The opinions contained in this transcript are not intended to be a forecast of future events, a guarantee of future results, or investment advice. The statements made in this transcript are based on information available to the public at the time of the shareholder meeting, and no representation is made with regard to their accuracy or completeness. The views expressed herein may change at any time. This transcript is neither an offer nor a solicitation to buy or sell securities.

THERESE BYARS: Good afternoon. My name is Therese Byars, I am the Corporate Secretary of FRMO Corp. and it is my pleasure to welcome you to the 2013 Annual Meeting of Shareholders.

Before turning the meeting over to the Chairman, Murray Stahl, we have a few formalities. First, please silence all mobile devices and be advised that, in the interest of protecting the privacy of our shareholders, unauthorized recording and photographing are prohibited during this meeting. Second, an edited transcript of today's meeting, along with the FRMO Annual and Quarterly Reports, will be posted to our website at www.frmocorp.com. If you would like a paper copy, we have a few of them here, and you may request one from me at the end of the meeting.

Discussions at this meeting may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 regarding business strategies, future financial and operational performance and other matters. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances.

The only business on the Agenda is the election of the Directors, they are seated at the head table:
Chairman & CEO: Murray Stahl
President & CFO: Steven Bregman
Vice President: Peter Doyle
Independent Director: Lawrence J. Goldstein

Also present today is our esteemed General Counsel, Mr. Lester J. Tanner.

Holtz Rubenstein Reminick LLP has been the independent auditor for FRMO Corp. since February 2001. As of June 1, 2013, Holtz Rubenstein Reminick joined with and operates under the name of Baker Tilly Virchow Krause, LLP. Paul Finegan, FRMO's engagement partner at Baker Tilly, joins us today.

Now, I will give the report on the tabulation of the proxies for the election of the directors.
Mr. Chairman, before me are:

(1) The affidavit of mailing by Registrar & Transfer Company attesting to the mailing to shareholders of the Notice of this Meeting, the Proxy Statement, and the Proxy Card;
(2) The Shareholders List as of the Record date, July 25, 2013,

(3) The report of the Transfer Agent on the Proxy Vote and
(4) The report of the Inspectors of Election stating that the four nominees have been reelected by 89.7% of the outstanding shares of the Company.

The Chairman will review key points related to the 2013 financial results. When he has finished his remarks, he and the other directors will answer questions. At that time, if you have a question, please raise your hand. When you are recognized, please clearly state your name, the person to whom your question directed, and then your question. Please speak clearly so everyone can hear the question.

And now, I will turn the meeting over to the Chairman of the Board, Mr. Murray Stahl.

MURRAY STAHL: Thank you, Therese.

Good afternoon everyone. What I'd like to talk about first is the unique structure of FRMO Corp. It's unique because of the revenue interest that is has in Horizon Kinetics LLC ("Horizon Kinetics"). In a normal corporation—we would call ourselves an abnormal corporation—in a normal corporation there's revenue, a certain expense structure, taxes and then there are after-tax earnings. The after-tax earnings are what essentially belong to the shareholders. I always thought there was something dysfunctional about that because, to the degree that the expenses are discretionary, the people inside the company, in a certain sense, come before the people who are merely the shareholders, because they can pay themselves more money, they can give themselves bonuses, they can embark upon all sorts of ventures that require expenditures that may never bear fruit, and so on.

Therefore, we created the revenue share as something that, by definition, belongs to and goes to the shareholders. Now, of course, the revenue is not guaranteed, and it can fluctuate upward and downward but, at least we've reduced it to the one salient business risk of fluctuation in revenues. In this way, we avoid the multi-tiered level of business risk that exists in most corporations in which the shareholders suffer a period of low revenues and then, when the revenues actually materialize, there are all sorts of people that effectively, because they are inside the corporation, are paid before the shareholders. We wanted to avoid that. So, that's the genesis of the revenue share.

In terms of that revenue share, we were required by the accounting regulations of GAAP to value it at the end of the quarter, and we did. The question that shareholders really need to ask themselves in determining whether or not that is the appropriate value is the following hypothetical situation. If a third party approached this corporation and this management and said they were willing to pay the precise sum that the outside valuation company valued the revenue share at, and we decided to accept that sum, would our shareholders be pleased or displeased? If the answer is that they would be displeased, then that's the answer to the valuation. Speaking for ourselves, if someone approached us and offered us that sum of money, we wouldn't take it.

To look at the problem another way, if we tell you we wouldn't take it, are shareholders pleased or displeased with that amount? If shareholders are displeased, that means that they think the valuation company overvalued it and they would like us to take that sum. So, that's the key question that shareholders really need to ask themselves.

This is a company that is very different than the typical company you will find in an index. It's also different in an investment sense, because you can see from our long positions and our short positions that we are long term investors. We pay attention to the dysfunctionality of the index business itself, and our understanding of it actually plays a role in our investments. You can see it from the unrealized gains in the short positions. At some point it will have to be realized, but hopefully not for a very long period of time. It effectively amounts to a tax-free loan from the government, at least as long we are able to maintain the position such as it is.

In a business sense, as opposed to an investment sense, we've also been doing some things relative to indexation, and we're going to hear about that later today, but before that I'd like to make some general remarks about the indexation phenomenon itself prior to talking about what we are doing in a business sense relative to indices.

Indexation is a phenomenon that's sweeping the investment world. I'm not going to gainsay that. I have nothing negative to say about that. But it entails certain consequences for the investment process that, I believe, are very unfortunate. All indexation is based on the question of scalability. There are many different indices, but their shared objective is to raise a lot of money. The indices are designed from the perspective of the orchestrators of the indices.

What we at hope to do at Horizon Kinetics is to design indices that are worthwhile from the perspective of the investor, which is to say that the index can raise a lot of money; they won't be $100 billion indices; if they were, it would destroy the very characteristics of what we purport to do. That doesn't mean they can't be very profitable. You can now take that concept and relate it to our own financials to see why FRMO's revenue interest in Horizon Kinetics is so important. Because it is revenue, it comes off the top of the income statement, with effectively no associated cost.

It might interest you to learn that one of our indices is associated with the Virtus Wealth Masters Fund, which is a mutual fund. If I remember correctly, as of last night's close, it has $7.314 million of assets under management. While that doesn't sound like a lot of money, it's worth stating that it was $1 million on January 1 of this year. What the fund basically purports to do is to capitalize on the predictive variable of companies with managements who have a big financial stake in the companies. We think that's something that actually leads to outperformance. You can look at the results and judge for yourself whether that statement is true or false.

When you start a product like that, for the first few months what essentially has to happen is you have to get on certain distribution platforms. Your capability to raise money is close to nonexistent. It's only when you are on platforms that you can even raise any money, however meager that is. When you have a small amount of assets under management, most people will only give you a small allocation, which is why you see the so-called "hockey stick effect" in raising money in products in the investment management world. As a fund becomes bigger, investors are willing to entrust it with a larger allocation.

