statistic-specific security. And because the marginal cost of doing that, for the exchange, is exceedingly low, the marginal profit on incremental revenue would be very, very high. Therefore, I would argue exchanges are beneficiaries of inflation.

We're looking to do more in that area. I'm mindful of the time and I want to get to all the questions, but would like to mention one other investment. The Diamond Standard investment. I tried to succinctly describe it in the shareholder letter, but I don't think I conveyed how excited I am about it. Basically, the company figured out a way to standardize the diamond as an investment. Pretty much everyone knows that each diamond is unique, so diamonds were never an asset class, because it's all heterogeneous. Shares of stock of any given company are homogeneous.

But Diamond Standard developed a number of patents with proprietary algorithms to create samples of small stones and put them in a coin, with each diamond in the coin rated on the various characteristics of a diamond: clarity, weight and carats, luster, color, etc. However, that sampling is done in such a manner that the aggregate sample that comprises each coin is statistically equivalent to any other coin and, therefore, they should all have the same value. The company conducted an offering of diamond coins in January, and that went extremely well. The idea is to make this an asset class and to one day have an ETF of diamonds. There's a plan to, in the not-too-distant future, do a much bigger offering of diamonds, and that's a roadmap to making diamonds a tradable asset class, an asset class that's actually protected by a patent.

The market value of all the diamonds in the world would qualify it as an asset class. In an inflationary world, it's much harder to find diamonds than it is to find and mine gold. On that basis, theoretically, diamonds should be superior to gold in a mineral, as a beneficiary of inflation. It's much more readily transportable than gold, or silver, or platinum, or artwork. So, I believe it's going to come into its own. It was such a unique investment, and no one else was doing anything like this, that I thought we just had to be involved in it.

At the moment, Diamond Standard is a very small company, but it could become an extremely large company. So, don't judge the potential of the investment, or judge what we think the potential is, merely by the size of what we put into it. It's just not a big company, so it doesn't require a lot of resources to complete its mission. We'll see what happens there.

That should give you a sense that we're trying to stitch together an operating business, likely being cryptocurrency, but which might incorporate some other elements as well, and that we're orienting the company on the premise that inflation, even if it's not here right now—though we believe it is—will be here shortly. And with that, I hope there are some questions I can answer. Cherise, if you would read me some of the questions, I will be delighted to answer them.

Cherise Martin – Executive Secretary

Yes, the questions that are received in advance are grouped by topic, and those that are coming in during the meeting will be addressed in the order that they are received on the website. The first batch of questions are mainly about cryptocurrency.

Questioner 1

FRMO is a large holder of bitcoin, directly and via GBTC, with these representing over 10% of shareholders' equity. FRMO cryptocurrency assets and Ethereum, Litecoin and other cryptocurrencies are likely under $1 million in total. Would Mr. Bregman and Mr. Stahl discuss their opinion in investing in other major cryptocurrencies, particularly Ethereum, Pandora and any others that are of interest to them? Did the release of EIP-1559 change the opinion of Ethereum's monetary policy? Does the ability to use non-bitcoin blockchains or decentralized finance, non-fungible tokens and other uses translate into demand for the tokens and, thus, accrue value to the underlying tokens?

Murray Stahl – Chairman & Chief Executive Officer

That's a lot of questions. Let's just start with the Ethereum token, the EIP. It is a breakthrough in the sense that one of the dimensions of that is, you're going to be able to embed the bitcoin token on the Ethereum blockchain. One of the criticisms of bitcoin is that the system is not fast enough, that it doesn't have enough capacity. That's a legitimate criticism. My personal perspective on the issue of bitcoin speed and capacity is that the idea was to create a substitute for fiat money that you would hold for a long period of time. The idea was not to make it, initially, as liquid as, say, fiat money. The idea was to avoid the danger that big corporations would come and dominate the system – like what happened to the internet.

If you look at the early days of the internet, the idea was that it's going to be a facility for the free exchange of ideas. And the way it evolved over the course of 20 years to a quarter century, is that a handful of companies that are referred to as tech giants came to dominate the business, with only minor peripheral inroads by other players. A lot of people want to return the internet to what it was in its so-called innovative glory period.

All of those limitations of bitcoin that people might complain about, I thought were done deliberately. They make bitcoin not subject to ordinary corporate pressures. It's more likely to remain a store of value. But there are some people who want to trade it or do all sorts of other things with it, so the world's going to evolve. That's one of the interesting things about crypto – that no one stops development. All crypto, real crypto, is open-source code. So, if you want your bitcoin to be more freely tradable, be more liquid, of course you can put it on the Ethereum blockchain and maybe some other blockchains.

One of our recent purchases of mining equipment was Litecoin machines. My theory is that Litecoin will ultimately have the same value as bitcoin. Litecoin has a very similar monetary policy to bitcoin's, but it started later, so it hasn't yet issued as much of its coins, as a percent of the ultimate supply, as bitcoin. Therefore, it makes sense to mine Litecoin.

Now, just to show you that we're not perfect, I'll share this mistake with you, and you'll understand more about our approach to strategic building blocks as opposed to large-scale singular investments. We bought some Litecoin miners, and we thought we got a great price on them. And we did get a great price on them, except for the fact that they were all infected with a virus. Every last one of them. There may have been one or two that weren't infected with a virus, but we hooked them all up to each other in a rack. If there were a couple of them that didn't have a virus, they got the virus. Now, what do you do?

As it happened, we already had our investment in HashMaster. So, we were able to analyze the problem and deal with the problem. It took a few weeks to figure out what needed to be done and actually do it. But I'm happy to report problem solved, and they're all operating. I won't bore you with what the solutions were, but these things happen in the world of cryptocurrency mining. Now, you could say that maybe we were to blame, that we were a little careless and should have checked more thoroughly for viruses – and you'd be right if you said it. But people are only human. They're working very hard and sometimes we can all overlook certain things. The trick is to have backup at all times. And we do. We have a kind of redundancy in our operations.

So, as I'm taking the substance of the question, it deals with other coins. I would say it's highly likely we're going to expand operations into other coins. We had to start somewhere. We had limited resources, like every company does. And we started with bitcoin, and I think it was the right thing to do. We gained a lot of experience. It's not to say that there won't be other coins. I wrote a paper a number of years ago in which I suggested that one day, there are going to be millions of cryptos, literally millions. That they're going to have specialized, unique functions. There'll be cryptos in the education field, there'll be cryptos in the software field, there'll be cryptos in the monetary field, and on, and on.

