FRMO Corp. Q3 2024 Conference Call
Tuesday, April 16, 2024

Thérèse Byars – Corporate Secretary

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.

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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 fiscal 2024 third quarter earnings.

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

Murray Stahl – Chairman & Chief Executive Officer

Thank you, Thérèse, and thank you, everybody, for joining us. I'll just start off and make a couple of highlight points that are financials, which I think you'll find interesting. Then, I'm going to answer some questions that I always get as I encounter people—I never get them in real time online. That's too bad, because the answer only goes to one person. I really think I should share it with everyone, so that's what I'm going to do.

As far as financial statements go, I believe, if I'm not mistaken, that our shareholders' equity attributable to the company, of $219.4 million, is the highest we've ever had. And our total assets, which is total liabilities plus shareholders' equity, is $388 million. I think that's about as high as we've ever had, too, so it's getting to be big sums of money. But what these financial statements don't do is show the details behind them. An important detail, and I'll get to some questions about that detail momentarily, is that we're actually building a crypto business, and we're on the way to becoming a crypto operating company. So, the components to that are, we now own 1,655,000 shares of Winland Holdings (WELX), and I think that's something like 35% of the shares. We keep filing 10b5 plans, and we have one on right now, which is in a quiet period. And, I think, on May 1st, it recommences.

Winland is now largely a crypto miner. We also have a smaller investment in Consensus Mining. Consensus Mining, if everything goes right in a few months, is going to have a listing, and that's also a crypto mining company. Also, if you look at our balance sheet, you'll see about $1.3 million of digital mining assets that we actually mine for ourselves. Put it all together, and it would not be a small cryptocurrency mining company if it weren't diffused into three different pockets. The three elements are, generally speaking, gradually getting bigger. We also have, as you can see from our cryptocurrency holdings summary, a fair amount of cryptocurrency holdings, either directly or indirectly, in ETFs.

So, I'll just speak about what we've been doing. The crypto business has been, I dare say, pretty successful. One question I get refers to the balance sheet cash, which is $38.8 million, and it'll require a bit of a lengthy answer. A question people frequently ask, but never on this call is, "Why do you need $38 million of cash? It seems to be always around that amount. Why not take the bulk of that and put it into Bitcoin?" That requires a little explanation. We don't want to be a Bitcoin holding company. We want to be a cryptocurrency mining company, and that's an important distinction. Let's start with this.

If we were to put the $38 million into one of the various ETFs that have been approved since the last of these meetings, this is what happens to a cryptocurrency ETF in the long run. Cryptocurrency produces no interest, no dividends. The fees are small, but there are fees. So, the fees can only be paid by selling a little bit of crypto. What would happen is, even if the fund gets a lot of money, the fund always trades at net asset value. The number of crypto coins per share or per unit, if you prefer, is always going to go down. The salient distinction, but not the only distinction, with a cryptocurrency mining company is, if you do it right, the crypto per share is going up. So, you're producing crypto.

Now, some very interesting performance aspects as well. It's theoretically possible that in a year, cryptocurrency will actually go down by 20%, but you might have mined 10% more coins. And if those are indeed the numbers, you are in equilibrium. So, crypto has a different risk/reward pattern than your typical ETF. But the more salient point is, of course, that you're going to be producing more crypto. You're organically growing your net asset value. So, if you can continue to organically grow your NAV, and you do it with regularity, you're likely to trade at a premium to book value or a premium to net asset value, which is a lot better than just trading at a net asset value level. It's a very different outcome for shareholders.

Another aspect, which you might find interesting, is that Winland and Consensus Mining don't merely mine Bitcoin. They are mining Bitcoin, Litecoin, and Bitcoin Cash. Also, anyone who mines Litecoin is also mining Dogecoin. Why? Because Litecoin is a merged-mine coin. As a merged-mine coin, for the same electricity, you're mining two coins instead of one. So you could, for example, sell the Dogecoin, which is what we've chosen to do, to pay all the expenses of mining, and keep the Litecoin. It's very profitable, but the profit of mining is not the only dimension of that, which means daily operational profit.

The idea is—it's theoretically possible, and before I say it, let me just point out that I'm probably the only person who even believes this—the lesser coins, in my humble opinion, have potentially more upside than Bitcoin, which, I think, has a lot of upside. The reason they might have more upside is because the sizes of the other networks are very small. For example, the Bitcoin network is now over 600 exahash. Exahash, by the way, is the number 1, followed by 18 zeros. So, it's a big number. In ordinary parlance, you'd say quintillion. Litecoin, as an example, has, in round numbers, one petahash of network hashrate. One petahash is one-600,000th the Bitcoin figure, meaning that the Bitcoin network is 600,000 times the size of the Litecoin network, which explains why Bitcoin has a much bigger market capitalization.

If you could get the hashrate to go from one petahash to two petahash, which is a rounding error for Bitcoin, you could double the size of the Litecoin network and probably double the value of the network. Bitcoin Cash has an aggregate network hashrate of about 2.5 exahash, so it's less than a half percent the size of the Bitcoin network. It's theoretically possible, in a whole host of scenarios, for processing power to move from Bitcoin to Bitcoin Cash. It has happened, although on a smaller scale, over the last year or two. That smaller scale, which most people ignore, would indicate—and it's happened—that Bitcoin Cash actually significantly outperformed Bitcoin over the last year, as an example. It's possible that Bitcoin Cash, which doesn't have a use case right now, might find a use case.

Anyway, the network's sufficiently small, although still secure. You could make a case for it, and you could make an excellent performance case for it, so we have that.

Now, if you're going to build a mining business, you have to build it gradually and slowly. As they say to me, in any event, if you have a lot of cash, why not put it to work? Well, here's why: because you must assume that, every three or four years, your mining equipment is going to be obsolete. Now, the estimated useful life of the equipment is actually less than three years, so a lot of it's going to wear out. In our case, we've been rather lucky that it hasn't worn out. But every four years, there's a halving. That's a common feature behind Bitcoin, Bitcoin Cash, and Litecoin.

A halving means that every four years, your block reward is cut in half; that's why they call it a halving. But your cost of mining remains the same. So, your revenue is cut by 50%, but your costs remain the same. What business could endure that every four years? What you need is to be in a position to be able to replace your entire network no less than every four years, and sometimes, even more frequently than that. The other side of that is, the equipment you replace your network with is much, much more efficient in its electric power usage and, actually, in its durability. So, every dollar you spend for equipment buys more processing power. Put in another way, the cost of one terahash of processing power is constantly falling.

So, for the same amount of money spent on a Bitcoin miner eight years ago, today, you could probably buy 12, maybe even 14 rigs, and they'd be much better. If you invest a lot of money in one iteration, you have no way of knowing when there's going to be a technological breakthrough, so you'll have no capital reserve to replace your equipment. That's actually what's going on in a lot of the mining companies right now. Capital was raised and capital was invested.

We're three days away from the Bitcoin halving. At the current price of Bitcoin, most iterations of equipment are not going to be profitable. Now, maybe in the next three days, the price of Bitcoin goes up and remedies that, but assuming it's not, those machines have to be turned off. If you place orders to be delivered over many future months, there's actually a natural futures curve in equipment purchases. So, if you order equipment for August 2024 delivery, it's actually meaningfully cheaper than if you order equipment for May 2024 delivery. And you get a much better deal on it.

So, you always want to be in that position. If the scenario proves to be true, what's going to happen is, the leading equipment generations of the last three or four years are going to effectively be made obsolete and inoperable by the halving, and the modern generation of equipment will take over.

Let's just say there's a halving. Your revenue is cut in half. The Bitcoin price is unchanged, but if half the machines are turned off, the people you were competing with for the block reward, some of them melt away. And, in this simplistic instance, if half of them leave, you'll get twice as much block reward (measured in coins) as you were getting before, even though the actual block reward itself is less—meaning you'll get proportionately less, not actually less. What'll happen is, you will be in equilibrium. You may even be in a true profit position. So, you dare not invest a lot of money at any one time, because if you do that, you've lost all your flexibility.

