Operator

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

Thérèse Byars—Corporate Secretary

Thank you, Connor.

Good afternoon, everyone. This is Thérèse Byars speaking and I'm the Corporate Secretary of FRMO Corp. Thank you for joining us on this call this afternoon.

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Today's discussion will be led by Murray Stahl, Chairman and Chief Executive Officer, and Steven Bregman, President and Chief Financial Officer. They will review key points related to the 2021 second quarter earnings.

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

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

Murray Stahl—Chairman & Chief Executive Officer

Thank you, Thérèse, and thank you, everyone, for joining us. Now, I have to tell you at the outset, I'm told we have a record number of questions. I haven't even seen them; they're going to be read to me. Therefore, to get through as many as I possibly can – I hope to address them all – I'm going to abbreviate some of the prepared remarks, trusting that a lot of it will be in the questions. I'll try to work what would have been prepared remarks into the questions.

It looks like this is a record shareholders' equity, and, even so, developments that we have been predicting to happen, and which would be very beneficial for FRMO, have yet to happen, and might never happen. As you probably know and as we've repeated endless times, the investments we're making are those that would benefit from inflation. The biggest investment we have is actually not in cryptocurrency, although that would benefit from inflation in my view—our biggest investment is in HK Hard Assets. Within that, the largest investment is Texas Pacific Land

Corporation. There are other investments that we're making, but we're not ready to talk about yet. We intend to keep building up HK Hard Assets.

What's the common theme? The common theme, "hard assets," is not a general-use term. It's a very precise, specific term. It refers to those enterprises that derive their revenue directly from the asset itself, rather than from conventional products or services. For example, there's a very big difference between Texas Pacific Land Corporation and ExxonMobil or Chevron. Theoretically, a hard asset entity like TPL could collect revenue, have very little in the way of expenses, only those that are discretionary and absolutely necessary, and they're not inventing new products and services, they're not engaged in R&D, as a generalization with some modest exceptions, they're not investing in plant, property, and equipment. In contrast, the trouble with a general enterprise, even before you get to inflation, is that everything eventually becomes obsolete. R&D expenditures are required to develop new products and services, you need to try to best your competitors and that's not always possible, you need to replace aging plant and equipment. Even with real estate, sooner or later the property in question degrades and capital expenditure is needed. And you never know, if you're making business decisions of that type and they're generally the right ones, you can easily make the wrong decision.

Ultimately, since no human being is perfect, sooner or later, the wrong decision is made. Sooner or later, there's an incorrect capital allocation decision and it costs the company, and the company has to recover. A hard asset doesn't have that characteristic. Even in the absence of inflation, there are no major capital allocation decisions that need to be made. There are, of course, minor capital ones, but the earnings are essentially free cash flow.

How do you compare the earnings of a hard asset to the earnings of a conventional corporation or conventional operating asset? You can't. In our estimation, you can't merely place a similar valuation multiple on them, because not all of the earnings of an operating business will be available to the shareholders. Some of the earnings, in some cases a large portion, needs to be reinvested. I think it's much more reasonable to compare companies on their free cash flow. However, even that, in a hard asset sense, is not necessarily a proper comparison because the hard asset entity (usually it's a commodity that's produced) contains a certain amount of optionality – that is, if the commodity in question were to rise in price, the free cash flow would rise proportionately without any incremental investment required.

That doesn't happen in a normal corporation. In a normal enterprise, if it's desired to increase the free cash flow, investments have to be made. Some businesses need to make more investments than others. There are fixed asset investments, and there are operating expense investments, like the hiring of staff but, nevertheless, they're all investments even though the accounting treatment is very different.

That's the idea with hard assets. The same idea we had when we started Horizon—that we're going to try to make as much of the profitability free cash flow that's available to buy more of the same assets, over and over again, such that eventually those assets, even in the absence of inflation, will provide a fairly robust earnings stream. And we've done that, we have an investment stream that's working on our behalf even if the underlying expected positive variable, in this case inflation, is not operative.

If you look back over the years, you can see that our cash balance, even though it fluctuates from time to time, is actually fairly large for a company of this type. If you look at the investment line, it's been built up over the course of many years. We've done it while maintaining a fairly robust cash balance, and without any meaningful amount of debt.

We have a mortgage on a property that we bought to house some of the cryptocurrency operations. We made that investment for strategic reasons. In addition to giving us an outlet to host some of our mining activities, we didn't want to be completely dependent upon third party hosting companies. It also has a repair business, which means repairing cryptocurrency servers. Those are the machines that actually do the mining work. We also have a minority interest in the operating business.

The repair business is really important. At the moment, these machines are very expensive. If a machine breaks down, it actually makes sense for most people to repair it. There might come a time, as we move closer to the bitcoin halving, when it makes less sense to repair those machines and, instead, we might be able to acquire fairly extensive inventories and parts and build our own machines. We've had some experience with that. In recent weeks, the prices of crypto mining rigs have been very high and, therefore, the prices of the components are high, so we really haven't made any efforts to build any machines, but that will change.

In one of the *Compendium Reports* that we write, you'll find a fairly detailed exposition of the math of how mining actually works and what the payback period is for these machines.

In any event, this was a quarter where everything was working in our favor. I expect that as the infrastructure builds out for cryptocurrency, that it's going to be a wonderful experience for many years. I don't think there's any getting around the fact—and it is a fact—that there's a lot of money creation all around the world in virtually every currency, and the currency is indeed being debased. As far as our hard asset investments go, you know what they are – and they relate to energy – and you can look at the earnings statements. Look at their profitability and how robust it is. But just understand that the last year was the greatest energy depression that I've personally experienced, and I've been doing this since 1978. It may have been the greatest energy depression ever, and that might actually include the Great Depression. If it falls short of that, it doesn't fall short by much.

Imagine what might happen if we ever got to a good environment for energy, which one day will come. It will come because, simply, the world is not replacing its hydrocarbon reserves, but the world needs them and I don't see an obvious substitute. There may be some questions about alternative energy, which I'll address if there are any in the Q&A session.

In any event, we're very happy with what we've done. We intend to keep the same capital structure we've maintained throughout. Little by little, we intend to keep adding to our investments.

A couple things about Horizon Kinetics and then I'll go to questions and answers. We actually established an inflation beneficiaries ETF. We launched it last Tuesday, so it's been around for a week and two days. If I'm not mistaken, we raised about $18 million. Not bad for that short amount of time. It turns out that, if you look at the very broad and extensive list of ETFs, I don't think you'll find any other inflation beneficiaries ETF. We're there by ourselves, which is a posture that we've become well-accustomed to, and we hope this is not the last ETF that we launch. There are many advantages to the ETF structure.

