

# THE AMVONA FUND, LP

2015 Annual Report

## THE AMVONA FUND, LP - 2015 ANNUAL REPORT

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## Business Activities

The Amvona Fund, LP was organized as a Delaware limited partnership on July 24, 2012 to operate as a private investment partnership. The partnership's investment objective is to achieve better than average returns by investing in common stocks of fundamentally sound companies that are run by superior managers and are selling at a substantial discount to "intrinsic value<sup>1</sup>."

Lemelson Capital Management, LLC, a Massachusetts limited liability company, serves as the general partner of the partnership. Under the partnership's limited partnership agreement, the general partner is responsible for the management of the partnership. Emmanuel Lemelson is the investment manager of the general partner.

All analysis and capital allocation decisions are made for The Amvona Fund, LP by the General Partner, Lemelson Capital Management.

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<sup>1</sup> Intrinsic value, unlike price, is defined as an estimate of a company's value today based on a number of qualitative and quantitative factors, including the discounted value (at a risk free rate) of the free cash flow the enterprise is likely to generate over its remaining life. On a per share basis, intrinsic value can and often does vary wildly from quoted prices in the open market, a phenomenon usually exacerbated in the near-term.

## The Amvona Fund, LP Performance vs. the S&P 500

| Period                 | Gross Return*<br>(1) | Net Return*<br>(2) | S & P 500**<br>(3) | Relative<br>Results<br>(1) - (3) | Relative<br>Results<br>(2) - (3) |
|------------------------|----------------------|--------------------|--------------------|----------------------------------|----------------------------------|
| 2012 (Sept - Dec)      | 26.91%               | 19.30%             | 2.20%              | 24.72%                           | 17.10%                           |
| 2013                   | 89.25%               | 61.39%             | 32.39%             | 56.86%                           | 29.00%                           |
| 2014                   | 47.24%               | 33.33%             | 13.69%             | 33.56%                           | 19.64%                           |
| 2015                   | -46.27%              | -46.85%            | 1.38%              | -47.65%                          | -48.24%                          |
| Compounded Annual Gain | 21.24%               | 9.77%              | 14.26%             | 6.98%                            | -4.49%                           |
| Overall Gain           | <b>90.03%</b>        | <b>36.43%</b>      | <b>55.95%</b>      | <b>34.09%</b>                    | <b>-19.52%</b>                   |

*\*The performance data represents both the gross and net performance of The Amvona Fund LP (the "Fund") based on a hypothetical investor in the domestic fund at inception. The net results reflect the deduction of: (i) a quarterly asset management fee of 0.25 percent, payable in advance; (ii) a quarterly performance allocation of 25 percent, subject to a high-water mark and a 6 percent annualized hurdle rate; and (iii) all other transaction fees and expenses incurred by investors in the Fund. During the time period shown, the Fund used only those investment strategies disclosed in the Fund's Private Placement Memorandum, and there were no material market or economic conditions that affected the results portrayed. Results are compared to the S&P 500 for informational purposes only. The Fund's investment program does not mirror the S&P 500 and the volatility of the Fund's investment program may be materially different from the volatility of the S&P 500. The performance figures include the reinvestment of any dividends and other earnings, as appropriate. Past performance is not necessarily indicative of future results. All investments involve risk, including the potential loss of principal.*

*\*\*Represents the S & P 500 Total Return Index, which includes dividends.*

## Investment Manager's Letter

### To the Limited Partners of the Amvona Fund, LP:

In 2015, The Amvona Fund, LP had a realized loss of \$632,511 and an unrealized loss of \$7,877,194, representing a total decrease in gains of ~149 percent over that of 2014<sup>2</sup>. Net increase from operations since the Fund's September 2012 inception through year end 2015 totaled \$3,725,270.

Since inception (40 months), the Fund has returned 90.03 percent gross and 36.43 percent net of all fees and expenses. The Fund outperformed the benchmark S & P 500 Total Return Index during this time by 34.09 percent<sup>3</sup>.

In the twelve months ended December 31, 2015, The Amvona Fund, LP's gross gain was -46.27 percent, or -46.85 percent net of all fees and expenses, a return that underperformed the benchmark S & P 500 Total Return Index (which includes dividends) by -47.65 percent<sup>4</sup>.

The compounded annual gain<sup>5</sup> for the fiscal year ending December 31, 2015 was 21.24 percent (or 9.77 percent net of all fees and expenses). The compound annual gain for the S & P 500 during the same time frame was 14.26 percent<sup>6</sup>.

Although the rate of return for the Fund was dramatically lower in 2015 than 2014, management executed on major capital allocation decisions as planned and believes that some of the best investment commitments in the Fund's existence were made during the year.

Gross assets at December 31, 2015 totaled \$25,939,709<sup>7</sup> vs. \$41,049,029 at December 31, 2014, a decrease of 36.8 percent year over year.<sup>8</sup>

### Summary of key events in 2015

- a) The Fund liquidated major stakes in EZ Corp. (NASDAQ: EZPW) and LeapFrog Enterprise (NYSE: LF) at a loss and Kulicke & Soffa Industries (NASDAQ: KLIC) at a profit in the first half (1H) 2015.

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<sup>2</sup> The net increase from operations in 2014 totaled \$5,746,316.

<sup>3</sup> Figures are shown on a gross basis. On a net basis, the Fund underperformed the benchmark by 19.52 percent since inception.

<sup>4</sup> The Fund underperformed the benchmark by -48.24 percent on a net basis during 2015. The gross basis is used above as a barometer of the Fund's performance vs. the benchmark because the vast majority of expenses are attributable to management's performance allocation in up years. If alpha is viewed as the manager's ability vs. the benchmark than the gross figure seems like a more accurate measure.

<sup>5</sup> The compound annual gain is an important measure for determining the rate at which the Fund is compounding on an annual basis, since even a slight delta versus the benchmark will have an outsized effect on long-term results.

<sup>6</sup> The S & P 500 Total Return Index rose 32.39 percent in 2013, 13.69 percent in 2014 and 1.38 percent in 2015.

<sup>7</sup> Inclusive of capital contributions and withdrawals during the year.

<sup>8</sup> The decrease in gross assets was principally the result of a decrease in leverage.

- b) Short positions were increased in Q2 and Q3, 2015 including in shares of Ligand Pharmaceuticals (NASDAQ: LGND), Skechers (NYSE: SKX) and Netflix (NASDAQ: NFLX) and were profitable to the Fund.
- c) A significant percentage of the Fund's stake in Apple (NASDAQ: AAPL) was liquidated late in Q4, 2015.
- d) Shares of Geospace Technologies (NASDAQ: GEOS) were purchased aggressively late in 2015 and into early 2016.

## The Bad News

- On paper, the Fund's returns were extremely volatile in 2015 with virtually the entire unrealized decline in value attributable to the Fund's two largest positions, Apple (NASDAQ: AAPL)<sup>9</sup> and Geospace Technologies (NASDAQ: GEOS)<sup>10</sup>. The Fund had declined approximately two percent through the end of Q2 2015, but then declined approximately 48 percent in Q3 before recovering approximately 5.5 percent in Q4.
- Early in 2015, the Fund liquidated its stakes in both EZ Corp. (NASDAQ: EZPW) and LeapFrog Enterprises (NYSE: LF). The EZ Corp. blunder was discussed in the 2014 annual report and both EZ Corp. and LeapFrog were discussed in the 1H 2015 partnership letter. Since the Fund's September 2012 inception, these two commitments alone have created material losses for the Fund. While the losses were recognized in 2015, the errors in judgement were made in 2013 (E郑PW) and 2014 (LF).

These two mistakes resulted in the Fund's first material and realized net loss of \$632,511 on an annual basis and also contributed to the overall negative showing in 2015<sup>11</sup>.

- Management has long posited that it is unlikely that returns generated between September 2012 and December 2014 would be repeated with any regularity in future years and that down years are inevitable. There are a number of reasons for this, including the fact that the calendar year is not likely to comport with the timing of how and when management will commit its capital nor when the market will agree with management on value. Further, as has been also pointed out, the historically high rates of return simply do not reflect the productive output of the companies which management hopes to own. Management has said repeatedly that it would be best to think of the Fund's performance against the benchmark in multi-year cycles of at least five years. 2015 proved that the Fund cannot have a positive showing every year.

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<sup>9</sup> Apple declined 4.64 percent to \$105.26 at YE 2015. Apple closed as high as \$134.54 on April 28, 2015. Also contributing to the volatility is the Fund's use of leverage.

<sup>10</sup> Geospace Technologies declined 46.91 percent in 2015.

<sup>11</sup> The Fund also took a realized loss of \$9,266 after selling virtually all of its stake in Liquidity Services (NASDAQ: LQDT)

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*“Although management certainly expects to be able to continue to purchase pieces of great companies at prices that represent significant discounts to real underlying value, such bargains are rare and the last 28 months have been an unusually good run”*

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*The Amvona Fund, LP 2014 Annual Report*

- In 2015 management had a significant number of good short ideas and acted on all of them. Regrettably, however, management failed to allocate sufficient percentages of the Fund’s capital to its short book in the second half of 2015 (as had been indicated in the 1H 2015 letter) to offset the declines in value in Apple and Geospace Technologies. There is an expanded discussion on the Fund’s 2015 short positions below.

### **The Good News**

- 2015 was undoubtedly the best year ever for the Fund in terms of the objectives because of the incredible opportunity that emerged with the extraordinary decline in the price of oil and the related tumult it created in the exploration and production (E&P) sector presented for the Fund to continue purchasing shares of Geospace Technologies, the Funds’ largest commitment. Management indicated repeatedly throughout 2015 that it expected to materially increase the Fund’s stake in Geospace Technologies.

This buying opportunity continued into early 2016 and management believes that this commitment, the largest the Fund has ever made, has been at a price that is a fraction of what the company is truly worth. Management also believes that the company is likely to generate significant cash flow in the future.

- The Fund liquidated 37,955 shares of Apple (NASDAQ: AAPL) in December 2015 for \$4,290,060, or an average price per share of \$113.03, realizing a long-term gain on the sale of \$1,838,953. The average purchase price for these shares was \$64.57. The timing of this transaction proved beneficial to the Fund since shares of Apple fell as low as \$93.42 on January 27, 2016, a decrease in value of 17.3 percent in the ensuing month.
- The Fund liquidated the majority of its stake in Kulicke and Soffa Industries (NASDAQ: KLIC), one of the Fund’s largest holdings through 2014, at a profit in the first half of 2015. Shortly thereafter, the price of the shares declined precipitously, making the timing of the sale beneficial to the Fund’s overall performance in the 1H 2015.
- In anticipation of the Fund’s first down year, management elected in Q3 2015 to change the Fund’s documents to cancel the annual reset of the high water mark, instead making it perpetual. This will ensure that management receives no performance allocation until all of the partners in the Fund reach their former high water mark. This of course is in addition to the unusual six percent annual hurdle rate management must exceed.

Since the management fees are more conservative than those typically associated with alternative investments<sup>12</sup>, and given the size of the Fund, management expects to operate at a deficit (as it did throughout 2015) until both the high water mark and hurdle rate are exceeded.

- The number of partners in the Fund grew from four at year-end 2012 to 23 with 29 separate capital accounts at year-end 2015.

Management has long said that the Amvona Fund, which has a significant long-bias, has only existed in a rising market since its founding. 2015 was the first year of significant market volatility since inception and also the first year the benchmark indexes did not have a significant increase. As before, management must stress that long term results ultimately have little relation to short term market prices<sup>13</sup>. This is certainly true whether the Fund is up or down in any given year and the duration in time referenced herein continues to be relatively short.

Additionally, the Fund sold the following long positions at a profit in 2015<sup>14</sup> (many of which, despite having been held for multiple years, had not been previously discussed)

|                          |                              |
|--------------------------|------------------------------|
| 1. Telenav               | (NASDAQ: TNAV)               |
| 2. NetGear               | (NASDAQ: NTGR)               |
| 3. Coach                 | (NYSE: COH)                  |
| 4. Atlantic Tele Network | (NASDAQ: ATNI)               |
| 5. World Wrestling Ent.  | (NYSE: WWE) <sup>15</sup>    |
| 6. Peerless Systems      | (NASDAQ: PRLS) <sup>16</sup> |
| 7. Holy Frontier Corp    | (NYSE: HFC)                  |
| 8. World Acceptance Corp | (NASDAQ: WRLD)               |
| 9. National Western Life | (NASDAQ: NWLI)               |
| 10. National Presto Ind  | (NYSE: NPK)                  |
| 11. China Mobile Limited | (NYSE: CHL)                  |
| 12. Aspen Insurance      | (NYSE: AHL)                  |
| 13. Anthem               | (NYSE: ANTM)                 |
| 14. AFLAC                | (NYSE: AFL)                  |
| 15. QLogic               | (NASDAQ: QLGC)               |
| 16. Cnooc                | (NYSE: CEO)                  |
| 17. Assurant             | (NYSE: AIZ)                  |

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<sup>12</sup> Hedge funds typically charge two percent management fees.