A negative takeaway from a shareholder's point of view is, it takes a long time to build a cryptocurrency business in that way. You can't see Consensus Mining & Seigniorage yet, because it's not publicly traded, but you can see Winland, so you at least have a window on how things work in a gradualist cryptocurrency mining effort. I dare say it's actually been very, very successful. Again, I think we hold roughly 35% of Winland. May 1st, I believe, is the day of the activation of a new 10b5 plan, and we're going to continue with our policy.

I dare say, in crypto we're ready for just about any conceivable scenario. We're staying away from bold moves. All that notwithstanding, we still buy modest amounts of crypto. Were we ever to attain the majority interest in Winland, we would have to consolidate it, and that would improve our crypto holdings. I believe, in our cryptocurrency holdings review, we're not specifically disclosing our share of Winland and Consensus Mining. Is that correct?

Thérèse Byars – Corporate Secretary

We disclose the number of shares FRMO owned of Winland and Consensus Mining, as of February 29, 2024, in the Top Holdings report on the FRMO website with the transcripts of the Quarterly Conference Calls.

Murray Stahl – Chairman & Chief Executive Officer

Okay, so let's just go to another topic, which has been thrilling, to say the least: Texas Pacific Land Corp. (TPL). You might observe that we bought more shares of Texas Pacific. There was a dispute, and it's resolved, for better or ill. But at the end of the day, there are incredibly few companies in the world, and maybe even none—and I hesitate to say that, because I don't know every company in the world—that have the quality of TPL in any business, and especially in commodities. Let me just point out a couple of aspects of that.

Most businesses trade at a certain price-to-earnings ratio. In a certain sense, it's a little bit of an illusion. Why is it a bit of an illusion? I'm making up a number here, but if you bought a business at 12x earnings, and it's GAAP earnings, but it's not as if you can take the entirety of the earnings if you wish to and disburse it to shareholders. You can't do that. So different companies have different ratios, but at the end of the day, you have to reinvest a goodly portion—and, in many cases, more than a goodly portion—of the earnings to maintain the resiliency of the business. All you have to do is look at the financial statements at TPL, and you'll see the capital expenditures are de minimis. So, the earnings, at least in principle, are available to be used for shareholders. In theory, they can buy back stock or make acquisitions, but they're acquisitions that are with a view to growing the business, or they can just be paid out in the form of dividends. Very, very few companies have that faculty.

Also, longevity of the business: What is the business? It's oil royalties. It's land, it's easements on land. And it's water, both sourced water and produced water. Land is forever. Water is forever. There are no other businesses that have those characteristics, even commodity-based businesses. So, let's make two points. The first point is, most businesses either provide a service or make a profit. How many businesses, even the best, can say they're unchanged after many years? The business changes, competitors arise, the problem becomes obsolescence. Maybe more capital has to be invested to maintain the edge. I think, historically, very few companies have maintained their edge over the course of decades. In these kinds of businesses, we don't have to.

Now, let's turn to commodity companies. You might not be aware of this, but most commodities companies have negative real rates of return. For example, you couldn't do this in reality, but you could certainly do it theoretically. Let's say you measured wheat. I just wrote something that's not even published yet, but one of the facts I put in the paper was the price of wheat in 1866-1867. The U.S. Department of Agriculture actually maintains records of prices in a planting season, because that's the relevance from their point of view. Right after the Civil War, the price of wheat was $2.06 a bushel. On the eve of the First World War, the price was considerably less than $1. So, people naively say that investing in commodities for long periods of time, they're inflation beneficiaries. Well, they're not.

I could go to the lowest wheat price recorded in the last 100-plus years, which was the 1932-1933 planting year, when the wheat price actually declined, I think, to 38 cents a bushel. Can you imagine looking up wheat prices in 1932 or '33 and seeing a price of 38 cents a bushel? There are people who were alive in 1932-1933 who were old enough to have lived through the Civil War. There were even people who fought in the Civil War. And they're thinking about inflation, what might have been. Even today, the price of wheat is maybe $5.50 a bushel. So, what is the actual rate of return? It's a fraction of the rate of inflation for that time period. I can give you statistics on all the commodities. I won't do it, because you'll find it boring, but I think you should look these things up for yourself.

What is the number-one mission of commodity producers? Remember, these are the capital-intensive commodity companies. It is: A) to produce more of the substances, which of course increases supply. And, much more importantly, B) to reduce the cost of extraction for that commodity, whether it's a gold company, a copper company, whatever. In most instances, they don't really reduce the cost of producing a commodity in nominal terms, but they do succeed in reducing it in real terms. The cost of extraction is usually going down in real terms, and wheat is an example of that. Then, the price is not going to advance at a rate commensurate with inflation.

In reality, you couldn't have bought wheat in the 1866-1867 planting year and kept it, because a lot of commodities don't have an unlimited life. As a matter of fact, *most* commodities don't have an unlimited life. Oil, I guess you could say, has an unlimited life, but only if it's in the ground. You have to use it if it comes to the surface, because of the cost of storing it. Imagine if they could store oil from 1866-1867 to now. What would be the point if the cost of storage basically overwhelmed the cost of production? You're not going to make money. So, most commodities have negative real rates of return.

Land is an exception. Land has a positive real rate of return. The other big exception is water. Water has a positive rate of return over time, because you wouldn't call the inventory "storage." But land is land. It's not really being stored in the conventional sense of the word, but it's not going anywhere. Water is the same thing. It's underground, and unless you bring it to the surface, it doesn't get used at all, but if you do bring it to the surface, it has a natural refresh rate. That's why, in the world of inflation beneficiaries or inflation protection, if you prefer, it's so important. That's why we're so enthusiastic about it and we look forward to owning it for a long period of time.

So, to give you an overview of what we're doing, I asked myself a couple of questions that I never seem to get in the real world, which is this forum, but I hope you found it interesting. But now, let's go to the real world. I'm sure you have questions, which have been pre-submitted.

I don't know what they are, and I'd be delighted to answer whatever anyone would like to pose to me, so if you will accommodate that, Thérèse, I would be glad to answer any questions.

Thérèse Byars – Corporate Secretary

My pleasure.

Questioner 1

Thanks for all your work, and congratulations on the Scott's Liquid Gold transaction. I had a quick Miami International Holdings accounting question. Could you help me understand the change in the MIH direct account balance from the first quarter of 2024, at $4.7 million, to the second quarter of 2024, at $7 million? I understand the investment is held at cost, but I see, based on the top five holdings documents, that FRMO's shares of MIH increased from 1.821 million in Q1 2024 to 1.824 million in Q2 2024. Even if we conservatively assume all of that increase in MIH is directly attributable to FRMO's balance sheet (vs. South LaSalle), the incremental purchase price seems very high versus a $7-ish share valuation given to MIH a few years ago. Was the change in the

MIH direct balance due to a contribution from FRMO into MIH? And if so, why? If it was due to direct purchases, can you help me understand where my math above is erroneous, if at all?

Thérèse Byars – Corporate Secretary

Judy and Alun actually provided some information on this. Would you like me to read it?

Murray Stahl – Chairman & Chief Executive Officer

Please. I always welcome it.

Thérèse Byars – Corporate Secretary

Judy is the fund controller, and what she said is, there is no difference in the number of MIH shares held directly by FRMO and Fromex from the first quarter to the second quarter. South LaSalle Partners, LP did purchase almost 500,000 additional shares in November 2023. While FRMO's investment in South LaSalle went down about 2% by the end of the second quarter due to additional inflows in South LaSalle by outside investors, this still amounts to an extra 3,000 shares owned indirectly. You can see this in the top five filed from August 31, 2023 and November 30, 2023. Further, the MIH shares are not held at cost. We've been marking them monthly. The price we used for August 31, 2023 was $7.18 per share, and for November 30, 2023, we used $10.66. At calendar year end, we used $10.30, with the help of an outside valuation firm, and will continue to use that pricing through March 31, 2024, when we'll get a new valuation from the outside valuation firm.

