THE AMVONA FUND, LP

2016 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.[1]"

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.

[1] Intrinsic value, unlike price, is defined as an estimate of a company's value today based on several 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 (1)	**Net Return* (2)**	S & P 500** (3)	Relative Results (1) - (3)	Relative Results (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%
2016	86.77%	**84.97%**	11.96%	74.81%	73.00%
Compounded Annual Gain	**33.95%**	**23.81%**	**13.73%**	**20.23%**	**10.09%**
Overall Gain	254.93%	152.35%	74.60%	180.32%	77.75%

**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. Prior to January 2015, the Fund Gross Return reflected portfolio performance only without the deduction of any Fund level expenses. From January 2015, the Fund Gross Return reflects the deduction of all Fund level expenses except for (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 six percent annualized hurdle rate.*

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 six percent annualized hurdle rate; and (ii) 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.*

Please read our full Notice and Disclaimer on page 68.

Chief Investment Officer's Letter

To the Limited Partners of the Amvona Fund, LP:

In 2016, The Amvona Fund, LP had a realized gain of $4,995,134 and an unrealized gain of $3,294,599. Net of all fees and expenses, the total gain for the Fund in 2016 was $7,923,533. Net increase from operations since the Fund's September 2012 inception through year end 2016 totaled $11,332,128.

Since inception (52 months), the Fund has returned 254.93 percent gross and 152.35 percent net of all fees and expenses. The Fund outperformed the benchmark S&P 500 Total Return Index (which includes the reinvestment of dividends) during this time by 180.32 percent.[2]

In the twelve months ended December 31, 2016, The Amvona Fund, LP's gross gain was 86.77 percent, or 84.97[3] percent net of all fees and expenses, a return that outperformed the benchmark S&P 500 Total Return Index by 74.81 percent.[4]

The compounded annual gain[5] for the fiscal year ending December 31, 2016 was 33.95 percent (or 23.81 percent net of all fees and expenses). The compounded annual gain for the S&P 500 Total Returns Index during the same time frame was 13.73 percent.[6]

Gross assets at December 31, 2016 totaled $35,886,799[7] vs. $25,939,709 at December 31, 2015, an increase of 38.3 percent year over year.

Summary of key events in 2016

In 2016, The Fund:

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[2] Figures are shown on a gross basis. On a net basis, the Fund outperformed the benchmark by 77.75 percent since inception. The gross basis is used as a barometer of the Fund's performance vs. the benchmark because the clear majority of expenses are attributable to management's performance allocation. If alpha is viewed as the manager's ability vs. the benchmark, then the gross figure seems like the more accurate measure.

[3] The net return reflects the return that would have been earned by a hypothetical investor who invested in the fund on day one and paid the one percent management fee and 25 percent performance allocation. Thus, this figure differs slightly from the audited financial statements which show a net return of 84.03 percent. Management believes that the use of a hypothetical, day-one investor is the most accurate way of reporting the fund's results.

[4] The Fund outperformed the benchmark by 73.00 percent on a net basis during 2016.

[5] The compounded 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.

[6] The S&P 500 Total Return Index rose 32.39 percent in 2013, 13.69 percent in 2014, 1.38 percent in 2015 and 11.96 percent in 2016.

[7] This figure represents the sum of both long and short exposure, including the effects of capital contributions and withdrawals during the year.

a) Continued selling shares of technology-related investments, specifically shares of Apple (NASDAQ: AAPL) in early 2016,[8] realizing a significant return since the Fund began acquiring Apple shares in early 2013.
b) Continued to build its stake in Geospace Technologies (NASDAQ: GEOS), increasing its ownership in the company to 1,200,000 shares, or approximately nine percent of the company's total shares outstanding by year-end 2016.
c) Initiated and continued to build throughout the year a short position in shares of Domino's Pizza (NYSE: DPZ).
d) Purchased a significant stake in Western Digital (NASDAQ: WDC) and later liquidated the position at significant profit.

The Bad News

- Chief amongst bad news for The Fund in 2016 was management's premature sale of its stake in Western Digital Corporation. Between January 21, 2016 and February 16, 2016, management purchased approximately 75,098 shares[9] of Western Digital for $3,065,670, an average price per share of $40.82. Management's belief after about six years of studying the company and in reviewing carefully the firm's SanDisk acquisition was that the company's enlarged free cash flow would cover the debt used for the acquisition in approximately ten years, a relatively short time frame. Given this, along with management's general conviction that there are few businesses superior to memory and storage, management believed the shares were fairly valued between $60 and $70 per share in the near term.[10] Despite this recognition,[11] management sold the shares for just $3,947,790, or an average price per share of $52.57.[12] By January 25, 2017, almost exactly one year after the Fund began acquiring its stake in the company, at which point the gains would have shifted to long-term tax rates, the price of Western Digital shares had climbed to $80.02.