One final point, then I'll ask Steve if he has anything to add to the prepared remarks. When we say ETF, we almost always use it as a synonym for indexation. This ETF is an actively managed portfolio. We're using the ETF structure, which is far more cost-efficient than the conventional mutual fund structure, but actively managed. One of the topics I've written about from time to time is the eventual rebirth of active management – rebirth in an operational context that more properly services the world of active management.

It may be that active management ends up gravitating to ETFs, and that there will be a struggle for market share between actively managed and passively managed ETFs. At the moment, passive world has something like a 99.9% market share of the ETF universe. Obviously, active management has a long way to go, because the concept behind ETFs is indexation, and the idea of indexation is: why should I not have a diversified portfolio? But that's really the problem now.

It's a point I make all the time. That indexation is not diversified anymore. I'm going to read some numbers and then I'll invite my colleague to opine. These are what I consider to be technology companies, and these are their weights in the S&P 500 as of this morning—they are probably higher today: Apple, 6.48%; Microsoft, 5.21%; Amazon, 4.27%; Tesla, 1.98%; Facebook, 1.97%; Alphabet A, 1.74%; Alphabet C, 1.68%; Invidia, 1.02%; PayPal, 0.88%; Netflix, 0.80%. I can keep going with are others, like Adobe, or Salesforce.com, or what have you.

Add those numbers up and you will see the S&P 500 itself is developing a very heavy concentration. Reasonable minds may differ as to how large that concentration must be before one can make the assertion that it's no longer a diversified portfolio, despite still being an index. However, we're approaching that point. If people want to be diversified, that means they have to be in something other than the heaviest concentration there is. In any event, this list I just read is the heaviest concentration in technology I've ever seen, inclusive of the internet bubble of the early part of 2000.

With that, I'll invite Steve to add his comments.

Steven Bregman—President & Chief Financial Officer

Thanks, Murray. I'm preparing for the HK quarterly review/webinar tomorrow, and I was looking at some of the very same issues. To add to your observations about index concentration, people get the impression that we don't like technology. I ignored the technology sector this time and looked at the index in a slightly different way.

I simply looked at the top-heaviness aspect of the S&P 500. It turns out that of the 500 companies, just the two top-ranking positions—they happen to be Apple and Microsoft—have a combined weighting of a little over 11%. The bottom 250 companies, or 50% of the S&P 500 by number of constituents, account for about 11%. The animating idea behind indexation is having broad diversification to provide exposure to all of the positive aspects of an economy and to protect from the vagaries of risks like changes in regulations, taxes, interest rates, and so forth. With respect to the S&P 500, the top two companies implicitly, in a sense, purport to represent the exposure to the economy that the bottom 250 companies do. I thought that was enlightening.

Also, the border point in the S&P 500 rankings of $200 billion in market capitalization is just around stock number 30 – the 30th largest position – which is Salesforce.com. Below that, the market capitalizations get lower. So, what economic representation do you get from everything below 30th largest? $200 billion is a big number. How do you understand how big it is? Well, you can go to the median company of the S&P 500, which is the 250th largest, and it has a $25 billion market capitalization. That's a pretty large company. It's all of an 8-basis point position; 8 hundredths of a percent. I'm repeating what Murray said, but from a different angle.

The other thing I'll say, since you're about to start on the questions, is that it's a record number of questions, and just fractionally under 50% of them seem to have to do with cryptocurrency.

Murray Stahl—Chairman & Chief Executive Officer

Thank you, Steve. Thérèse, if you would be kind enough to read the questions, I'll try my best to answer everything.

Thérèse Byars—Corporate Secretary

As Steve said, about half of the questions are about cryptocurrency, so I'm going to group some of them together. Please excuse me if some are duplicative.

Questioner 1

Would you share your current thoughts regarding the cryptocurrency mining business and its future?

Murray Stahl—Chairman & Chief Executive Officer

It's important to understand that, at the moment, the mining business is incredibly robust. It has a very high return on capital. That's not going to last, no matter what the price of bitcoin does, whether it goes up or down. Here's why it's not going to last: there's something called a halving and the halving will occur in about 1,200 days.

What is the halving? With the halving, which occurs every four years, the compensation from mining bitcoin gets cut in half. Mining is the term everyone uses, but what they really should say—it's a less elegant term but it's the truth—is that you're validating transactions. That's why you get the reward.

Anyway, in about 1,200 days, the reward's going to be cut in half. So, if bitcoin remains the exact same price, your revenue's going down by 50%, but your costs are going to be basically the same. There may be some operating efficiencies that people figure out. Over the years, we have figured out ways to make the miners much more energy efficient. The technology is getting to the point where it's running into the laws of physics, and I don't know how much more efficient the mining rigs can be made, although I would imagine there are probably some. The only way the profitability is going to remain what it is (and I don't think it will), is that the price gets a lot higher. And that can happen.

In that *Compendium* I referred to earlier, I lay out the economics of mining bitcoin. Basically, when there are more people mining, your share of the block reward declines, and that's even before the impact of the halving. As a miner, when your profitability or return on invested capital declines, you have a choice. You can put money into more machines or you can put money directly into bitcoin. The object of mining is ultimately to create bitcoin more cheaply, so you can either create bitcoin, or you can buy it.

If mining gets sufficiently less profitable, so that miners start buying bitcoin, then the aggregate population of machines is reduced as they fail to get replaced, with the consequence that the remaining rigs, the ones that continue operating, get a higher market share and their profitability increases. That's one part of the cyclicality of mining. It's just part of the business. You have to live with it. But unlike a normal cyclical business, overall profitability never really goes negative. Why does it not go negative? Because if it went negative, you couldn't have a blockchain. The blockchain exists not because of some technology; it's because there are multitudes of machines that are simultaneously validating the transactions. That massive redundancy is why it can be trusted, why it can't be hacked. If the blockchain becomes centralized, it can no longer be trusted and you don't really have a cryptocurrency market the way you had before.

I won't go into this too much because I've written about it, and it's available to read. But, basically, the least efficient operators set a floor on bitcoin mining profitability. You've got to get a rate of return for them. If they don't get a positive or sufficiently positive rate of return, they're not going to do it. The most efficient participants just get a higher rate of return. It's the exact opposite of the dynamic we're naturally accustomed to a normal business, where the most efficient operator is the leader and sets the rate of return sufficiently robust itself to make a lot of money, but low enough it forces all the less efficient competitors out of the market. It doesn't happen that way in the world of cryptocurrency.

I know that was very abbreviated. I hope that is adequate for thoughts about the mining environment.