Murray Stahl – Chairman & Chief Executive Officer

Okay, I'll add a little color to that. The fund South LaSalle, which we're invested in, had the opportunity, every now and then, to buy shares in MIAX. Don't forget that MIAX is a private company, and people were waiting for an IPO, and every now and then, someone takes the position: "The IPO has not yet happened—and, therefore, the IPO will never happen." I don't necessarily agree with that, but such is the position, and the people who actually believe that will offer shares up from time to time at preposterously low prices. So, we would be remiss in our duty if we didn't buy them. The fund raised some money and we participated in that. But basically, the bulk of the change in value is the increase in value.

Now, how does that value get determined? It has two components to it. The first component is, we have an independent valuation assessed to it, where it's compared to publicly traded exchanges. It's very conservative, in my view, but that's how it's done. And then, the second component is that every now and then the company has a private placement, and that is not at the $7 price. So that gets taken into account in the valuation. That's how we arrived at that, so it's actually a pretty good investment for us. I don't know what price we're using. Don't forget, a lot of our shares came from the merger of Minneapolis Grain Exchange into MIAX, and a lot of them came from the merger of the Bermuda Stock Exchange into MIAX, and we were big holders of both of those companies.

I don't remember what valuation we were using way back in the day, but it was considerably beneath the current valuation. All you really have to do, even though I know it's a private company, is if you go on the MIAX website, and you look at the volume, you can see how robust the growth has been. And for valuation, even though it's not precise, you can get a real sense of how much it advances by changes in volume. Volume is the most important dynamic of the exchange. I hope that addresses that.

Questioner 2

Some of the commentary on the issue of non-controlling interest confuses me and seems a bit contradictory. Perhaps Murray could comment on his thoughts as to how best to value FRMO, particularly with respect to the net asset value of about $4 a share without non-controlling and about $8 including non-controlling. I'm trying to value the company from my point of view, and in particular, what I would get as a public shareholder if FRMO were dissolved as of November 30, 2023 with the proceeds being exactly what is on the balance sheet. If I'm interpreting Murray's comments correctly, I—as a public shareholder—would get $4.69, not the $8 per share. Do you agree? If so, that reconciles Murray's comment that the stock is selling for more than book, i.e., $7-plus versus $4.69, or about 160% of book value for the public shareholders. Thanks for humoring my efforts at clarity.

Murray Stahl – Chairman & Chief Executive Officer

For clarity purposes, you should never—I repeat, never—include the equity that's not attributable to shareholders. What you would get if we decided to liquidate the company, you're getting the equity attributable to shareholders, which is $219 million divided by the number of shares outstanding. That's your number. That's what you're getting. The other number doesn't belong to the company. We need, however, to consolidate it due to the accounting rules. There are two funds that have a lot of outside capital. One is HK Hard Assets I, the other is HK Hard Assets II. The total assets are a not-small number. They change every day, but they gravitate to around $200 million or thereabouts. And of the $200 million, only about a quarter of that (and you can see it in the notes, I think it's note number one), maybe 22%, belongs to Horizon Kinetics. That would be in our shareholders' equity. So, $4-and-change is the right book value.

The reason we trade at a premium to book value is, we're building a real cryptocurrency business. I personally think—and it's just subjective, so take it for what it's worth, I'm also biased—it's not a fair valuation, in a negative sense. It should be greater, because if you take any of the cryptocurrency mining companies that exist, of which there are many that are publicly traded, I think ours is a lot better, a lot more stable, and it has much, much less risk to it. And I would argue it's been even more successful, and that's measurable in terms of our growth in crypto, how much we produce, how much we retain, and the fact that we don't need outside capital, which the other companies appear to do. Why do we trade at a much lower price to book? I don't think it's fair, but it is what it is. And there you have it.

Questioner 3

I recently became aware of FRMO, bought a starter position, and I'm trying to understand the details of the business as time permits. If possible, I would love to get a better understanding of the history of the business and some of the current business nuances. Thank you.

Murray Stahl – Chairman & Chief Executive Officer

Historically, it really was created by Horizon, not Horizon Kinetics. There was a Horizon Asset Management and a Kinetics Asset Management. The same shareholders controlled both groups, but they were separate companies. One was largely management of money for wealthy individuals; the other, management of money in a mutual fund context. We started that way, because we felt if one business failed, the other business could go on, so we had two separate companies that ran parallel, until somewhere around 2011, I think it was, when those businesses merged and became one: Horizon Kinetics.

In roughly the year 2000, Horizon had accumulated a certain amount of capital. We didn't need it in the business, but we did want to invest it. So, the purpose was to find some vehicle where we could be publicly traded, because we thought the permanent capital model is a much better model for investing money than the transitory capital model, which is the mutual funds. One of the problems with the transitory capital model is not even the flows. Money comes, and money goes. It comes at the worst possible time. When you get it, you always get it after a big increase in net asset value. And then, because markets go up and markets go down, if it goes down, you end up losing the money just when you want to buy things. So, it was basically a vehicle for investing our own money and perhaps opportunistically raising some permanent capital if we had the ability. And we actually did at one point. A private placement raised a few million dollars of assets, not a lot, just to see if we could do it. And that's the way it was.

But then, we accumulated so much capital, we didn't want to merely be an investment company. We always thought we would buy a business and we'd run a business. We looked at various things. Everything we looked at, we either didn't like it because it was too time-consuming to run or it was too expensive, or it didn't have a long enough life for us, or we just didn't have the expertise to do it. So, it was eight years ago that we thought about cryptocurrency, and we made a small investment. The idea was to learn more about the business and see if it could be a viable business. Essentially, I'm summarizing, but that's basically how it happened.

The next step in our evolution is to make a much bigger operating company out of crypto. One of the interesting things about crypto is you don't need a lot of people in the business. And one of the reasons we didn't really want to be involved in the conventional businesses is because this involved a tremendous amount of people management. It would have detracted from our attention to other matters. We might not even have had time to do it properly. So that's, in brief, the history.

Steven Bregman – President & Chief Financial Officer

I would just add—and it's not for me to assign anybody homework, and I thought that was an excellent strategic summation—that if somebody were to want a little more flavor and a sense of developing strategic shifts over time, the various annual FRMO letters, which are on the website, can give you a lot more interesting detail and nuance. It's worth taking a look.

Questioner 4

Any updates on the Horizon Kinetics merger with Scott's Liquid Gold that Murray can share? Also, what impact will HK becoming a public company have on FRMO and the price of its shares, in your opinion? When the dust clears, how many shares and what percent of the shares will HK have and be held by FRMO? What percent of the public float in shares of the new HK stock would be and what percent of the outstanding will that be?

Murray Stahl – Chairman & Chief Executive Officer

Let me just give you some background that you don't know. There are many reasons for doing this transaction. One of the reasons is that one of the founding shareholders of Horizon, a small shareholder but nevertheless a shareholder, passed away. The heirs have no desire to own shares in a private company, so there are only two ways to solve that. The first way is to buy the shares from them. The second is to come public.

Buying the shares from them is problematic, because although we can certainly give anyone complete and full disclosure about what the company owns and what its prospects are, etc., the valuation assigned to any business is subjective. So, we might assign it a valuation of X, and someone else might assign it a valuation of Y. It's a natural conflict. We really didn't want to do that, so we decided the best thing to do is disclose everything to the world, just come public, and if you own shares, you could either sell them or you could buy more shares.