<sup>13</sup> For example, had the current reporting period ended just a month earlier, the results would have been far more favorable. Further, the market has constantly risen for about seven years.

<sup>14</sup> The fund also realized a loss of \$9,266 in shares of Liquidity Services (NASDAQ: LQDT). Aside from the losses realized in shares of EZPW and LF outlined above, there were no other realized losses on long positions in 2015 that exceeded \$1,000.

<sup>15</sup> After selling its long position in shares of WWE on February 13, 2015 at \$16.52, management shorted the shares again on August 28, 2015 at \$20 per share, a position that was covered about a month later on September 30, at \$16.82 per share, generating a return of 15.9 percent. The shares were then shorted again on October 23, 2015 at \$21.07 and covered again on December 4, 2015 at \$17.39, generating an additional a return of 17.5 percent.

<sup>16</sup> Peerless Systems was acquired for \$7 per share (the Fund acquired the shares for \$3.62 on April 29, 2014).

## Major Shifts in Capital and Strategy

### **Update: Apple (NASDAQ: AAPL)**

Computers, Phones & Household Electronics

140,545 Shares at YE 2015 - Market value: \$14,793,767

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*“To this end, management intends to make significant changes in the composition of the portfolio in the second half of the year, and expects that a substantial part of the long-term capital gains earned in technology issues<sup>17</sup> will be largely re-allocated to extremely unpopular companies in the energy sector”*

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*The Amvona Fund, LP 1H 2015 Report*

In December 2015, the Fund reduced its stake in Apple computer from 178,500 shares to 140,545 shares, a reduction of 37,955 shares or 21.3 percent.

The shares were sold at an average price of \$113.03 (the average purchase price of the shares was \$64.57). The sale freed up \$4,290,060 in capital. In hindsight, the timing of these sales was extremely favorable to the Fund in the near-term since Apple’s share price went on to drop as low as \$93.42 on January 27, 2016.

The Fund’s largest commitment throughout 2015 continued to be Apple, from which virtually all of the Fund’s dividend income was received<sup>18</sup>.

Management has since further decreased its stake in Apple. This decrease is not based on a belief that the shares are over-priced, or even fairly priced, but rather to reallocate the capital to increase the Fund’s stake in Geospace Technologies (further discussion below).

The reasoning behind initially making (in 2013) and keeping throughout most of 2015 the large stake in Apple was thoroughly outlined in the 2013 and 2014 annual reports. Virtually all of those reasons have since proven correct with the thesis remaining intact until the present moment.

Apple was the largest investment the Fund had made since inception until recently when Geospace Technologies, Inc. (NASDAQ: GEOS) displaced Apple as the Fund’s largest commitment<sup>19</sup>.

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<sup>17</sup> For example, at the end of 1H 2015, unrealized gains on the Fund’s position in Apple (AAPL) totaled \$11,211,827 while \$428,400 in dividends have been received since the Fund made its initial purchase on March 6<sup>th</sup> 2013.

<sup>18</sup> The Fund received \$362,355 (gross of withholding tax) in dividends from Apple in 2015.

<sup>19</sup> This reallocation had long been planned as discussed in the 1H 2015 interim report.

## Geospace Technologies (NASDAQ: GEOS)

Oil & Gas Related Equipment and Services

787,646 Shares at YE 2015 - Market value: \$11,082,179

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*“Like all great investments, it requires patience. We’ve said from day one, we’d be happy if we realized we were right after two years. We’re about eight or nine months into that... we’re just going to keep buying for the next four or five months and hopefully we’ll get 10 percent of the company.”*

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*Benzinga PreMarket Prep Show, June 5, 2015<sup>20</sup>*

Management has allocated a significant amount of capital to shares of a small, relatively obscure Houston-based manufacturer of seismic equipment used in the exploration and production industry in the midst of a massive decline in the price of oil and gas. While both the 2014 Annual Report as well as the 1H 2015 interim report include some of the reasons behind the significant commitment in Geospace Technologies, a few additional explanations are provided below.

Geospace is a great business run by honest and capable management that has been negatively impacted in the near-term by the collapse in the price of oil. However, the underlying business, its technology and management remain completely intact and poised for significant future growth.

In 2015, the Fund increased its stake in Geospace Technologies from 352,770 at YE 2014 to 787,646 shares at YE 2015, an increase of 434,876 shares, or 123 percent as the price of the shares, alongside the price of oil, slid.

On December 31, 2015, shares of Geospace Technologies closed at \$14.07 per share. Tangible book value at the company’s FYE 2015 was \$22.02. Had the market priced Geospace at just the value of the firm’s tangible assets (an extremely conservative measure)<sup>21</sup> on December 31, 2015, the market value of the Fund’s stake would have been \$17,343,964.

In January 2016, management sold 70,454 shares of Geospace Technologies and realized a gain of \$157,106<sup>22</sup>. As of the writing of this letter, management has spent \$3,009,971 to purchase an additional 318,501 of Geospace Technologies stock at an average price per share of \$9.45, or less than half of the firm’s tangible book value, bringing the total shares owned to 1,035,593, or 7.8 percent of the company’s outstanding shares.

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<sup>20</sup> Rev. Emmanuel Lemelson, CIO of Lemelson Capital Management - #PreMarket Prep for June 5, 2015 - [Link](#)

<sup>21</sup> Management believes the company’s impairment of assets, particularly inventory, is overly aggressive (albeit in compliance with GAAP) and thus are understated on the balance sheet. For example, in 2015 the company had ~\$19.5 million in depreciation and amortization expense and ~\$3.9 million in inventory obsolescence expense. The depreciation associated with the company’s rental equipment and inventory is likely overstated since the equipment and inventory itself does not become obsolete at nearly the pace the write-downs would imply. In 2015, rental equipment depreciation alone was \$13.9 M.

<sup>22</sup> Shares purchased late in 2015 were sold on a Last In First Out (LIFO) basis in order to realize the gain.

Should the price remain depressed, management will continue buying.

## Valuing Geospace Technologies

Valuing a business is never an exact science; however, with a sufficient margin of safety, approximate appraisals are typically sufficient for making wise capital allocation decisions.

There have been few panics in commodities markets more severe than the one in the price of oil that has taken place between mid-2014 and the present. This has given rise to the tremendous buying opportunity in shares of Geospace Technologies.

It is fair to value different kinds of investments in different ways. For example, a technology company that has a wide moat around its business and is still growing, such as Apple, could be valued by calculating the price to earnings growth rate over the last five years. It can be argued that a fair price to earnings (PE) value for a growth company equals its growth rate, (PEG=1). Apple's five year earnings before interest, taxes, depreciation and amortization (EBITDA) growth rate is just over 32 percent and Apple's EPS over the last twelve months (TTM), ended December 31, 2015, is \$9.42. If in the interest of being conservative, the five-year EBITDA growth rate is lowered to 25 percent, then  $PEG(1) * \text{five-year EBITDA growth rate}(25) * \text{EPS}(\$9.42) = \$235$ .

There are many ways to value a growth company including using discounted cash flow models. On this basis, if 20 percent future growth is assumed and the company's tangible book value is included in the mix, a reasonable estimate of the value of Apple's future cash flow might place the stock price at \$289 per share.

The idea that Apple's stock should price between \$235 and \$289 is not radical. If the average price is \$262 and the price as of the writing of this report is \$96.91, then it is implied that there is a potential of roughly 170 percent further return should the shares eventually be priced more fairly by the market.

With such a large potential further return, it is legitimate to ask why management would sell any shares in Apple at all. The answer lies in how a special situation investment such as Geospace Technologies is appraised and where the greater margin of safety lies.

Geospace Technologies can and should be appraised differently than a large technology company given the inconsistency in the firm's earnings over the years which, for the most part, has been more or less tied to the price of oil.

Geospace Technologies shares were purchased, in part, as a distressed asset, a true deep value commitment, which has long been management's preferred modus operandi. Geospace has never had particularly consistent earnings (or cash flow) from year to year, so historical measures of PE ratios doesn't seem appropriate. In fact, the historical price of the shares has been extremely volatile over the last decade just as the price of the underlying commodity (oil) has been. For example, during the last decline in the price of oil during the Great Recession, Geospace Technologies stock price fell to just \$4.88 on February 23, 2009, representing at that time a price-to-book ratio of just .50 (the company had \$9.80 in book value at the time and \$0.11 in earnings per share [EPS]). Just four years later, on March 11, 2013, the shares closed at \$110.88, an increase in price of almost 23-fold and a price-to-book value of 5.95. By that time, book value had risen to \$18.63 and quarterly earnings per share had

risen to \$1.70. In the fiscal year ending September 28, 2013, Geospace Technologies earned no less than \$5.38 per share, or almost \$70 million in net income.

### Taking account of cash and receivables

The following are the current assets of the company:

*Fig. 1 – Geospace Technologies Current Assets*

|                                           | December 31, 2015 |
|-------------------------------------------|-------------------|
| <b>ASSETS</b>                             |                   |
| Current assets:                           |                   |
| Cash and cash equivalents                 | \$ 17,425         |
| Short-term investments                    | 19,562            |
| Trade accounts receivable, net            | 7,083             |
| Current portion of notes receivable       | 1,296             |
| Income tax receivable                     | 25,252            |
| Inventories, net                          | 120,250           |
| Prepaid expenses and other current assets | 1,997             |
| Total current assets                      | <u>192,865</u>    |

*Source: SEC Form 10-K*

In addition to the \$36.9 million in cash and cash equivalents the company has on hand, the company will also be receiving a \$19.2 million tax refund before the end of CQ1 2016 and was awarded roughly \$17.1 million rental contract late in 2015<sup>23</sup>, which will ship in CQ1 2016. This means that by the end of CQ1 the company will have roughly \$80.3 million in cash and receivables<sup>24</sup>, or roughly \$6.17 per share.

On January 19, 2016, shares of Geospace closed at \$8.40 per share, or \$2.23 net of cash and receivables<sup>25</sup>. The market capitalization stood at \$109.4 million.

Since the company had roughly 13.02 million shares outstanding at CYE 2015, the market valued the remainder of the company's non-cash and receivable assets at about \$29 million.

Tangible book value per share as of CYE 2015 was \$21.08. Once the \$80.3 million cash and receivables amount above is backed out of this figure, there remains \$14.91 in tangible book value per share, that is to say a buyer at close of market on January 19, 2016 paid effectively \$2.23 per share net of cash and receivables and received in

<sup>23</sup> "Geospace Technologies Announces Rental Contract For 5,000 OBX Stations" - [Link](#)

<sup>24</sup> Management sees no reason to discount the receivables in this case since the company's bad debt expense has long-been nominal and the company has already made adequate allowances. For example, in fiscal year 2015 the company recorded \$2.1 million in bad debt expense.

<sup>25</sup> This calculation includes the receivable for the ~\$17.1 million rental contract scheduled to ship at the end of CQ1.

exchange \$14.91 in tangible assets net of depletion<sup>26</sup> - paying just 14.9 cents on the dollar for the company's fully depleted and wholly tangible assets. A buyer at that price received \$12.68 in (tangible) value totally for free (in a company likely to be cash flow positive in FY 2016<sup>27</sup>, and that management believes is very likely to generate free cash flow well into the foreseeable future).

Stated another way, the buyer on January 19, 2016 paid roughly \$29 million for \$194,196 million in assets net of cash and receivables, receiving \$165 million in tangible assets at no cost.

The company has no long-term debt and an untapped \$30 million line of credit in addition to its roughly \$80.3 million in cash and receivables outlined above.

### Valuing the assets in relation to net purchase price

The company has roughly \$97 million in non-current assets as outlined below. In other words, the net purchase price of \$29 million on January 19, 2016 was approximately \$61.8 million (68 percent) less than just the value of the company's rental fleet and property plant and equipment alone, and \$91 million (or roughly 75 percent) less than the value of the inventory (net of depreciation) on the current assets entry of its balance sheet.