We knew about the Wealth Masters Fund at last year's Annual Meeting. What we didn't know then—what we couldn't have known—was that we would launch another index in early June of this year in Japan. It is called the Japan Founders Index. The basic idea is rather similar to the Virtus Wealth Masters Fund. Of course, it's confined to Japanese companies. If I remember correctly, it has 70-odd companies in it. As of a day ago, it had roughly $23 million of assets under management.

Ironically, it was easier to raise assets for this concept in Japan than it was in the United States, although not because American investors are more resistant to the idea of the owner-operator concept than they are in Japan. It's that Japan is less evolved in the world of indexation, so there's less marketing competition. It's really that simple. In Japan, you can raise money in a fund with an initial public offering, as if it were a closed-end fund, even though it's really open-end. So, there are characteristic differences between the two markets.

The thrust of these comments is that strategically we're trying to not just multiply the number of indices we can market, but multiply the platforms on which the indices are based.

We have another idea for indexation, which involves spin-offs. We're going to introduce that index in the swap market. Do you know if that's on the market?

STEVEN BREGMAN: It's within days of—it's in process.

MURRAY STAHL: Okay. Well, the famous last words: it's in process. But it should be launched relatively shortly. The swap market is a new channel of distribution for us as an asset management company. We never really could approach the derivatives marketplace as a standard asset management company. We didn't have either the mechanism or the scale, but now we do, so we'll see how that goes.

Another item that might interest you is that FRMO invested $298,000 in a fund called South LaSalle which, among other investments, buys memberships on the Minneapolis Grain Exchange. South LaSalle, in conjunction with one of our other funds, Croupier Prive, controls 35 memberships on the Minneapolis Grain Exchange. I'm going to try to be elected as a board member of that exchange. I can't promise that I will be elected and, even if elected, I can't promise you I'll be able to accomplish anything. I don't intend to be an activist investor in the sense that you've come to know activist investors, which is the antagonistic mode. I don't intend to do that. It's not in my personality.

The idea is really very simple: some of our index ideas could also be futures. If successful—and there's no guarantee of success—that would open up another avenue for us. For example, to show you what's possible in the futures route, let's assume, merely for the sake of argument—

again, no guarantee we could ever do anything like this—that there were a Japan Founders Fund Index that was a future. We would have the beginnings of what's called a basis trade, meaning that if someone accepts the proposition that the Founders Index has predictive performance characteristics or predictive outperformance characteristics, in principle, one could be short a Japan Index like the MSCI Japan or the Nikkei or the TOPIX, and simultaneously, in a currency-neutral strategy, be long our Founders Index, and might actually make money that way.

The Minneapolis Grain Exchange has the following characteristic: there are only two contracts that trade on it. There's the big one, which is Hard Red Winter Wheat, and there are apple juice concentrate futures. I have nothing against wheat; I actually consume it. I have nothing against apple juice; I consume that, too. But you do see, of course, there's no element of a basis trade there. The only person who would like to be long the future is somebody who is short apple juice. But who would really be short apple juice? In theory, somebody could be growing apples and looking to sell it forward and buy an apple juice future. But the apple juice market in the United States is relatively small.

So, the Exchange has interesting prospects. The other interesting asset in the Minneapolis Grain Exchange is that it owns its building. That building is more or less 56% occupied. It's actually designated a landmark building and it is located several blocks from where the new stadium is going to be built for the Minnesota Vikings. It's also near government offices. It's a B-level building and has all the problems of low occupancy rates in B-level real estate that America has. It is hoped that, in two or three years, when the stadium is up and the neighborhood is different, it will be more fully occupied. I really think that when you buy the exchange, you're also buying the building. The licenses that the exchange holds are priceless, because you can't get them. That's the idea.

You can see the strategy, which is to risk, in the way of capital, not very much for an outsize product, and to do it on the basis of what we call intellectual capital. There's no guarantee that we'll be successful. If we're completely and totally unsuccessful, given our financial posture today, I don't think the losses will be material to the company. The main point is that we would live to fight another day, because there are other exchanges in the world and there are products to be created. So, we will go forward.

What else can I tell you about what we've been doing recently? You'll observe that FRMO has a fairly decent scale investment in closed-end bond funds, which actually served us well. The idea was that it would throw off a certain amount of cash flow in the absence of any other investment. We started this strategy years ago, when the investments in Horizon Kinetics' products were fairly insignificant in size. The idea was to throw off cash flow, which we could use for investment purposes. So, we continue to do that.

The character of it changes slightly from quarter to quarter as we shift to what we think are more intriguing aspects of the bond market, but expect it to generate a certain amount of cash flow, most of which will be deployed in the kinds of equities we like to buy. If you had sufficient detail, you'd be able to see that the market value of the equity portfolio is growing faster than the market value of the fixed income portfolio, as it logically should because, given what fixed income returns are today, it's hardly likely that fixed income is going to outperform equity. We're taking the cash flow from the fixed income portfolio and putting it into equity.

Then, of course, there's our short position. The short position has been very good to us and very profitable for us. If you look at the cost basis of our shorts, and compare it to the market value you will observe: $2,338,000; securities sold short, not yet purchased, proceeds of $4,483,000, which is almost, but not quite, a 50% profit.

For the most part, those are all instances of profits we can make from dysfunctional indices. It's most of what we do in the short selling business. Occasionally, we might sell short a few shares of stock, but it's not really material.

There are things going on in the indexation business that I personally find extraordinary. And I don't see any prospect of it changing in any material way, because the concept of indexation has captured the financial academic community in a way that no other investment concept has, to my knowledge. It has come to the point at which I don't even think you can be taken seriously in the academic world if you reject the precepts of modern portfolio theory.

The idea that there are segments of the market that are not efficient, that people will behave in a dysfunctional manner and will sell securities with considerable value simply because they're fearful or because they are agent-operators looking to protect their business franchise—all that has been, by and large, rejected almost wholesale by the academic community. At FRMO, we are basically taking the other side of their view.

We also own just under a 5% position in Horizon Kinetics LLC, which is the result of a merger of the once-separate Kinetics Asset Management and Horizon Asset Management. Legally, the two companies retain their identity as independent investment advisors, but they're both controlled by the same holding company, Horizon Kinetics LLC, of which FRMO owns close to 5%. In the most recent transactions to increase that ownership, the owners of Horizon Kinetics ended up acquiring more FRMO stock. In principle, in the most recent stock offering, the Horizon Kinetics' owners could have bought their FRMO shares for cash, but we thought it would be better for FRMO to have shares of Horizon Kinetics.

In another transaction, the exchange of FRMO's product specific revenue interests for a single revenue interest in the gross revenues of Horizon Kinetics was valued independently at $10.2 million. That transaction is described in the notes to the financial statements.

Horizon Kinetics has $8.6 billion of assets, and is working its business gradually towards higher-margin products, like funds with performance fees and so forth. I would say that one of the historical deficiencies of Horizon Kinetics is that we were offering products that have inherently very low fees, which might be a necessary condition for a new investment advisor establishing itself in the marketplace, but we don't think we need to do that anymore. We hope that change will have an appropriate effect on our profitability, which you can see in FRMO's financial statements.