Now, the float: Horizon's a private company. So, none of those shares in the public domain will be in the public domain on day one. The only shares in the public domain are Scott's Liquid Gold, which is about 2% of the total aggregate shares, but you know there are going to be some selling shareholders. I personally am not among them, but no one's here forever, and some of the people are getting older. It's only natural they might want some liquidity. So I can't give you a number other than the 2% number, because in round numbers, that's what Scott's Liquid Gold is going to own. That's the float. I suspect there's going to be some other float, but I can't know the number. I just don't know it, so I can't share it.

This is a reverse merger, so there's a lot of documentation put together. As preparation, we actually hired a CFO with public company experience, because there's a mountain of work that needs to be done to complete this transaction, and it took a certain amount of time just to find and hire the CFO with public company experience. We're thinking maybe in July the transaction will be consummated. I don't know that; it's just what I'm told. And you know, in a merger of this type, no matter how many things you do, there always seems to be one more thing to do, so I don't know if that deadline will be met. I think it's going to be met. It looks good right now, but you never really know.

How will it affect the FRMO financial statements? It's going to affect the FRMO financial statements. Why? Because, using the 2% for illustrative purposes, Scott's Liquid Gold has a market capitalization of X. You divide that by 2%, or .02. That would give you the market capitalization of the entire company. FRMO is going to own a little bit less than 5%. I don't know the exact number, but in the footnotes of the FRMO report, you can find it. If you've got to get the exact number, I'm sure if you call Horizon, you could find somebody who'll give you the exact number.

In any event, if you now take the Scott's Liquid Gold market capitalization, divide by .02, and multiply by, I think it's .0483—or maybe it's .049—you would come up with the value, a carrying value, that FRMO should have if they marked Horizon to market, which we don't do. You should do that, and if you do it, you'll see that the balance sheet values will change. It'll be material. I could probably calculate the number in my head and give it to you, but I told you methodologically how to do it, so you should do that, and you'll know the answer to the questions you're posing.

Questioner 5

What is the intrinsic book value per share if you adjust for deferred taxes, the fair value of the private businesses, the fair value of the public businesses, and the fair value of the crypto holding?

Murray Stahl – Chairman & Chief Executive Officer

The crypto we mark to market. The public businesses, they are marked to market. The private businesses, examples would be MIAX and the Canadian Securities Exchange, are not market valuations. They're just valuations, conservative as they are, given by a third party. Horizon is also that way. I just told you how to do the valuation. I don't know what the IPO value is going to be. Even though I have my suspicion of what it is, I don't think it would be proper to comment on it, other than it's going to be a number, obviously. But in the Horizon case, you'll see it's going to be higher. So, it's a higher number.

In the case of MIAX, the value—arithmetically, from the financial statement—is obviously going to be less important than Horizon is going to be. And then there's the crypto business. We don't know what the business of Consensus Mining is going to be, but we don't have a lot of shares yet. That's something to consider, but I don't think the change is going to be material. I just think that cryptocurrency mining businesses that are well-managed, which I believe this is, should trade at big premiums to net asset value. They all do, even though not all of them are particularly well-managed, so that's about as far as I can go with giving you what the valuation would be.

Questioner 6

It has become increasingly frustrating watching the world of crypto assets explode to the upside, yet the share price of FRMO Corp. has not moved an inch. The last time Bitcoin made a run to $60,000 per coin, the share price of FRMO was trading above $14 per share. Now, Bitcoin is at $70,000, and FRMO has not participated at all. What can be done to make sure shareholders are rewarded for their patience? The investments you have made for this company have been fantastic, but ultimately, the company will be judged by its share price, not the book value. Have you considered stock buybacks, dividends, a name change, and uplisting to try and increase the value?

Murray Stahl – Chairman & Chief Executive Officer

I believe it's going to get its valuation. None of those things had a problem in FRMO in terms of valuation. The problem is everybody who owns FRMO pretty much likes FRMO. Nobody really wants to sell their FRMO, so it's very hard for a new shareholder of substance to get shares. Therefore, you could uplist. You could change the name or buy back shares. If you buy back shares, all you're really going to do is make it less liquid. That's not going to help; it's probably going to hurt. So, if you really want to get a higher valuation, it's going to have to be more liquid. And it's going to be more liquid, because the same dynamic at Horizon, in terms of shareholders needing liquidity, is going to happen at FRMO. As a matter of fact, to a very small extent, it's already happened. In the fullness of time, the liquidity problem will solve itself, and we're going to get the valuation we want. If it doesn't happen, the next logical thing to do is do an equity carve-out.

If we ever get to a position where we consolidate the crypto, and people can see that might do it if we have the right liquidity, then if it doesn't do it, we can do a carveout—meaning we do an offering through a subsidiary. Let's say it's a crypto subsidiary. Make that public so people can see the value of crypto, because right now, there's no individual line item where you can summarize all the crypto. How do you value FRMO's crypto efforts? There's no line item to that, and that's what we're trying to solve. So, I don't think the fullness of time is going to be long. We're going to get to all that stuff.

Questioner 7

I know Murray really likes the oil royalty trust positions. One of his larger positions is Permian Basin Trust. It has been hit hard so far this year, trading down 50%. Would you comment on why this is and if you still like this company?

Murray Stahl – Chairman & Chief Executive Officer

I like the company. You might recall when there was a Horizon-TPL dispute. Although the company performed splendidly, the stock went down by 50% during the dispute. In Permian Basin Trust, there's also a dispute. The trustee, although on behalf of the shareholders, has accused the operator of recording too many capital charges that were not legitimate. Since Permian Basin pays a pro-rata portion of capital expenditures, the issue is how much cashflow and how much dividends should Permian Basin have? That's going to have to be resolved by the court system.

What happened in Permian Basin Trust is somewhat similar to what happened in TPL with, I would say, this salient distinction. In TPL, we had our dispute. Obviously, it took place in court. You might not believe this, but if you were sitting there in a board meeting, you would be amazed at how remarkably cordial the proceedings really were. The reason is because, yes, we had disputes, but it wasn't a monetary dispute. More to the point, we agreed on over 99% of the issues. Permian Basin's is not that kind of dispute, so it's going to have to be clarified, and it'll get clarified in due course and it's going to be resolved.

So, either some shareholders are right, and the company just put in too many capital charges, or they're wrong. But we're going to get to the right number. We're going to find out, so I personally wouldn't worry about it very much. Just like during the TPL dispute, people couldn't see it, see the process. It's my perspective, of course, but everybody is working together, I would say, pretty productively. We might have had our odd moment when we expressed disagreement on a certain topic—we all know what that was—but other than that, it was pretty pleasant being there. Now, you wouldn't imagine that was the case, but it really was.

This is maybe going to be a little more profound in the case of Permian Basin Trust, but it'll resolve itself in due course, so I'm not worried about it whatsoever. And we were buying more shares of Texas Pacific during the controversy, as anyone can see from our filings, and we're buying more shares of Permian Basin Trust in the places where it needs to be bought.

Questioner 8

My question for both Mr. Stahl and Mr. Bregman is, what is one thing each of you believe FRMO shareholders either don't understand or appreciate about FRMO?

Murray Stahl – Chairman & Chief Executive Officer

I'll go first. I don't think the evolution of FRMO to an operating company is appreciated, because it's taken so long, necessarily so, as I indicated earlier. But that's the only thing I would say that's important.

Steve, you can give your appraisal.

Steven Bregman – President & Chief Financial Officer

There are actually many. And I think they mirror the differences between the management and, because of the management, the structural and strategic philosophy and implementation of FRMO Corp. versus the typical operating company, which is what investors are accustomed to. Because why shouldn't they be accustomed to it?

I'll name a couple. For instance, cash. There's an awful lot of cash, effectively cash and marketable securities, on the FRMO balance sheet. I'm sure pretty much everyone on the call, anybody who follows small value companies realizes that a business doesn't get any kind of valuation multiple on cash, even though cash is the most basic, valuable thing you can own during difficult times or times when it can be an opportunistic asset. In fact, sometimes companies sell at a discount to their cash, or the cash is discounted on the balance sheet in terms of its public market value. And yet, there's this odd thing that happens, that you can have a company that on the last day of a certain month owns a bunch of cash on its balance sheet, and on the first day of the next month, that cash has been invested in something. In some asset. It doesn't matter what you call it. Call it a big office building, some real estate property or something else, or a different company. And all of a sudden, people will apply some multiple of that cash that's now in the form of the new asset that's been purchased. That can happen overnight.