So, we'll never get to the end of the various directions we can expand in crypto. What is going to be our next venture? I'd rather not say for the time being, but we're working on all sorts of things.

Questioner 2

FRMO maintained a large cash position of $34,971,075 relative to its stockholders' equity of $298,913,775, and its total annual expenses of $1,349,682. Since the purchasing power of the U.S. dollar is decreasing and the company's annual expenses are so modest, comparatively speaking, why not invest more of its cash or hold some of its treasury cash in bitcoin?

Murray Stahl – Chairman & Chief Executive Officer

Of the many things to say about that, the first is we do hold a lot of bitcoin, however, we never thought of it as treasury cash. But if someone would like, they could say the bitcoin is treasury cash; that's a totally legitimate point. I just have a different view on it.

It's true that the money is being debased. Someone could say, well, if you really believe in crypto and you really don't have a lot of operating expenses—moreover, we do have income, so, we don't even need the cash to handle the operating expenses—why not put it into crypto? Because the issue is not the purchasing power of the dollar relative to crypto or even the dollar relative to a basket of goods and services. Because we have resources, plenty of resources to buy more crypto or manufacture more crypto, and we have plenty of resources to buy the things we need to operate the business.

The cash is there because we're interested in one other exchange rate, which is the exchange rate of cryptocurrency mining machines relative to cash. If you look at it this way, while you could say that the value of fiat money, in this case dollars, relative to crypto was declining, you could also say the value of cash relative to mining machinery is *increasing*. The price per terahash of mining equipment has been declining constantly. And that will, I believe, continue because of the halvings.

So, we always need to be ready to move into other areas of cryptocurrency, and the day might come where we might move more aggressively. We never really know how aggressively we're going to want to move. We don't know what's going to really happen with inflation. We have plenty of assets to protect us against inflation, and the purpose of the cash is really to buy machinery or otherwise expand the cryptocurrency mining business. And that's largely its purpose. Naturally, we'll need to keep a cash balance for operating purposes as well.

So, you could take our cryptocurrency holdings, which, by the way, are always growing since we're mining cryptocurrency with our equipment, and call it treasury cash, if you like—it's totally legitimate—but we think of the cash balances in a strategic sense relative to the mining equipment, which itself becomes a future potential conversion to crypto.

Questioner 3

I have an accounting question. The asset value of the participation in the Horizon Kinetics, LLC revenue stream is $10,200,000 for 2020 and 2021. The financial notes say that this is a non-amortizing indefinite-life intangible asset. Does this mean that the amount on the financial statements for this asset will likely not fluctuate or increase from $10,200,000? Otherwise, since the fee increased from $2,263,888 to $3,722,895, shouldn't the listed asset value for the revenue be larger? Would it be correct to think that this revenue stream is somewhat similar economically to the royalty business, i.e., the cash is a percentage of revenues and cannot go to zero or negative?

Murray Stahl – Chairman & Chief Executive Officer

That's an excellent question, you're 100% right. Let's just take it in round terms. If we've got roughly $3.7 million of revenue and, in round numbers, a $10 million investment, we're making a 37% rate of return on the nominal value of that investment. So, who gets the 37% rate of return? Surely, it could be argued, we could increase the balance sheet valuation of that investment. That's all logical and that's all reasonable.

Here comes the problem. What do we increase it to? We would need a formula that would operate in any revenue environment. What if the revenue share goes to $5 million, or what if it goes to $2 million, which it was the year before? Do we want the balance sheet value of the investment to fluctuate? And if we want it to fluctuate, how do we constantly adjust it?

To try it out, let's say we determined to arbitrarily value it at a capitalization rate of 5% of revenue received. If we received $2 million in revenue and capitalize that at 5%, you'd multiple the value twentyfold. The $2 million of revenue would be worth $40 million. Someone else could make an argument that it's worth even more, because there are a variety of optionalities, of which I covered many. And, unlike an option, the revenue stream is an infinite life asset, so the optionality is going to be worth a lot of money. And then, let's say that instead of $2 million in revenue, maybe next year we'll get $4 million, or $5 million?

We could never figure out a formula that would satisfy everyone. Actually, we couldn't figure out a formula that could satisfy anyone. That's why the best answer I can give you is that in our ignorance, in our failure to find a formula that we could apply with great regularity quarter by quarter, year by year, we just left it at that value.

A footnote, if I may, to that remark is that if you go back enough years—I don't remember the year—you will see we used to carry it at a lower value. Someone, either our own auditor or perhaps it was the regulators or maybe both, raised the point that we have to mark it up. But if you go year by year in our annual financial statements, you'll see there's a year that it did get marked up. We came up with a valuation, which was not easy to do, and I don't know if it was accurate or, perhaps better put, the best method. But rather than change it, based on ignorance, we leave it alone. So, that's the best answer I can give you, and I hope you can understand what the methodological issue is.

Cherise Martin – Executive Secretary

The next question is very long. The question is at the end, but we felt the material was helpful in order to understand what the actual question is, so bear with me.

Questioner 4

During the discussion in the third quarter earnings call, Mr. Stahl gave a very intriguing and thought-provoking answer to a question about the valuation of bitcoin by discussing the monetary policies of cryptocurrencies that essentially have the same monetary policies as bitcoin, and how their valuations would likely converge. This is an important idea that I had not heard discussed elsewhere, and I would appreciate it if he could elaborate more with a follow-up question.

Borrowing from a transcript of the conversation with slight edits for clarity, he said, "The first possible outcome is with the other cryptocurrencies, you just don't get network effect. If you don't get network effects, they may have some value, but they won't have a lot of value. You may make money on those, but the bulk of the value is going to reside in bitcoin. When that happens, you'll have some truly remarkable value in bitcoin. I personally don't believe that's the way it's going to happen for bitcoin. I believe that many of the cryptocurrencies that have essentially the same monetary policy are going to be adopted. They may not have a big network effect as bitcoin does. Essentially, they have the same monetary policy. And, as such, they are not going to have radically different valuations."

My understanding is that a very large amount of this value of bitcoin is due to the network effect, which leads to more usage, and more development, and also more security. For example, there is the lightning network that has been developed for bitcoin payments and there are businesses such as Strike and Cash App that make using bitcoin easier from a smartphone. These create value for bitcoin and not the forked coins. Bitcoin Cash, Bitcoin Gold and other forks don't have similar values of development or acceptance, thus have less value. Also, since that discussion, Bitcoin Silver suffered a 51% attack and saw its value decline.