What you should see in periods to come are more unique ideas coming out of the research, more ideas on indexation, more ideas on predictive variables, expanding across different distribution platforms, all with the common thread of, from the point of view of the clientele, outperformance characteristics, or so we hope. From the point of view of the company, we will look for higher fees, higher margins, more proprietary products, and presumably higher profits as well. So, with that preamble, I'll turn it over to you, Steve, and then we'll take some questions.

STEVEN BREGMAN: I can say a couple of things. For those of you who don't check our website daily, there were, I think, requests at our last earnings conference call for some data about the assets under management at Horizon Kinetics. Certainly in the structure as it exists now it's quite clear that the revenues and the earnings of FRMO Corp. are clearly a direct function of those at Horizon Kinetics. And since Horizon Kinetics is an asset manager, all of that derives from the assets under management. Last night, precedent to this meeting, we posted a slide showing the assets under management at Horizon Kinetics and the distribution across strategy type and client type. We'll expect to update that slide periodically. So, there's that. Otherwise, though, why don't we entertain some questions?

QUESTIONNER 1: Good afternoon, gentlemen. I wonder if you would briefly describe the various partnerships that the company has interests in, for instance, Polestar, Croupier, those types of entities.

MURRAY STAHL: Okay. First I'll give you the list, and then I'll describe each one. There's the Horizon Multi-Strategy Fund, Jordan Partners, the Croupier Fund, the Polestar Fund, the Multi-Disciplinary Fund, and South LaSalle Partners. In sum, there are six.

The Multi-Strategy Fund is a classical hedge fund that was formed in 2007 in partnership with Credit Suisse. Its strategy goes across the asset classes.

Jordan Partners is not really open to the public, and FRMO doesn't have a lot of money in that fund anyway.

The idea behind the Croupier Fund—which might have a name change in the next 60 days—was based on the notion of a croupier. What is a croupier? It is a financial intermediary, someone who, in principle, benefits from the investment of capital but doesn't necessarily have the same degree of capital risk. The idea was to find companies of that type and put them in the Croupier Fund. At the moment, it has no clients or client money in it. That might change significantly in 60 days—the operative word is might. Some of the various index arbitrages that we engage in on our own balance sheet, we also practice in this fund. By the way, that is also true in the Horizon Multi-Strategy Fund.

The Polestar Fund is not radically different from the Horizon Multi-Strategy Fund, with one salient difference. The Polestar Fund created a subclass called Class S, which is designed to give clients of the Polestar Fund direct exposure to some of the index arbitrages that we would engage in on our own balance sheet. So, that's a difference. The Polestar Class S Onshore and Offshore, together, I think it have something like—I might be off by $1 million—but I think it has something like $27-$28 million of client assets in it. The Horizon Multi-Strategy Fund has $110 million.

The Multi-Disciplinary Fund was designed to do the same sorts of things, but in the form of options. Specifically, we believe there are certain inefficiencies—they're not huge inefficiencies, but certain inefficiencies—in the business of writing puts versus engaging in buy-writes. In theory, you could invest the collateral that must accompany writing puts in something that's reasonably safe and that earns a certain amount of interest income, even in today's bond environment. There would always be losses, of course, but the rate of loss would be reasonable if you write the puts far enough out of the money. Coupled with the interest income on the collateral, and that strategy could provide a reasonable rate of return. I would say the return could be superior, maybe even far superior, to that of high yield bonds with, I believe, a small fraction of the volatility.

There's also a mutual fund that's not listed among the various funds detailed in the Annual Report. It's called The Kinetics Multi-Disciplinary Fund (KMDNX), and it's a conventional mutual fund. The reason for having two funds is that this fund is not leveraged, and it's not going to be leveraged, although it could be leveraged to some degree, in theory. In a mutual fund structure, as a practical matter, for reasons I won't go into, you can't really be 100% invested, whereas in a hedge fund you can. Of course, there are limitations on how much you can hedge your exposures in the mutual fund. And you have the full panoply of hedges available in the Multi-Disciplinary hedge fund. So, we have money in that.

South LaSalle Partners was originally established to invest in seats on the Chicago Board Options Exchange ("CBOE"). The South LaSalle Fund was named for the street on which the CBOE is located, which is South LaSalle Street in Chicago. Incidentally, FRMO has a not small investment in CBOE stock.

The idea was of the South LaSalle fund was to purchase seats on three exchanges: the CBOE, the Minneapolis Grain Exchange, and the Kansas City Board of Trade. The Kansas City exchange was purchased by the CME last year. The fund was buying seats on the CBOE when it was a private entity and the seats were unduly cheap. The reason for our interest in that exchange was that it has a product called the VIX, which is the CBOE Volatility Index. The fund's inception was about 48 months ago. At that time, the VIX had very little volume and held little interest for investors. We thought it would be the fastest growing exchange product ever, and I think that has proven to be the case. The VIX has now reached the point where I would say it's the most important CBOE product, not from a revenue standpoint, but from a profitability standpoint. A lot can be done with the basic idea of volatility.

The VIX measures the market's expectation of volatility and is based on S&P 500 stock index option prices. In recent months, the CBOE extended its license agreement with the S&P Dow Jones Indices. I believe the license now goes out to a little beyond 2030, I don't remember the exact year. Of course, from the point of view of the investment world, something that happens in 2030 is almost like infinity anyway.

So, those are the investments. The South LaSalle Fund was not one for which we wanted to raise a lot of money. The idea was to form a partnership and buy seats on the three then private exchanges. Now, the Minneapolis Grain Exchange is the only one of the three that is still privately owned. Our seat ownership on that exchange gives us the strategic wherewithal to aspire to a board seat.

So, those are the various funds, if that answers your question. What else can we answer for you?

QUESTIONNER 1: Just as a follow-up question to that, can you just say where you are on high-water marks, and so whether or not you're earning performance fees on top of the management fees inside of Horizon Kinetics and inside of FRMO?

MURRAY STAHL: Okay. I'll tell you the funds that are immaterial first. Jordan Partners only has our money in it, so it doesn't really matter. We could charge ourselves a performance fee and make people happy, but I don't know if we should. The Croupier Fund only has our money in it. South LaSalle has a little bit of outside money and, in theory, I suppose we're entitled to a performance fee, but it's not a lot anyway.

The Multi-Disciplinary Fund is modestly below its high-water mark. I don't know how many percentage points, but very modestly. The Polestar Fund is just around its high-water mark, given the idea of a rounding error of a percent or so. And the Horizon Multi-Strategy Fund is above. Well, whatever its mark is, that's the new high-water mark. So, I guess for the three big ones, we're there.

PETER DOYLE: It also pertains to when an investor got into the fund. So, we could be underwater in a fund, but newer investors would be paying a performance fee going forward.

MURRAY STAHL: Anyway, we expect to be collecting some.