As far as what's been described, there are more elements, businesses within Horizon Kinetics and FRMO Corp. that are on their way to becoming public. You get the highest multiple for any business in the public markets. Horizon Kinetics will have a public valuation, and that will get us more eyeballs and legitimacy and so forth and so on. In that regard, I might mention the interesting questions we're getting today for this particular conference call. There are many more participants in it than we've had before, new names I don't recognize, and the breadth of questions is greater. If that's any kind of indicator of the earliest dawn, the early light of additional interest between Scott's Liquid Gold and some of the other businesses that are pending relative to the public markets, then we're heading in the right direction as far as valuation goes.

Questioner 9

I have been told that nodes have more control over the big coin blockchains than miners. Is that true? Does FRMO or any associated companies like Horizon Kinetics or Consensus Mining & Seigniorage have or run nodes? Could they explain the difference?

Murray Stahl – Chairman & Chief Executive Officer

To begin with, we don't run any nodes, but nobody has control over the blockchain. No miner has control over the blockchain. No node has control over the blockchain. The miners provide a service of validating transactions. Nodes are just aggregations of miners that enable miners to communicate with one another. That's it. There's nothing mystical about it. The whole idea behind Bitcoin is, it's decentralized. Nobody's supposed to have control over it, because every time somebody gets control over a monetary system, you see what happens. It gets abused. But it's very hard for people to think about that, because it's totally outside of their experience.

Let's use this as an example. We, living today in our lifetime, don't know anything other than the central bank system; the fiat money. We've never experienced anything else. Now, you could say we in FRMO experience something else, but very few people experience something like that. They look at the price of Bitcoin, and even that is the wrong way of looking at life. You see, they're looking at Bitcoin as if it's some kind of stock. As quoted, Bitcoin is trading at X, but that's not true. Bitcoin is not an asset in that sense. Its value is relative to the fiat currency. You'll say, well, Bitcoin went up X percent over the course of its life—not true. Rather, the dollar lost value in relation to Bitcoin. If we were to price it that way, instead of Bitcoin going up X percent, if someone said the dollar lost X percent in relation to Bitcoin, people would say, "My God, my dollars are losing value in relation to Bitcoin." Everybody would then try to buy Bitcoin. They just think it's a stock, so they don't really know what it is yet.

No one has control over the blockchain. There's not going to be any shortage of Bitcoin, no matter how high it goes. That's because—and I'm going to confuse people by saying this, so maybe you can ask a follow-up question and I'll clarify it—if there ever was such a thing as a shortage of Bitcoin, you can always fork the Bitcoin network. That's the simple truth. Anybody can do it. I can do it myself if I wanted to. I can change the properties of Bitcoin. I can make them the same. I can tweak it. I can do whatever I want to do. It has been forked, and people are going to use the fork or they're not going to use the fork. So, nobody is controlling anything in Bitcoin. That's the virtue of it, because nobody can game the system. Nobody has the power to manipulate interest rates and nobody has the power to manipulate the money supply. The issuance goes in accordance with a predetermined protocol based on the way the system works. It's really very simple.

Questioner 10

What are your insights on mining Bitcoin rather than directly purchasing Bitcoin as well as Bitcoin Cash? FRMO has pursued a Bitcoin mining strategy for several years. On prior conference calls, you have listed the many challenges that the coin miners face—e.g., periodic reduction of block rewards, obsolescence of rigs, increasing hashrate and electricity costs, etc.—and the needed skills to navigate these challenges. It appears to me that the returns from buying Bitcoin in U.S. dollars have outperformed purchasing the publicly listed miners for most time periods. FRMO has $38,822,891 in cash and cash equivalents as of February 29, 2024. Why does it not dollar-cost-average purchasing Bitcoin as part of its cash management strategy since the purchasing power of the U.S. dollar is being diminished by inflation?

Murray Stahl – Chairman & Chief Executive Officer

Okay, let's answer this last question first, then we'll get to the other ones. It would be a cardinal error, because the purpose of the FRMO money is not to protect against debasement. You might say it's being debased by inflation. You might be right about that, but in the world of cryptocurrency mining equipment, the purchasing power of the dollar is going up. So, it's there as an insurance policy. If the publicly traded miners get in trouble, as might happen, maybe we can buy a certain asset that we want that's really cheap. Put it this way: You don't get a return on insurance. Insurance protects you against certain contingencies that you hope will never happen, and usually don't happen.

So, is that a bad use of capital if you spend money on insurance? I would look at it this way. It's there to provide for certain contingencies. There will be opportunities at some point. We might use some or all of that cash, or we might not. It depends on what happens. But the purpose is not to maximize the return in that way, because you're never going to maximize the return that way. FROM is not a portfolio, such that we should be fully invested. It's a corporation. It's got to have a certain organic rate of return. Lots of corporations trade at big premiums to book value, and they have cash.

In a portfolio, you really don't want to have any cash other than transactional balances. But this is not a portfolio. It's a living, breathing, growing corporation. It's just not apparent to people that it is. And that answers, incidentally, a question that was posed before: "Why doesn't it have a higher valuation?" Well, because the question is, is it a portfolio? Or is it an operating company? If it's a portfolio, and we took the cash and we put it all into Bitcoin, let's say, or maybe left a few dollars in cash, I guarantee you—in my personal opinion—we would trade at a lower, rather than a higher, valuation because we gave away our optionality. You can't do that and expect to trade at premiums to net asset value. So, I think that addresses that.

Questioner 11

It appears that MicroStrategy's practice of issuing convertible debt at low interest rates has worked well for the company in the purchases of its debt. Have you considered doing something similar?

Murray Stahl – Chairman & Chief Executive Officer

No, I have not considered doing something similar, and I don't have any intention of doing anything similar. That policy is not without its risks. You never know what's going to happen to cryptocurrency. The whole project could still fail. It's possible. If it fails, the last thing you want to do is have debt against your major asset, which is crypto. Debt and crypto do not mix very well. The stock exchanges are littered with the casualties of companies that decided to use debt capital to finance cryptocurrency purchases. In this particular case, it's been successful, but many people tried that strategy. And I won't list the names, but they're in the public domain. It didn't work out that well. It could have worked out well. It just didn't. Remember, when you take on debt, it has to be paid on time. You lose your strategic flexibility, which is a risk I don't feel like taking. I don't think we need to.

Questioner 12

On prior conference calls, you mentioned that Bitcoin Cash could potentially appreciate much more than Bitcoin due to its similar monetary policy but lower cost per coin. As of February 29, 2024, 6.74 Bitcoin Cash were held by FRMO, and 0.33 Bitcoin Cash were held indirectly. This amount is around $2,200. I'm curious as to why it has not invested a larger than de minimis amount into this coin, given its potential appreciation.

Murray Stahl – Chairman & Chief Executive Officer

Well, because you don't need to, basically. If it works, you only have a small number of shares. Incidentally, before I even go on, I'm going to point out that the total Bitcoin Cash Trust held indirectly by public and private companies is 63,017, and held directly is 2,382. Those are the Grayscale Bitcoin Cash Trust. We have some Bitcoin Cash coins, too. The numbers were read correctly, 6.74 and 0.33, respectively. Those numbers are going to change and go up. As of February 29th, we hadn't yet mined a lot of Bitcoin Cash in Winland, and given our holdings in Winland, I think, in due course, you're going to see a lot more Bitcoin Cash.