*Fig. 2 – Geospace Technologies Other Assets*

|                                    | December 31, 2015 |
|------------------------------------|-------------------|
| Rental equipment, net              | \$ 42,964.00      |
| Property, plant and equipment, net | 47,961            |
| Deferred income tax assets         | 23                |
| Non-current notes receivable       | 1,949             |
| Prepaid income taxes               | 3,697             |
| Other assets                       | 140               |
| Total assets                       | <u>\$ 289,599</u> |

*Source: SEC Form 10-K*

Management believes the company's property plant and equipment are likely understated by the value of the real estate, which is recorded at cost. Impairments to inventories are also likely overstated since a substantial part of the inventory is either in raw materials or partial assemblies and sub-assemblies and has not, management believes, (aside from the technicalities of GAAP), diminished in value<sup>28</sup>.

<sup>26</sup> Management believes this depletion is overstated.

<sup>27</sup> While the company may be cash flow positive overall in FY 2016, it has and may again run deficits on any given quarter within the year. For example, the company ran a cash deficit of \$2.3 million in the first fiscal quarter of 2015.

<sup>28</sup> The "inventory" is not, for example, a highly depreciable asset, such as mobile phones.

The long term result of these write downs is an understatement of the assets of the company and likely a future increase to the company's margins.

### Putting the losses into perspective

In the company's fiscal year 2015, the firm would report a net loss on the statement of operations of roughly \$32.6 million, by far the largest loss in the company's history. This figure, of course, is what most observers clung to, overlooking the fact that the actual cash used in operating activities was just \$11.3 million with the bulk of the delta attributable to what is likely overly-aggressive (and non-cash) depreciation and amortization expense related to the company's inventory and rental fleet. On January 11, 2015, the company announced<sup>29</sup>, it would reduce operating expenses by a further \$7 million on an annualized basis. The company will be receiving, as outlined above, a \$19.4 million tax refund in CQ1 2016 (almost twice the amount of the cash deficit in FY 2015) as well as receipts on the \$17.2 million rental contract<sup>30</sup> announced late in 2015. Taken with the operating expense reductions and despite the continued and severe downturn in the price of oil, management believes it is likely that debt-free Geospace will be cash flow positive in the company's 2016 fiscal year.

There is little doubt that the decline in the price of oil that began in mid-2014 has turned out to be one of the worst on record. Geospace, as it turns out, is well positioned for a recovery, given its large cash surplus, complete absence of debt and relatively minor cash burn in 2015 (given the collapse in oil prices and related cutbacks in the E & P sector). In fact, if looking at the company's performance in multi-year cycles, much the way management hopes the partners in the Fund will view management's performance, a very different story emerges. Here is the company's average revenue taken in five year cycles between FYE 2006 and FYE 2015:

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<sup>29</sup> Geospace Technologies Announces Cost Reductions - [Link](#)

<sup>30</sup> The increased utilization will off-set the high depreciation and amortization associated with the company's rental inventory.

*Fig. 3 – Geospace Technologies Average Revenue in 5-year cycles*

| <b>5-year period</b> | <b>Avg. Revenue</b> | <b>% Increase</b> |
|----------------------|---------------------|-------------------|
| 2006-2010            | \$ 119,539,000      |                   |
| 2007-2011            | \$ 133,393,000      | 11.6%             |
| 2008-2012            | \$ 144,104,000      | 8.0%              |
| 2009-2013            | \$ 177,327,000      | 23.1%             |
| 2010-2014            | \$ 206,137,000      | 16.2%             |
| 2011-2015            | \$ 197,404,000      | -4.2%             |
| Avg. Revenue Growth: |                     | <b>10.9%</b>      |

*Source: SEC Form 10-K*

Between the periods of FY 2006 to 2010 and the FY 2011 to 2015, Geospace Technologies increased its average revenue per year by roughly \$77.8 million, or ~65 percent overall, which equates to 10.9 percent per year when considered in five-year cycles.

The average growth in cash flow from operations over the same ten-year period but taken in five-year cycles is even more impressive at an average increase of 19.1 percent per year as follows:

*Fig. 4 – Geospace Technologies' Average Cash Flow from Operations in five-year cycles*

| <b>5-year period</b>     | <b>Avg. CF</b> | <b>% Increase</b> |
|--------------------------|----------------|-------------------|
| 2006-2010                | \$ 11,170,000  |                   |
| 2007-2011                | \$ 10,327,000  | -7.5%             |
| 2008-2012                | \$ 16,491,000  | 59.7%             |
| 2009-2013                | \$ 6,664,000   | -59.6%            |
| 2010-2014                | \$ 16,725,000  | 151.0%            |
| 2011-2015                | \$ 8,696,000   | -48.0%            |
| Avg. CF from Ops Growth: |                | <b>19.1%</b>      |

*Source: SEC Form 10-K<sup>31</sup>*

Furthermore, as illustrated above, the company has had positive annual cash flow from operations in each of the six five-year cycles.

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<sup>31</sup> The data is compiled from cash flow figures obtained in the company's form 10-K's filed with the SEC.

## History as approximate guide to value

Given the extraordinary volatility in revenues and earnings from year to year, it is a more sound approach to focus on the tangible assets buttressing the share price as consideration for the margin of safety in the commitment, which represent assets that from time to time will be underutilized, particularly during downturns in commodity prices, but that nonetheless are likely to remain highly productive, and cash generative long into the future as is illustrated by the longer term analysis of the company's trends when taken in five-year cycles.

To this end, over the last ten years, Geospace Technologies' median price-to-book value has been 2.836. That is to say, the premium the market has typically placed on the firm's equity and which management believes the stock price is likely to revert to within the next four years is roughly 2.8 times its tangible book. In fact, the delta between the current price and the median has never been greater. If management is correct, and the company resumes receipt of contracts for its products and the price of the shares revert to the median price-to-book value that the market has historically valued the shares at over the last ten years, then the price of the shares would rise to roughly \$62.44 per share, and the Fund's current stake would rise to \$64,662,427 (if management doesn't keep buying), or an increase in stock price of roughly 5.9-fold (roughly 590 percent). Although significant, this would remain a fraction of the 23-fold increase seen in the stock price after the last recovery, but far greater nonetheless than the expected increase in value in shares of Apple as outlined above and which management sold in order to fund the additional purchase of shares of Geospace Technologies.

Given this, management felt the opportunity to reallocate capital from Apple to Geospace was an extraordinary opportunity late in 2015 and into early 2016, and perhaps the greatest opportunity the Fund has had to both protect principle and earn an above average rate of return on the partnership's capital.

If the shares did indeed revert to the median price-to-book value over the next four years for example, the compound annual rate of return on the commitment (over the hypothetical 4-year period) would be 55.5 percent based on the market price of the shares as of the writing of this report. The following illustrates the point for the more visually oriented:

Fig. 5 – GEOS Stock Price / GEOS Median P/B



Source: YCHARTS

Management has no way of knowing with certainty that the share price will revert to the one-year median price-to-book value, or when such an event might actually occur (4 years is somewhat of an arbitrary figure). However, what management does know for certain is that the margin of safety at current prices (which is significantly below tangible book, and net current assets values) is, given sufficient patience, an extraordinary opportunity.

### Short interest

As of February 29, 2016 the company had 36.77 percent of the company's float sold short, the highest on record. The dramatic increase in short interest has coincided with the decline in share price over the last few years. Perhaps surprisingly, the short interest has continued to increase even as the share price declined.

This means that there are guaranteed future buyers for approximately 37 percent of the float as of February 29, 2016.

The following chart illustrates this point:

Fig. 6 – GEOS price / Short Interest (%)



Source: YCHARTS

### Economics and other considerations

Management believes that demand for oil, which seems to be ever growing, will ultimately exceed the nominal oversupply, which has dominated headlines for the last 18 months. For example, in 2016 US Shale and Canadian Oil Sands (some of the least economic barrels to produce) production may begin to fall more quickly than expected<sup>32</sup>. The one to two million barrels per day (roughly one to two percent) the market has been oversupplied is not as severe a problem as the financial media would have the investing public believe. Further, the UK, Brazil, Canada and the U.S. all have production costs above \$36 per barrel<sup>33</sup> with the UK at \$52.50 and Brazil at \$48.80<sup>34</sup>, all well above the recent price of West Texas Intermediate (WTI)<sup>35</sup>.

<sup>32</sup> It also seems evident that production is likely to naturally decline, as wells age, in major non-OPEC producing countries such as Russia while at the same time it is unclear whether Iran will truly be able to increase output as fast as they'd like.

<sup>33</sup> What it costs to produce a barrel of oil - [Link](#)

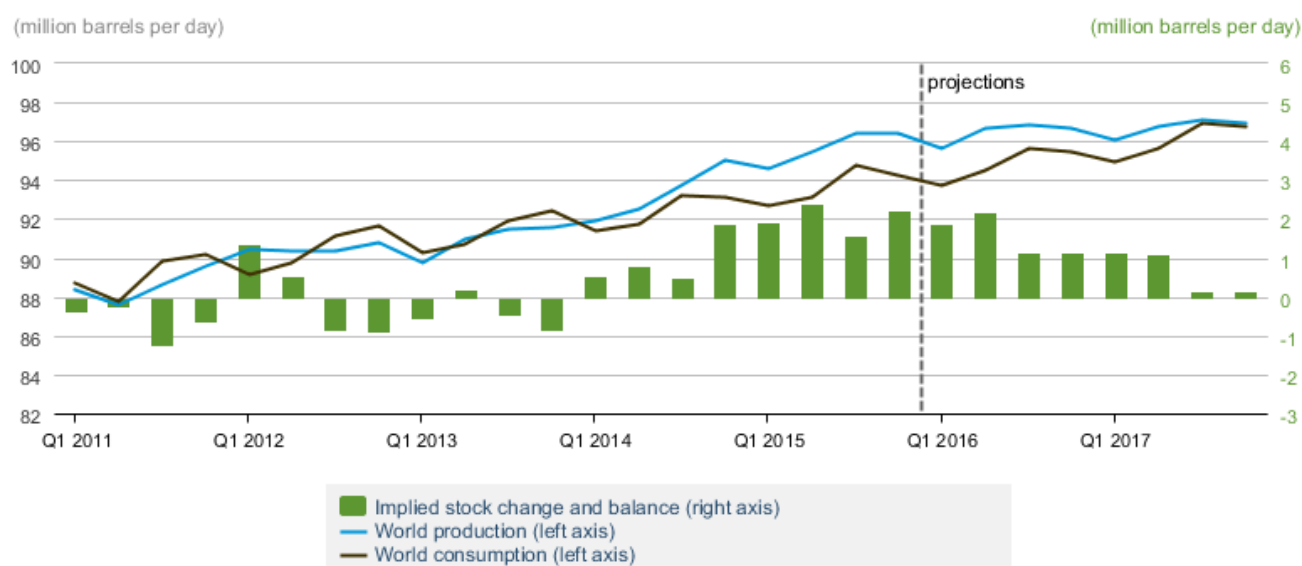
<sup>34</sup> What it costs to produce oil - [Link](#)

<sup>35</sup> Light, sweet crude oil is commonly referred to as "oil" in the Western world. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.

Further, there are other figures, which don't seem to add up. If there was a Cap-Ex party<sup>36</sup> fueled by easy credit and cheap money during the shale boom through mid-2014, it certainly did not result in an output jackpot (at least on a relative basis) as non-OPEC production rose just 1.49 million barrels per day<sup>37</sup> between 2014 and 2015<sup>38</sup> and largely tracked world consumption through the first part of 2014.

Fig. 7 – World Liquid Fuels Production and Consumption Balance

### World Liquid Fuels Production and Consumption Balance



eia Source: Short-Term Energy Outlook, March 2016

If the huge sums spent during the U.S. shale boom did not result in significant increases in production (and certainly not a significant increase over what has been growing consumption), then it appears that a very large sum of capital has been necessary simply to sustain modest growth in output (and until mid-2014, just meet growing consumption), and it follows that in the absence of large outlays of capital, US output is likely to contract rapidly.

In other words, if E&P spending roughly tripled over the last decade<sup>39</sup>, but US output rose just over 15 percent at its peak (about 1.2 m/bpd) in the last three years, there's eventually going to be a significant supply deficit with CapEx having now contracted relentlessly and consumption growth in 2016 estimated at about equal to the peak output increase in US field production in 2014.