  The premature sale of shares of Western Digital cost the partners in the Fund $2,061,440 by that time, and left the partners with a short-term capital gains tax rate instead of the more favorable long-term rate management has repeatedly indicated it seeks to achieve. Over the next thirty years and at the compounded rate of return of 23.81 percent achieved from inception through year end 2016, this error in judgement will cost the partnership $1,249,805,428[13] (a sum that does not include the future value of

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[8] This followed a significant sale of shares of Apple in late December 2015, which was addressed in the 2015 Annual Report. In total between January 19, 2016 and February 11, 2016, a total of 99,640 shares of Apple were sold for $9,559,737, producing a long-term realized gain of $3,358,680.

[9] 111 of these shares were purchased late in 2015.

[10] Within about a year.

[11] Management rationale at the time had to do with maintaining additional liquidity, even though there were no particular liquidity needs at the that time.

[12] During the time the shares were held, the fund collected $75,098 in dividends and $39,512 in other short-term capital gains related to the commitment for an overall gain of $996,730, a 32.5 percent increase in a period of approximately five months.

[13] $2,061,440 compounded at 23.81 percent over thirty years is $1,249,805,428.

the significant dividends that would have been received from the holding, or the growth on the related reinvestment of such dividends).

But that's just the cake. The icing in management's Western Digital faux pas is that management made almost an identical error in judgement with Western Digital in January 2013, again acquiring a significant stake at clearly very favorable prices, after extensive research, with a firm conviction of fair value far exceeding the price paid, and finally executed a very costly premature sale[14]. The proto WDC blunder is described in detail in the 2013 annual report.[15]

The curse of Western Digital, as management likes to think of it, is especially painful, because truly great companies go on sale so rarely. In the end, management's failure to sit still when owning a truly great enterprise has cost and will continue to cost the partners far more than any miscalculations in capital allocation resulting in material losses, and account for the lion's share of management's investing gaffes.

- In 2016, the Fund liquidated and/or closed its remaining stake in Aeropostale (OTC: AROPQ), Bridgepoint Education, Inc. (NYSE: BPI), Elizabeth Arden, Inc., EZCORP Inc. (NASDAQ: EZPW), ITT Educational Services Inc. (OTC: ESINQ), Leapfrog Enterprises and Ligand Pharmaceuticals Inc. (NASDAQ: LGND) at a combined loss of $18,156.[16]

- The expense ratio of the Fund continued to climb. Management believes that the expense ratio of the Fund is likely to revert to previous levels in 2017. A further discussion of the Fund's expense ratio is provided below.

- It is unlikely The Fund will have 2016 like returns in the future.

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[14] The partnership earned ~52% ($1,706,764) in about three months on the 2012-2013 Western Digital transactions.

[15] The Amvona Fund, LP 2013 Annual Report - Link

[16] The losses are broken down as follows: AROPQ: $12,088.35, BPI: $424.96, Elizabeth Arden: $303.88, EZCORP: $1,152.83, ESINQ: $2,352.58, LeapFrog: $299.00 and LGND: $1,534.19.

The Fund had previously recognized a significant profit on its stake in shares of Aeropostale. The current loss ($12,088) stems from a small number of shares the Fund repurchased at a much lower price after liquidating the previous investment.

The Fund had previously realized a significant profit of $473,499 on the sale of Bridgepoint Education in 2013 (see the 2013 annual report for an explanation of the investment), and later repurchased a small number of shares that were sold in the first half of 2016 at a loss of $424.96.

Management liquidated the majority of its shares in EZ Corp. in the first half of 2015 at a loss (as discussed in the 2015 Annual Report) but kept 100 shares, which accounts for the present loss of $1,152.

Management realized a gain on its stake in shares of ITT Educational Services in 2014 but retained a small number of shares, which accounts for the present loss.

The Good News

- The Fund returned 86.77 percent gross and 84.97 percent net of all fees and expenses, a return that outperformed the benchmark S&P 500 Total Return Index by 74.81 percent. 2016 proved the best year for The Fund since its September 2012 inception, an outcome that was foreshadowed in the 2015 Annual report.[17]

- The extraordinary decline in the price of oil and gas that began in mid-2014 and reached its peak in a panic in early 2016 gave rise to unprecedented tumult in the exploration and production (E&P) sector, allowing management to make significant progress towards its long-stated goal[18] of acquiring 10 percent of Geospace Technologies, ending the year with roughly nine percent of the company's total shares outstanding. The purchase in early 2016 of a significant amount of Geospace shares at unexpectedly low prices brought The Fund's average purchase price down significantly.