Basically, if it goes up, it's going up by a staggering amount. So, you don't need a lot. All you need to have is enough to make an impression. If you looked at the cost basis of GBTC, Grayscale Bitcoin Trust, you wouldn't see it on this balance sheet statement, but we made a small investment. Now, it's a tremendous value. You don't need a big investment. You have to have just enough so that if it works, you're going to make a favorable impression upon the net asset value, and if it doesn't work, you're going to live to fight another day. That's the philosophy.

Questioner 13

Given the FRMO and Horizon Kinetics thesis of investing in under-invested hard assets, why have investments in coal-related equities been avoided? More specifically, what are your thoughts on the investment merits of the asset-light coal-related partnership Natural Resource Partners, NRP?

Murray Stahl – Chairman & Chief Executive Officer

We haven't invested anything in coal and there's only one reason for that. I don't think coal is going away. However, usage of coal in the U.S. is declining. But more importantly than that, the government is extremely hostile to coal. So, we just don't want to invest in a business that the government is really hostile towards, and as far as I can tell, they're going to be even more hostile going forward. We have other things to do with our money. I don't think they're going to be able to make coal in the U.S. in the foreseeable future, maybe not ever. By the way, according to the International Energy Agency, 2023 was the record year for coal consumption worldwide. But it's a fight that we just don't want to be part of. That's the only reason for not investing in it.

Questioner 14

Looking at the latest reports from Winland Holdings, they mined 56 bitcoin in 2021, 71 bitcoin in 2022, and only an additional net 75 bitcoin in 2023, due to selling of units in that year. Given management's past comments on the benefits of an operating Bitcoin miner that banks its Bitcoin earnings and accrues that to its balance sheet—versus spot ETFs that must ultimately sell portions of their holdings—why did Winland, which is effectively run by Horizon Kinetics, sell the majority of the Bitcoin it mined in 2023, which ultimately resulted in realized losses on sales in Bitcoin per Note 17 in Winland's most recent annual report? How should investors think about the rate of accumulation of Bitcoin at Winland?

Murray Stahl – Chairman & Chief Executive Officer

The rate of accumulation declined because the equipment was starting to get old. The only way you can remedy that is to take machines offline. And you've got to pay the electric bill, and the electric bill is big. And we needed money to buy new machines. You've got to replace the equipment, and that is the major asset we have. Money has to come from somewhere.

So, we're going through the equipment cycle. We managed to grow the number of coins, which has grown at a historical rate, and we're still going through an equipment cycle which, as I think you'll see in the next couple of months, we've navigated successfully. We didn't issue shares. Actually, we did issue shares to FRMO, but it certainly wasn't a big amount. So, just going gradually and increasing our Bitcoin holdings. Also, don't forget, another factor is, we moved machines from Bitcoin to Bitcoin Cash. So, we have fewer machines working on Bitcoin. Another factor in our replacement equipment is that we spent some money on buying Litecoin equipment; we could have bought Bitcoin equipment to keep the rate as high as it was before. But Litecoin is more profitable. They wanted to diversify.

Questioner 15

In the past, management has mentioned that one of the main benefits of an asset-light hard asset company is the ability to invest counter-cyclically, versus the wider industry that the asset-light hard asset company may be a part of. Perhaps I'm mistaken on this, but FRMO did not appear to make significant investments during the 2020 COVID-19 market shocks or in the 2022 crypto winter, despite the company's strong balance sheet. In 2020, management commented in a quarterly meeting that they did not see any opportunities to buy a whole operating business. Yet, Winland appears to be the target for that purpose and has been in FRMO's portfolio since around 2015.

Why didn't FRMO use its large cash balance in the depths of the 2022 crypto winter to finish buying out a majority stake in Winland? It does not appear as if doing so would have been a mutually exclusive or contradictory decision to FRMO's step-wise strategy in buying new mining equipment. What kind of event would spur management into using the cash balance of the company, if not a global economic shutdown or a 2008 moment in the crypto industry? It should have seemed that buying up the rest of the targeted 51% stake in Winland would have been only a small portion of FRMO's cash balance during the recent crypto winter.

Murray Stahl – Chairman & Chief Executive Officer

The most recent crypto winter was about the fact that other people were issuing shares; this is right before the crypto winter. What caused the crypto winter was, many companies issued shares and bought a lot of cryptocurrency mining equipment. That equipment appreciated in value six-fold, meaning the price at which you could have bought a machine right before the crypto winter. And then on the eve of the crypto winter, the price of the machine went up, I think, from $2,000 for the leading models then, to $12,000. At one point, it even got to $14,000. So, in the crypto winter, crypto prices were going down, because the machines, after those unsustainable price increases, were being marked down. To buy the machines during the crypto winter would be to take the machines into obsolescence, but we'd have to value the shares with the machines at their then-market values. Machines that we knew in a couple years were going to be worthless. And we're going to pay $12,000 a machine? I don't think so. So we didn't do it.

Questioner 16

Given the small relative scale of Winland versus FRMO, what is management's goal in rolling FRMO into Winland as an operating business versus doing crypto mining at FRMO itself at a scale commensurate with FRMO's size? Winland presently makes up around 2% of FRMO's total assets. How would this ever be of material value to FRMO?

Murray Stahl – Chairman & Chief Executive Officer

I'll give you two answers to that. The first answer is, there are other shareholders in Winland that don't want to sell their shares in exchange for FRMO shares. We don't control everything. That's number one. You say it's 2%. If you go back to the beginning, the first report that FRMO issued to the public, I don't remember the number, but it was a small amount of capital on the balance sheet. It's really small. Someone asked me almost the identical question: "Just look at the capital. It's so small. How can it ever grow to anything material?" Well, look where the capital is today, and look where the capital was then, and you have the answer to the question. You can't judge it by the percent weight it is right now, because if that were true, then we weren't selling shares to the public. We could have argued that you didn't have enough capital at the beginning. "Well, it's really a very small amount of money. You should raise more capital, so you have money to work with." People raised that point, and we didn't regard it as the right approach, and we didn't do it. I think we're very happy we didn't, right now.

Steven Bregman – President & Chief Financial Officer

That was $10,000, if I recall properly, and zero cents.

Murray Stahl – Chairman & Chief Executive Officer

It was something like that. Now, $10,000 is a rounding error. When I say, "a rounding error," I really mean a rounding error, meaning that it didn't happen. In a company with our assets, a $10,000 dispute is not even considered legally to be material. There was a day when $10,000 was all our capital. Now, meet with the accountants, they'll tell you a $10,000 discrepancy, if you were to find one, would be considered immaterial. It's actually crazy when you think about it. I know that's the truth, but we don't have $10,000 discrepancies. If we did, and we think about, it was $10,000 in the beginning—how could it not be material? But it isn't, because those are the laws everybody has to abide by.

Questioner 17

How does management think about the lack of claw-backs of Bitcoin Cash in the case of fraud and how that hinders adoption? By this, I don't mean the Bitcoin blockchain being hacked. But rather, the much more frequent occurrence of people having their Bitcoin seed phrases, addresses, private keys—and subsequently, their Bitcoin Cash itself—stolen from them. Thieves trick them into thinking they are a legitimate entity, or hack users' personal computers, or engage in some other form of trickery, even happening to see users entering their seed phrase on a wallet over their shoulder at a coffee shop.

When it comes to adoption, despite over ten years of development, Bitcoin appears to leave little room for error and no consumer protections, which makes it hard to imagine how mainstream Bitcoin adoption would work. Asked another way, suppose one of the U.S. Federal Reserve Banks wanted to publicly hold Bitcoin, and asked Horizon Kinetics to advise on how that Bitcoin should be received, stored, secured, possibly transferred at later times. How would you advise the banks? How would you advise a household? With a lack of claw-backs, every storage mechanism, every smart contract, is just a big bounty reward, waiting for someone to discover the code or social engineering that breaks it.