Questioner 2

There's been much talk of cryptocurrency and blockchain and specifically the belief that blockchain technology will be utilized on all exchanges, commodities, real estate, oil, gas, mining, farming, precious metals, etc. Any thoughts on creating a business to provide these blockchain services? I know Universa is working with a large sugar refinery and others. I would suggest that Barrick or South African miners are making an effort purely to provide proofs their gold is not coming from irresponsible, unethical mining practices. This could be utilized in timber as well. Perhaps just investing venture capital in existing companies that provide these services would be of interest.

Murray Stahl—Chairman & Chief Executive Officer

The reason that there are literally thousands of cryptocurrencies is because there are literally thousands of possible use cases for them. I personally believe there will be tens, maybe even in the hundreds of thousands of different blockchains. More than that, if you consider that, ultimately, every SKU, every type of stock on every stock exchange, is going to have its own blockchain. Voting systems and searches on search engines are going to have their own blockchain.

Why the need for a blockchain? Because the data of your searches, whatever you're searching for, is actually very valuable to advertisers. But you don't control that at the moment. The law is whoever collects the data controls it and, therefore, gets the revenue from it. Eventually, what's going to happen is you, the individual, will control your data, because it's going to be in a blockchain; you will decide when to release it, and to whom to release it, and what advertising you're willing to accept. Therefore, the compensation for advertising is going to go to the consumers instead of to the entities that collect the data. It's a revolution in this sphere.

That's why I point out this issue of technology in the S&P 500. It's simply assumed that a handful of companies will continue to collect the world's search and purchase data, and that evermore data will be systemically organized so that they can collect ever higher fees on it. I don't think that's going to happen. The blockchain revolution is going to restore the data to the people to whom it actually belongs – it represents major technological displacement.

The problem from an indexation point of view, if we want to go back to that, is that indexation was conceived as a holistic solution to the investment problem. Since you own everything, what does it matter if Walmart's better than Amazon, or Amazon's better than Walmart? You own them both, and you're exposed to the ultimate winner, not just the loser. Except that now the technology companies will be competing with blockchains. Which are not companies; they're just blockchains. They're open-source, and that code belongs to the world. Therefore, a for-profit enterprise will be competing with something that is not a corporation and which doesn't have a profit objective, and that company can easily get displaced.

To be clear what the implication for the index is, there won't be a loser *and* winner in the index – this is not an Amazon vs. Walmart equation. Because, you can't put the blockchains in the index.

Therefore, the index is not the holistic solution; in this instance, there will be losers, with no counterbalancing winner within the index.

That's what I believe is ultimately going to happen and we'll see how long that takes.

Questioner 3

Note 4 talks about "Other Investments." Can you provide any insight into how to value the return on equity in those investments in cryptocurrency mining entities at the present time? And what are the near-term future business plans for the mining entities? Is creating other new cryptocurrency mining entities an active consideration?

Murray Stahl—Chairman & Chief Executive Officer

At some point, I would like to do something in the public domain, if it were possible, in cryptocurrency mining. However, I would like to combine mining with other types of businesses. Maybe the building and repairing of machines; maybe creating a pool. There are a lot of possibilities. We've only just begun. The reason for saying "just" is because nobody, and I mean nobody, has tremendous experience in this business. We ourselves have five-plus years of experience. In the business world, especially for a business that is constantly changing, that's not a lot of experience. We'd like to do something in the public domain, and we'd like to be in a position to raise more capital at some point an enterprise that incorporates mining plus some other things in the world of mining in which we've developed an expertise. But that's as far as it goes.

Questioner 4

How does Mr. Stahl calculate the intrinsic or fair value price of FRMO? I find it challenging. For example, the book value of its ownership in Digital Currency Group is $76,261, and the book value of cryptocurrency mining entities in November is listed as $246,824.

Murray Stahl—Chairman & Chief Executive Officer

There are a couple of publicly traded companies that are involved in cryptocurrency mining. Their stock market valuation (depending on the company), is at something like three or four times the cost of the equipment. I personally think that's bizarre, but that's the way the market values it at the moment. You can use that as a benchmark. I don't think I'm going to be using that, but that's how the market actually values mining companies.

With regard to Digital Currency Group, there is public information one can make use of. You know it has $20-odd-billion of assets under management, which is in cryptocurrency. As a generalization, it charges a 2% management fee. You can figure out the revenues. It obviously doesn't cost anything close to that number to custody the assets. It's not actively managed, so you don't have the expense of portfolio managers and such.

The company also has a cryptocurrency exchange—which is really a brokerage. Despite that the industry uses the term exchange, cryptocurrency exchanges are actually brokerage businesses. Soon, you'll have a pretty good idea how to value the asset management side of Digital Currency Group, because Coinbase is coming public in the not-too-distant future, so that will provide some metric benchmarks.

There's also a venture capital division. What is a venture capital investment worth if they were to come public? You'll get a better idea in the upcoming months because such companies are coming public. For example, VPC Impact Acquisition Holdings, which is a SPAC, is going to become Bakkt. That, you will recall, is the cryptocurrency custody/hosting business of the Intercontinental Exchange. That can give you a sense for what the price-to-book-value ratio is going to be. It's going to be very high. Chances are that any viable business in cryptocurrency is going to trade at many times its book value, at least in the current environment.

Coming back to the asset management business, the question is: what multiple or what relation of market value to AUM does one apply if the assets are in a trust? It's not like conventional asset management firm in which the assets come and the assets go. In the case of the trust, it's essentially permanent capital. Therefore, the revenue horizon is really far out – assets can decline in market value, but they can be withdrawn – so you can forecast for much longer. That's another way of saying that you would apply a very low discount rate, because of the high stability of the asset base. You might want to raise the discount rate to some degree, because the market value itself is so volatile. Anyway, you'd apply a certain market value-to-AUM multiple to it which, by investment management standards, would be very high. At least, that's the way I do it. Of course, there's an element of subjectivity, and we all have to use our own discount rate. It's a question of what you think the risk is.

Questioner 5

Please explain the real value of each of the following investments, which showed declines or no change because of being carried at cost, though they are probably worth substantially more: HK Cryptocurrency Mining, LLC; HK Cryptocurrency Mining II, LLC; Horatio Mining, LLC (which was sold to Winland in exchange for Winland shares); HK Tech, LLC; and Digital Currency Group.

Murray Stahl—Chairman & Chief Executive Officer

As to Digital Currency Group, it is not a mining business, despite that I think there's a little bit of a mining activity there, but it's a rounding error really. It's not significant. With respect to mining businesses generally, if you just wanted a valuation multiple to employ, there are plenty of publicly traded companies and we have a big interest in one. That's Winland, which trades at a certain multiple of book value.