  Management believes that the commitment in Geospace, the largest the Fund has ever made, has been at a price that is a fraction of the company's intrinsic value. With a normalized supply-demand equation in the oil and gas industry and what will almost certainly be significant increases in CapEx for exploration and production, the value of Geospace is likely in the $50 to $60 per share range over the next few years.[19]

- After selling a significant part of The Fund's stake in Apple in late 2015[20] and early 2016 at a significant profit, management then purchased 16,595 shares of Apple between February 16, 2016 and March 2, 2016 at a cost of $1,619,716, or $97.60 per shares. At year-end 2016, The Fund owned 41,500 shares of Apple.

  As of the writing of this letter (roughly one year later) shares of Apple are trading at approximately $140 per share. All the realized and unrealized gains in The Fund's commitment in Apple are presently long-term.

- The number of partners in the Fund grew from four at year-end 2012 to 29 with 38 separate capital accounts at year-end 2016. In line with management's focus on attracting intelligent, well-informed investors with long-term investment horizons, no partner has left the Fund since its inception.

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[17] The Amvona Fund, LP 2015 Annual Report - Link

[18] Management indicated repeatedly throughout 2014 and 2015 that it expected to materially increase the Fund's stake in Geospace Technologies and hoped to eventually purchase ten percent of the company.

[19] For a much more detailed discussion of the value of Geospace Technologies, see The Amvona Fund, LP 2015 Annual Report – Link

[20] 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 timely and 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.

In addition to the realized gains in shares of Apple and Western Digital, The Fund also sold its long or covered its short positions in the following companies at a profit in 2016:

1. Long: Bed Bath & Beyond (NASDAQ: BBBY)
2. Long: Cummings Inc. (NYSE: CMI)
3. Long: Holly Frontier Corp. (NYSE: HFC)
4. Long: Hurco Companies Inc. (NASDAQ: HURC)
5. Short: Netflix (NASDAQ: NFLX)
6. Long: Nordstrom Inc.[21] (NYSE: JWN)
7. Long: Royal Bank of Canada (NYSE: RY)
8. Short: Tempur Sealy Intl (NYSE: TPX)
9. Short: Under Armour (NYSE: UA)
10. Long: Westlake Chemical Corp. (NYSE: WLK)

A Look at a Few Existing Commitments

Update: Apple (NASDAQ: AAPL)
Computers, Phones & Household Electronics
41,500 Shares at YE 2016
Market value: $4,806,530

After having significantly reduced the Fund's stake in 2015[22] and early 2016, the partnership was left with 41,500 shares of Apple at year end 2016. Even at its current price (approximately $140 per share), management does not believe that shares of Apple are overpriced, or even fairly-priced. Since acquiring its initial stake in the company in early 2013, management has always held that the real future value of Apple is its underlying services business and not its hardware business (a minority opinion at the time). This thesis has come to fruition exactly as management expected with Apple's services' revenue experiencing tremendous growth over the last four years.

At the time management began purchasing Apple in early 2013, virtually every media report regarding the company had swung from extremely positive up until fall 2012, to extremely negative by early 2013, regularly predicting the imminent demise of Apple's industry leadership in mobile phones to Samsung/Android, its primary competitors in this segment. Accordingly, between September 18, 2012 and April 19, 2013, a period of almost five months, Apple's stock price plunged an extraordinary 44.4 percent.

Since March 6, 2013, when management began acquiring its current stake[23], Samsung's phones, which were always inferior from both a hardware and software perspective have been, unfortunately for Samsung, literally