Murray Stahl – Chairman & Chief Executive Officer

That's a good question. Let's just reverse it, though, to answer it. In order to protect the consumers, as is suggested, you would have to have some enforcement agency, to be able to claw the bitcoin back. You would have to centralize it, because some people would argue, was it a legitimate payment or was it a fraud? And somebody would have to determine that, so you basically create a central authority with the ability to make the rules and enforce them. You've now destroyed Bitcoin. The way it works in the real world of decentralization is, you have to be careful with your coins. If you're going to sit in Starbucks, as suggested in the question, and someone's looking over your shoulder, if they're really looking over your shoulder, and they steal your money, I hate to be cruel about it, but it's your tough luck.

So, the last thing you want to do is to create a centralized authority in Bitcoin. Yes, the seed words get stolen. Yes, the private keys get stolen. People are careless in just a myriad of ways. And I hate to be cruel about it. It's tough luck, because the alternative is, you're back to centralized authority. And you're giving enormous power to the real rascals. You don't want that, so if you don't want to take the chance, you have two options. You need to be very, very careful with your coins, or you can be sloppy with your coins, and you're going to have to accept the consequences. I, for one, think I speak for virtually everybody in the Bitcoin community. No one's going to go for creating a protection.

Let's say the U.S. government imposed a rule saying, "We're now going to take charge of the system." You know what would happen? They would fork Bitcoin, and if they couldn't fork Bitcoin, they'd fork Bitcoin Cash. If they couldn't do anything, because everybody knows what the protocol is, it'd be a problem. By the way, the amount of loss of coins through this can be mitigated by just using a reputable custodian like Coinbase. You don't have to do any of that stuff on your own. The market will figure out solutions. If you really want security, there are market solutions. Government is not one of those solutions. It's the worst possible solution. Anyway, if the government tried to impose, Bitcoin would be forked, or the protocol would just be rewritten or copied.

Nobody knows what the anti-hacking mechanisms are at the big banks. No one knows how many times they get hacked. What we know is, they carry a lot of insurance for that. It happens a hell of a lot more frequently than it ever does in Bitcoin. So, if you're worried about it, take your coins, move them to a place like Coinbase or Fidelity, and now it's their problem. And they'll deal with it. That's just the market solution, not the government, in my opinion.

Questioner 18

Could management provide insights into the rationale that could be used for valuation of TPL's land holdings, particularly in light of questions around the viability of ongoing and future developments? The surface land seems mostly raw and barren and has limited development potential. Specifically, I have concerns regarding the nominal lease rates such as the cheap per-acre, per-month base cost for cattle operations and the environmental challenges associated with the region, including limited water resources and sparse population density. How does TPL justify the perceived value creation potential of its extensive land portfolio under these considerations?

Murray Stahl – Chairman & Chief Executive Officer

It's not my job to speak for TPL, so I'm going to answer the question the following way: I'm just going to talk about land in general. So, a TPL acre, a neighboring ranch's acre, they're pretty much the same. Let's talk about the land in the region.

One of the things that no one ever talks about is, they think land can be developed because they can bring in vast populations of people and build schools and hospitals and all sorts of other things. That is not going to happen on too many acres. Right now, the Permian Basin produces 8 million-plus barrels of oil a day. They do it by fracking. So you pump water and some proppants, which are chemicals, into the land, and out comes oil and gas. In addition to oil and gas, what comes out of the ground? For every barrel of water you pump down there, it's roughly five barrels of water, which is called produced water. What are you going to do with it? You've got to put it somewhere. You can't transport it very far. It's too expensive, because the water is heavy. You can make some effort to recycle it, and it's done in some cases. But it's a lot of water, and it's very expensive.

So, what they do with it is, they dispose of it by pumping it back into the ground. To give you an idea of the magnitude of the problem, very few people know what a barrel is. A barrel consists of 42 gallons. No one knows what a barrel looks like. If we do gallons, everybody knows what a gallon looks like. So, you would take 8 million barrels times 42 gallons, which is 336 million per day, times five. That's 1.68 *billion* gallons of water that has to be disposed of each and every day.

The value of the land is what's under the land. There's only a finite amount of land that can be used for that purpose, and we're going to run out of land one day. The price for injection of produced water keeps going up. It used to be, a couple years ago, a penny a barrel. Now, it might be six cents a barrel. Fifty cents or even a dollar a barrel one day is readily conceivable.

Let's say you could pump 60,000 barrels of water into the ground every day for a finite period of time. Well, 60,000 barrels of water is, in terms of gallons, 2.5 million gallons a day. If you're getting, let's say, ten cents, that'd be $6,000 a day. Say you could do it for 365 days. Maybe you'll do it longer. So, that's $2,190,000 with no expense associated with it, just giving you something for the right to put water on your property, underground. The acre of land has no meaningful assets on it. That acre of land, maybe you can buy it for $500. That's where the value's at. But if only for a year you get $2,190,000, and you still have the acres, the surface land is still there.

Next thing, easements. Eventually, you're going to run out of land. You go further out. You can't put any more water in that acre, but you've got to bring the water somewhere else. Somebody has to have a pipeline that traverses your land, and you get a lease on that. The acre, you say it's worth $500. What do you think they're going to charge somebody for right of way? Do you think it's $500 a year? Even if it was, that's a 100% return on capital. What if it was $10,000 a year? What if you had 400,000 acres, and all you got was an easement of $10,000 a year per acre? It's 400,000 acres of Class B land, $10,000 a year. That's not even $1,000 a month per acre.

You know what that is in total? That's $4 billion of cash flow with no expenses against it. This is after the produced water. I think those figures speak for themselves. People don't know about them, because the produced water problem only became a big deal a couple of years ago. The numbers have not gotten to the size—and the prices to dispose the barrels have not gotten to the level—where it's a problem. But it's rapidly going in that direction, so that's the value proposition, among other things, I would say.

Questioner 19

In past commentaries, management has talked about how low interest rates are essentially anomalous. Why would higher-for-longer interest rates and harder access to money be good for securities, exchanges, equities, and futures trading involvement—which are, by and large, traded on margin?

Murray Stahl – Chairman & Chief Executive Officer

Well, that's not really relevant to trading. What's relevant to trading is that somebody must have the securities. Either they like the risk they have, or they don't like the risk they have. If they don't like the risk they have, they have to transact. The value is always trading and changing, and they have position size limits, so they have to adjust them. Whatever your interest rates are, there's plenty of room for trading.

So, if your interest rates are higher when the interest rates were previously low, the damage has already happened, so what do you need bond futures for? If they're not going to raise interest rates further, you don't need bond futures. If they are going to raise interest rates, you need bond futures, because you have to protect against losses. Every scenario you can possibly imagine in the world of securities—high interest rates, low interest rates, and everything in between—is an opportunity to trade, and the trading volumes keep going up and up. But there are more transactions that could be done by the same amount of equipment. That's the story of exchanges. It's really very simple.

Questioner 20

What are management's thoughts on the growing use of natural gas liquids (NGLs) in U.S. feeding refineries in place of crude, and how this affects TPL? Also, what is the mix of TPL's crude oil versus natural gas production?

Murray Stahl – Chairman & Chief Executive Officer

In TPL, there are three things. There is conventional oil, conventional natural gas, and NGLs. NGLs are natural gas liquids. Natural gas is what's called dry gas. Natural gas liquid is wet gas. A lot of times, you can either liquefy it, which means lowering its temperature, or sometimes it comes out of the ground wet; it's already liquefied. I'm just defining the terms. On a barrel-equivalent basis, if you can convert all these things on a BTU basis—natural gas, natural gas liquids, oil, of course—to barrel of oil equivalents, you'll see on TPL's financial statements they state their production in barrel of oil equivalents. And people think, because of the terminology, that all they do is produce oil. But really, there's a lot of natural gas liquids and a lot of natural gas.