<sup>36</sup> By some measures, U.S. exploration and production (E&P) spending more than tripled between 2005 and 2014 - [Link](#)

<sup>37</sup> U.S. Energy Information Administration – Short-Term Energy Outlook - [Link](#)

<sup>38</sup> OPEC Production rose just 940,000 barrels per day during the same time frame.

<sup>39</sup> Total U.S. exploration and development costs by major energy producers, for example, rose from roughly \$31.8 billion in 2003 to \$99.1 billion in 2009, an increase in spending that was not mirrored by a commensurate increase in output - [Link](#)

Fig. 8 – Annual change in U.S. field production of crude oil (1960-2014) – million barrels per day

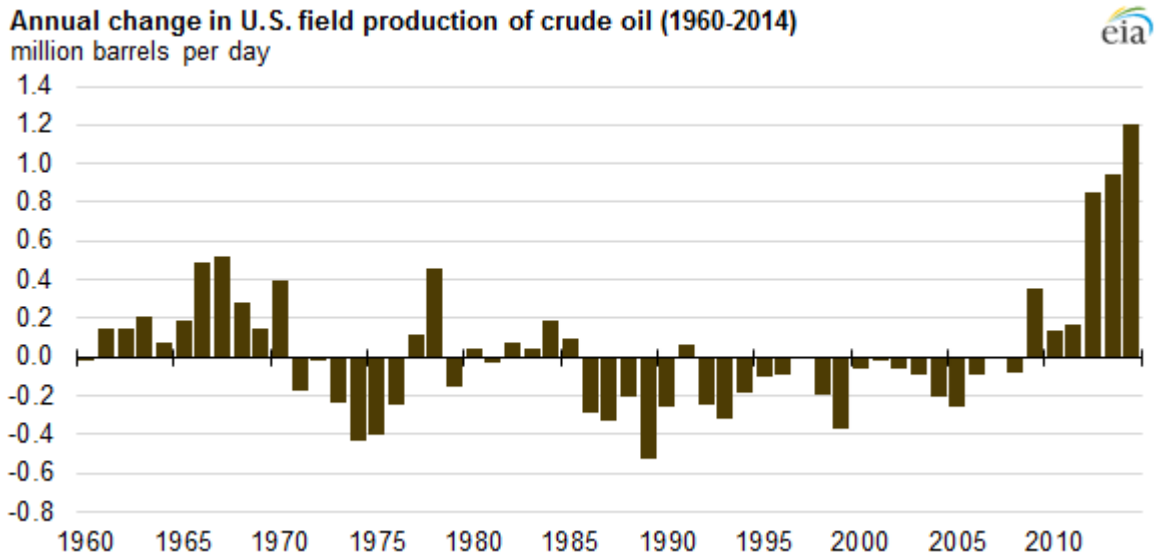
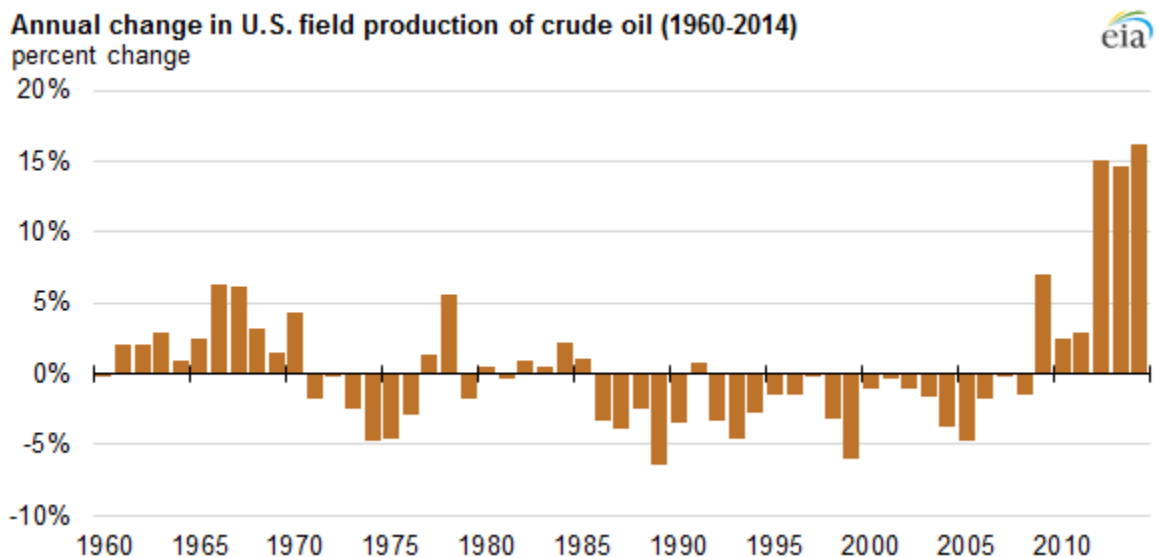


Fig. 9 – Annual change in U.S. field production of crude oil (1960-2014) – percent change



It may not be rational to conclude that massive sums can be cutout of CapEx budgets and production will remain stable. Exploration and production activities cannot remain muted indefinitely, particularly when several oil majors<sup>40</sup> are replacing only a fraction of what they are presently shipping.

Further, the common comparisons to the present imbalance to that of the 1980s oil glut are also unfair, primarily for three reasons:

<sup>40</sup> The “majors” are a group of multinational oil companies that are given this moniker due to their size, age or market position.

1. The market at the time was significantly over-supplied while consumption was falling (consumption fell roughly 13 percent from 1979 to 1981 alone<sup>41</sup>).
2. The world's population and associated demand, have grown dramatically since then.
3. The supply of dollars, which is the currency used to buy and sell barrels of oil, has increased dramatically.

Additionally, the repeated reference in financial media to inventory builds exceeding those of the early 1930s<sup>42</sup> are inaccurate given the radically different state of both the global population and economy<sup>43</sup> and the absence of a global depression, which existed in the early 1930s.

To illustrate this point, since November 20, 1985 the price of WTI has risen roughly 22.7 percent while M2 money supply has increased over 397.6 percent. In other words, today's oil, when adjusted for the devaluation in the dollar, is very cheap.

*Fig. 10 – WTI Spot Price Percent Change / M2 money stock Percent Change*



Sources: EIA, Federal Reserve

Source: YCHARTS

<sup>41</sup> 1980s oil glut - [Link](#)

<sup>42</sup> Oil Falls to 3-Week Low as Investors Shrug Off U.S. Supply Dip - [Link](#)

<sup>43</sup> For example, in 1930 there were 217.34 vehicles owned per 1000 people in the US, a figure which ballooned to 828.04 per 1000 people by 2009 - [Link](#)

On January 2, 1986, a barrel of WTI traded for \$25.56 a barrel. On January 19, 2016, the same barrel of oil traded for \$28.47 per barrel. However, according to the U.S. Bureau of Labor Statistics (BLS), \$25.56 in 1986 dollars is equivalent to \$55.25 in 2016 dollars, so for oil to trade at \$28.47 per barrel in 2016 is really the equivalent of \$13.17<sup>44</sup> per barrel in 1986 dollars. Adjusted for inflation, oil on January 19, 2016 was 48.5 percent cheaper than it was three decades earlier in 1986.

From a strategic and technological perspective, Geospace is a clear leader in its industry segment. It also is essentially the only manufacturer in its segment that is not in direct competition with its customers<sup>45</sup>. One of the chief drivers of future growth is very likely to be the company's permanent well monitoring technology (PRM), which was first introduced in 2003. Seismic receivers installed permanently on the seabed significantly reduce the cost of repeat seismic studies and provide better image quality through higher repeatability and increased detectability<sup>46</sup> and in so doing mitigate output issues associated with aging wells. The company estimates that there may be as many as 200 wells (based on the life and age of the fields) that would benefit from permanent well monitoring. If an average price of \$50 million per system is used, then a total addressable market might be estimated at roughly \$10 billion. There have been only 9 PRM systems installed globally since 2003, with seven of those being installed by Geospace Technologies. The science has been roughly 25 years in the making and is irrefutable while the return on investment and technological benefits are widely accepted within the industry<sup>47</sup>.

In summary, management is confident in the following:

1. Geospace Technologies share price will revert to approximately the median price-to-book value the shares have commanded over the last ten years as the company receives new contracts and the business cycle normalizes.
2. The margin of safety in the commitment is significant and lends itself to patience during the current commodity downturn.
3. Demand growth for oil and gas will continue for the foreseeable future, likely aided in part by low prices.
4. High cost, uneconomic production, such as that associated with the U.S. shale boom, will likely fall at a faster rate than anticipated.
5. As supply and demand come back into balance, oil prices will recover and with it, spending on exploration and production.
6. Seismic studies will continue to be critical to stable energy markets in general.
7. The science of permanent well monitoring (PRM systems) that Geospace Technologies is a clear industry leader in will continue to enhance return on investment on existing wells<sup>48</sup> and infrastructure.
8. The collapse in oil prices over the last eighteen months will likely prove to be one of the truly great investment opportunities of this decade.

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<sup>44</sup> BLS inflation calculator - [Click Here](#) for the actual calculation

<sup>45</sup> The company is a manufacturer of seismic products and does not provide traditional seismic services or maintain a seismic library, like other similar companies – [link](#)

<sup>46</sup> Real-time seismic hazard monitoring with PRM - [Link](#)

<sup>47</sup> Statoil, for example, claims that PRM systems have essentially allowed them to recover nearly doubled the output from their existing wells (over the global average) - [Link](#)

<sup>48</sup> By some estimates, there are as many as 200 wells globally that would benefit from installation of permanent well monitoring.

At certain points in January and February of 2016, management was able to buy shares in Geospace Technologies for a small fraction of the company's tangible net worth, while maintaining a conviction that the company is likely to be cash flow positive in 2016. The convergence of these dynamics created an unusually large margin of safety. The company, which is an undisputed technological leader in its field, has no debt, a long operating history, an honest and capable management team and is likely to be cash flow positive well into the future regardless of whether or not a recovery takes place in the price of oil in 2016.

Management believes that the unusually large commitment in the shares of Geospace Technologies, while seemingly imperfectly timed in the near-term and surely out of kilter with the market at large, will ultimately prove to be approximately right in the long term and in the end produce a favorable investment result.

As has been said, *"When it's raining gold, reach for a bucket, not a thimble"*<sup>49</sup>

## Short Positions

In 2015, the Fund successfully shorted the following issues<sup>50</sup>:

1. **Ligand Pharmaceuticals** (NASDAQ: LGND)

The activist short position taken in Ligand in 2014 was the Fund's largest since inception (see the 2014 annual report as well as the Appendix below for more information). In 2015, Ligand was again the Fund's largest short and again its most profitable.

2. **Netflix** (NASDAQ: NFLX)

Management sold short and covered Netflix successfully a number of times in 2015, ultimately shorting the stock for the last time in November 2015 at \$123.12 per share. This short position was discussed openly on Fox Business News<sup>51</sup> on November 5, 2015.

On February 5, 2016, about three months after the Fox interview, shares of Netflix closed at \$82.79, a decline in value of 32.8 percent.

3. **Skechers** (NYSE: SKX)

On August 5, 2015, shares of Skechers closed at \$53.43 per share<sup>52</sup>.

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<sup>49</sup> Warren Buffett

<sup>50</sup> The fund also realized a loss of \$2,925 in shares of Under Armour, Inc. (NASDAQ: AU). No other realized losses on short positions in 2015 exceeded \$1,000.

<sup>51</sup> "Meet the priest of Wall Street" - [Link](#)

<sup>52</sup> On a 3:1 split-adjusted basis. The shares closed that day at \$160.29 on an unadjusted basis.

On September 25, 2015, the financial media outlet Benzinga reported that management was short Skechers and reported that management had called the shares "radically overpriced." The shares opened that morning at \$46.54, significantly off the August 5, 2015 high.

It was indicated in the interview that management intended to continue to short the stock, which management said was vulnerable to a "precipitous fall." Management continued to short the shares, with the last short sale on September 16, 2015 and an overall average short price of \$131.53.

Twenty-seven days after giving this interview, on October 22, 2015, shares of the company plunged more than 30 percent in one day<sup>53</sup>. Shares of Skechers continued to slide, closing on November 17, 2015 at \$25.32, declining in price by 45.6 percent in less than two months.