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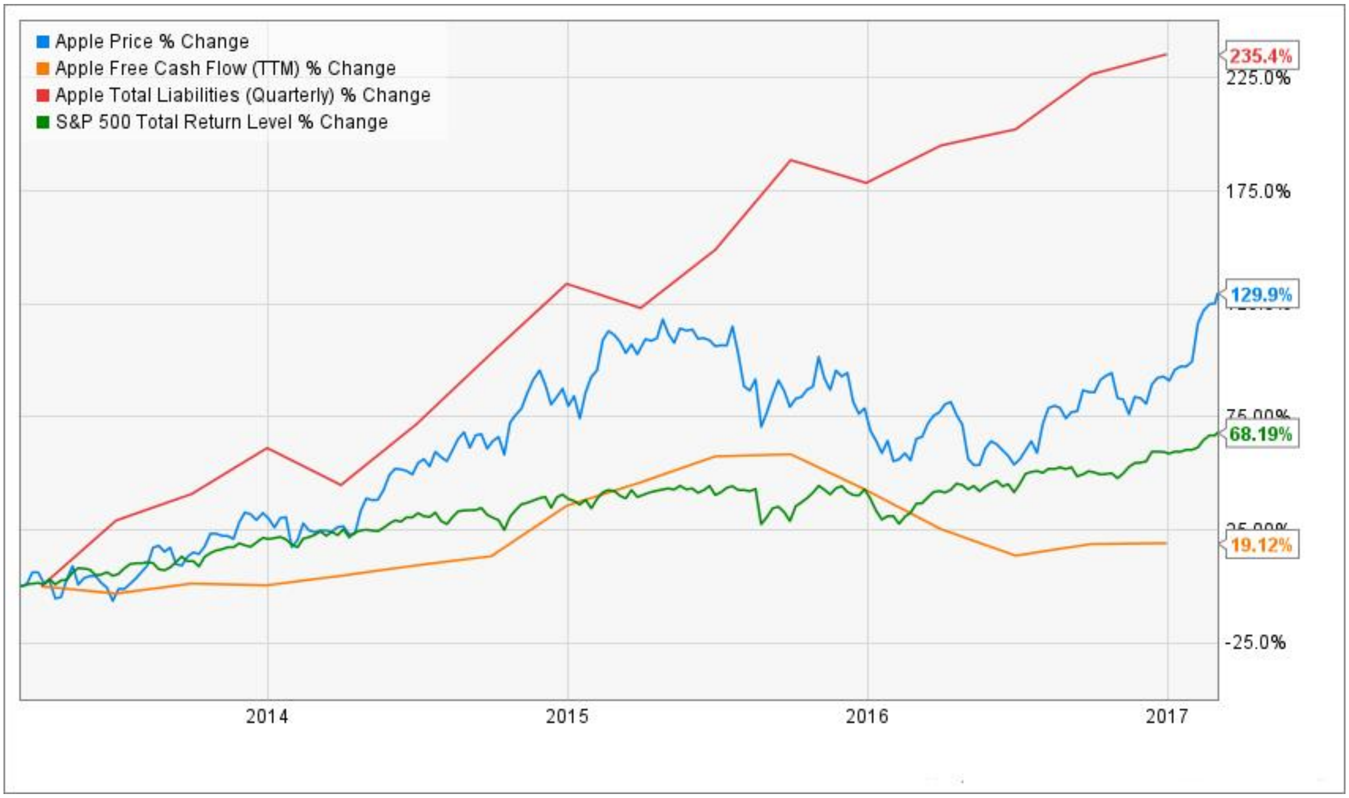
[21] Management began buying shares of Nordstrom Inc. between June 15, 2016 and June 27, 2016 at an average of $35.51 per share.

[22] In December 2015, the Fund reduced its stake in Apple 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). This sale freed up $4,290,060 in capital.

[23] A part of the shares owned at year-end 2016 were re-purchased early in 2016.

on fire. Samsung's acting chief Lee Jae-Yong has been arrested, and Apple stock price has rocketed approximately 130 percent higher on the heels of ever-increasing revenue and enormous, consistent free cash flow.

Fig. 1: Apple Price % Change vs. the S&P 500 Index: March 6, 2013[24] - March 5, 2017



Source: YCHARTS

The fact that Apple may continue to be undervalued should not be construed that management intends to hold this position indefinitely. Apple is a truly great company, perhaps one of the greatest companies in history, but it is also a different type of investment today than it was when management was buying the shares aggressively in early 2013 amid seemingly endless negative news reports and the related negative (and misguided) investment sentiment those reports generated.

While Apple's services business is growing healthily, the growth of its iPhone business has slowed, its iPad business has declined significantly, and management believes it will be several years before the services business will bridge the gap from lost growth in the iPhone business and the related growth in free cash flow it has historically generated.[25] In the meantime, the company has taken on significant debt, increasing its liabilities meaningfully and has once again become a ubiquitous favorite of investment research analysts. On a fundamental level, a mega-cap stock with widespread, positive analyst coverage is not likely (as it did in early 2013) to have another momentous price-value dislocation in the near-term. While the price may still be less than the firm's intrinsic

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[24] Management began to first accumulate shares of Apple on March 6, 2013.