The follow-up question is: Why does Mr. Stahl think that the coin, with similar monetary policy but with far different utility and security, will have similar valuations? Does Mr. Bregman share that opinion? And also, how would they value coins that have different monetary policies than bitcoin?

Murray Stahl – Chairman & Chief Executive Officer

If you look at the blockchain cell, the bitcoin blockchain, or you look at a blockchain explorer for bitcoin, what you'll see is about 86% of the coins are owned by really a very small number of addresses. They hardly ever trade. So, trading that happens in the bitcoin is 14% of the coins.

So, if bitcoin really became an accepted asset class, it's going to be very difficult for institutional investors to enter it. Or, alternatively expressed, if bitcoin became a payment asset, it's going to be very hard to get enough coins to circulate as freely as regular fiat currencies do. This is not a new problem historically. Over many hundreds of years, there are a lot of countries that experienced a certain shortage of currency. The supply was insufficient, and the people needed more, but the government was loath to do so for fear of an inflationary outcome. What you'll find occurred in those nations is that the coins of other nations began to be used.

In early American history, after the American Revolution and after the inflation that came from the Continental, a lot of people believed there was a shortage of gold in the United States; there was a shortage of dollars. And in various parts of America, foreign coins like the coins of Spain began to circulate.

Similarly, as the country evolved, before the establishment of the Federal Reserve in 1913, they solved the currency shortage problem a different way. This is probably a better parallel to the bitcoin and its analogues' valuation issue. At that time, banks issued their own banknotes and they circulated. They all were denominated in dollars, but if you went to that bank to try to redeem it, there was a certain amount of risk. The bank could be insolvent and not be able or willing to redeem your money.

Even if they were willing to redeem their banknotes, you faced a different problem if you lived in a different state – if you lived in Georgia, say, you might be reluctant to take a note from a New York bank, even if you believed in the solvency of the New York bank. Why? Well, if you want to go for it, you've got to bring the money to New York City. And there's a certain cost involved. What would happen is that the banknotes of various banks would actually lose value as the circulating note became more remote from the issuing bank. It might be hard to believe today, but I assure you it's true, that in the 19th century, there were at least 5,000 different issuer banknotes that circulated in America, and none had equivalent value, for the reasons I just mentioned, though they did have similar value. There were smaller banks, there were midsized banks, and there were larger banks, just as a matter of utility, because there just weren't enough notes to be standardized on one.

Don't forget, the cryptos, at least the ones I'm focusing on, are ones with a fixed issuance monetary policy. If you're going to have inflationary fiat that will always exist in parallel with the crypto, people are going to hoard those particular cryptocurrencies in accordance with what we know as Gresham's law. If that holds true, people are going to need to find a substitute and what better substitute can there be than coins that have the same monetary policy? They should have similar value. True, they have nothing even remotely close to bitcoin's network effect, but that's just a problem that's going to be solved. If the demand is there, they'll get network effect. Just like there was a point in time that bitcoin didn't have network effect, but eventually achieved it. There's no logical reason why the others can't achieve network effect.

By the way, even if a 51% attack were to happen, it doesn't destroy the coin because you could always go back a few blocks and reset the coin. Actually, Ethereum did just that. Technically speaking, they didn't hack Ethereum itself; they actually hacked a smart contract that was on the Ethereum platform. But a hack on Ethereum, at the time viewed as very severe, didn't stop the development. It disrupted the development, but didn't stop it.

Those are the reasons I would cite. That if the asset is in short supply, a comparable asset will be used as a supplement. So, if I had to put it in a sentence, that's the way I would put it. Steve, would you like to comment on that? Maybe you have a different view.

Steven Bregman – President & Chief Financial Officer

No, other than to reiterate something that is so basic and so simple, but which we sometimes lose sight of with all the current news, day by day, week by week, month by month, that occupies our attention. That the singular importance in the history of money, going back to the first coinage, is that fixed issuance cryptocurrency, as represented by the creation of bitcoin, is the first time in human financial history that there has been a non-debaseable currency. It's a simple thing to say. Unless you stop and pause upon that concept, the importance can slip by.

I know it's very easy to get excited about other cryptocurrencies. People either forget that the others, in terms of store value, are no different in terms of monetary policy than any of the thousands of other fiat that have existed. Or they can get very excited, and for good reason, about the technical aspects of them, of the blockchain serving different purposes, as in DeFi. But that can serve a different purpose than long-term store of value. Maybe the value there is in mining them. But one shouldn't forget that basic point.

Questioner 5

Why are you not consolidating your various entities, which all seem to be in the mining space?

Murray Stahl – Chairman & Chief Executive Officer

I believe the rules of consolidation are such that we would have to own over 50% to qualify for consolidation.

Questioner 6

During the April 2021 quarterly update call, there was a discussion of Bitcoin Gold cryptocurrency. However, in the September 2, 2021 shareholder letter, the main cryptocurrency accumulation was in Litecoin and Zcash. Can you discuss the strategy around which cryptocurrencies are selected to be actively mined?

Murray Stahl – Chairman & Chief Executive Officer

Bitcoin Gold is mined with different equipment than Litecoin. So, Bitcoin Gold, believe it or not, is mined with the same equipment used for Ethereum. So, we did an experiment. We wanted to build some machines. And to build them, we had to get the right chips, and they were expensive and hard to come by. So, we didn't build them. Instead, we were able to get a deal—a deal I made reference to in the Litecoin discussion—and we had our issues with that equipment and maybe that's why it was such a good deal, but we managed to recover from it nicely, I think.

Which is a way of saying that the ability to get certain kinds of equipment at the right price and at the right time powerfully informs our decision on what to mine. There's no sense in spending a lot of money on equipment to mine a coin, even if we find the coin intriguing, if we're not going to get adequate return on the capital. Now, maybe we could acquire the coin cheaper than buying it in the marketplace, if we were focused on a particular coin for some reason. But in the world of mining equipment, you'll find that the items you want at a given moment are not always available at a reasonable price. Now, it's worth reiterating that a reasonable price is not merely a price that we can earn what we think is a fair return on capital at the moment; you have to really think about the danger of obsolescence during the ownership period.

Take the example of what's happening on the Ethereum network. Ethereum would like to move to a proof-of-stake system. I'm not sure that's going to happen, but the majority of participants would disagree with me. But if Ethereum moves to a proof-of-stake system, then the proof-of-work miners or servers would no longer be used for Ethereum or, possibly, there will remain an Ethereum proof-of-work system that runs parallel to the proof-of-stake system. If the first scenario were to materialize, though, chances are there'll be a lot of that genre of equipment available, and we could use it to mine Bitcoin Gold.