Winland owns cryptocurrency assets, mining equipment, and an environmental sensor business. You have to take that into account. But at least as far as the stock market is concerned, the market uses a price to book ratio, and it is actually fairly high. It's not uncommon to see 4x book value. You might think 4x book value is a preposterous number, but if you do, you really have to rethink that, because the S&P 500, believe it or not, trades at 4x book value.

If you start there, you could say that if you believe the cryptocurrency business is going to grow faster than the S&P 500, and some think it will, maybe the cryptocurrency business is entitled to a higher price to book ratio than the S&P 500. Alternatively, you could say the price to book multiple of the S&P 500 is way too high, and you can solve the problem that way.

We sold Horatio Mining to Winland, and we sold it for stock in Winland. Give or take a few pennies, we sold Horatio Mining at close to book value, and we received shares of Winland. That was at the beginning of the summer of 2020, which shows you how fast the market changes its point of view. It has its moods, which are ever-changing. I don't think anybody can find a fixed guidepost for a standard valuation. I know you'd like a fixed guidepost but, unfortunately, in the world of crypto there is no fixed guidepost.

Questioner 6

Mention was made in the October 14, 2020 earnings call of plans to build cryptocurrency mining machines. I know you talked about this in your remarks. Is this still an ongoing endeavor? If so, what progress has been made, and has more money been invested in the enterprise in this quarter? Is FRMO's interest in this activity as part of an ownership in a separate corporate entity or as a business entirely within FRMO?

Murray Stahl—Chairman & Chief Executive Officer

To begin with, we own a piece of a business called HM Tech LLC. It was HM Tech that did the work, but the machines aren't owned by HM Tech. We acted as if we were a client and we just wanted, as an experiment, to build some machines. We acquired a collection of parts and wanted to see, from that collection, how many machines we could make and that would run successfully—meaning at or about their stated hash rates. We ended up creating 15 of mining machines. The total investment was something like $,2700 or $2,800. Meaning, for a cost of about $186 per machine. That's pretty darn good.

The trouble is that if you want to do that at this very moment, it would cost a lot more, because the parts are expensive now. Now we're using the parts to repair other parties' machines, and we're making more money doing it that way. All you need is a few days, maybe a week, of negative cryptocurrency returns and, believe me, you'll be able to buy all the parts you need and you'd be able to make your own machines.

The experiment was successful beyond my wildest imagination. At the first opportunity, we're going to repeat it. Eventually, we would like to build a big inventory of machines, large enough, if we can make enough of them, to create a subsidiary. It would be called something like FRMO Machines, and we'd do something with it. It would be a real business.

At the moment, we just have to be disciplined. You can't risk a lot of money when the parts are expensive, but there's no question they're going to get cheaper. As I alluded to earlier, every day we get closer and closer to halving, and those parts are going to be worth less. Eventually there will be a circumstance when operators don't find it worthwhile to repair their machines, because the labor is too expensive. We're already paying for the labor, though, so there would be no marginal labor cost for us. That gives us an advantage. We just have to pick our moments.

As a generalization, when the crypto market is robust, we'll fix other people's machines; when the market is not robust, we'll build our own.

Questioner 7

Some upside potential noted previously was that bitcoin could be equivalent to the gold supply or even the U.S. dollar, with the downside that it could go to zero. With bitcoin developing along the lines that Murray had outlined, and institutional investor acceptance evolving, how has the upside to downside ratio changed?

Murray Stahl—Chairman & Chief Executive Officer

To begin with, the upside, I don't argue that bitcoin will be worth the value of the gold supply. The reason for that? What is the gold supply? Are you saying the amount of bullion that's available? Or is it all the gold that's ever been mined? Does one include the jewelry? Does one include the gold that's artwork, in museums and so forth? Does one include the gold in the central banks? You have to come up with a number and it's very hard to choose a number.

A better number would be M2. The trouble with M2 as we usually refer to it is that you can't just use the money supply of the U.S. dollar. You have to use the M2 of the planet, because that's really the relevant M2. if you look at the M2 of the planet, it's a very big number. But is it adequate? Because not all the bitcoin is in circulation. Basically, M2 measures the amount of money that's considered to be in circulation, but they have something called M3, which includes large time deposits. Should we be using M3? The corollary question—it's a theoretical question, you could debate the answer—does one include large holdings of bitcoin that we can see on the blockchain, but which never trade? Or should we reduce the amount of bitcoin outstanding by the amount of these big deposits that seem never to trade? What about bit rot, which is an estimate of the amount of bitcoin that exists but is not accessible because the owners have lost their private key? What is the amount of bitcoin? Then there are going to be other successful cryptocurrencies. They might not be used as a form of money, in the conventional sense of the word, but they might be used as something else.

Another complexifying point is government bonds. Using the U.S. Treasury for the moment, we know how much is outstanding, and it's a very big number. We also know how much is outstanding in British gilts and Canadian bonds, and other sovereign debt. They're also a form of money in the sense that they can always be hypothecated. If you have a million dollars in treasuries, you can borrow a lot of money against it, especially if you want to buy more treasuries. You might be able to leverage them 10x.

Therefore, it's not clear how big the number is, except it's a very, very big number. If you were taking all the M2 of the world and all the government bonds, if that were your target – and bear in mind that it's increasing every hour of every day – I would say the number would be something like \$300 trillion. If bitcoin were two-thirds of that, again, constantly expanding market, bitcoin would have a \$200 trillion market capitalization. Except it would be bigger than that because you have to allow for bit rot and the bitcoin that's not circulating. Ignoring that, it would be a \$200 trillion market cap in relation to its current \$600 billion market cap. By the time bitcoin's market cap got to \$200 trillion, which is a very great increase in value, to say the least, that number is going to continue to increase a lot because all the world's nations keep increasing the amount of money in circulation and the number of bonds that they're issuing.

The upside is really tremendous and I believe it's going to get there. You can even say that bitcoin shouldn't reach parity with that aggregate, but should be a premium to that. You can debate how much of a premium. Why should it be a premium? Because whatever the inflation rate in all the fiat assets is, the inflation rate in bitcoin is a fraction of that, and it's going lower every ten minutes, and you know exactly what that's going to be. There's no uncertainty. You can argue for a premium, a big premium. The return potential is quite extraordinary.

Using the \$200 trillion market capitalization figure for bitcoin, versus its current market value of \$600 billion, that would be a coefficient of expansion of 333x. And, again, the benchmark, if you can call it that, the \$300 trillion of global money and government debt, is a moving target. It goes up every day. It's the highest return thing that I can possibly see.