[25] Nonetheless, the enormous and growing install base for iPhone creates an almost guaranteed annuity-like stream of future cash flow in upgrade cycles, if for no other reason than the fact that lithium-ion batteries have a limited life span and (by design) cannot be replaced.

value, the disparity has shrunk. When taken with management's aversion to high debt levels in the companies in which it invests, Apple no longer affords management the significant margin of safety it seeks in each commitment. Nor is the company likely to produce the outsized returns management expects to earn when making the deep value or special situation-type investments that are at the core of its investment philosophy.

iPhone 8 will likely break sales records when it is released this fall, even if the calculus reveals an overall slower rate of growth over past major launch cycles. Despite this probability, management has no idea where the price of the stock will head in the near term, but if forced to bet, believes the stock will likely continue to rise. Nonetheless, after four years of owning Apple, during which time the company's financial structure and analyst sentiment have changed markedly, management believes it can achieve superior returns allocating the partnership's capital elsewhere.

For a more thorough discussion of why management began purchasing shares of Apple in early 2013, see The Fund's 2013 and 2014 Annual Reports.[26]

Update: Geospace Technologies (NASDAQ: GEOS)
Oil & Gas Related Equipment and Services
1,200,000 Shares at YE 2016
Market value: $24,432,000

Geospace Technologies, if anything, has had a volatile stock price since management began accumulating shares in 2014, resulting largely from instability in the price of oil (although whether the two should be so closely correlated is debatable[27]), as well as the related cut-back in Cap-Ex at oil majors. In both the 2014 and 2015 annual reports[28], management described in detail why it believes the Fund's purchase price has been significantly below the firm's intrinsic value.

Background: free cash-flow vs. special situations

Management has been steadily accumulating the stock of Geospace for over two years.[29] Ideally, management would like to make commitments in companies with long operating histories and stable free cash flow, especially when they go on sale (if prices are skewed by relentless, negative and distorted media and investment research reports, even better). Such was the case in our multiple investments in Western Digital when management began buying[30] the shares initially in 2010[31] at around $23 per share. At the time, the enterprise value to EBITDA ratio, a rough proxy for free cash flow, was under two. Put in another way, free cash flow at the company would have

[26] The Amvona Fund, LP – Annual Reports - Link
[27] It is reasonable to calculate that CapEx budgets will expand in a period of generally high oil prices. But because Geospace Technologies is a relatively small company and its primary differentiated product, the PRM system, results in large orders, which have historically not coincided in any meaningful way with the price of oil, management believes it is somewhat irrational for Geospace's stock price to so closely correlate to the price of oil.
[28] The Amvona Fund, LP – Annual Reports - Link
[29] Management first began acquiring the shares in July 2014.
[30] This initial Western Digital investment was made prior to the launch of The Amvona Fund, LP. in 2010.
[31] Management began buying the shares after the 2010 floods in Thailand when the media began to report widespread damage to the manufacturing facilities of Western Digital and its chief competitor, Seagate Technologies, which sent the stock prices of both companies tumbling. Management did not agree with the media reports regarding the extent of the damage, nor the predicted recovery time, views that were proven entirely correct in the months ensuing.

virtually covered its enterprise value, which at the time, because it had no debt, basically mirrored the company's market capitalization, in under two years.[32] At the time, it was the closest thing management had ever seen to a risk-free investment, the downside being wholly protected by a long history of consistent and significant free cash flow. With every quarterly report, this grew book value for owners of the firm. No matter how wildly the swings in price became, the growing tangible book value of the firm constantly made the lows seem even more absurdly cheap until this fact was eventually recognized by the market on a large scale. Adding to the diminished risk was management's belief that the world would stop turning without low cost memory and storage and result in some sort of Orwellian dystopia.

While such free-cash flow type investments are clearly management's preferred and typical modus operandi, from time to time special situations also occur where free-cash flow and/or profits are greatly diminished, non-existent or negative. Incidentally direct or indirect[33] media and investment research reports are just as likely to jump on such instances and exaggerate the pessimistic circumstances.

When there is a problem at a company, whether industry or company specific, assets can go on sale in a big sort of way. It is these extremely low prices, particularly in relation to tangible assets, often associated with these special situations that management sees as extraordinary investment opportunities.

However, the market with its act-first, think later approach, often carried out in micro-seconds or less, is rarely so discerning. For the critical, value-oriented investor, such occurrences can often lead to a special-situation investment that breaks with the larger, more popular religion of free-cash flow investing of the value-oriented faithful, and offer an opportunity for greater protection of principle and very often, higher returns.