One of the factors that informed our decision to wait and see what happens, was the possibility of Ethereum moving entirely to proof-of-stake, possibly making lot more equipment available to mine Bitcoin Gold. We weren't making a judgment on the future of Bitcoin Gold, we were making a judgment on the equipment.

Questioner 7

In the April 2021 call, mention was made of XBT Bitcoin ownership as a further bitcoin stock holding in addition to GBTC. Do you continue to accumulate that stock, too, and how much does

FRMO own? Is there a reason you have bought bitcoin stock such as GBTC and XBT Bitcoin rather than purchase the bitcoin directly in the open market?

Murray Stahl – Chairman & Chief Executive Officer

Okay. Well, I think as far as XBT goes, I think, Steve, you're the one who bought the XBT so why don't you, if you could, maybe comment on that? And I'll comment on the rest of it. I guess you're not – maybe you went offline.

Anyway, I myself was never a big believer in the XBT. Bitcoin Investment Trust, at the time when we started, was the only practical way to get into bitcoin, and we bought it many years ago. I forget how many years, but it's been many years since we bought any GBTC, so it is really a legacy investment. To the degree that we increase our bitcoin holdings, we're doing it entirely through mining.

Steven Bregman – President & Chief Financial Officer

Steven here. I was speaking extensively but, of course, with the mute button on. I did answer that question a little earlier. Of the $18 million of cryptocurrency holdings through our private investment funds, there's $948-odd-thousand in that Bitcoin Tracker One, Coin XBT, and that's the extent of our ownership. We don't own any directly.

Questioner 8

There was no mention in the 2021 shareholder letter of previously proposed plans to list FRMO Corp. on a public exchange, which I assume may understandably be of lower priority than a focus on higher expected return efforts at the exchanges or in building a crypto mining operating business. In the absence of such an action, might management consider communicating to minority shareholders at which simple absolute valuation multiple they might become aggressive share purchasers of FRMO Corp., providing liquidity and instilling confidence in the equities whose valuation the 2021 Annual Report's "critical audit matters" described as involving an especially challenging subject or complex judgment.

Murray Stahl – Chairman & Chief Executive Officer

The up-listing – if you're going to blame anybody, you should really blame me, and here's the cause of it. As I hope you can see, there are a lot of things going on and, unfortunately, there are only 24 hours in the day and I just didn't have time to deal with it. I was dealing with a variety of other things. I didn't really get into the range of things we've been involved in over the years—and some of them are rather time consuming—like the processes of merging Bermuda and Minneapolis with MIAX, but it did take a fair amount of time. So, to undertake one more administrative matter, which would be the up-listing, I just didn't have the bandwidth. Hopefully, one day I'll get the bandwidth and it'll be another thing that we'll get done. But I didn't have it.

And there was also, don't forget, the coronavirus issues and the challenge of Horizon operating in remote mode because we couldn't put everybody together in the office. That was a completely novel situation for everyone. Let's just say, the day was rather full. So, it's not that the issue doesn't merit a great deal of attention, it's just that we could only do so much as human beings. But all the points are well-taken and hopefully we'll get some time and get that accomplished as well.

Questioner 9

How does management think about competition and scale in the crypto mining space with partner firms like Core Scientific raising $345 million in capital via a SPAC with XPDI and listing on the NASDAQ exchange? More specifically, can management speak to HK and Winland entities' hash rates, hosting infrastructure capacity or breakeven prices for economic bitcoin mining? I care less about the specific quantitative figures that may be difficult to aggregate and more curious about what they might imply qualitatively about the expected size and strategy of the proposed operating company. Put differently, why does management believe a conservative strategy of slow, gradual investment activity is a winning one, as opposed to a low-cost production economic ease of scale in a capital-intensive commodities business?

Murray Stahl – Chairman & Chief Executive Officer

That's an excellent question. To begin with, mining is not a capital-intensive commodities business. That might seem a bizarre remark, but I assure you it's true, and I'll tell you exactly why. In the world of cryptocurrency mining, there aren't really economies of scale. There might be some very modest ones, but they don't mean anything. By the way, this is an example of what I mean when I say we felt we needed to get involved in mining to truly understand crypto. You can't know these things from the outside.

First and foremost, the reason that scale, per se, doesn't mean anything in the broad crypto universe is that everything is open-source code. Someone else develops an improved feature, you can examine it and adopt it yourself, if you want.

Second, you can buy one miner and you can bring it to a hosting company, and you're going to get, more or less, the same hosting rate as somebody with 10,000 miners. There's no major economy of scale in hosting, whatsoever. To the contrary, if you don't happen to have very many miners, you have an advantage, in a way. How so? Because if you have six miners instead of 60,000 miners, you have a range of places you can go to to host your equipment. If some provider wants to charge you a bit more, you can move your equipment somewhere else. If you have 60,000 miners, you're a prisoner. There are only a handful of places open to you. If you won't pay the stated rate, then you're just not going to have a place to host your equipment.

In fact—and I know this is going to sound bizarre, but I assure you it's true—there are many entities that ordered equipment in the last year or two, and they ordered it in a very interesting way. They made forward orders, meaning, they ordered equipment to be delivered over the course of years. They structured the order that way, because there's a paucity of hosting space to put it.

At our own hosting facility, HashMaster, there literally is not one empty space on one rack. We're about as packed as we can possibly be. If space were to open up—and sometimes it does, just because a machine or a number of machines either become obsolete or simply wear out—that space is filled immediately. And immediately means, literally, immediately. There are a lot of people who ordered equipment, and they have it, but have no place for it. It's not something that they anticipated. That's not the sort of thing that happens in the scale-economy businesses.

Alternatively, you could vertically integrate. As an example, we actually own the building—or buildings, I should say—in which we operate. Maybe it gives us a bit of an advantage. But there are operators who are 10, 30, 60, 100 times our size, and I wouldn't argue that they have any meaningful advantage.

Then, there's the electricity rate, which, perhaps surprisingly, is another scale *dis*advantage. As a large-scale miner, you have to buy power on the wholesale market. Now, the advantage is you might get a lower price; the disadvantage is, it's a take-or-pay contract. So, if the economics of mining change and hosting customers decide they're removing equipment from your facility, you still have to pay the electric bill. There are firms that went bankrupt doing that.