And that would not be the end of it. If the assertion made earlier turns out to be correct, that the various blockchains are ultimately going to compete with the technology companies, they're not just investments, they're disrupters. They can disrupt the entire S&P 500 in ways that are quite inconceivable right now. If that happens, then people will have to buy them, even if just as hedges. A lot is possible that isn't even on investors' radar.

Questioner 8

What did the Horatio assets consist of that were sold to Winland?

Murray Stahl—Chairman & Chief Executive Officer

They were some mining machines, there were some bitcoin and other currencies like Litecoin, that we had mined. They were, in effect, mint coins – that is, coins we produced by mining that had never been in other hands – and there was some cash in Horatio, too. That's what we sold, and we did the trade at book value with Winland. In a way, you can say it was an experiment. The idea was to test, once Winland could be perceived, at least in large measure, aa mining company, how the market was going to value it. The market valued it at a large multiple of book. I think it's about 4x book now. That's what ended up happening.

Questioner 8 (cont.)

On December 11, 2020, bitcoin was $18,000 and you were heard to say that you expected it to become worth 2,000 to 4,000 times more. You did not say when. By the way, you made an interesting point in saying it is not going up; rather, the dollar is falling. Bitcoin then proceeded to go on a rapid tear to $40,000 in less than a month, reached on January 8, 2021. It's no coincidence, I imagine, that FRMO, which was $9.49 on December 8, ran to a close of $14.35 on January 14, 2021. Here we are, on January 21, and bitcoin has dropped to about $31,000 as I write this question this morning, and FRMO to $10.25 a share. Two big drops from their highs, though up a lot from a month ago. To what do you attribute all this commotion, or volatility, if you have any idea?

Murray Stahl—Chairman & Chief Executive Officer

To begin with, there are some obvious issues or factors and some less obvious ones. An obvious observation, when you get a move of that magnitude, is that there will always be people who take the position that well, even though Murray Stahl, or whoever they're referring to, thinks it's going to be much higher, it might not be much higher in the next couple of months, so I want to take my profit now. Either it's going to be lower, in which case I'll buy back in, or maybe it won't be lower, it'll be the same price and I'll buy back in again. There's nothing wrong with that. That's normal. People do that all the time. That's one reason for such price swings.

A second reason is that the buying from the institutions is going to be gradual. It's not going to be a mad rush in. Let's say the bitcoin price gets to $40,000. The typical institution that was looking to invest is going to reduce its purchasing, perhaps to zero, and see what happens. They're not going to put hundreds of millions of dollars at a time into an asset that's appreciating that rapidly. So, at least in the short run, you're going to lose a fair amount of buying support after a dramatic price run-up, because holders see that and are prompted to sell. Then it will sink to that level, whatever that level happens to be—perhaps it'll be $31,000 or perhaps it'll be some other number—where institutions will gradually recommence their purchasing.

Why am I confident that the institutions are going to recommence their purchasing? Because a very big part of their assets are conventional bonds. What can you say about conventional bonds? I was looking at the iShares Aggregate Bond ETF today. It is the biggest bond ETF there is and therefore a good representation of the bond market. It has a yield to maturity of 1.09%. That's the rate of return you get if rates *don't* go up. If interest rates do go up, to whatever degree, whether by only 3 basis points or 300 basis points, you'll get a lower return than that.

Therefore, your best-case return is 1.09% every year forever, but only if rates never go up. Since we all can agree, whatever the outlook for inflation is, that yield is lower than the inflation rate, that simply means that investors' money is being debased. Maybe some people believe the inflation rate's going to be some very low number like 2%, which is only a way of saying that their bond investments are getting debased by only 1% a year. Maybe some people believe, like I do, the inflation rate is going to go higher, in which case the forecast is for an even more negative return.

In any event, that's an unsustainable situation. The entire bond market in the U.S. is $82 trillion and growing. That's just the American bond market; $82 trillion and growing by many billions of dollars *every day*. You have to do something to protect those bond portfolios, which number in the tens of trillions of dollars. If the collectivity of U.S. bondholders were to decide upon a 1% position as an offset in crypto—and let's just say it was bitcoin—that alone would be $820 billion of demand. That's considerably more than the whole market capitalization of bitcoin.

But that could even happen. Theoretically, the collective bond market could say: I'm going to take this year's bond coupon of 1% and invest it in bitcoin to create a hedge against the debasement of the currency. You wouldn't be able to buy all that bitcoin anyway. And who's to say the appropriate hedge is 1%? What if it were 2%? And that's just for the U.S. bond market. You have to include all the other countries of the world. U.S., in economic terms, is something like 16% of the world.

So, take that level of demand from the U.S. bond market and multiply it by roughly 6. Also, we only talked about institutions, we didn't talk about individuals, we didn't even talk about real estate. What about triple net lease real estate, which in theory is a hard asset, but in reality is structured like a bond portfolio? There's a lot of triple net real estate around that might need to be hedged against currency debasement. Anyway, I hope you see what I'm driving at.

Questioner 8 (cont.)

I've heard it said that 65% of bitcoin wallets have not had any coins enter or leave for years. What do you know about this and what do you know about the amount of bitcoin involved in these inactive wallets? What is the total number of bitcoin wallets and how many new wallets open each day, or over a month, or whatever period you watch?

Murray Stahl—Chairman & Chief Executive Officer

There's a website called blockchain.info, and rather than relying on my memory, if you go on the website blockchain.info, they provide precise statistics on how many transactions there are, how many wallets there are, what the average amount of money in them is. You can get all that there and more.

But I don't think it's true that there's no money in those wallets. Rather, I think that many people open a wallet and just want to experiment with it. They'll put one Satoshi in there, which is a tiny fraction of a bitcoin, so there's some de minimis amount of money there.

You might say what's the difference? Many of the people who experimented with it found it too cumbersome to buy or sell, on their own. For the average person, it isn't an easy way of conveying bitcoin. It's not for everyone. That's going to change in the next year, but at the moment, that's where we are.

Questioner 8 (cont.)

Incidentally, new bitcoin mined daily are dwindling in number and are now, what, 900? So, the supply of bitcoin versus the increasing demand must be getting more and more out of balance. And, hence, is it correct to say that the very recent increase in bitcoin price is understandable, but the most recent price, thus, must be something likely to be very short-lived?

Murray Stahl—Chairman & Chief Executive Officer

As I said before, the current market capitalization of all the bitcoin is something like $600 billion. In relation to the $82 trillion U.S. bond market, it doesn't even rise to a rounding error.

If we say 1% hedging interest from the U.S. bond market, which we regard not to be a rounding error, you've got enormous demand-based appreciation just from that sector. We're nowhere near there. As I said, most of the bitcoin is not even available for sale. We're not even in the first inning of this experience. The various nations of the world have no alternative – they are riddled with debt, and they can't stop issuing more. If they were to stop, the world economy would come to a screeching halt within days. They can't stop.