In such circumstances, a few questions are worth contemplating, namely:

1. Is the problem secular in nature, industry-wide or company specific?
2. Has current management lead to the problems?
3. Is the firm's accounting of its assets (and liabilities) aggressive or conservative?
4. Are the assets likely to become productive again in the future?
5. Is the security buttressing the issue sufficient to cover the common stock in the event of a liquidation?[34]

Prior to Geospace, management had made two similar special situation-type investments, American Greetings Corp. (now privately owned by the founding Weiss family) in 2012 and Force Protection (now owned by General Dynamics) in 2011[35]. In both cases, free cash flow and profits had either fallen precipitously or turned negative. In both cases, the companies were involved in a secular decline in their respective industries and were in a more challenging overall environment than Geospace currently is (Management does not believe the oil and gas industry is in secular decline; nor does it expect the industry to be for the foreseeable future).

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[32] In real estate terms, it would be comparable to purchasing a rental income property that produced enough net rental income to cover the cost of the property in less than two years.

[33] In the case of Force protection, for example, the company was too small and relatively unknown to garner significant direct media or investment research attention. Nonetheless, the media had created the ubiquitous belief that the drawdown of troops in Afghanistan and Iraq was necessarily a universal negative for all defense-related firms, a blanket position that discounted purchase price, assets and the possibility of consolidation.

[34] This last question is typically only relevant to companies that are leveraged.

[35] These investments, as with the initial 2010 Western Digital investment, were made prior to launching The Amvona Fund, LP.

In the case of American Greetings, the market held that physical greeting cards would be displaced by electronic ones, a thesis to which management did not necessarily ascribe (at least in the near-term). The financial performance of the company had become increasingly poor; however, management's decision to purchase the shares at the greatly diminished quoted share price was predicated on a belief that the founding family would eventually take the company private at a much higher share price since the assets, which consisted predominantly in the company's real estate, were greatly undervalued on the company's statement of assets and liabilities. The affirmation of this belief was the unusually large number of shares the company had been repurchasing, and the speed at which it had made the purchases under its share repurchase authorization. This struck management as unusual for a company with a long history but little innovation in its underlying product, major competitive threats and a worsening profit and loss statement.

Often, repurchase programs are announced with great undulation on the part of public markets. Despite this, management teams rarely indicate either a determination to be opportunistic in the repurchase,[36] or a price ceiling at which the program will be executed. This is particularly curious since markets would receive such an announcement of the acquisition of a disparate company sans purchase price, or worse yet, indiscriminate purchase price, with great trepidation. Why then should the question of price be ignored in the case of repurchases? In this sense, American Greetings aggressive share repurchase was somewhat revealing of the Weiss family's intentions, offering management the affirmation of its belief that they intended to take the company private, which ultimately became a media-assisted[37] wealth transfer from public ownership back to private and a huge windfall for the Weiss family. Management seeing the proverbial "writing on the wall" inserted itself as an arbitrageur well in advance of the formal announcement**.**

These events would have been invisible to the casual observer and reader of typical financial media headlines or analyst reports. Within a matter of months of management acquiring the shares of American Greetings, the company was taken private by the Weiss Family at a price significantly higher than that which management had paid.[38]

The Force Protection commitment made in the prior year was not unlike American Greetings in terms of the nearly risk-free opportunity. The firm specialized in manufacturing life-saving, Mine-Resistant Ambush Protected (MRAP) vehicles for the military, using a novel Israeli technology to deflect the blast from improvised explosive devices (IEDs). The company's sales grew substantially with the wars in Iraq and Afghanistan, and the market believed they would naturally implode just as quickly when the new Obama administration took office in January 2009.[39] Accordingly, the stock price collapsed not long after the new administration took office and the outlook for the company at the time was extremely negative. However, the market overlooked the large number of non-cancellable repair and maintenance contracts the U.S. Department of Defense had already awarded the company for a significant fleet of vehicles the company had already manufactured and the government had deployed. By 2011, when management was buying the shares at the significantly discounted price, the value of these contracts significantly exceeded the company's entire market value.

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[36] A notable exception has been Western Digital, whose management team at the time of the announcement of their own share repurchase program regularly indicated a focus on "opportunistic" buys--in other words, at prices demonstrably below intrinsic value.

[37] The reports of the imminent death of greeting cards at the hands of social media played a significant part in driving the share price substantially below management's appraisal of the value of the company's assets.

[38] The investment was outlined at the time in the articles "American Greetings Corp. and the Triple "W" – Link and "Update: American Greetings Corp. and the Triple "W" - Link

[39] Obama had vowed to withdraw U.S. troops from both countries.

Aside from being non-cancellable, these Department of Defense contracts came with the additional benefit that the company's finances and accounting had already been highly scrutinized and blessed by the U.S. government as part of its contractor vetting process. This permitted management to circumvent a significant part of its typically time-consuming analysis and inquiry.