So, where the technology is constantly evolving—I just can't stress this enough—you're not going to find any meaningful economy of scale. And for reasons I've just cited—and there are many more, and I could probably give a multi-hour lecture on the subject—there really are no scale economies. You're not missing out on anything by being smaller and, may I risk saying, more judicious in allocating your mining capital.

Now, here's one other interesting, and I think paradoxical, feature of crypto mining. Let's say we raised a stupendous amount of money and we bought a million mining rigs. Let's say we bought them in bitcoin. Let's say we raised the money, we built our own hosting facilities, we hired the staff. Did we help ourselves? We've raised our overhead, but let's say we had the capital to undertake that challenge. But there's a unique challenge in crypto mining. By putting a lot more rigs in operation, you basically raise the difficulty rate. That means, the more rigs that are operating, the less profitable each rig is going to be. Why? Because with more hashing power in the system, and with the block reward being fixed, the reward has to be shared between more and more machines, which are usually aggregated in pools. You see, it's self-referential and equilibrating.

In the ordinary world of commerce, whether we're talking about a formal commodity like wheat, or whether it's hotdogs or iPhones, as long as there's sufficient demand, there's no limit to how much revenue you can generate. In the world of crypto, the only revenue in mining is the block reward. The block reward is: A) finite; and, B) in the case of bitcoin, it's getting cut in half in about 975 days. That's not a circumstance—and it can't be stressed enough—you're going to find in any other business. The reward is finite, constrained in that manner, and is shrinking. Certainly, the price of the bitcoin can rise and, generally speaking, when the cost of production rises, the price rises. But the supply of coins themselves that are going to be issued, that's declining.

So, there aren't the same kind of scale economies you would have if you were making electronic equipment. So, that's usually the analogy people use, but I don't think it's the right analogy.

Questioner 10

What is your estimate of the real value of Digital Currency Group, which appears at $76,261?

Murray Stahl – Chairman & Chief Executive Officer

We own, I believe, 353 shares; I may be off by one. As to my estimate of Digital Currency Group's value, I'm going to respectfully decline to share it for a couple reasons. First, my estimate is totally subjective and could be very, very off the mark. Instead, I'll just give you some metrics, and you can come up with your own way of valuing it.

All you have to do is go on the Grayscale website and look at how many tens of billions of dollars are managed by Grayscale, bearing in mind that Grayscale is only one aspect of the Digital Currency Group business. They get a high fee for their funds, but don't have a great deal of operating expenses associated with them. That will give you a fair idea of what the profitability of the business is. You can compare that to a publicly traded investment management firm to get a pretty good idea of what Grayscale might be worth. And then you'd have to make an estimate of what the venture capital investments are worth. There's also, of course, a fair amount of cryptocurrency holdings, and there's actually a mining business there, too. You'll have to make some estimates.

But using just the investment portion of the business, which I think is the lion's share of the value, I'd think you'd get a very intriguing sense of what the company is worth. There are roughly 700,000 shares, and we own 353 shares. You can figure out what percent it is, so you'll come up with a pro forma market capitalization, and multiply that by our percentage ownership. That's how you would do it. I'd just respectfully ask you use that as a guide, rather than give you my subjective valuation.

Cherise Martin – Executive Secretary

The next section is related to Winland. You may have covered some of these questions in the beginning, but I want to read the question as it stands.

Questioner 11

What is the mining cost for Winland Holdings Corporation as of today?

Murray Stahl – Chairman & Chief Executive Officer

I would say our cost to mine a coin is less than half of what a coin trades for today. It fluctuates every day because the difficulty rating fluctuates, but it's less than half, so it's extremely profitable.

But, as I've said many times, yet it's worth stressing again, in roughly 975 days, the block reward will be cut in half. So, when I say how profitable it is, it's that profitable for a reason. All else held equal, in 975 days, the mining revenue gets cut in half.

Questioner 12

What do you envision for Winland Holdings Corporation two to three years from now?

Murray Stahl – Chairman & Chief Executive Officer

First, we're not the majority holder, so we don't dictate what happens at Winland. It has its own board and it has its own independent life. If you're asking my opinion of what might be nice, from my point of view as a shareholder, it would be pretty nice if we could figure out a way to expand the mining business in some reasonable, but nevertheless gradual, manner. But remember, we own about 30%, so we don't get to dictate. It's a democracy, one share, one vote. I hope that's a good answer.

Questioner 13

This next one I believe you touched on in your introductory comments. I noticed R&D expenses have gone up for Winland Holdings Corp. Are there any new products on the horizon?

Murray Stahl – Chairman & Chief Executive Officer

Yes. Changes occur periodically in the world of the sensors. Eventually, a particular sensor becomes obsolete, or customers have new types of information they'd like to collect, and you've got to develop new, state-of-the-art sensors. You hire the necessary staff to develop new sensors. That's what the R&D expenses are, basically. Anyway, everything looks like it's going pretty well over there, as far as I can determine. I'm not the world's greatest expert, frankly, on temperature sensors and humidity sensors, and whatnot, but as far as I can tell, the money's being well spent.

Questioner 14

Any update on the Mt. Gox litigation? If you're able to comment.

Murray Stahl – Chairman & Chief Executive Officer

I have to tell you that I would have thought that everything would have been finalized by now, and that the coins would have been distributed. But, if you think the American bankruptcy system is time-consuming, we're dealing with the Japanese bankruptcy system, which is far, far more time consuming. Nevertheless, eventually all bankruptcies come to an end.

Although I don't know the date, it has to be pretty close to the end, now. And at the end, the coins are going to be distributed, and we'll no longer have Mt. Gox trade claims, just more coins. I wish I could tell you the date, but I don't think I would know it even if I were a judge on the case in Japan. My understanding, and it could be very wrong, is that the COVID-19 pandemic has greatly disrupted many processes in Japan, the bankruptcy process included.

Cherise Martin – Executive Secretary

This is a more general question, before we move on to the next topic.

Questioner 15

In the past, Murray and Steve have given ideas to invest in, when asked. Are there any interesting ideas they think shareholders should look at?

Murray Stahl – Chairman & Chief Executive Officer

Well, Steve, I'll turn it over to you. Do you have any interesting ideas people should look at?