There are too many jobs, too many livelihoods, too many enterprises that are dependent upon the continual increase of debt. These pieces of paper that people consider to be wealth? There's only so much wealth in society; you just can't keep issuing these pieces of paper without debasing them. That's the whole idea behind bitcoin. If you read the original book, *The Denationalisation of Money* by Friedrich Hayek, written in 1977, that's basically what it's all about. The inflationary world, at least in terms of debt issuance, that he observed in 1977, is nothing in comparison to what's happening right this second. It's irrelevant.

At some point, people lose confidence in the currency. Are we there yet? I don't have the slightest idea. I can just tell you this: for the last six months the bond market, at least in the U.S., has had a slightly negative rate of return. Make of it what you will. People look at the historical rates of return in the various bond indexes – the total return – and they don't understand that it's not an interest rate, that it includes substantial price appreciation because interest rates have declined for decades. It's an inverse relationship.

At the moment, there's no room for rates to continue declining, but investors don't see it yet. I believe they will see it before very long, and it'll be interesting to see how they react. I don't suspect they're going to be very pleased at the rate of return they'll start to get. Once they understand, as they ultimately will, that bonds can decline in value – and they do – investor behavior will change. We haven't experienced that since 1980. This is 2021. 40 years. Somebody could have been 20-years old in 1980, and now they're 60 and never experienced a bear market in bonds. I think it's going to happen, and it may happen very soon. It may have already started.

Questioner 8 (cont.)

How can the SEC ever allow a bitcoin ETF, given their limited supply (hoarders plus bit rot) leaving so little for ETFs to possibly purchase? How will the SEC say "okay" to the creation of ETFs, given this supply situation, in your opinion?

Murray Stahl—Chairman & Chief Executive Officer

I think it's inevitable. The CFTC has already said "okay" to cash delivery bitcoin futures and physical delivery futures. The SEC, incidentally, has said "okay" to the Russell 2000 ETF. Take the bottom 300 or 400 names of the Russell 2000, and look at that liquidity. It's not very good. There's even a microcap index, and those companies have virtually no liquidity. The issue is not liquidity, the issue is transparency.

Right now, there are all the sorts of transactions going on that the SEC would like to guard against, like spoofing, that do not happen on registered regulated exchanges. So, it's not entirely clear that the price you're seeing is the real price.

The first order of business, if you want to create bitcoin ETFs, is to have regulated, registered, well-ordered exchanges with trading rules. That's coming. And if it doesn't happen in America—though I believe it will—it's going to happen somewhere else. As a matter of fact, it's on the verge of happening in Switzerland. There's a lot of software, systems, thought, and rulemaking that has to go into creating these exchanges, and it takes some period of time, but a lot of the work is done.

Basically, there's policy in every government to debase currencies. Maybe they can't do any different. But, no one's going to tolerate taking debased money as a payment once they come to the conclusion that they're really being debased. It's no accident that the bitcoin surge, which you can say started in the late summer of 2020, corresponds precisely with the inception of a modestly negative bond market rate of return—and it's only modestly negative. It's just a matter of time until it accelerates. Maybe weeks. People are going to look for a solution.

Remember, when you look at a bitcoin price chart, what you have to do—at least intellectually—is take the chart and turn it upside down. You're not looking at an asset that's appreciating; you're looking at a dollar that's depreciating. You're looking at an exchange rate, so the question is, how many bitcoin can a dollar buy? You're seeing that the dollar keeps buying less, and less, and less bitcoin. Meaning, if you want a bitcoin holder to part with a bitcoin, that person wants more of your dollars to encourage them to part with that bitcoin.

The majority of people think that the bitcoin people are irrational, and in general the bitcoin people people think the fiat buyers are irrational because their money is being debased. They're willing to invest their money in a bond that clearly provides a negative rate of return. There are bonds that actually have negative interest rates in the world. Quite a few of them. Who's crazier? That's the question.

Questioner 9

How are the cryptocurrency coins valued on the balance sheet? And what are the mining economics as of today for FRMO and Winland?

Murray Stahl—Chairman & Chief Executive Officer

The cryptocurrency coins are valued at market on the day that we valued them. There are some numbers that I normally read at the beginning to tell you what we own of these various cryptocurrencies, so I'm going to take this opportunity to read them now. Just the cryptocurrency. Then we're bound to get a question about energy and I'll read you the TPL numbers.

We own 561,141 shares of Grayscale Bitcoin Trust (GBTC)—proportionately, mostly via the private investment funds. We own 92 coins of Bitcoin Cash through the funds. We own 1,565 shares of the Grayscale Ethereum Classic Investment Trust (ETC). We own 23,636 shares of the Grayscale Bitcoin Cash Trust (BCH), which is restricted at the moment, but soon will not be. We own 1,374 shares of the same Grayscale Bitcoin Cash Trust (BCH) that is not restricted. We own 454 shares of the Grayscale XRP Trust (XRP). XRP is also known as Ripple. That fund is actually closing, which is an interesting story, if we could get a question on that.

We own 4,281 shares of Grayscale Litecoin Trust (LTCN). I'll mention parenthetically, you won't believe this, but I tell you it's true, Litecoin Investment Trust, at least as of yesterday, traded at not a 20% premium, but 20x the net asset value—20x, if you can believe that. Ours are restricted, so we can't trade it, so we valued it at NAV. We own 549 shares of the Grayscale Zcash Trust (ZEC), and we own 210 coins of Bitcoin Gold through the partnerships. Those were all implied numbers of shares owned through the private funds.

All these next figures are for coins we mined, with the exception of the 7,644 shares of GBTC that FRMO owns directly, not through the partnerships. We mined, and own, rounded to the nearest whole number, 78 bitcoin, 628 Litecoin, 35 Ethereum, 662 Ethereum Classic, and 54 Zcash. Winland owns 10.15 bitcoin, all mined, and an investment in the Mt. Gox bankruptcy claims, which are ultimately payable in bitcoin. We own roughly 28% of Winland.

As I said, the coins are valued at whatever the market value is on the day they're mined. That's the protocol.

As far as the mining economics, they're very robust. Maybe the best way to express the revenue is relative to expenses. With the recent decline it won't be as good, but the revenue was something like 3x the expenses. In terms of profit margin, we have something like a multi-hundred percent profit margin, which is unheard of. As I said earlier, it's just not sustainable. Not because it's a high profit margin, although that's part of it, but because, ultimately, there will be a halving, and the economics will change for the worse. But if there are fewer people mining, the economics change for the better. Or if fewer people mine and instead direct their cash flow to buying coins instead of new machines, that will serve to drive the price up. That's the general mechanism, and that's why I don't expect the very robust margins to last.