STEVEN BREGMAN: So, the Multi-Strategy Fund has the very dubious distinction—at least for us—that it started just shortly before the 2008-09 period. I won't tell you how much it was down, although you could look it up. But it was down so much that it would have had to have gone up by many multiples just to get even. And it's there.

QUESTIONNER 2: Just two questions. The first is about the Wealth Masters and the extent to which Virtus is willing and ready to help you get some shelf space for that distribution, so you can get the acceptance and ramp that product up on the shelf, get it distributed, and get the assets in. That's the first question. The second question is a little prosaic, but I did notice that one of the larger positions of the index is Tesla. And it does certainly meet the qualification of an owner-operator company. And we all might have an opinion about Tesla, but I'm curious about the degree to which you can avoid style drift, if you will, by moving from a more fundamentally based approach to one where you have to move into companies of a Tesla-type valuation. I'm not really sure I'm posing the question correctly, but you might understand my questions.

MURRAY STAHL: No, you pose it very well. Let me address, if I may, the second part first. With respect to Tesla, the only reason Tesla is the biggest position is because it appreciated a lot. There are two properties of the Horizon Kinetics ISE Wealth Index that make it different than a conventional index. The first is that the idea behind the Wealth Index is that it's supposed to be equally weighted. So, what happens is it gets rebalanced every quarter-end.

Let's dwell on that point for a moment. In a conventional index, the constituents are market capitalization weighted, float adjusted. Tesla is undoubtedly in some other index, given its market capitalization now, since I know that Tesla is approaching—maybe it hit it already—a $20 billion market capitalization. It may even surpass it. Not that it matters, but it's a big valuation. It's not about the S but the next model car, the next generation, so to speak, if it's successful, which we don't know. And then, when it's produced, if it is, that will be in 2017. There are some people who would argue, maybe with some degree of justification, that perhaps it's just a touch overvalued.

What will happen in the Wealth Index is that every quarter-end, in this case September 30, it gets rebalanced. If there are 140-odd names, Tesla is going to be equally weighted, whatever percentage weighting that is. Now, maybe new securities come into the index; maybe one or two go out. That's always possible as well. But if we have 140-odd names, the weight of Tesla on September 30 will be one over 140-something. That's what it's going to be. Therefore, the lion's share of it will be sold at that moment. That's the indexation rule.

In principle, the reason we designed it as a mutual fund and not an ETF is that we have the flexibility, if we choose to exercise it, to exclude it from the index entirely, based on our subjective valuation criteria. I must tell you that, at the end of the last quarter, I was tempted, for the first time, to exercise my great judgment. And I had the judgment *not* to exercise it.

STEVEN BREGMAN: By the way, on a related note, in one of our hedge funds, we were short Tesla on—I shouldn't include you; you wouldn't have done it. *I* was short Tesla on the basis of my wisdom, which was based on putting pencil to paper, and its valuation, its business model, which is a conventional way to think. I was ignoring some of our own paperless wisdom that Tesla's an owner-operator. The founder and the largest shareholder of Tesla also manages it, has at the very least a great deal of motive to find a way to make it work in a way that wouldn't happen with just an agent, a conventional CEO. At a certain point, as it got more and more expensive, I tried to reconcile my paper wisdom and my intangible, non-paper wisdom, and I got out of it. That was about six months ago.

MURRAY STAHL: Anyway, let's give you a fuller answer. Let's stay on part two of your question, and then let's go to part one, which is also interesting. So, Tesla itself is really a symptom of everything that's wrong with indexation, because historically there was always something analogous to Tesla. It may have been in a different industry. It might have had different ownership characteristics. But there was always a company with a new product that was very exciting, and sometimes they would be successful, and sometimes they wouldn't. There was a growth investment community that would buy it.

However expensive it got, and however aggressive the investment community's posture was with regard to the company, at the end of the day there was a valuation accorded it. We might have not agreed with the valuation; perhaps it was too high. But there was a valuation mechanism that came into play. Somebody would reach a conclusion that, at a certain price, the security was too expensive, and they would sell that, perhaps early, perhaps late. That's judgment.

But today, you see, in the conventional world of indexation, when Tesla enters an index, the bigger it is, the greater the exposure the index will have to it and, therefore, the greater number of shares it will buy. To show you the reflexive nature of what goes on, you will also be aware that not very long ago, Tesla engaged in a stock offering, which of course increases the float which, *ceteris paribus*—all things being equal—will increase the weight of Tesla in the index.

I always thought that a more sensible means of indexation was the equal-weighted system. Now we're getting a little bit away from the question of Tesla, but it tells you something about the construction of indices in general. Assuming I don't exercise my hopefully flawless judgment, Tesla will be in there. It will be a fairly *de minimis* position on or about September 30, and what will be will be. Therefore, if Tesla were to fall to zero, the worst that could happen to us is that we would lose a fraction of 1%. So, it wouldn't have a material impact on the portfolio.

However, indexation is designed for scalability. If you take any index and you equally weight it, your ability to raise money is a function of the least liquid member of the index. For example, if you had 100 names and they were all, by definition, 1% positions, how much money could you raise? The answer is as much money as the smallest, in market capitalization float, that a 1% position will accommodate, even if the other members of the index are huge companies. That's not the practice. Now you see the difference.

With regard to the first part of your question, which is the ability of Virtus to fulfill its role, all I can say is they're very successful in marketing a lot of funds. This is a new fund with a concept that, at least in real time, has yet to be proven. Allocators award money—if you want to use the word "award"—at least in part on the basis of how much money can theoretically be allocated. So, if we have a $7.3-odd million fund, it's not very likely to get a $70 million contribution, for the simple reason that somebody would be 90% of the fund. It's much more likely to get a $25,000 contribution or a $75,000 contribution, or something on that order of magnitude, which is fine. It'll grow.

It's also worth stating, in light of my previous remarks, that we're not limited to the capitalization of the index in the mutual fund or even the ETF marketplace. There are futures; there are swaps; there are all sorts of things that can theoretically be done. So, this fund is merely one avenue. I'm actually pretty satisfied with what Virtus has done. And, from my experience in launching new products, it's pretty good.

By way of comparison, you'll observe that BlackRock—which is iShares— launched four funds a number of months ago. They're basically style funds, high volatility and valuation and that sort of thing. They launched each fund with over $100 million of BlackRock's money in each fund. For three of the funds, they've raised only a small amount of money, actually less than we have raised in the Virtus Wealth Masters. And that is with all the resources of BlackRock behind them.

In one of the funds, I think they've raised $20-odd million. Had we raised that amount in the Virtus Wealth Masters, we would consider it a success. I shouldn't speak for BlackRock but, in the context of their resources, I don't think they're doing handstands. Now, maybe they will be very successful products. I have nothing bad to say about them, but we're doing a very different sort of thing. We're not limited in what we do, and we take a long-term view of it. So, it takes a while before people understand the differences, which I think are significant, between what we're trying to do in the world of indexation investment and what the world is trying to do. We'll have to give it time.