Steven Bregman – President & Chief Financial Officer

A categorical one is that the universe of royalty companies appears to be expanding. If there will be more demand for raw materials, whether for car batteries or all the materials that go into wind project towers, which are massive and require lots of steel, nickel, and copper, and silver and rare earth metals, or for solar projects, there's going to have to be a lot more spending on extractive industries for those critical commodities. And so far, for many years, those mining companies have been disinvesting in capital expenditures. And one of the funding mechanisms is royalty companies. Those traditionally were in gold and silver, the narrow ones, but there are more around, now.

There are some royalty companies that focus on iron. There's even a royalty company now that has shifted its focus in recent years away from traditional extractive-based commodities, like coal, toward critical metals, like cobalt and nickel and the kinds of metals that are being used in renewable power. That company is called Altius. There's even a subsidiary of Altius, which is publicly traded, that is intended specifically to invest in royalties in wind and solar projects. It's new, it's small, it's just getting started, but a typical investment could be a large offshore wind project that has various kinds of government subsidies and might operate for 30 years. In the way that properly structured royalty contracts work, maybe that project runs at breakeven forever, yet the royalty provider should get its ongoing percentage of revenues and be quite profitable.

So, that's an interesting area and there may well be more such companies in the future, and with more opportunity for them to expand. That's one sector to look for something interesting.

Murray Stahl – Chairman & Chief Executive Officer

I'll just name one company, Clarkson. We own it in various Horizon portfolios. It's the world's leading ship broker. Basically, if you want to transport something—oil, commodities, what have you—it finds you a ship. Shipping, for the last 12-plus years, has been through probably its most brutal bear market ever. And it's only this year, 2021, that it's begun to emerge from that great depression.

Nor are there a lot of ships being built. Many of the ships that are sailing the oceans are actually fairly advanced in age and they're going to have to be retired. And shipping rates are going up. A really intriguing aspect of the ship broking business is that the pricing is ad valorem. If the charter rates go up, your share, your commission, goes up, while your expenses stay the same. So, it has real economy of scale possibilities – even without generalized inflation. If we do enter an inflationary period, I think it's a very interesting company to own, and we own it. So, I would say Clarkson. It's a British company, and trades on the London Stock Exchange.

Cherise Martin – Executive Secretary

We're going to move on to the RENN Fund section.

Questioner 16

Murray stated in the annual report that investing in the RENN Fund reduced FRMO's taxation problem. Can Murray explain how 100,000 shares can lower FRMO's tax bill?

Murray Stahl – Chairman & Chief Executive Officer

It doesn't lower our tax bill at all. The tax problem is when we invest from FRMO's own account. As you can see on the most recent balance sheet, we have a fairly substantial deferred tax liability. The RENN Fund has a tax loss carryforward. Had we bought the exact same securities in the RENN Fund as we did in FRMO, and had they appreciated in the exact same manner, we wouldn't have a deferred tax liability.

The problem is that we don't own enough shares of the RENN Fund, so we're buying more. Generally, we buy more on most days. That's one modality. There's also a rights offering that we filed. Hopefully, it will be approved soon by the regulators. With the rights offering, we would have the opportunity, as all shareholders would, to put a little more capital into the RENN Fund, as opposed to just buying it every day. Obviously, it's not going to solve our problem, but every little bit helps.

Questioner 17

To the extent that you can comment, what are your general thoughts regarding the long-term operation of your closed-end fund, the RENN Fund, ticker symbol RCG? It's a rather small fund and even with ongoing rights offerings, it is not yet earning. In fact, it is actually costing Horizon Kinetics money. Has there been any thought regarding possibly merging this fund into your phenomenally successful Inflation Beneficiaries ETF, ticker symbol INFL, since the holdings in the two funds, aside from the RENN Fund's disproportionately large holding in Apex Medical, are almost identical, and Apex Medical could actually perhaps be seen as an inflationary beneficiary stock? Merging RCG into INFL would result in immediate additional fees for Horizon Kinetics, add $15-$20 million in assets and about $5 million in cash to INFL. It would also give RENN Fund holders much greater stock liquidity and most likely give RENN Fund holders net asset value for their RENN shares, while RENN shares have historically traded at a discount to NAV. Could this be a potential win-win?

Murray Stahl – Chairman & Chief Executive Officer

It could. It's actually not a bad idea, so, I'd consider that as a possibility. But I was thinking along different lines, because the RENN Fund has some interesting faculties. One of its faculties that you don't have in the Inflation Beneficiaries ETF is that you're able to hold a private placement. We could never buy Diamond Standard in the Inflation Beneficiaries ETF, no matter how much we considered Diamond Standard to be an inflation beneficiary. The same is true of MIAX or some other private investment.

We have been able to encounter, not just as theoretical possibilities, these interesting opportunities that have just extraordinary potential. One of our challenges was that we didn't previously have a vehicle by which we could make those available to the public other than through a private partnership, with all the restrictions that partnerships entail. So, that was the mission of the RENN Fund. And even though Diamond Standard is a really small position in the RENN Fund, you might ultimately be astonished at what that company is capable of achieving. We might one day have the opportunity to make some other interesting investments in the RENN Fund that wouldn't be feasible in an ETF.

What if, for example, the RENN Fund had existed at the time we made that $76,000 investment in Digital Currency Group, and we'd made it there instead of in FRMO directly? Given what Digital Currency Group could be worth now, think what the RENN Fund performance and AUM might be now? The mighty oak grows from the small acorn. And as intriguing and interesting as the Inflation Beneficiaries ETF happens to be—and, by the way, I own shares of the Inflation Beneficiaries ETF and I think it's a great fund—there are just certain investments you can't make in it. That's why the RENN Fund has a somewhat different mission, if that makes any sense.

Questioner 18

The FRMO earnings release was on Friday, August 13th, after the market closed. Weekend releases are usually used to report negative results and hide bad performance. It's puzzling as to why you'd choose that time to release a very positive report. It seems as though we're trying pretty hard to hide any news that would get our company more noticed by the market. Can you explain this decision?

Murray Stahl – Chairman & Chief Executive Officer

Yes. I don't know how to tell this to you but, number one, we don't actually make decisions like that. Maybe a lot of other companies do, but we really don't. The process is that we gather the information and we provide it to our auditors. The auditors then go through financial statements, and make whatever comments or adjustments, if appropriate, when they need to make them, and the numbers comes out when they're finished. After they've done that, there's an audit committee on the board, and they review, there's a whole process, and that's not even quite the end of it. It just so happens that's the day it was ready. You probably won't believe it because everyone else does it differently, but I assure you I had no role in telling anyone to release it on the 13th versus the 12th, versus the 11th. To the degree I ever get involved, it's only to tell people to release the information as soon as it becomes available to be released. And as far as I know, that's what was done. So, we didn't choose a date.