Questioner 10

Would you shed some light on the changing nature of the "Other Investments," for example, the mining LLCs? Their value appears to be declining. However, one notes a seemingly correlated increase in the crypto mining assets line in non-current assets. Are the other investments being moved to fully owned FRMO assets?

Murray Stahl—Chairman & Chief Executive Officer

No. What's happening is when you buy machines, they depreciate constantly. In the past, we used a three-year depreciation rate. Now we use a two-year depreciation rate.

Interestingly, we have a number of miners—these are S9 miners—and they're all fully depreciated. On an accounting basis, they have no value. Nevertheless, we're using them and we're actually earning a profit on them. If the bitcoin price is high enough and you can buy electricity low enough, they're economic. We're just depreciating the miners fairly rapidly because we think it's a two-year life.

Maybe that's aggressive, but it's the best estimate we can come up with right now. Nobody knows. If we were evaluating a tractor, people would have a pretty good idea of how quickly it depreciates. No one really knows that figure for mining servers. I hope that explains the change in the basis on the balance sheet.

Questioner 11

Based on what metrics and qualities do you think the market should, and eventually will, value a publicly traded crypto miner?

Murray Stahl—Chairman & Chief Executive Officer

Eventually, the mining returns are going to stabilize. Right now, there are a lot of people who just won't accept cryptocurrency and for quite understandable reasons, they're wedded to the value of fiat. Why shouldn't they be? I totally understand. Let's take the U.S. bond market as an example. It has been 40 years of an incredibly robust rate of return. Why shouldn't people think of that as the creation of wealth? The illusion is that a major part of that return was a function of declining interest rates. But they're unaware of that, so why shouldn't they think of it as wealth? It's entirely logical.

There's a minority of people who think, as I do, that the monetary policy of the central banks is completely unsustainable. But inertia, history, practice, custom, call it what you will, 99% of the people are still there. To me, they're pieces of paper that are being debased. 99% of the people do not feel that way, and I can totally understand why. Ultimately, though, I believe they're going to change their minds. Ultimately, I believe the biggest asset class by far is going to be cryptocurrency. It's going to dwarf the bond market. There may not even be a bond market as we currently know it. I believe it will dwarf the stock market as well.

It's a revolution that's happening, a revolution in the way people deal with money. If you want a little history, I believe that, in the 14^{th} century in Genoa and Venice, civilization itself took a turn for the worse when they accidentally invented fractional reserve banking. What's fractional reserve banking?

At the time there wasn't money in the way we understand it today; there was gold, and silver, and so forth. Most people that had wealth didn't want to keep it at home, because how can you defend it? So, you'd bring it to a bank that would store it for you. Originally, they would charge a fee for that storage, because they had the security, they had the armaments. They could do it. But the banks began to realize that on a typical day, most people don't come for their gold. The bank only needs to retain a fraction of the gold that's there for redemption purposes. The rest could be lent out at interest. And so began fractional reserve banking.

It doesn't take a great leap of imagination to see that if a government borrows money and the government is who decides how many grains of gold go into a coin, the government can actually arrange to repay in debased coinage. That started the story. Ultimately, it was just a matter of time until we went from gold to paper. The world resisted for a very long time, because too many people understood what was going to happen.

I believe the Chinese invented paper money about the time of Marco Polo. They were the first. They certainly weren't the last. The United States had banknotes. The U.S. didn't have federally issued currency until the Civil War. But how else were you going to finance the war without issuing money? How else could they fight the Revolutionary War without issuing bonds called Continentals? Ultimately, the Continentals became depreciated to the point where they were virtually worthless.

You can delve into the history of every country on the planet, and that's happened in every nation—the only question is what rate of depreciation did their currency experience. The U.S. dollar became the world reserve currency not because it didn't lose its purchasing power as well; since the inception of the Federal Reserve Bank, the dollar has lost 99% of its value. As horrible as that is, though, it was actually a pretty good experience relative to sterling, or the various European currencies, or the Chinese currencies (this is pre-Communism. Every country did it. Every single country, no exceptions. It's just a question of degree.

Today, the rate of bond issuance is without parallel, meaning, it's the greatest it's ever been. People have come to believe, despite this, that it's value is immutable, that its purchasing power will remain. These are the 99% of people who choose to take these pieces of paper. I don't buy that.

Ultimately, if interest rates go up, all the high multiple stocks, even diversified stocks, are going to come down in value anyway. It'll be worse than owning a bond. All the conventional assets are tied together. If you want to be diversified, you've got to do something else. But until that something else becomes reasonably well-accepted, it's going to be volatile and you're going to live through these big declines and big advances. Until it becomes recognized by a large number of people instead of a small minority of maybe 1% of investors, if it's that high.

We're on the cusp of that happening. With respect to professional investors having a place in their portfolio for bitcoin, we've gone from an insignificant fraction of 1% to, in my estimation (it's nothing other than an estimation) maybe 1%. It just started and it's going to happen, and I don't think it will be a long period of time.

Questioner 12

I've reviewed every document on the FRMO website trying to get a history of the progression of the company. There was one quarterly report that stated the percentage of TPL held in each of the partnerships. I'm curious to know what the remainder is invested in. I believe South LaSalle was mentioned as holding 62 seats on the Minneapolis Grain Exchange.

Murray Stahl—Chairman & Chief Executive Officer

We'll do TPL first, then South LaSalle. If you look through all the partnerships directly and add it all up, and then you add in the shares of TPL held in FRMO directly and in the subsidiary Fromex, the number of shares we have as of December 31, 2020 is 54,022. Of that sum, about 7,000 is owned directly, and the balance is owned in the various partnerships.

South LaSalle owned shares of the Minneapolis Grain Exchange, and in late December 2020, the Minneapolis Grain Exchange merged with the Miami Options Exchange. Therefore, we now own shares of MIH, or Miami International holdings, which owns the Miami Options Exchange, but I refer to it as MIAX. I don't know if we're the biggest owner of MIAX, but we're a substantial shareholder.

By the way, we owned the Bermuda Stock Exchange directly and had sold that to MIAX the prior year. To explain the rationale for MIAX, we owned a bit of it, and MIAX developed completely new technology to do options trading and spent a lot of money doing it. I'm biased, you shouldn't take my word for it, but, in my humble opinion, it's the best technology there is in the world of exchanges, and it's constantly improving.