QUESTIONNER 3: I was wondering if Horizon Kinetics had considered marketing or offering any ETF or closed-end products, whether that had ever been discussed.

MURRAY STAHL: Let's begin with closed-end funds. We considered it, but it's a fairly expensive way to raise money, from two points of view.

First of all, let's examine the client point of view because, from the point of view of raising money, it's conventional underwriting, which is to say that the underwriters take a fee. Were we to raise—again, I'm making up a number for illustrative purposes only—$100 million, it's readily conceivable that the fee, from the point of view of the client base, might be as high as $4 million. It might even be more. So, to raise $100 million, for whatever the product, from a client perspective, they're beginning with a negative 4% return.

From our perspective, we also would have to pay a similar, maybe even greater, amount of money, which really amounts to a year or more of the investment advisory fees we would get. Maybe even two years' worth. I guess it depends on who your underwriter is. So, it's a very expensive way to raise money. We explored it. And, at least at that time, it didn't appear to be feasible.

In regard to ETFs—again, I have nothing against ETFs as such—but analyzing the problem with ETFs can only begin with an understanding of what an ETF is. From a legal perspective, an exchange-traded fund operates pursuant to certain exemptions from the Investment Company

Act of 1940. So, some of the normal SEC checks and balances don't necessarily apply. The quid pro quo for that is that you operate the fund in a formulaic mode. You have to choose a formula and stick to that formula. If you don't stick to that formula, you might lose your charter for the fund.

The trouble with the idea of having a rigid charter is that it begins to distort reality. An example: I believe—I can't prove this, but I've said it before in many public forums, so I'll say it again—I believe that, if you identified all the so-called owner-operators that were present in the S&P 500 Index during the last five-plus decades since the S&P 500 started in 1957, including Wal-Mart in its day and Microsoft in its day and Intel in its day, and you removed them from the index as if they were never there and calculated the return on the rest of the S&P 500, I don't think anybody ever would be satisfied with the result.

What I'm saying is the bulk of the return was really attributable to the owner-operators. You can see that without doing a calculation, if you take, for example, Wal-Mart. Even if you don't know exactly what the rate of return was, you know that Wal-Mart was one of the best companies in the S&P in the time that Sam Walton ran the company. Now, to extend this exercise, if this were 1957 and Wal-Mart existed then and Wal-Mart were in the Index, using the method currently employed by the S&P 500, Wal-Mart would be in the index not at its market capitalization weight but at its float weight, which means that, for the entire history of Wal-Mart in the S&P, it would have been at a lower weight than was the case historically.

There's nothing that you could have bought in the S&P to replace Wal-Mart that would have been as good. So, the only thing you can think of is to develop a model that would have had a lower weighting in Wal-Mart, and the balance would have been spread among the other companies in the S&P. But Wal-Mart was better than the S&P. So, by definition, the S&P rate of return would have been lower, just for that reason alone, and by a not insignificant amount. As a matter of fact, I think you actually tried to calculate that once.

STEVEN BREGMAN: Yes. For the 10 years or so that Wal-Mart was in the S&P 500 while Sam Walton was in charge of it—when it qualified, by our definition, as an owner-operator—it came into the S&P 500 at about a 25-basis-point weighting. And, at the time that he died a decade later, it was a 2-percentage-point weighting, all by appreciation. So, you can see, even with that one company, you can readily see, with a little application of algebra in your head, that it provided a major contribution to the returns of the S&P 500. And nearly 40% of the shares were held by the Walton family. So, it would have had a significantly lower weighting while it was in the S&P, had today's rules about float adjustment and float adjustment weightings applied then.

Even if you just take one more example, just two companies, about two years later, Microsoft came into the S&P 500 at a weight of 85 basis points and about 40% inside ownership. A dozen years later when Bill Gates announced his retirement, it was also close to a 2-percentage-point weighting. So, those two companies alone, made a measurable impact on the S&P 500. And there's a significant difference between the way they would be counted today and the way they were counted a handful of years ago when the float-adjusted weighting approach was implemented.

MURRAY STAHL: To continue on that subject, you could have said Intel, Apple, Teledyne, or others. You could have identified, over the course of five to six decades, 80 to 90 companies that, not for the entire time period, but for various points in time, would have had lower weights in the S&P 500. So, I'm pretty confident that, if they recalculated the S&P 500 going back to 1957 using the current weighting method, I don't think anybody would be too enamored with equity investments in general, because it was the S&P 500 that represented the idea of equities. That's basically the indexation problem that you're challenged with.

To address your question on ETFs, that's the problem with ETFs, because you have to adopt a process that's rigid. There are only two possibilities: either the world will agree that your ETF idea is sound and you'll get a lot of money, or you won't. If you get a lot of money, that will start changing the valuations, thereby changing the basic parameters that make your idea sound. As a result, it won't be sound anymore, and it might even become unsound, which means you have to change your parameters. But you can't change your parameters, because it's locked in stone.

You can see it's very much the generalized case of the Tesla example, that somebody is fortunate enough to buy Tesla and makes a certain amount of money, and then it arguably gets to a valuation that becomes, by most standards, extreme. It's my subjective judgment—I don't cast any aspersions on Tesla—but a lot of people would say that its current valuation is extreme. But there's no mechanism by which to exercise the judgment. So, the valuation just goes off on this tangent. We've never really had that happen historically in the world of investing before.

Therefore, to embark seriously in the ETF space, however tempting it might be from the point of view of revenue and raising money, it would be the very antithesis, the negation, of what we're trying to do, because our hands would be tied. We could claim, and justifiably so, that because our hands are tied and there's very little we can do that its acceptable to establish an ETF product. But it really wouldn't be completely honest and moral because, although we wouldn't know when, we would know the ultimate outcome, and that's not right. We don't want to do that.

So, we have to give ourselves the flexibility. For that reason, we really haven't ventured into the ETF arena. One day we might. There might be different circumstances I just can't predict. One day we might, and one day the rules might change, or one day we might have some unique idea that we just don't have right now. But one day we might.

QUESTIONER 4: I lack the imagination I hoped to have, so maybe you can expand my horizon; pardon the pun. I'm interested in understanding a little more of your philosophy of interacting with the capital markets. If the stock is cheap, repurchase shares. If the stock is expensive, potentially issue shares. Are you thinking along those lines? Also, if you could share just a little more about the evolution of the company—whether you anticipate that FRMO will own more of

Horizon Kinetics over time, just to kind of expand the ball field here as far how we should think about the future.

MURRAY STAHL: Okay. There are really two questions there. One is, if I may restate it in general terms, is about our philosophy of how we approach capital markets. Secondly, what is our posture with regard to Horizon Kinetics? Will we own more of it in the future or not more of it? I'm going to take the liberty of slightly rephrasing your question into two and a half questions, because you made the comment "no pun intended" on the name, so I'll tell you something about the name Horizon. The definition of a horizon is a line, an imaginary line in the distance, which recedes as you approach it, which is the ultimate pun on the company.