Previously, management had been long shares of Skechers in 2010 through 2012, purchasing the shares for as low as \$11.86 per share. The following articles explained the rationale at the time:

- "Two Great Brands - One on sale. SKX and NKE" (November 17, 2010 [Link](#))
- "SKX and the markets strange reaction to Sterne Agee" (December 22, 2010 [Link](#))
- "Why we're still buying Skechers stock" (November 29, 2011 [Link](#))
- "Update: Why we're still buying Skechers stock" (December 9, 2012 [Link](#))

Management is equally comfortable on the long and the short sides of any given security and feels no emotional attachment to the underlying firm that would interfere with a rational assessment of a significant price-value dislocation. Management has always had a preference for the long side in light of tax considerations and the somewhat heightened risk associated with selling short.

Management also successfully shorted the following issues in 2015:

- 4. Tempur Sealy Intl (NYSE: TPX)
- 5. World Wrestling Entmt<sup>54</sup> (NYSE: WWE)

## Looking Back

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*"The Fund's performance thus far might lend itself to an expectation of consistently positive returns in the near-term. Such reasoning is an error."*

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*The Amvona Fund, LP 2014 Annual Report*

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<sup>53</sup> "Lemelson: Skechers still a short after losing a third of its share value" - [Link](#)

<sup>54</sup> The firm earned a profit on both the long and short side of World Wrestling Entertainment in 2015 on top of the extremely successful short position in 2014 (see the 2014 annual report).

The operation of allocating capital on a value basis is a strangely predictable business. Nonetheless, it is critical in the near term to be able to withstand the inevitable negative years, particularly given the increased volatility in markets in recent decades. Any attempt to time the purchase or sale of securities at optimal moments in time is an errant form of reasoning (more properly associated with “trading” and its cousin “gambling”). It is folly to look back with the benefit of hindsight and suppose somehow the purchase or sale of securities could have been executed more precisely in time for a few extra percentage points of short-term profit. For this reason, management makes no effort to time the purchase or sale of securities. Rather, if the price of a company is demonstrably below value that can be reasonably and approximately calculated (or above in the case of short sales), that is to say, where a sufficient margin of safety exists, then capital is allocated.

If the company in question is a simple, easy to understand business with a long operating history, defensible moat and honest management, chances are management will act in a big way to acquire a large concentrated position, especially where industry-wide sentiment is negative and amplified beyond reason or common sense.

Businesses always have had and will continue to suffer set-backs and difficulties. It is part of the normal course of business. If financial showings are consistently positive over a long period of time, it may not only be exceptional, but indicative of questionable reporting. There is no such thing as smooth sailing in the business world. It is the moments of crisis, of temporary loss and exacerbated emotions in market places on which management (wholly devoid of emotion) is most likely to act swiftly, confidently and in a big way.

In this regard, 2015 and early 2016 turned out to be the sort of situation management finds most appealing.

March 2016

+ Emmanuel Lemelson  
Investment Manager  
Lemelson Capital Management, LLC

## Selected Financial Data for the Past Four Years

### The Amvona Fund, LP

The majority of the losses in the Fund in 2015, much like in positive years, were unrealized at year end, continuing a pattern since inception of having either a large positive or negative unrealized showing. While recorded on the statement of operations as a “loss,” the figure is not truly a loss unless realized through a sale. Management does not believe the unrealized losses outlined below will result in a realized loss. On the contrary, management believes that it will likely result in a significant gain in the future.

\*Note that the 2012 period consisted only of the last four months of the year.

The following are the gain (loss) from operations for the Master Fund:

| <b>Gain (loss) from operations</b>                | 2015                  | 2014                | 2013                | 2012                |
|---------------------------------------------------|-----------------------|---------------------|---------------------|---------------------|
| Dividend Income.....                              | \$ 341,552            | \$ 454,256          | \$ 261,012          | \$ 55,690           |
| Net realized gain from closed positions.....      | \$ (632,511)          | \$ 2,319,100        | \$ 2,342,956        | \$ 183,331          |
| Change in unrealized gains on open positions..... | \$ (7,877,195)        | \$ 3,234,533        | \$ 2,907,521        | \$ 763,237          |
| <b>Total gain (loss) from operations</b>          | <b>\$ (8,168,154)</b> | <b>\$ 6,007,889</b> | <b>\$ 5,511,489</b> | <b>\$ 1,002,258</b> |

The following is the net gain (loss) from operations for the Master Fund:

| <b>Net gain (loss) from operations</b>       | 2015                  | 2014                | 2013                | 2012              |
|----------------------------------------------|-----------------------|---------------------|---------------------|-------------------|
| Total investment income.....                 | \$ 341,552            | \$ 454,256          | \$ 261,012          | \$ 55,690         |
| Short interest expenses.....                 | \$ -                  | \$ (8,207)          |                     |                   |
| Total other expenses.....                    | \$ (366,834)          | \$ (253,365)        | \$ (133,886)        | \$ (29,178)       |
| Net gain (loss) on investments.....          | \$ (8,509,706)        | \$ 5,553,633        | \$ 5,250,477        | \$ 946,568        |
| <b>Total net gain (loss) from operations</b> | <b>\$ (8,534,988)</b> | <b>\$ 5,746,317</b> | <b>\$ 5,377,603</b> | <b>\$ 973,080</b> |

The following is the realized gain and loss summary:

| <b>Realized gain &amp; loss summary</b>           | 2015                | 2014                | 2013                | 2012              |
|---------------------------------------------------|---------------------|---------------------|---------------------|-------------------|
| Long term.....                                    | \$ 1,045,035        | \$ 92,806           | \$ -                | \$ -              |
| Short term.....                                   | \$ (1,677,546)      | \$ 2,226,294        | \$ 2,342,956        | \$ 183,331        |
| <b>Total realized gain (loss) from operations</b> | <b>\$ (632,511)</b> | <b>\$ 2,319,100</b> | <b>\$ 2,342,956</b> | <b>\$ 183,331</b> |

Expenses are an important aspect of any investment operation that must be carefully accounted for. Although at first glance the figures may appear immaterial in relation to the overall assets of the Fund, expenses can

significantly diminish returns over time and mitigate the wealth accrued to the partners who own productive assets through the Fund.

In 2015, the average YTD expense ratio (which includes the management fee, but does not include the performance allocation) increased to .22 percent from the .17 percent ITD figure<sup>55</sup>, largely due to the larger average debit balance utilized in 2015 and the continued higher costs associated with the offshore feeder.

The period average monthly expenses with expense ratios<sup>56</sup> over inception to date figures are illustrated below<sup>57</sup>:

**January 1, 2015 - December 31, 2015**

**Average Monthly Expense Ratio**

| <b>Period Expenses</b>                | <b>Total</b>      | <b>Domestic</b>   | <b>Offshore</b>   |
|---------------------------------------|-------------------|-------------------|-------------------|
| Administration Fees.....              | \$ 26,461         | \$ 16,424         | \$ 10,037         |
| Dividend Expense.....                 | \$ 158            | \$ 126            | \$ 31             |
| Interest Expense.....                 | \$ 171,844        | \$ 137,786        | \$ 34,058         |
| Accounting.....                       | \$ 38,402         | \$ 19,890         | \$ 18,512         |
| Legal.....                            | \$ 44,947         | \$ 20,280         | \$ 24,667         |
| Offering.....                         | \$ 10,202         | \$ 2,769          | \$ 7,433          |
| Other Expenses.....                   | \$ 1,556          | \$ 425            | \$ 1,131          |
| Management Fees.....                  | \$ 73,264         | \$ 51,372         | \$ 21,892         |
| <b>Total Period Expenses</b>          | <b>\$ 366,834</b> | <b>\$ 249,073</b> | <b>\$ 117,761</b> |
| Beginning Net Asset Value             | \$18,690,246      | \$ 15,078,032     | \$3,612,214       |
| Ending Net Asset Value                | \$ 9,460,270      | \$ 7,391,604      | \$2,068,666       |
| <br>Average YTD Monthly Expense Ratio | <br>0.22%         | <br>0.18%         | <br>0.35%         |
| Average ITD Monthly Expense Ratio     | 0.17%             | 0.16%             | 0.28%             |

<sup>55</sup> Representing an increase of roughly 29.4 percent over the inception to date average.

<sup>56</sup> In this case, the expense ratio is calculated by dividing the monthly expenses including the management fees, by the NAV value at the beginning of the period. The reason the performance fees are excluded from the calculation is because they are variable, only payable once both the high water mark and hurdle are exceeded and instituted by management itself. The remaining values are a more accurate gauge of management's ability to control costs.

<sup>57</sup> Average Monthly Expense Ratios (YTD/ITD) calculation sums each of the monthly ratios and divides by the number of months in the year. The .22% (YTD) and .017% (ITD) are an average of the monthly expenses of the Fund, which differs from percentages in the Financial Highlights section of the audited financials which calculates expenses for the entire year and divides by the average monthly capital of the fund.

**\*\*Due to an error made by the fund's administrator ALPS and which the auditor PWC, failed to both identify or correct, the professional fees on the audited Statement of Operations for The Amvona Fund, Ltd. were overstated in the amount of \$17,262. The figures shown above in the "Average Monthly Expense Ratio" chart are in fact the accurate operating expenses of the fund. The difference does not result in any impact to investor allocations or any change to the income of The Amvona Fund, Ltd. Please see the accompanying letter from ALPS for further clarification.**

The following is total Fund expenses by year:

| <b>Expenses</b>                               | <b>2015</b>       | <b>2014</b>       | <b>2013</b>       | <b>2012</b>      |
|-----------------------------------------------|-------------------|-------------------|-------------------|------------------|
| Interest and Dividend expense.....            | \$ 171,330        | \$ 125,443        | \$ 63,349         | \$ 10,867        |
| Short stock interest.....                     | \$ 672            | \$ 8,207          | \$ -              | \$ -             |
| Management fee .....                          | \$ 73,264         | \$ 59,954         | \$ 11,635         | \$ 492           |
| Organization and offering costs charged ..... | \$ 10,202         | \$ 6,827          | \$ 2,751          | \$ 1,851         |
| Operating expense.....                        | \$ 111,366        | \$ 61,142         | \$ 56,148         | \$ 15,968        |
| <b>Total expenses</b>                         | <b>\$ 366,834</b> | <b>\$ 261,573</b> | <b>\$ 133,883</b> | <b>\$ 29,178</b> |

The following is a summary of the average monthly debit balances with related costs:

| <b>Borrowing Costs</b>      | <b>2015</b>      | <b>2014</b>     | <b>2013</b>     | <b>2012</b>     |
|-----------------------------|------------------|-----------------|-----------------|-----------------|
| Average Balance.....        | \$ 20,759,437    | \$ 14,037,792   | \$ 4,845,096    | \$1,421,819     |
| Average %.....              | 0.8246%          | 0.8490%         | 1.0046%         | 1.0707%         |
| <b>Average Monthly Cost</b> | <b>\$ 14,264</b> | <b>\$ 9,900</b> | <b>\$ 4,056</b> | <b>\$ 1,995</b> |

## On Partnership

There is no way to know or guarantee the future results of The Amvona Fund, LP. However, there are three things that investors can be assured of:

- a) The work of the Fund will be conducted with total focus and discipline with the chief aim of identifying securities that can be purchased at a significant discount to intrinsic value and that represent superior economic characteristics.
- b) Above all, management aims to shield principle from permanent loss<sup>58</sup> by committing capital only where a substantial margin of safety exists.
- c) The general partner will maintain a significant percentage of its net-worth in the Fund. Whether results are positive or negative in the future, the general partner will share fully in the experience of the Limited Partners<sup>59</sup>.

Although the general partner exercises complete discretion over the partnerships' capital allocation decisions, the structure of the Fund remains a partnership.

It is clear to management that the limited partners have entrusted in many cases a significant part, if not a majority, of their family's net worth to management. The seriousness of this fact is not lost on management, which considers the bond a sacred act of trust. Not to be outdone, management's pro-rata ownership in the partnership has remained significant despite the significant growth in Assets Under Management (AUM) that has taken place since inception.

It is hoped that the individual investors will view the partnership as a conduit for owning securities that could be otherwise purchased directly in the open market, and that the purpose for doing this through the partnership is the entrustment of the work of securities selection to competent management.

Nonetheless, the ownership of securities, even if through a conduit, is best viewed as true ownership in a business enterprise, rather than merely a "bet" on an electronic ticker symbol whose price vacillates from moment to moment. Just as capital is allocated by management with the belief that long term commitments are the most fruitful, it is hoped that the limited partners will maintain the same conviction in relation to management.