I'm going to use a new term here, the "gas cut"[1]. In the beginning, many years ago, the gas cut was low. Oil trades at a higher price than natural gas. Natural gas is a very low price on a barrel of oil equivalent. What's happening is, we're running out of high oil cut places to drill, going to a lower oil cut, so it's going to be harder and harder to get oil. As a consequence, we're going to have to use more and more natural gas and more and more natural gas liquids, which, all things being equal, should lift the price. But TPL doesn't have capital expenditures, just these oil royalties that will go on for a very, very long time, well into the next century, in my opinion—and even then, a lot of the oil will still be in the ground. With better technology, it can be captured, so I think it's some of the best property on the planet.

Questioner 21

How might the emergence of abundant natural hydrogen reserves impact the viability of investing in traditional hydrocarbon-based energy sources? Overall, what are management's thoughts on natural hydrogen as an energy source, and how do you reason its likely effect on FRMO's oil investments?

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[1] The amount or ratio of gas extracted vs. the amount of oil extracted.

Murray Stahl – Chairman & Chief Executive Officer

I don't worry about it. If it happens at all, it's in the vastly distant future. It's really a question of volume. Could you produce hydrogen? Sure. Would you power a motor with hydrogen? Sure. The question is, how much volume are you going to put into a vehicle? You're going to have a more extensive storage network. You're going to have a more extensive pipeline network. Do you really want that? The issue with oil is, we built the pipelines when there really wasn't an impediment to building them. Land was cheap. Now you want to build pipelines for hydrogen. Well, you've got the same problem as building high-speed rail. Great idea, but you're going to have to take over land by eminent domain, and it's going to cost a lot of money, which has to be added into the cost of converting to a hydrogen economy. It's so expensive, not because it's so difficult to design hydrogen fuels, but because you can't get the infrastructure built.

It's just like if you want to save on motor vehicles. It's a great idea to have more mass transit, have a high-speed rail or just rail. Wouldn't it be a great idea to build a railroad from San Francisco to San Diego? The federal government appropriated $60 billion for that purpose. Nothing got built. The reason nothing got built is because you first have to appropriate the land to get the right of way, and you've got to pay market value, even get a government order that the owner has to sell. To build a high-speed rail from San Francisco to San Diego, you're talking about $3 trillion. No one's doing it. You'd never recover your investment. Those are the impediments. It's the necessary infrastructure, which is never discussed. So, I don't worry about stuff like that.

Incidentally, while we're on the subject, if I can add something to my remarks, same problem with solar, same problem with wind. You have to put the solar panels over a vast area, so it's going to have to be in a remote area. You're going to find cheap land. Now, you have to build transmission towers and transmission lines to get the energy produced, ignoring the intermittency of it, from where it's produced to where you need it, which is where people live, in the cities. Try getting that right of way. Windmills, same thing. Try getting that right of way. You didn't used to see, in the popular press, any articles that talk about that. And by the by, you're not even going to save on the whole production, either, because it's the same concept as making solar panels.

How do you get silicon to put in the solar panel? You have to get quartz, and you have to smelt it to change it from silicon dioxide, which is what quartz is, to pure silicon. You have to raise the temperature to something like 2,300 degrees centigrade. So, what do you do? You end up burning a lot of coal to accommodate that. You put some solar panels up. You never count that in China, they're burning coal to make the solar panels, which is why the electronic goods are made in China, because there, you can do it. So, are you really saving the environment? I think not.

I'll give you another example, which I just wrote about: silver. If you want solar panels, you've got to have silver. That's what goes in a solar panel. I think it's something like 32 grams of silver in the solar panels. But you can't expand silver production, because to expand silver production, you have to expand gold production, because that's where silver is located. It's co-located with gold, but there are environmental restrictions on doing more mining, because it damages the environment. So, you need the silver to save the environment, but you can't produce the silver, because it damages the environment. That's one of the many reasons we don't have a lot of solar panels, apart from the intermittency problem. You can't get the silver, and you can't get the right of way for the transmission lines without spending unimaginable amounts of money. So, we are where we are, so I don't really worry about stuff like that.

Questioner 22

There appears to be a small reporting difference in FRMO's Bitcoin held between the most recent quarterly report and the less-formal FRMO exposure to crypto, February 29, 2024 document that was also recently published in the company website. The fiscal year 2024 third quarter report shows that FRMO held 158 units of Bitcoin as of February 29, 2024, while the FRMO exposure to crypto documents as of that date reports 155.69 directly held units as of the same date. This may seem like an insignificant difference, but I'm asking, regardless, if only to get a better understanding of how the company is reporting or measuring these figures. Could management explain what accounts for the difference?

Murray Stahl – Chairman & Chief Executive Officer

I can't explain what accounts for the difference. The reason is, I don't personally calculate the number. But Thérèse, I believe you're in charge of the people who calculate the number, so maybe you can explain the difference.

Why don't you just dig in, and since we don't have the information right now, rather than just expanding a comment extemporaneously, why don't we actually have someone look into that discrepancy? And get a report back, rather than speculate on what the differential might be.

Obviously, I don't calculate these figures personally, and I don't think anybody would want me to calculate the figures, number one. And number two, if I did calculate the figures, I'd be in an awful lot of trouble, because I'm not supposed to calculate figures like that, since I am a conflicted person. So, don't let me calculate figures like that. I have to rely on other people, and other people, just like myself, are not perfect. And there's something wrong. We just don't know what it is, so we'll have to figure it out.

Thérèse Byars – Corporate Secretary

I'm sure that the answer is simple, and I believe it's been asked before, so I will get the answer and slip it into the transcript before we publish it.

[Editor's note: The correct figure as of February 29, 2024 is 155.69 directly held units of bitcoin. The 158 figure is a typographical error in the quarterly report.]

Questioner 23

Does Winland's CEO Matthew Houk, a Horizon Kinetics employee, own his stake in the company for himself or beneficially for Horizon Kinetics? In either case, could management give us some color as to exactly how Mr. Houk came to own such a large stake in Winland?

Murray Stahl – Chairman & Chief Executive Officer

To begin with, he bought the shares for himself. When he bought them, FRMO had no interest in buying any shares in Winland, because Winland was originally, and still is, to a small degree, a sensor company. Basically, they make sensors that measure temperature, humidity, air pressure, air quality, and things like that. It's a nice little business, but it's a very competitive business, and it's very hard developing sensors. It's a limited market, if you're going to go up against the giants. It's a small company.

I just noticed it some years after he acquired it, and I thought that Winland would be suitable for FRMO, so I approached him. Were there any shares available for sale, other than the few hundred shares that trade every day in the stock market? There were some shares available for sale. The trouble was, one of the blocks got away from me. Someone else bought it. I have no idea who it was. I was able to buy a block from a pre-existing shareholder. He's held his shares since the beginning.

Steven Bregman – President & Chief Financial Officer

That was, as I understand it, Matt's first entrepreneurial foray. And he and one or two other people did what they'd read about ever since they were young, which is, they found what was an undervalued company with a lot of cash, and thought they could improve it. They went and got themselves on the board, and I believe I remember a conversation from that time. Matt came into my office and asked me if it would be a problem if he engaged in such an activity, because maybe it might take some of his time. And I think Murray was aware of that, too, and we just said, "No, by all means." We were delighted that he wanted to get engaged and use his skills and test himself.

Murray Stahl – Chairman & Chief Executive Officer

Yeah, as I recall, it was a couple of years before it caught my attention. So, any other questions from anyone?

Thérèse Byars – Corporate Secretary

No, those were the last ones.

Murray Stahl – Chairman & Chief Executive Officer

In that case, it just remains for me to thank everybody for listening to us and participating, and it's a very thorough and rigorous questioning, which we definitely enjoyed. And of course, we're going to reprise this in about 90 days. If in the interim you think of anything that didn't occur to you to ask right now, please contact us. We'll get you an answer. So, in about 90 days, we'll see you again, and I'll just sign off right now, and thanks so much for joining the call.

Thérèse Byars – Corporate Secretary

This ends the conference call. You may now disconnect.