But in any event, to talk about it seriously, capital markets by themselves have two characteristics. One, they are primarily agent-operated. Most people, or most institutions, or most of the capital in the world, is not invested by the owners. The billion-dollar pension funds don't invest the money themselves. They hire managers, and those managers, in many cases, happen to be indices, but they're managers nonetheless. Most individuals don't manage their own money. They might invest in a mutual fund, or they might invest increasingly in ETFs, and so on and so forth. Insurance companies hire professional managers. Foundations hire professional managers.

The first characteristic of capital markets is that you have to understand the economics of the business as opposed to the economics of the companies that you have in the opportunity set. Investors are making decisions not merely about the valuations of the companies. They don't say, "Company A is worth 10x earnings and Company B is worth 20x earnings, and therefore I'll sell Company A and buy Company B." There is certainly that element in it. But there are many other factors that come into play, like how marketable will my investment products be, and the allure with which people like to present themselves to the marketplace, and the liquidity of their investments, and the rule set that the institutional community puts on their investments. So, there's all that going on.

Our posture is that we move in the opposite direction. If you see us with a big position in something, and we are favored with a good investment result, and the world begins to recognize what we purportedly saw as value, we're going to move out of it. The few occasions in our investment career when we didn't do it, we had trouble. It happened a couple of times in our careers that the world moved to us. Normally speaking, when the world moves to us, we move away from the world.

Now you understand more of my remark about a horizon being a line, an imaginary line in the distance that moves away as you approach it. That's what we should be doing. Once or twice we didn't do that, for various reasons, and that was not good. I don't believe we're ever going to do that again. I think we have the discipline to do that. We understand. We've learned our lesson from that. So, that's one dimension.

Insofar as owning more of Horizon Kinetics, I can only tell you it is a possible outcome. It's distinctly possible, but it might not happen at all. We just don't know. It depends on lots of different factors. Obviously, we wouldn't do it if we didn't believe that Horizon Kinetics is going to be successful, because we'd be diluting the value of our own investments. That's one factor we would certainly consider in the mix.

We wouldn't do it if it was fabulously successful but, for some reason, we had to have the company valued by a valuation agent that made it a crazy value. So, the valuation, even in success mode, has to make sense. I wish I could be more precise, but I just can't be. Are there any other questions? Yes, there's a question.

QUESTIONER 4: Hi, Murray. Given that we're shareholders of a 4-plus percent interest in the revenue stream of Horizon Kinetics, I'm not sure if it's ever been disclosed, the historical revenues of Horizon Kinetics over the last few years, the last few quarters and, if possible, if you could provide a projection of where the revenues are going in future.

MURRAY STAHL: Okay. Well, there are two questions here, the historical revenues and a projection. I'll answer the second question first. I'm not going to give you a projection, not because I don't want to—which is true; I really don't want to—but that's not the reason. And not because I really shouldn't, because I might get in trouble with a securities regulator, which is another reason, and it's a good reason, but that's not the reason.

The reason is that, in all truth, I really can't predict it. I can't say it's X or Y or Z. I have no basis for making that projection, and for the simple reason that one of the big factors is the market value of the assets. To the degree you're trying to make good investments, you could say you have some minimal degree of control over it. But in reality, you have very little control over it. Of course, you have no control over where the great mass of clients and potential clients might choose to put their money. So, I can't venture to say.

What I can say is that the lean years were obviously 2008 and the aftermath years. The assets under management have been growing for the last—how would you characterize it, the revenues of the last X years?

STEVEN BREGMAN: I would say steadily and moderately, which is less important than some of the strategic investment products we have been developing, which has to do with the nature of the new products and their economics.

MURRAY STAHL: I can say this: in recent months, it's growing faster.

QUESTIONNER 4: Is there any reason why you don't just disclose the historical numbers? I mean, it's not a reflection on your earnings, it's just a revenue stream.

STEVEN BREGMAN: I think there are a couple reasons. One is FRMO Corp. cannot decide to provide the historical revenues of Horizon Kinetics. Horizon Kinetics has to agree to provide them. And second, in order to provide those revenues, I think they would have to be formally audited and proofed in various ways. And Horizon Kinetics, as a private company, probably does not have the figures in the form and proofed in the manner that's required to make it public, if you follow me.

In other words, on a going-forward basis, we can do it. And, in fact, we will be doing it. And to reiterate an answer to a question from a shareholder at our last earnings conference call, "Can we reveal what the earnings and revenues of Horizon Kinetics are? Why don't we just tell people and make it public?" Well, with the next quarterly earnings report, it will be, because you'll see on our income statement and balance sheet an earnings number, which can be related to our 4.95% equity interest, and a revenue number, which can be related to the 4.199% revenue interest. And you do a little bit of division, and you'll actually know the number.

MURRAY STAHL: I'll give you more color on it. Horizon and Kinetics merged in early May 2011. To be audited, the year 2011 had to be completed, and the audit would cover from May to December 2011. So, it's not really a comparable number. In any event, because of the merger and the various things that had to happen in the merger, it took a very long time to even get an audited number. By the time we got it, it wasn't all that meaningful.

For the 2012 number, which is the year that was completed in December, we don't yet have a completed audit. It will be completed at some point, but it's not completed yet. It takes a long time to do these audits, for reasons that completely escape me. I don't think it's all that complicated. But, in point of fact, obviously, the 2013 numbers cannot be audited yet because we're still in the middle of the year, so we don't have that yet.

Going forward, we're will have the numbers. Then, as soon as we have an accurate set of historical numbers that provide the color, I have no problem with releasing it. When we have it, we'll do it. Right now, to release the eight months in 2011, without releasing the 2012 number, I don't know how meaningful that would be. There is no great secret about releasing that number, but we'd like to have the complete set, so to speak. Once we have a policy of reporting it quarter by quarter on an ongoing basis, we should, at that point, have the historical numbers. I see no reason why we shouldn't release it. Any other questions? Yes, sir

QUESTIONNER 5: Murray, either in *Barron's* or in *Forbes*, I believe you spoke about the Beijing airport. And I'm wondering if you would care to comment, either update your opinion on it or the thesis behind it? The second question would be, at last year's annual meeting, you and Steve both shared an idea or two, which I think was very interesting. If you're comfortable with it, might you consider doing it again?

MURRAY STAHL: Okay. Well, two questions there. The first question is to share my thoughts about the Beijing airport. And the second question was could we possibly share an idea or two. So, let's begin with the Beijing airport. There's nothing really wrong with the Beijing airport. Well, actually, there is one thing that you could say about the Beijing airport. So, the business itself, as we all know, it's the airport of Beijing. That part is easy to understand. Its revenue, its business, is based on the landing rights of aircraft, and that's usually growing. It's also based on the rental fees that they get from the various merchants, and that's usually growing, too.

The only thing you can say negatively about it is that it's also apparent that, as a shareholder, you have to contend with the various motivations of the Chinese government, because they have many contending interests to pacify. For example, the Beijing airport is a monopoly but, if you make the landing rights and the gate rights too high—which would be very good for the shareholders of Beijing airport—you might bankrupt the Chinese airlines. Make them too low, and you damage the interests of the biggest shareholder, which is the Chinese government, which you don't want to do either.