I also have to tell you that we had to be ready by the 15th, and the 15th was a Sunday. So, had the calendar fallen differently and had the 15th been on a Friday, it just would've appeared very differently. Maybe we still would have released the earnings on the 13th, but it would have been a Wednesday. It's just that's the way the calendar fell. So, contrary to what you might think, we don't manage earnings, we don't manage news.

Whatever number it is, that's what the number's going to be. We don't choose days to influence shareholders or not influence shareholders. We try to be open. We answer every question. We don't try to lead the public in a certain direction. If we have the information and there's no legal impediment to releasing it, then that's the only impediment we really have. So, if you want it, just ask, we'll tell you. You'd be amazed how little there is to hide. And for the few things that we don't reveal, it's because there's some law somewhere that ensures we'd get in trouble if we said it. Other than that, we'll tell you everything. So, I hope that's a good answer.

Questioner 19

Each year, it becomes more difficult for nonprofessional investors to figure out how FRMO's moving parts contribute to its growth and earnings. Are any of FRMO's assets recorded at present market value, or are they still on the books at cost?

Murray Stahl – Chairman & Chief Executive Officer

Well, there are assets that are on the books at cost. Digital Currency Group is an obvious one. Another one is the revenue share – I think we discussed that. What is the real market value of the revenue share if we were to sell it? I really don't know. I know that revenue interests in investment management firms trade periodically, and one would use the comparable-company method to value the revenue share. That would probably yield a lot higher value than our carrying value. But that approach partly depends on which deals are picked as the comparables, and some of the deals are private, so we wouldn't have access to the information. Only some of the deals are public, so there's a question as to whether we would even be able to get a representative sample. It changes every year. I would say those are the two primary assets recorded at cost.

Under secondary assets, I would say HashMaster. Until not long ago, cost for HashMaster would not have been a bad way to evaluate it. I'm not sure right now. The repair business might be described as flourishing, but maybe that's not a sufficiently enthusiastic term. A lot of great things are happening there. As to the actual value, I'm not sure. The real estate or the buildings in which HashMaster functions are on the balance sheet for roughly a million dollars. There have been real estate dealers who told me that the building is worth twice what we paid for it. Whether that's true or not, I don't know. If I can figure out what the value is, I'll do my best to provide as best an evaluation as possible.

In the case of the Digital Currency Group, there's an element of subjectivity in the valuation, so I just tell you what, in my opinion, the metrics should be and try to give you enough information to make a reasonable approximation on your own. I'd do the same for any other asset, if people want to query me about it; we want FRMO to be easy to value, not hard to value.

Questioner 20

How is the recent move in natural gas prices affecting drilling activity on TPL land?

Murray Stahl – Chairman & Chief Executive Officer

Well, I hope you understand that I can't answer specific questions about the company, because of my position. I can only respond in generalities. What I would recommend you do, if you want to know what's going on, is go to the website of the Texas Railroad Commission. Under Research and Statistics, you'll see Production Monthly in the various districts. TPL land is mostly in what's called District 8, and I think TPL is the biggest factor in District 8. Those figures will tell you exactly what's going on. They are reported with a two-month lag, so you have to take that into account, but you'll see everything you need to see.

Questioner 21

When will the TPL annual proxy materials be released? And what is the last date for submitting a shareholder proposal?

Murray Stahl – Chairman & Chief Executive Officer

I don't know the exact date, but I think it's mid-September. And I believe the annual meeting's going to be in November, but I don't remember the date.

Questioner 22

What is the date, please, that TPL established for submitting resolutions?

Murray Stahl – Chairman & Chief Executive Officer

Well, I guess it'll be the same answer. I'm sure someone told me, but I simply don't recall, and I don't want to guess and mislead you, so the best thing to do is call the company and they'll give you the exact date.

Questioner 23

Are permits and drilling increasing on TPL land, given the increase in oil prices and your view on a potential price hike?

Murray Stahl – Chairman & Chief Executive Officer

As far as the permitting activity, the company is the best source. They would know, day by day, what's going on.

If you're asking about the industry itself and the price spikes, then you'll know that there have been a number of pipeline decisions to limit pipeline construction. There's also been limitations on drilling activity; it's a lot harder to get a drilling permit. Understand that limitations on oil drilling also limits natural gas production, because although there are gas wells, most gas is what's called associated gas, meaning, it's associated with—occurs as a byproduct of—oil development.

Also, unlike oil, it's not easy to store natural gas. The reason is because 1,000 cubic feet of natural gas is roughly a million BTUs of energy content. A barrel of oil—you know what a barrel of oil looks like—is 5.8 million BTUs. If you're not sure what 1,000 cubic feet looks like, it's a cube that's 10 feet on a side; and it's only a million BTUs. If you want to store it, you have to store it in liquefied form, which means you have to refrigerate it. That takes electric power. So, the longer you want to store it, the more expensive it's going to be. That's why you don't really have huge backlogs of stored gas inventory, unlike what's been reported with oil.

Now, when stored in the ground, natural gas is easily accessible when you allow fracking. If you limit fracking—it's been limited on federal land—there's a certain natural gas inventory, and that is supplemented by the fracks that are in progress. On federal land, if you already have a permit, you can keep fracking until either the permit expires or, what's more likely to happen, the well productivity declines. A good frack—a really good one—might last 18 months. To work this out, let's say that when the drilling ban took effect, the average well was nine months in. So, counting from nine months, which was roughly about nine months ago, and you see what's happening now to the natural gas price. This is going to be a big problem.

Now, of course, the federal ban could always be reversed, but—and I'm not an expert on what the government's likely to do—it doesn't look likely from my perspective. Of course, I could be very wrong on that, but that's how it appears to me.

Questioner24

Can Mr. Bregman comment on his views of the energy market underinvestment in E&P, given storage levels and potential global shortages?

Steven Bregman – President & Chief Financial Officer

Well, if you stand on the outside–you listen to the news and read the papers and so forth—you might expect that the executives at the big oil companies, Exxon Mobil and Chevron, must be quaking in their boots, what with pressures over climate change and greenhouse gas emissions and complaints about spiking prices. But, as opposed to being a bystander and opining about what other parties want to do or not do, sometimes it helps just to ask yourself, "What if I were that party? What would I do? What would be my self-interest?"