Believing that the future contracts and novel technology likely had a value significantly greater to larger and more established defense contractors with broader time horizons, management believed the company would be acquired and wagered more specifically that General Dynamics would be the likely acquirer. Accordingly, as with its American Greetings investment, management inserted itself as arbitrageur. About a year later, General Dynamics announced the acquisition of Force Protection at a significant premium to the price management had paid.[40] During the time between share purchases and acquisition, management's routine was confined largely to patiently waiting[41], a surprisingly common activity of true value investors.

Geospace: The competitive landscape for seismic equipment

The downturn in the oil and gas industry that began in mid-2014, has had a significant impact on the seismic industry. Long-cycle exploration projects that would normally have taken place in 2015-2017 have been pushed out to 2018-2020, often replaced with short-cycle shale production. Even though the "E" in E&P may be, for the time, postponed, the cost of ongoing production stands to benefit materially from continuing seismic surveys, especially 4D seismic and permanent reservoir monitoring technology. This fact buttresses management long-held believe that regardless of the price of oil, seismic surveys and the demand for the equipment the studies require, will eventually have to continue. Further, as the price of oil continues to rise, management believes it is likely that many of the surveys deferred to 2020 or beyond might be accelerated to the 2018-2019 timeframe.

Geospace Technologies is one of the world's largest designers and manufacturers of seismic related products. The firm's core seismic business can be thought of primarily in two major product categories: ocean bottom and land-based seismic equipment. Management believes the chief competitors in each category are:

Ocean-bottom:

1. Fairfield Nodal (established)
2. Magseis ASA (emerging)
3. Seabed GeoSolutions (in the wings)
4. InApril (in the wings)

Land-based and marine seismic:

1. Sercel (a division of CGG) (solvency and going concern risk)
2. Ion Geophysical[42] (legal, solvency and going concern risk)

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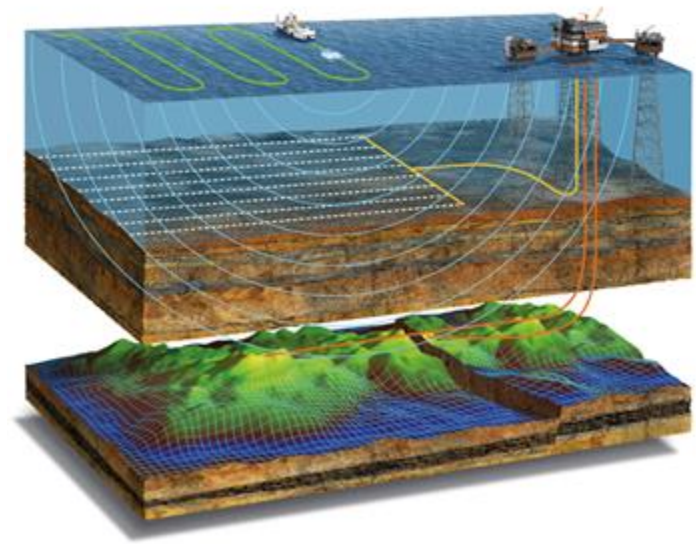
[40] The investment was outlined at the time in the articles "If you must speculate: Force Protection Inc." – Link, "FRPT: Moving from speculation to investment" - Link and "Update: General Dynamics Acquires Force Protection" - Link

[41] Although it must be added that the favorable results earned on Force Protection took a considerably longer period to be realized than that of American Greetings, a period during which the stock price also fell below management's already favorable average purchase price. There is perhaps no other industry that makes it more clear that time, as it were, has a value – or in the par lance of Wall Street: *Time is Money*.

[42] Including ION's joint venture Inova formed with the Bureau of Geophysical Prospecting, a subsidiary of China National Petroleum Company.

Of the four competitors in the lucrative ocean-bottom space, only Fairfield Nodal[43], a private company, is well-established. In management's opinion, it also is the only current and real competitor to Geospace's entrenched industry leadership in this segment. The pearl of great price in the ocean bottom business is Geospace's large Permanent Well Monitoring Systems (PRM), which typically represent large dollar value contracts.[44] However, these contracts are awarded only every few years or so.[45]



Geospace is the leader in permanent well monitoring and characterization and has installed the overwhelming majority of these systems worldwide.