It's a perfectly reasonable company to invest in. We still have some exposure to it, but we've found what we thought were more intriguing investments. So, we used some, but not all, of the money in the Beijing airport for those. We still own many millions of shares of the Beijing Airport in Horizon Kinetics. We deployed some of that money to buy some other securities. So, that brings me to the second question: what are those others? Would you like to opine on a company or two?

STEVEN BREGMAN: Okay. One company we've owned for a while is DreamWorks Animation, SKG. Are any of you familiar with that company? Okay. I probably don't do it justice to call it a cartoon company, but the animated film production company. Although I've owned it for some years, I added to it quite recently—even though it was near a high—because of some recent activities by the management, which is also owner-operator management, which suggest whole additional ranges of value that will redound to the company.

SKG, as you might know, is an acronym for Spielberg, Katzenberg, and Geffen, who are the founders of the company. Mr. Katzenberg is in charge of the show and is the largest shareholder. Part of the thesis that has long existed is that the movie business is very lumpy or uneven. Nobody seems to know when a hit will be generated. I think of all the intellectual talent that has gone to Hollywood in the last century to make movies. One way of looking at it, you might consider them the cream of the crop in the United States. And even they don't know if a movie will be a hit or not. Therefore, the results of companies like this can be quite uneven. Sometimes they have a good year; sometimes they have a bad year.

DreamWorks stock, until not six months ago or so, has done nothing but go down since it came public a handful of years ago. Six months or so ago, it was probably 50% or less of its IPO price. In any event, during that handful of years, they were producing a movie and then two movies and then three movies a year, and building up the film library. Unlike a Disney or a Viacom, which have enormous libraries, but also enormous market capitalizations, the library for DreamWorks has gotten to be fairly significant with respect to the size of the company.

But it seemed to us that the stock price would really reflect the recent earnings, meaning the most recent hit or failure, or the anticipation of the next hit or failure, but didn't give much credit, or any credit, to the value of the film library. The marvelous thing about a film library, if you're in that business, is that all of the subsequent releases, semi-generational releases of that content, really cost very, very little. You can ascribe a kind of long-term revenue and profit margin to that. So, depending on the price and the month, you could see sometimes that the company was trading at the value of the earnings derived from its films. But you got the library for free. So, that's why we own it.

But, in the last year, especially in the last eight months or so, the company has been very active. It engaged in a sequence of transactions that suggest even more value. One of the first was that, late last year, I believe, it bought another library. I think it was called Classic Media. There's a whole host of television characters, including Rocky and Bullwinkle and Lassie and Casper the Friendly Ghost and the Lone Ranger, and the list goes on and on and on. They intend to re-commercialize those. That will be a whole new source of revenues.

They also, late last year, engaged in two transactions with Chinese partners. One was for a joint venture with an entity that I believe is ultimately owned by the Chinese government to make some movies there. The first one they started is based on an already very popular character there, and that's due to come out shortly. When you think about the size of the Chinese market, and think about what kind of modest success they need there, given the market capitalization of DreamWorks, which is only a couple of billion dollars, you can see the potential. That joint venture was capitalized with, I think, $300 million, which itself, relative to the market capitalization of DreamWorks, is a rather significant figure, if you consider the return on that capital in success mode.

There was a second joint venture that involves the building in Shanghai of a theme park along the riverside, with all sorts of DreamWorks characters. That's already in construction, and will come online at some point soon. They've also just engaged in an arrangement with Netflix to provide over 300 hours of programming in the coming years. So, these are all in addition to what we already had. Qualitatively, since the company is a content owner, one way of looking at that world is that you can be on the right side of content or the wrong side of content. DreamWorks seems to be on the right side of it. It's not very complicated, but that's the kind of company the shares of which I think I can own for a long time. That's one.

MURRAY STAHL: Okay. So, I'll do two, if you don't mind. One we've owned for a long time. Actually, both we've owned for a long time, one longer than the other. There's a company called the Texas Pacific Land Trust, which you might not have heard of. It is a company—it's actually, technically speaking, a trust that owns land in Texas, which is why they call it Texas Pacific Land Trust. It's in West Texas. To give you an idea of where the land is, you can imagine in your mind a map of Western Texas. If you put a chessboard over Western Texas, that's more or less where their land is. It actually looks like that.

Basically the story of the company is that it owns two assets. It owns the land and it owns some mineral rights under the land. As far as the mineral rights go, it's mostly oil. Various companies pay them a certain amount of money in exchange for access to the mineral rights. The land is largely used for grazing cattle. Occasionally they sell a few acres, but not very frequently. What the company has done over the years is use roughly 40% of the cash flow to buy back the stock. They've been doing it since, I believe, 1932. In 1932, there were 500 million shares outstanding.

Now, I think there are 8.6 million shares outstanding. If you like calculus, this is a stock for you because, every time they buy back a share, the next share purchase is a greater proportion of the remaining shares.

But there's more going on than just that, because it turns out, now with the evolution of fracking, you can access minerals that, in principle, you could never access before. It turns out that a lot of the land they own—leaving aside the mineral rights that lie under the ground—they use the surface rights on the land just for cattle grazing, and that land has no mineral rights whatsoever. However, for other parties who wish to extract mineral rights in that area, whether on Texas Pacific Land Trust property or on someone else's, they can't get to the minerals unless they go over Texas Pacific's land, which means they have to pay them some rent. So, de facto, that cattle grazing acreage has mineral rights.

Once you extract the minerals, you can't get anywhere unless you build a pipeline. The pipeline is a long-term asset, which means the Trust will take in rent from the pipeline, which could go on for a very, very long period of time. If you follow the company, what you will observe is the category that they call the rent from land to access the minerals, as opposed to actual mineral rights. They call that "sundries." And that "sundries" column has been growing very rapidly.

Of course, when it grows very rapidly, it throws off revenue. It has no associated cost, because they're not building rigs; they're not renting rigs. The Trust is merely signing a document that gives an exploration and production company permission to operate on its land—it's an easement, essentially. It gives them permission to operate for a limited time period on their land. That's all it is. So, the incremental revenue is really incremental profit. But what's much more important is they use that money to continue buying in shares. So, eventually, if they kept buying in shares at the current rate, I estimate that, in somewhere between 25 and 30 years, there will be one share left. And that share will be very valuable. If you owned the last share, that would be a lot.

Now, by the way, I'll tell you two things about the company apart from that. Number one, it's from them that I got the idea for the FRMO revenue share, because I saw what they were doing. So, it's not an entirely original idea. Now, when did the idea originate? Well, long before there was a Horizon Asset Management and Kinetics Asset Management, I was an analyst over at Bankers Trust Company. I would try to regularly to go the analyst meetings that the New York Society for Security Analysts held. Now it's located on Sixth Avenue, but in those days it was located downtown.