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<sup>58</sup> The reference in this case is to permanent capital impairment, not loss as a result of a quoted price in the open market at a given moment in time.

<sup>59</sup> As of December 31, 2015, the general partner and related parties, either directly through The Amvona Fund, LP or indirectly through The Amvona Fund, Ltd., accounted for 22.09 percent of the Funds' total AUM.

## On Compounding

The greatest engine of growth is compound interest. Surprisingly this important point is rarely discussed in the asset management industry. How is it possible that such a simple and powerful principle is so often passed over? There is hypothesis comprised of three parts:

- a) Consistency is elusive. If this is the case, even when taken in multi-year cycles, compounding will take place just as soon as pigs fly.
- b) Results are often sub-par. Indeed, in most instances less than the rate of return required to keep pace with both taxes and inflation<sup>60</sup>, in which case compounding has nominal to negative effects.
- c) The concept of compounding does not comport with the industry's mythology, that one must take greater risk to achieve greater returns.

This last point is of particular significance because it is categorically false and subtle in nature. This folklore is comprehensively expounded throughout "investment businesses"<sup>61</sup> because it is a panacea for the problem of accountability. If one is asked whether preserving principle is important and are better than average rates of return desirable, who will answer no to either question? The genius of the investment business is the suggestion of a dichotomy. In most cases, the prospective investor never comes around<sup>62</sup> to asking "*why must one exclude the other?*". Because the myth is so ubiquitous most investors feels uncomfortable contemplating the question even in their private thoughts.

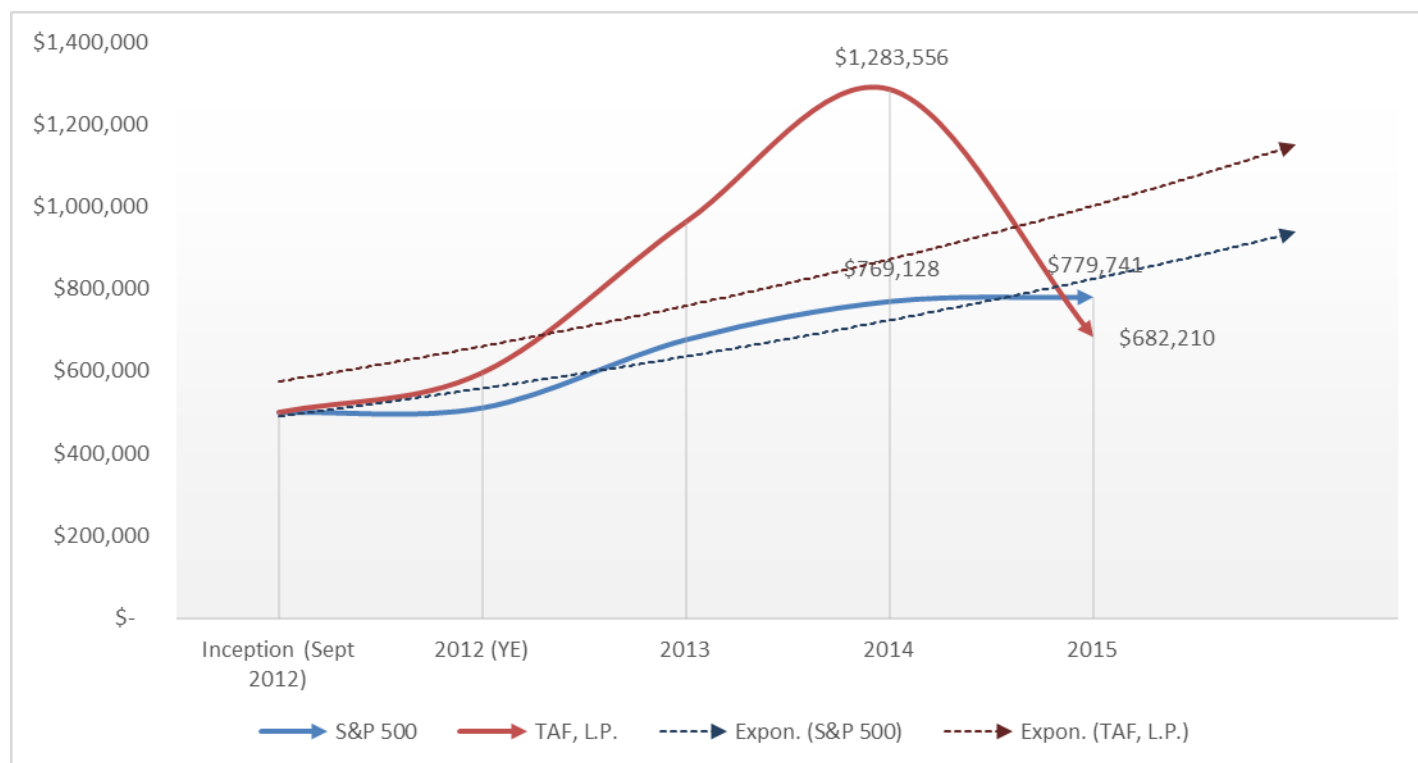
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<sup>60</sup> In a sense, both are a tax; one visible, the other much less so.

<sup>61</sup> One who runs an "Investment Business" should not be confused with a true "Investor", though the etymology is the same, they are very different personalities. The former is primarily interested in the building and marketing of a business which will collect fees while the other considers rates of return.

<sup>62</sup> This is often because the would-be investor is consumed with their own work and thinks of the business of allocating capital as esoteric and difficult to understand.

Fig. 12 – The Net Value of \$500,000 invested on September 1, 2012<sup>63</sup>



The objective of the Fund, after preservation of principle, must be the outperformance of the benchmark index. As stated above, if such a nominal feat is not achievable when taken in multi-year cycles<sup>64</sup>, it would be difficult to justify doing anything more enterprising than buying an index fund.

Generally speaking, the equities markets over the last 30 years have produced higher average returns in total than other asset classes.

For example, the total price return of the S&P 500 between January 1985 and January 2015, when adjusted for inflation, is 433.54 percent, or 5.74 percent on an annualized basis. If dividends were reinvested, the total price return over the same period is 967.033 percent, or 8.21 percent annualized<sup>65</sup>. Because of the compounding effect of reinvestment, the delta in the two figures, as can be seen in the illustration below, is substantial. A modest aggregate increase in return of only 2.47 percent per year (the amount of reinvesting dividends) over 30 years equated to an overall increase in gain of 533.48 percent<sup>66</sup>. In sum, a modest increase in return on investment, if viewed on an annual basis or near-term basis, is wholly unimpressive. However, the increased yield, when reinvested, at the end of a thirty-year period, is nothing short of remarkable.

<sup>63</sup> Figures are for The Amvona Fund, LP and are net of all fees and expenses.

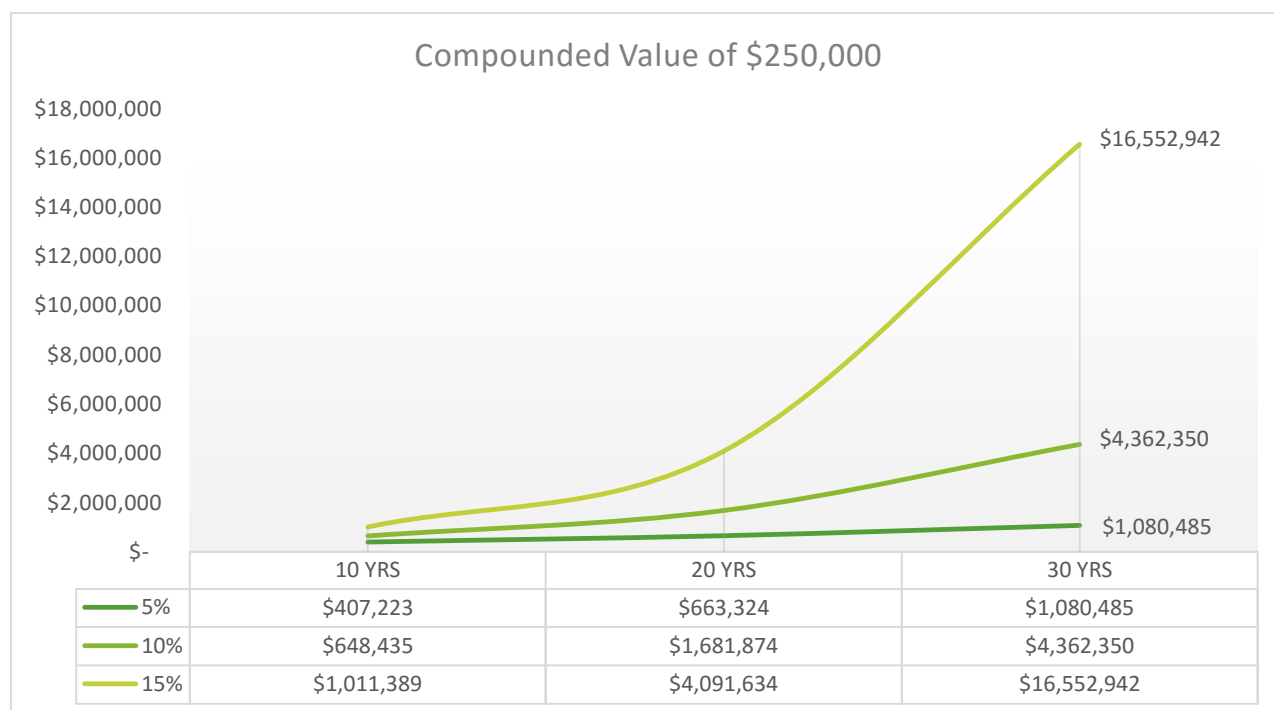
<sup>64</sup> For example, a five-year cycle would be comprised of the following time frames 2012-2017, 2013-2018 etc.

<sup>65</sup> The returns in the index over those years would be somewhat less to an investor (outside of the assets being held entirely in tax-deferred retirement plans), because aside from inflation, capital gains tax on realized gains would have to be paid. This reality is not reflected in the calculation.

<sup>66</sup> S&P 500 Dividends Reinvested Price Calculator (With Inflation Adjustment) - <http://dqyjd.net/sp-500-return-calculator/> - data provided by Robert Shiller - <http://www.econ.yale.edu/~shiller/data.htm>

Therefore, it is logical that if The Amvona Fund can outperform the benchmark index by even a few points when taken in five-year cycles, the compounded results in the long run should be agreeable. The chart below illustrates the long-term effects of five percent increases in yield over different time frames.

*Fig. 13 – Long-term effects of 5% increases in yield over different time frames*



## The Amvona Fund, Ltd

On July 1, 2014, The Amvona Fund, Ltd., a British Virgin Islands (BVI) investment company launched as a feeder Fund to the domestic master – The Amvona Fund, LP. The primary purpose of this Master-Feeder structure is to enable the investment of tax deferred retirement accounts without risk of incurring Unrelated Business Income Tax (UBIT), and secondarily to allow non-U.S. investors to participate in the domestic LP without the complications associated with a foreign tax regime.

A few relevant points:

1. The investors in the offshore Fund, while saving on UBIT<sup>67</sup>, will be subject to a higher cost structure. In 2015 for example, the monthly expense ratio for the offshore Fund was .35 percent vs .22 percent for the Master Fund.

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<sup>67</sup> **Unrelated Business Income Tax (UBIT)** in the U.S. Internal Revenue Code is the tax on unrelated business income, which comes from an activity engaged in by a tax-exempt 26 USCA 501 organization that is not related to the tax-exempt purpose of that organization. IRAs generally are subject to tax on income that is taxable to most U.S. tax-exempt entities under 26 U.S.C. §511. 26 U.S.C. §408 contains many of the rules governing the treatment of IRAs. §408(e)(1) states: "Any individual

2. The organization's costs expensed over the master and offshore funds for 2015 were \$3,452 (\$287.63 per month) and \$6,751 (562.54 per month), respectively.
3. This participation in offshore O&O expenses is in addition to the pro-rata share of the onshore Fund's O&O expenses.
4. Taxes on dividend income is withheld at the Fund level on the offshore Fund, and paid to the IRS directly. The effect of this withholding will give the appearance of a slightly impaired rate of return on the offshore Fund vs. that of the onshore master, although this is only a timing issue since investors in the Master Fund ultimately pay income tax on dividends on their individual tax returns<sup>68</sup>.
5. Finally, there is additional accounting expense and sometimes other operating expenses which are unique to the offshore Fund and accrued exclusively to the offshore Funds' investors.