However, for the bulk of our investments, we took another approach. We bought into the Minneapolis and the Bermuda exchanges. The logic there was that they had unique licenses. In the case of Minneapolis, they had a clearinghouse license. There are three clearinghouses in the U.S., Minneapolis owned one them, and the CFTC (Commodity Futures Trading Commission) was not going to license any more. If you want to do anything in futures derivatives, you have to have a futures license and you need a clearinghouse. In other words, put Minneapolis together with MIAX and you have something truly powerful and great.

If you just follow the MIAX volume history, you can see what's happening. The term everyone else uses is 'the volume is lighting up.' It's actually pretty accurate. It's growing at a very rapid rate, and the merger just closed in late December; it was growing at a fairly robust rate even before that.

The Bermuda Stock Exchange is a national asset of Bermuda, and there are all sorts of intriguing exchange products that can be developed there, because it's its own jurisdiction. It has the advantage – among others – of the time zone being one hour ahead of New York. They should have been able to do all sorts of very intriguing things there. The exchange's challenge was that it was too small to really afford its own technology. But MIAX has the technology and, as I said, I think it's the best. Merge the Bermuda Stock Exchange with MIAX and you bring the technology there. That's about to bear a lot of fruit, in my opinion. The MIAX story is very exciting. That's what's in South LaSalle.

I wouldn't mind, if I could get the money, buying more MIAX. It's a truly wonderful exchange. It's not public, of course, so it's a private investment, but I just can't say enough good things about it. I'm delighted with that investment.

Questioner 13

It appears that the OneChicago LLC Exchange stopped trading in September 2020, and withdrew its registration to trade securities futures in December 2020. Can you update shareholders on the status of the OneChicago investment? Did it result in a net loss to shareholders' equity?

Murray Stahl—Chairman & Chief Executive Officer

It might well, because it's winding down and they're going to liquidate the assets. I don't know what we're going to get. It's a shame. I thought the idea was sound and the license was valuable. Those things happen. It would have been preferable to proceed with it. But we were small owners; we were kind of irrelevant. The big owners were CBOE and the CME. I guess, from their point of view, they had much larger strategic considerations. I can see it from their point of view.

I would have liked to develop OneChicago's single stock futures business. It's the obvious alternative to short selling. Then again, short selling is so profitable, it's even been a controversial subject. I guess the dominant exchanges wanted to go in another direction. I've got to accept it, though if I had the resources, I would have continued it by myself, but we just don't have those kinds of computer and technology resources in FRMO.

Questioner 13 (cont.)

Can you give a brief update on the economic prospects of the MIAX Group? Following the formal acquisition of the MGEX in December, what is FRMO's percentage ownership of MIAX?

Thérèse Byars—Corporate Secretary

Directly, FRMO owns 653,394 shares, or 0.84%. FRMO also has 25.71% of South LaSalle, LP. South LaSalle directly owns 4,471,378 shares or 5.73%. Therefore, FRMO's implied ownership through South LaSalle is 1,149,712 shares, so our total ownership, direct and implied, is 1,803,106 shares, or 2.31%.

Murray Stahl—Chairman & Chief Executive Officer

There are quite a number of parties who are invested in MIAX, and I think we're up there, in terms of ranking. I don't remember if we're the biggest, but we're substantial.

Questioner 14

I might be wrong but there appears to be a discrepancy in the August 31, 2020 quarterly report regarding ownership, or possibly my definition of public float is not accurate. There's a table that lists ownership of 10% or greater, which totals 74.9% of the shares outstanding. However, there is a line item that shows the public float at 13,538,923 shares or 30.7%, not 25.1%, which it would be if you use the 10% or greater holder number of 74.9%.

Thérèse Byars—Corporate Secretary

The number that you see is the public float, which is 13.5 million. OTC Markets defines float as the total number of shares outstanding minus the number of restricted shares. However, that number does not (and cannot) capture the unrestricted shares held by insiders and other long-term shareholders. Therefore, the effective float is actually less than 30%, in my opinion.

Murray Stahl—Chairman & Chief Executive Officer

That's true. There are some holders who are not restricted. For example, Horizon Kinetics itself owns about 200,000 shares that we actually bought; those are not restricted. I, personally, bought some shares in the open market, and those aren't restricted. We probably should endeavor to get a better number. I'm doing it from memory, but that's the gist of it.

Thérèse Byars—Corporate Secretary

I think it's very hard to nail that down, because it's always going to be an estimate. Regardless, it's certainly less than 30%. It's a very small float.

Questioner 15

FRMO purchased, although as at November 2020 had not yet paid for, 20,000 shares from Mr. Bregman under the share repurchase program. Could you shed some light on this transaction from FRMO's perspective?

Murray Stahl—Chairman & Chief Executive Officer

From FRMO's perspective, some shares were available in a block. I guess it's not really of a size that most would call a block, but for us it was a block. I thought it was good value, and I bought it for FRMO. That was our perspective. I'll let Steve opine, if he has a perspective.

Steven Bregman—President & Chief Financial Officer

Speaking with respect to FRMO's perspective, I'd say that if Steven Bregman sold some shares at a price that was well below what they're trading for now, and FRMO purchased some shares for a price that was well below what they're trading for now, that's a good outcome.

Questioner 16

Regarding the RENN Fund, Petrohunter Energy Corporation was a significant holding, which appears to be a seven-figure loss. But, recently, there was a news alert regarding a payout from bankruptcy that reflected on the most recent holdings. Was this investment made during bankruptcy or in an anticipation of bankruptcy, or was this just a risk that turned south?

Murray Stahl—Chairman & Chief Executive Officer

None of the above. When we took over the RENN Fund, there was a security in there called Petrohunter. Petrohunter was valued at zero, because it had gone bankrupt before we took over the fund. One of the allures of the RENN Fund was that we weren't paying for the security, because it was bankrupt. Except we thought there was going to be a bankruptcy payment.

That cash payment was phase one of the bankruptcy payment. Relative to the size of the RENN Fund, that payment was a material number, and there may well be others, though I can't guarantee it. When you buy a fund like this, you sometimes buy undervalued assets.

I can understand it from a Pricing Committee point of view: you don't know what's going to happen, so be conservative and value it at zero. However, that doesn't mean that the probability of payment was zero, and it turned out that we got some money. I thought that was great.

Thérèse Byars—Corporate Secretary

That will be the end of this call and we will carry over the other questions. We can schedule another date to follow up and we will send out a press release to announce it.

Murray Stahl—Chairman & Chief Executive Officer

Please set it up and we'll deal with all remaining questions and any questions that come in in the interim. I'm very gratified that everyone attended and that we had so many intriguing questions. I know there are more, and I apologize. We ran out of time to get to everything, but we will. Please don't hesitate to put in other questions. We want to answer everything and have a dialogue. I think it's fabulous. Thanks for your interest in FRMO and thanks for your support. It's been great and they were really great questions.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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