So, I'd go to the luncheon. There was one day I was a little preoccupied. And you got off on a certain floor. And, as I recall, you had to turn to the left to go to the Society. I turned to the right. I had been on that floor many, many times. But I went to the right and walked to the end of a long corridor, and I realized I was in the wrong place. But I saw a sign that said, "Texas Pacific Land Trust." So I went the other way and I sat down and heard a company presentation at the luncheon; I kept wondering, "What is the Texas Pacific Land Trust?" So, at the end of the luncheon, I went down to the end of the corridor and I asked them what they are. They gave me an annual report, and I found it very interesting, so I actually became an investor back then.

Now, the first research report that Horizon Kinetics wrote in its inception year was on Texas Pacific Land Trust. In that report, we postulated that if they bought back shares at a certain rate, assuming no inflation whatsoever—and you would think the land value would grow by the inflation rate—but assuming no inflation whatsoever, what would the value be in 10, 15, or 20 years hence. We're now in the 19th year since the formation of Horizon. When we wrote that report, we postulated where the stock might be, almost two decades hence, and it has turned out to be a much more interesting report to read today than it was then. So, Steve, do you have anything to say about the report?

STEVEN BREGMAN: Yes. As you said, it was our first report, and it didn't look like the reports we write today. The reports today are kind of heavy, and they have a nice facing page, and they have a preface and a conclusion and so forth. We didn't know how to write research reports for commercial publication then. It looked kind of like a four-page college essay. When we showed it to the company that markets our research, the guy weighed it in his hand and said, "You need more. And, on the front, you need to say how high it's going and when." We said, "We already say that in the back." He said, "I know, but you need it in the front also."

So, just as a series of asides, we were always interested that the volume of oil and gas that various producers would take out of the Trust's land over the decades never seemed to go down. We thought that was interesting. We didn't know exactly what it implied, but we thought it was interesting.

Another observation is that, as Murray mentioned, even on the land in which the trust doesn't have mineral rights, it is actually getting income now in exchange for the right of other companies to cross its property to get to the land with mineral rights. But for most of its land, for the greatest bulk of it, its highest use is grazing. It gets grazing fees. And periodically it would sell some acreage here and there. It might get $500, $600, $700-or $800 an acre for it. But they're finding now that the rental income they're getting from commercial interests crossing their land is actually about as great as they would get from selling it. So they've actually curtailed selling any acreage, because they're getting the same amount of revenues just by renting it. Accordingly, they keep the land and they continue buying back shares. It's actually better now than it was 19 years ago.

MURRAY STAHL: Right. Now, I'll tell you that another interesting thing is that Horizon Kinetics, as an investment advisor, give or take a little bit, owns nearly 16% of the company. It's taken us almost two decades to build that position. Some of it is from buying more shares, but some of it is merely from the company buying back shares which de facto gives us a higher stake in the company. So, even if we were never to buy another share—and maybe we won't buy any more shares—our stake in the company is going to grow.

Every now and then, we get offers to sell the whole stake. So, we know what it's worth. And that's a comment a little bit beyond performance. We get offers to sell the whole stake to someone at a price of X, and we don't want to do it. We look at our investment performance, which we're, I think, proud of, and we say, "Well, if we took that deal, we'd have higher investment performance. But is that really the best use?" We could make our performance higher if we really wanted to, but it tells us something about the meaning of investment performance. It's a market value. It's a guide to what investors think it's worth, but what investors think it's worth is not always the best guide. I think it's also a validation of the idea of long-term investing.

Now I'll talk about another company that we own. It's a company called Onex Corporation. It's a Canadian company. You'll find that, from time to time, we like to get involved in the Canadian market because it's the most interesting of the markets around the world. That's because the Americans don't like it because it's foreign and the foreigners don't like it because they think it's like America. So, that's the first problem.

The second problem is the Canadians have a problem with it as well. What's the problem? Historically, Canada has had, I believe, a much more sensible capital markets regulatory scheme than the United States. The Canadian capital markets regulatory scheme is designed to discourage debt, which is why Canada has had a much more stable economy than most nations of the world, even with all the vagaries of natural resources that are so important to Canada.

One example of this regulatory approach is that in Canada dividends on preferred stock are tax-deductible to the issuer. That's a real advantage. In America, it's not tax-deductible. That encourages Canadian companies to issue preferred stock rather than conventional debt, because preferred stock is more permanent capital.

Another interesting element in the Canadian market is the Vancouver Stock Exchange That exchange would list the newly emerging companies that really haven't been vetted by the investment world, nor have they necessarily been vetted by the Canadian regulator. So, small capitalization stocks in Canada, over the years, have had a pejorative cast associated with them, because they're considered to be poorly capitalized small companies with a lot of risk, and it's true in some cases. But it's not true in all cases. Over the years, you can have the emergence of really dynamic, great companies in Canada that had their origins as small caps that people won't invest in.

You see it today in indexation, because you will see occasions when a company in Canada engages in a spin-off, and its market capitalization drops because it has spun off an asset, and it falls out of the Canadian Mid-Cap Index. It goes into the Small-Cap Index. But there's almost no money indexed to the Small-Cap Index, with the consequence that such a company has, for a long time, no natural buyers. That happens in Canada. So, you have those inefficiencies.

Getting back to Onex, this company also has, in its own bizarre way, a similarity to FRMO. It's an investment company. But you might say it's oriented around private equity. They raise private equity funds, and they invest their own money alongside those investors. It's roughly a $52 stock, and their capital is $52 in Canadian dollars. The Canadian dollar is roughly 95 cents to the U.S. dollar, so you need to multiply accordingly, so the value of their capital is about $47.50 Canadian.

What does that mean? If the stock is $52, it's less than $5 for the value of the company exclusive of its own capital. It has 113 million shares outstanding, so call it a $500-plus million market capitalization. But they are now managing, with the most recent offering, $13.5 billion of private equity money, all or most with performance fees. The performance fee is 20%, and the money is locked up for a decade or more.

So, the question is: what would we pay if we had a business with $13.5 billion of assets under management that was locked up for 10 years and had the opportunity to get a 1 and 20 fee structure? Would we value that at $500-plus million? And I don't think we would.

Secondarily, when I said $47.50 Canadian is the value of their investments, that values a lot of the private investments. Some of them have come public, but the private investments are valued essentially at cost. We know what the earnings are of those companies. And we don't think, if you actually brought those companies public, that the valuation would be $47. It would be much higher. Essentially, all it really needs to be is $4.50 higher, to be exact, before you're getting the asset management business for nothing.

Then the question becomes: What would a reasonable person pay for the right to manage $13.5 billion, with the possibility of raising more, that gets 1 and 20 in management and incentive fees? The company, not surprisingly, with great regularity and consistency, buys back stock. The management owns a very considerable portion of the company. So, that's something we like.

I don't see any questions. At this point, we'll close the formal part of the meeting right now. We'll thank you for your attention and your attendance. And we'll be around for a little while to chit-chat, if you wish to do that. And we look forward to hosting you at our upcoming quarterly earnings conference call. So, thanks very much.

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