The result is that the rate of return of the offshore Fund is slightly lower than that of the Master Fund. As the assets in the offshore Fund grow, the expense ratio should fall. <sup>69</sup>

It is likely wise for those with tax deferred accounts to transfer those capital accounts to The Amvona Fund, Ltd. since, the potential tax benefits and efficiencies are likely to far exceed the nominal increase in cost over the long run.

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retirement account is exempt from taxation under this subtitle unless such account has ceased to be an individual retirement account by reason of paragraph (2) or (3). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc. organizations)."

In addition, the IRS unequivocally confirms this in the first few paragraphs of Chapter 1 of the November 2007 revision of Publication 598 that IRAs are "subject to the tax on unrelated business income." (see also: [Unrelated Business Income Defined](#))

<sup>68</sup> Although in the case of retirement accounts this amount would become due when the assets are disbursed.

<sup>69</sup> The additional operating expenses associated with The Amvona Fund, Ltd are largely static.

## Appendix

### Associated commentary and activism

In 2010, management began to write and publish extensively on investment-related topics, including security analysis, a Christian philosophy of investment and ethics. Management has been critical of fraudulent practices in the securitization of mortgage-backed securities and a proponent of long-term investments in U.S. value stocks. Management's articles on mortgage-backed securities have been cited widely in relation to the landmark cases *U.S. Bank National Association v. Antonio Ibanez* and *Francis J. Bevilacqua v. Pablo Rodriguez*, in which the Massachusetts Supreme Judicial Court held that financial institutions that did not hold both mortgages and the notes had no legal standing to pursue foreclosure proceedings against residents of these properties.<sup>70</sup>

It is now a widely-held belief that fraudulent mortgage-backed securities were a significant contributing factor to the 2007-09 U.S. housing correction and the ensuing U.S. recession.<sup>71</sup> Management's writings on these issues have been cited by Anonymous, Occupy Wall Street, the Massachusetts Registry of Deeds and by attorneys and litigants involved in mortgage securitization litigation.<sup>72 73</sup>

In August 2014, the financial media outlet Hedge Fund Alert reported that management reached agreement with U.S. Bank after challenging the right of the bank's securitization trust to collect the principal and interest on a mortgage management took out in 2006. As part of the settlement, management was awarded relief of \$1.2 million in principal, interest and fees.<sup>74</sup>

Management also has received considerable media recognition during the year for its investment guidance, expertise and accomplishments, including regular appearances as a guest on the "Pre-Market Prep" radio show of Benzinga<sup>75</sup> as well as on CBS News,<sup>76 77</sup> Fox News<sup>78</sup>, Fox Business Network and other media outlets.<sup>79</sup>

In a November 5, 2015 interview with Fox Business Network, management criticized the Federal Reserve for keeping interest rates artificially low, saying:

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<sup>70</sup> "Greg Lemelson makes the case that a little-noticed Massachusetts Supreme Court decision this...", Seeking Alpha, October 20, 2011- [Link](#)

<sup>71</sup> Implications Of The Bevilacqua Ruling - [Link](#)

<sup>72</sup> Massachusetts Set to Overrule Past Foreclosures; Harbinger for ARM Industry? - [Link](#)

<sup>73</sup> Registry of Deeds: Southern Essex District - [Link](#)

<sup>74</sup> High-flying fund may bar entry," Hedge Fund Alert (page five), August 20, 2014 - [Link](#)

<sup>75</sup> Riley, Kevin (April 27, 2015). "This Hedge Fund Manager 'Wouldn't Be Surprised' If iPhone Units Hit 60 Million" - [Link](#)

<sup>76</sup> "Rev. Fr. Emmanuel Lemelson, Founder and President of The Lantern Foundation, interview with CBS Radio Boston, Part 1, December 2, 2014 - [Link](#)

<sup>77</sup> "Rev. Fr. Emmanuel Lemelson, Founder and President of The Lantern Foundation, interview with CBS Radio Boston, Part 2, December 2, 2014 - [Link](#)

<sup>78</sup> "Pope calls for an end to religious extremism," Fox News, December 5, 2014 - [Link](#)

<sup>79</sup> "Meet the priest of Wall Street," Fox Business News, November 5, 2015 - [Link](#)

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*"We've been in uncommon monetary policy for about ten years. This has led to tremendous income inequality in the world. The top 85 people in the world control the same wealth as the bottom 50 percent; that's 3.5 billion people. When you have interest rates that are that low and cheap money, you're going to inflate asset prices, and that's the conduit of wealth for the rich. But for the rest of the world, one in nine people don't have enough to eat, and one in seven live off about a \$1.25 per day, so a large part of that income is going to basic necessities like food. As leaders in the world economically in the U.S., we have to be very cognizant of the impact of low interest rates and quantitative easing."*

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*Fox Business News, November 5, 2015*

## Investment management and activism

Since 2013, the Fund had been named three times by *Barron's* as one of the world's top performing hedge Funds.<sup>80 81 82 83</sup> In May 2013, Lemelson Capital Management was ranked by Morningstar in the top one percent of its peer group in its "U.S. Long/Short Equity" category. In 2014, the Fund was named by Preqin as one of the world's top performing event-driven hedge Funds.

Management's investment activism and commentary have influenced the stock prices of several of the fund's investments, including Geospace Technologies, Kulicke & Soffa Industries, Ligand Pharmaceuticals and World Wrestling Entertainment.<sup>84 85 86 87 88 89 90</sup>

Management's investment activism in five particular equities, WWE, Kulicke & Soffa, Ligand Pharmaceuticals, Lumber Liquidators and Skechers, has been the subject of considerable media attention over this and previous reporting periods:

### WWE

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<sup>80</sup> "SA author ranks first among hedge Funds, again," Seeking Alpha, November 25, 2013, Retrieved April 24, 2014 - [Link](#)

<sup>81</sup> "Barron's Ranks the World's Top Performing Hedge Funds for April 2014," HFG - [Link](#)

<sup>82</sup> "Lemelson Capital Ranks Among Top HFs with 17% Gain in April," by VW Staff, ValueWalk, May 27, 2014 - [Link](#)

<sup>83</sup> "Barron's Names Lemelson Fund as April's Top HF," Evestment, May 28, 2014 - [Link](#)

<sup>84</sup> "World Wrestling pummeled four out of five rounds this week," USA Today, April 11, 2014 - [Link](#)

<sup>85</sup> "Kulicke & Soffa shares surge after investor urges buyback," by Gary Strauss, USA Today, April 22, 2014 - [Link](#)

<sup>86</sup> "Money manager betting against biotech firm Ligand Pharmaceuticals," by Gary Strauss, USA Today, June 16, 2014 - [link](#)

<sup>87</sup> "Why World Wrestling Entertainment (WWE) Finished Down Today," by Amanda Schiavo, The Street, April 11, 2014 - [Link](#)

<sup>88</sup> "WWE profitable or on the ropes," by Sarah Barry James, SNL Kagan, April 15, 2014 - [Link](#)

<sup>89</sup> "How a Priest Could Wrestle Profits From the WWE," by Greg Guenther, Daily Reckoning, July 18, 2014 - [Link](#)

<sup>90</sup> "WWE Has Monster Run, But Could It Soon Be Slammed?" by Joel Elconin, Benzinga, April 4, 2014 - [Link](#)

On March 17, 2014<sup>91</sup> and again on April 8, 2014,<sup>92</sup> for instance, management authored and published analysis that World Wrestling Entertainment (WWE) was substantially overvalued and should be shorted.<sup>93</sup> Managements analysis was credited by *USA Today*, The Street, Seeking Alpha and other media outlets with an \$800 million drop in the market capitalization of the stock between March 18 and April 20, 2014.<sup>94 95 96 97</sup>

On May 16, 2014, following a \$1.4 billion (63 percent) loss in WWE's market capitalization since management's initial March 17, 2014 short call, management announced that it had reversed its short position and was now long WWE stock.<sup>98 99</sup> Simultaneously, management called for the replacement of WWE's executive management team or a sale of the company.<sup>100 101 102</sup> This followed what management said was "a period of ongoing losses, execution failures and material misstatements."<sup>103 104 105</sup> Several hours after managements announcement, former

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<sup>91</sup> "The Short Case for World Wrestling Entertainment," Lemelson Capital Management, March 17, 2014 - [Link](#)

<sup>92</sup> "Lemelson Capital Reaffirms Short Call on World Wrestling Entertainment (WWE): Shares Fairly Priced Between \$8.25 and \$11.88," Lemelson Capital Management, April 9, 2014 - [Link](#)

<sup>93</sup> "The Short Case for World Wrestling Entertainment," Lemelson Capital Management, March 17, 2014 - [Link](#)

<sup>94</sup> "Kulicke & Soffa shares surge after investor urges buyback," by Gary Strauss, USA Today, April 22, 2014 - [Link](#)

<sup>95</sup> "Why World Wrestling Entertainment (WWE) Finished Down Today," by Amanda Schiavo, The Street, April 11, 2014 - [Link](#)

<sup>96</sup> "WWE can't pull out of slide," Seeking Alpha, April 11, 2014, Retrieved July 8, 2014 - [Link](#)

<sup>97</sup> "World Wrestling Entertainment: Why Investors Should Stay Away," by David Tristan Liu, Seeking Alpha, June 3, 2014 - [Link](#)

<sup>98</sup> "Lemelson Capital Management announces stake in World Wrestling Entertainment and calls on board to pursue new management or ownership," Seeking Alpha, May 16, 2014 - [Link](#)

<sup>99</sup> "WWE's stock smackdown is a blow to Vince McMahon's credibility," "Breaking News," Seeking Alpha, May 17, 2014 - [Link](#)

<sup>100</sup> "Lemelson Capital Management announces stake in World Wrestling Entertainment and calls on board to pursue new management or ownership," Seeking Alpha, May 16, 2014 - [Link](#)

<sup>101</sup> "WWE's stock smackdown is a blow to Vince McMahon's credibility," "Breaking News," Seeking Alpha, May 17, 2014 - [Link](#)

<sup>102</sup> Other Sources:

- "Should the McMahons Still Be Running WWE," by Daniel Kline, The Motley Fool, June 7, 2014 - [Link](#)
- "WWE stock in sleeper hold as subscriptions stall," by Richard Morgan, New York Post, November 27, 2014 - [Link](#)
- "Lemelson shrugs as WWE preens," FINAternatives, December 12, 2014 - [Link](#)
- "Emmanuel Lemelson questions leadership, strategy at WWE," FINAternatives, March 19, 2015 - [Link](#)

<sup>103</sup> "Lemelson Capital Management announces stake in World Wrestling Entertainment and calls on board to pursue new management or ownership," Seeking Alpha, May 16, 2014 - [Link](#)

<sup>104</sup> "WWE's stock smackdown is a blow to Vince McMahon's credibility," "Breaking News," Seeking Alpha, May 17, 2014 - [Link](#)

<sup>99</sup> Other Sources:

- "Lemelson goes long World Wrestling Entertainment, Inc.," by VW Staff, Value Walk, May 16, 2016 - [Link](#)
- "Investment firm attempting hostile takeover of WWE?" Augusta Free Press, May 17, 2014 - [Link](#)
- "Firm buys stake in WWE, wants new executive management team," TWNP Wrestling News, May 16, 2014 - [Link](#)
- "WWE News: Vince McMahon loses \$350 million in one day, could be forced out as CEO," Inquisitr - [Link](#)
- "Will the WWE Network ever make money," by Daniel Kline, The Motley Fool, May 20, 2014 - [Link](#)
- "WWE/NBC rights deal: The red wedding," by Sarah Barry James, SNL Financial, May 19, 2014 - [Link](#)
- "Biggest takeaways from WWE's May 19 business outlook investor call," by Chris Mueller, Bleacher Report, May 19, 2014 - [Link](#)
- "Is Vince McMahon still the right man to lead WWE?" by Sam Moore, Yahoo, May 19, 2014 - [Link](#)
- "Vince McMahon to be removed from the WWE," by Michael Panter, GiveMeSport, May 19, 2014 - [Link](#)

Louisiana Attorney General Charles Foti announced that his law firm would begin an investigation into whether WWE had violated state or federal securities law.<sup>106</sup> Following management's May 16, 2014 call for changes at WWE, the company announced that it was cutting its staff by seven percent and its stock price appreciated from its May 16, 2014 closing price of \$11.27 to \$16.40 on February 13, 2015.<sup>107 108</sup> On March 30, 2015, *USA Today* reported that management, in February 2015, had sold its stake in WWE at \$16.50.<sup>109 110</sup>