If I were an insider, if I were on one of those boards, I'd think this is wonderful: so, we've been spending less and less on capital expenditures for years; we haven't been replacing our reserves; the government wants us to not frack as much, and they're taking away opportunities for us to do that; political opposition is shutting down pipeline projects; and so forth and so on. And there's been this temporary hiccup, where the almost metronomic annual increase in global oil and gas demand and usage was completely upset by this last couple of years because of the COVID pandemic, and it temporarily masked what might have been an intersection of a continued gradual increase in demand with the continued decline in production capacity. And then we had the overhang of excess supplies for a while.

But I imagine they're thinking, "No, if we just keep doing what we're doing, my goodness, we're going to have demand pretty soon bumping up against supply." And just for that one moment, there'll be an equilibrium. And then, like the next day or the next month, there's going to be an insufficiency of supply. And the problem is, as Murray just mentioned, what with existing fracking wells being exhausted, and usually they have to move on and frack a new well—presuming new permits are issued—the supply is declining even as we sit here and speak. That circumstance is going to go on for a while. And that can't be turned around quickly. So, if I were on the board of an oil company, I'd say, "Why should I try to turn it around quickly? Because think of the profits we're going to get. If the supply is down and demand is up, the only way to mediate between the two is a price increase. And if the price goes up 50% or if it doubles or triples and I don't have to lift a finger to make that happen, other than my ongoing operations expense, I'm going to do great." I wouldn't be quaking in my boots whatsoever.

What you really see, in fact, is a lot of physical portfolio management. Just last week, Chevron indicated that it was planning to sell some gas reserves located in the eastern part of Texas, just east, I think, of the Midland Basin of the Permian Basin, looking for a few billion dollars. And at the same time, they made public that they're investing—not disinvesting—in the Delaware Basin within the Permian Basin. Overall, they're divesting from an older field that's not as productive, that's not going to be as long lived. And they're putting their money into those west Texas resources.

That's the way I would answer that question. You don't have to ask from the outside. It's not so difficult to just change your perspective and ask yourself what you would be doing from the inside.

Questioner 25

Murray, your musings and comments are so generous and informative during webinars or annual meetings, that it is difficult to ask the following question in regard to written and verbal statements made over time where you speak of enhancing shareholder value. There are shareholders who, going back to 2007-2008, have purchased shares in FRMO between $10-$14 a share. Needless to say, the company has grown dramatically in the 13-14 years since then, but it is not reflected in the price of the shares. As a publicly traded company, why does it seem like, other than being very transparent, open and honest, with incredible amounts of information, we do very little to get noticed by the investment community? Our company brand can't be typed without being auto-corrected. Positive releases are done late on Fridays. Road shows, I believe, are nonexistent. And despite significant and creative investments, the company seems to be purposely keeping under the radar. Isn't it time that investors holding for 13-plus years start to see efforts to get the incredible work you and your team have done get recognized?

Murray Stahl – Chairman & Chief Executive Officer

Well, I would answer you this way. All those points are well-taken and we probably should do a lot more. I mean, we've done somewhere between very little and zero, depending on your outlook, to attract investors to the company. We haven't gone to conferences. I guess we've been too busy doing it to talk about it. But all your points are well-taken. The next logical step for us would be an up-listing.

One of the impediments of getting recognition for shareholder value is a function of where we're listed right now – there are a lot of people who just can't buy the stock. Given our current market capitalization and the number of shares outstanding, if we were up-listed, at a minimum, we'd get into some micro-cap ETFs. We might even make it into some small-cap ETFs. There are many, many small-cap ETFs, by the way. If you were to look at, let's say, the bottom holdings, there are companies that are less liquid than ours that appear in quite a large range of small-cap ETFs.

So, yes, the next logical step would be to get ourselves up-listed. But, as I said before, there are only so many hours in a day, and I just didn't have the hours to devote to it. So, if you're going to blame anybody, you really should blame me and no one else. What am I doing? I write, I get involved on boards, I'm involved in cryptocurrency, I'm involved in research. And then there was the last year and a half or so with COVID-19 and that caused its own disruptions in our lives and the lives our employees, and we had to deal with that. And I can only tell you, on and on it goes.

But we are going to have to get around to doing it. There's no question about it. We just have to find the time to do it. So, I ask your indulgence and we'll figure it out. Hopefully, the listing of the cryptocurrency LLCs in the publicly traded company would be the first step in attracting some attention to Horizon. And maybe if we can stitch together the various operating pieces into a larger cryptocurrency company, that will attract some attention to FRMO. Even so, even if we accomplish those things, we're just going to have to get ourselves an up-listing because we do want to attract the larger investment community. So, I'll do my best and I'll report back to you as soon as I have something to report. I hope that's a fair answer. It's certainly a truthful answer.

Steven Bregman – President & Chief Financial Officer

I just want to add something to my prior answer; sorry to double back. If you hear somebody at Horizon – maybe it comes from Murray's mouth or mine in an unguarded moment when someone asks us, "What could oil prices be?" and you hear some wild figure like hundreds of dollars a barrel, where does that come from? Is it just an impression?

I put together some figures for a quarterly review some time ago, I don't remember when it was, but I looked at all of the massive declines in oil prices in the last 30-plus years when it might have been down 50% and then it doubled. And all those massive price changes came about because there was a difference, a swing of roughly 3%, or 4%, or 5% between oil inventory levels and oil demand levels. That's it; you'd hardly think that supply/demand differential would matter much. But it happens because oil is really demand inelastic, people really need it. Hospitals can't just turn off their lights. People can't just stop driving.

So, if we're talking about structural supply/demand differences that are going to be relatively long lasting, and might be much more than just a 2%, 3%, or 4% difference, who knows really where the price is going to go? It's the single most key commodity in the world, the cost of energy.

Murray Stahl – Chairman & Chief Executive Officer

Okay, because we're approaching four o'clock, should we just wrap it up, Cherise?

Cherise Martin – Executive Secretary

Yes, we answered all the questions.

Murray Stahl – Chairman & Chief Executive Officer

There's nothing left. Okay, great.

Excellent. Then it just remains for me to say thank you so much for your support and that I thought the questions were outstanding. And that the crowd always asks great questions. If there are topics we didn't cover, as you reflect upon what we said today, or when you read the transcript, or do the replay, don't hesitate to contact us. We'll get you an answer. And we look forward, in three months when we do the current-quarter conference call, to working with you.

So, thanks so much, everybody, we're going to sign off right now, because they're going to cut us off in a minute, and we look forward to doing this again shortly.

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