### Kulicke & Soffa Industries

On April 22, 2014, management's announcement that it was building a stake in the stock of semiconductor and LED equipment maker Kulicke & Soffa Industries and urging the company to authorize a share repurchase plan<sup>111 112</sup> sent shares of the stock soaring ten percent.<sup>113 114 115</sup> Following the call, *USA Today* reported:

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*"Kulicke & Soffa Industries jumped nearly 10% Tuesday after Lemelson Capital Management announced it was building a stake in the semiconductor and LED equipment maker, saying the company is "absurdly" undervalued... Lemelson made news earlier this month when the investment firm said pro wrestling firm World Wrestling Entertainment was way overvalued, sending the shares down more than 35%"<sup>116</sup>*

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*Kulicke & Soffa shares surge after investor urges buyback," by Gary Strauss, USA Today, April 22, 2014*

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- "WWE stands to lose \$45-\$52 million in 2014: Investors to question Vince McMahon health on Monday?" by Jack Jorgensen, *Fansided, Sports Illustrated*, May 19, 2014 – [Link](#)

<sup>106</sup> "WWE investigation initiated by former Louisiana Attorney General: Kahn, Swick & Foti, LLC investigates World Wrestling Entertainment following disclosure of disappointing distribution agreement," *Business Wire*, May 16, 2014 - [Link](#)

<sup>107</sup> "Lemelson Takes Down WWE and Brings it Back Up," by Joel Elconin, *Benzinga*, September 11, 2014 - [Link](#)

<sup>108</sup> "WWE puts 'choke hold' on doubters: Rev. Emmanuel Lemelson was right along," by Joel Elconin, *Benzinga*, February 13, 2015 – [Link](#)

<sup>109</sup> "Smack down at World Wrestling Entertainment," by Gary Strauss, *USA Today*, March 30, 2015 - [Link](#)

<sup>110</sup> "Stocks climb 2% as NASDAQ tops 15-year record," by Vito J. Racenlli, *Barron's*, April 25, 2014 - [Link](#)

<sup>111</sup> "Open Letter to Kulicke & Soffa's CEO," *Seeking Alpha*, April 22, 2014 - [Link](#)

<sup>112</sup> "Kulicke and Soffa Industries: Large Cash Pile and Activist Involvement," by Alex Gavrish, *ValueWalk*, April 29, 2014 - [Link](#)

<sup>113</sup> "Kulicke & Soffa shares surge after investor urges buyback," by Gary Strauss, *USA Today*, April 22, 2014 - [Link](#)

<sup>114</sup> "Kulicke & Soffa jumps; activist discloses stake, calls for buyback," *Seeking Alpha*, April 22, 2014 – [Link](#)

<sup>115</sup> Other sources:

- "Kulicke & Soffa Industries soars on strong FQ3 guidance," *Seeking Alpha*, April 29, 2014 – [link](#)
- "Kulicke & Soffa higher on bullish b. Riley note," *Seeking Alpha*, June 4, 2014 – [Link](#)

<sup>116</sup> "Kulicke & Soffa shares surge after investor urges buyback," by Gary Strauss, *USA Today*, April 22, 2014 - [Link](#)

Four months later, on August 27, 2014, Kulicke & Soffa heeded Lemelson's share repurchase recommendation, announcing that its Board of Directors had authorized a share purchase of up to \$100 million.<sup>117 118 119</sup>

## Ligand Pharmaceuticals

On June 16, 2014, management released a 25-page research report on Ligand Pharmaceuticals. The report concluded that severe competitive threats to Ligand's key royalty programs, going concern risks and other challenges were so significant that the stock had no intrinsic value<sup>120</sup>. Over the ensuing six trading days, the stock dropped 16 percent.<sup>121 122 123</sup> Three weeks later, on July 3, 2014, Management announced that it had further increased his short position in Ligand and released an appended 12-page research report questioning the commercial viability of Ligand's products and reaffirming his position that downside risk for Ligand "at 100 percent."<sup>124 125</sup> On August 7, 2014, the financial media outlet Benzinga reported, "Shares have sold off more than 25 percent since Lemelson Capital published its bearish thesis on the stock in mid-June."<sup>126</sup> On November 18, 2014, Yahoo Finance reported that Lemelson had covered his short position at an approximately 40 percent return.<sup>127</sup>

## Lumber Liquidators

On March 3, 2015, management criticized allegations leveled by hedge Fund manager Whitney Tilson on *60 Minutes* against Lumber Liquidators, a U.S.-based hardwood flooring company, in which Tilson alleged that the company's products deliberately contained formaldehyde, violating health and safety standards. Management pointed out errors in Tilson's *60 Minutes* allegations, concluding that Lumber Liquidators senior management "was not the source of the directive to use the toxic substance."<sup>128 129</sup>

Management's criticism of the allegations was later validated on December 14, 2015 when Tilson reversed his position, writing that "senior management of Lumber Liquidators wasn't aware that the company was selling

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<sup>117</sup> "Kulicke & Soffa heeds activist's call, launches buyback," by Eric Jhonsa, Seeking Alpha, August 27, 2014 - [Link](#)

<sup>118</sup> "Kulicke & Soffa Announces Repurchase Program," *The Wall Street Journal*, August 27, 2014 – [Link](#)

<sup>119</sup> "Lemelson commends Kulicke and Soffa on repurchase," *The MetroWest Daily News*, August 29, 2014 - [Link](#)

<sup>120</sup> Bearish outlook for Ligand from Lemelson Capital," by Douglas W. House, Seeking Alpha, June 16, 2014 - [Link](#)

<sup>121</sup> "Money manager betting against biotech firm Ligand Pharmaceuticals," by Gary Strauss, *USA Today*, June 16, 2014 - [Link](#)

<sup>122</sup> "Shares of Ligand Pharma tick lower following word from Lemelson Capital Fund has initiated short position in stock," by Hal Lindon, Benzinga, June 16, 2014 - [Link](#)

<sup>123</sup> "Lemelson Capital makes short case against Ligand Pharma," Street Insider, June 16, 2014 - [Link](#)

<sup>124</sup> "Lemelson Ups Ligand Pharmaceuticals (LGND) Short," by VW Staff, ValueWalk, July 3, 2014 - [Link](#)

<sup>125</sup> "Ligand Pharmaceuticals (NASDAQ: LGND): Appendix," Lemelson Capital Management - [Link](#)

<sup>126</sup> "Exclusive: "Emmanuel Lemelson Talks Ligand Pharmaceuticals," by Luke Jacobi, Benzinga, August 7, 2014 - [link](#)

<sup>127</sup> "Lemelson Capital Management CIO Discusses Ligand Pharmaceuticals Prior To Company Issuing Weak Guidance," by Jayson Derrick, Yahoo Finance, November 18, 2014 - [Link](#)

<sup>128</sup> "Tilson's Lumber Liquidators story doesn't add up," by Mark Meadows, Benzinga, March 3, 2015 - [Link](#)

<sup>129</sup> "The hedge Fund manager spoke with Lumber Liquidators' Chairman--Here's what he thinks," by Javier Hasse, Benzinga, March 11, 2015 - [Link](#)

Chinese-made laminate that had high levels of formaldehyde.”<sup>130 131 132</sup> The stock jumped 20 percent immediately following Tilson's admission.<sup>133</sup>

## **Skechers**

On September 25, 2015, the financial media outlet Benzinga reported that Lemelson was short Skechers, an NYSE-traded footwear company, at an average (adjusted for a 3:1 stock split) cost of \$132," calling it "radically overpriced." Management said that it would continue to short the stock, which it said was vulnerable to a "precipitous fall." Twenty-seven days later, on October 22, 2015, shares of the company plunged more than 30 percent in one day following disappointing earnings.<sup>134 135</sup>

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<sup>130</sup> "Lemelson Capital's March position on Lumber Liquidators proven correct by latest news," Seeking Alpha, December 15, 2015 - [Link](#)

<sup>131</sup> "Tilson covers short position in Lumber Liquidators; Hedge Fund manager says company 'isn't evil'," by Jayson Derrick, Benzinga, December 15, 2015 – [Link](#)

<sup>132</sup> "Lumber Liquidators roundup: Good calls, bad calls, and Wall Street snoozes," by Clark Schultz, Seeking Alpha, December 16, 2015 - [Link](#)

<sup>133</sup> Lumber Liquidators shares spike as critics back off," by Everett Rosenfeld, CNBC, December 14, 2015 - [Link](#)

<sup>134</sup> "Lemelson: Skechers still a short after losing a third of its share value," by Jayson Derrick, Benzinga, October 23, 2015 - [Link](#)

<sup>135</sup> "Meet the priest of Wall Street," Fox Business, November 5, 2015 - [Link](#)

## Disclosure

This is not an offering or the solicitation of an offer to purchase an interest in The Amvona Fund, LP (the “Fund”). Any such offer or solicitation will only be made to qualified investors by means of a confidential private placement memorandum and only in those jurisdictions where permitted by law.

An investment in the Fund is speculative and involves a high degree of risk. Opportunities for withdrawal, redemption and transferability of interests are restricted, so investors may not have access to capital when it is needed. There is no secondary market for the interests and none is expected to develop.

The fees and expenses charged in connection with this investment may be higher than the fees and expenses of other investment alternatives and may offset profits. No assurance can be given that the investment objective will be achieved or that an investor will receive a return of all or part of his or her investment. Investment results may vary substantially over any given time period. All investments involve the risk of loss, including the loss of principal.

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Returns are estimates only. These estimates have not been independently verified and are subject to change. Past performance is not indicative of future returns.

## The General Partner

The Amvona Fund, LP

### **LEMELSON CAPITAL MANAGEMENT, LLC**

*General Partner*

*The Amvona Fund, LP*

### **+ Emmanuel Lemelson**

*Investment Manager*

*Lemelson Capital Management, LLC*

### **Availability of Reports and Investor Information**

The [lemelsoncapital.com](http://lemelsoncapital.com) site allows for pdf downloads of *Annual and Interim* reports as well as all Fund related documents including the following:

- Investor presentation
- Monthly Tear Sheets
- Private Placement Memorandum
- Limited Partnership Agreement
- Subscription Booklet and additional Subscriptions Booklets

The latest versions of the above are available by registering for an account on the site.

Investment theses including rationale for some investments made between 2010 and 2014 and other information about the investment philosophy employed by the Fund can be found at the “[Finding Alpha](#)” category of [Amvona](#).

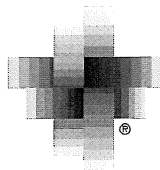
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## Regarding an Error in the Audited Financial Statements

On March 21, 2016, management, as part of its review of the audit, uncovered a material error that had been reported by the fund's administrator ALPS to the Fund's auditor PWC as part of the 2015 audit. When the Fund's auditor PWC became aware of the error, it directed ALPS to misrepresent the Fund's offshore expenses in order to disguise the error and avoid having to re-issue the erroneous audit. When questioned by management regarding the source and cause of the discrepancy in the offshore operating expenses, PWC initially was elusive, but after being pressed by management acknowledged the error. The proposed change by PWC would have resulted in a material misrepresentation (approximately 15 percent) of the offshore investor's operating expenses.

Management asked PWC to re-issue a corrected audit. PWC did not respond to this request and instead chose to deflect responsibility. Management then requested the following letter from the Fund's administrator (ALPS) and fired PWC.

The letter is provided below.



March 23, 2016

Lemelson Capital Management,

Please accept this letter as explanation for the difference in expenses between the Statement of Operations for The Amvona Fund, Ltd. to the expenses presented in the Average Monthly Expense Ratio table within the Annual Report for the year ended December 31, 2015.

After completion of the Audited Financials, it was discovered that the Professional fees on the Statement of Operations were overstated in the amount of \$17,262. In the Average Monthly Expense Ratio table, Professional fees are made up of Accounting, Legal, and Offering expenses. The additional expense should instead be added to dividend income, as the source of the difference is a portion of the Withholding Tax on Dividends.

The difference does not result in any impact to investor allocation or any change to the income of The Amvona Fund, Ltd.

Please accept the expenses included in the Average Monthly Expense Ratio table as true and accurate representation of the actual expenses allocated to the investors of The Amvona Fund, Ltd.

Sincerely,

Daniel Pereira  
Manager, Alternative Investments Administration  
ALPS, A DST Company