When these extraordinary contracts are excluded from the mix, the land-based business is the larger of Geospace's two major product categories. Yet, the burgeoning ocean bottom rental business has been a bright spot throughout the oil and gas depression, with Geospace having been awarded a significant rental contract in the second half of 2015 for its key ocean bottom OBX system. Management believes the company currently is poised to receive further substantial rental contracts for its OBX product line in 2017.[46]

Key competitors in the land-based and marine segment, face severe, near-term, solvency risks

Geospace's two key competitors in the land-based and marine segment, CGG (NYSE: CGG) and Ion Geophysical (NYSE: IO), have not fared well in the current downturn in oil and gas, which also has weighed on sentiment for the industry at large, and consequently contributed significantly to the depressed price of Geospace stock. If any or several of Geospace competitors were to fail, which is entirely possible, especially in the case of the 800-pound gorilla CGG,[47] it would likely result in a market share windfall for Geospace, which, while smaller, is financially stronger and very well-established. However, the market appears to believe (much like the Force Protection situation previously referenced), that bad news for one E&P company is carte blanche bad news for all E&P companies and that a protracted industry-wide downturn will necessarily be equally harmful to each company in the industry. But Geospace does not have any "going-concern" risks and certainly has none of the imminent and very real existential threats associated with the heavy debt loads of its competitors. These competitors also suffer

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[43] Fairfield Nodal, notably has alternative wireless technology it has developed to compete in the PRM space, but the solution is not "permanent" and limited to a 300-day battery life.

[44] The last PRM contract award from Statoil in 2012-2013 exceeded $170 million in value.

[45] It has been almost five years since the last major award, the longest stretch in between contracts since the company installed its first system.

[46] ION Geophysical has expressed the same optimism regarding ocean bottom seismic for 2017-2018 in their Q4 2016 Results Earnings Call - Transcript - Link

[47] CGG traded as high as $1,1106.24 on September 10, 2012. Shares closed on March 14, 2017 at $6.57, a decline of 99.4 percent in the ensuing four years. CGG's 2016 consolidated revenue (which included all business segments) and not just the Sercel business, totaled ~$1.2 billion. Total land and marine equipment sales total $255 million in 2016 and produced minus $42 million in operating income. - Link

from the related operational distractions of financial restructuring where the only certainty seemed to be that common shareholders, to use the colloquial expression, will get "taken for a long ride."[48]

"The average interest of our senior debt should raise up to 5.85% in 2017 from 5.35% in 2016 leading for the Group to an unaffordable $165 million plus cash cost of debt burden"

"In this environment and given delays in market recovery, we do not expect the level of activity to be sufficient to generate the necessary cash flow to service our current level of debt"[49]

CGG's (NYSE: CGG) CEO Jean-Georges Malcor on Q4 2016 Results - Earnings Call Transcript

For example, CGG is already involved in an aggressive restructuring that looks more like a prelude to bankruptcy. Should CGG fail, there is little question there will be a windfall benefit to debt-free Geospace. In fact, aside from likely being cash-flow neutral again in 2017 (sans receipt of any significant contracts, which would only cement cash flow positively in the black), Geospace, unlike its nearest competitors, could easily continue to operate for many years, even in a highly-depressed market for seismic equipment, without the need to leverage its assets.

"...full year we consumed $32 million of cash... Our cash balance, excluding borrowings under our credit facility at December 31, is $43 million."[50]

ION Geophysical's (IO) CFO Steve Bate on Q4 2016 Results - Earnings Call Transcript

"As of December 31, 2016, our total outstanding indebtedness…was approximately $158.8 million…

…additional damages may be awarded as part of the new proceedings before the District Court and we could be required to pay damages up to approximately an additional $44.0 million"[51]

ION Geophysical Corporation (NYSE: IO) FY 2016 Form 10-K

[48] Both Ion Geophysical and CGG have been or are currently or about to engage in significant financial restructurings.
[49] CGG's (NYSE: CGG) CEO Jean-Georges Malcor on Q4 2016 Results – Earnings Call Transcript - Link
[50] ION Geophysical's (IO) CFO Steve Bate on Q4 2016 Results - Earnings Call Transcript - Link
[51] This amount exceeds the amount of cash the company has by one million.

Like CGG, ION Geophysical is in unstable financial condition, burdened with significant debt payments[52] coming due in approximately 15 months and significant liabilities from open-ended multi-year litigation.[53] As such, the future viability of the company is murky. ION shareholders have suffered the consequences with tangible owner equity plummeting from $38.51 per share at calendar year-end 2012 to just $2.29 per share at year-end 2016. During the same period, ION's long-term debt load jumped from roughly $102 million to $144 million and total debt ballooned to $158 million.

ION's future contractual obligations are as follows:

Fig. 2: ION Geophysical's Contractual Obligations as of December 31, 2016

Contractual Obligations	**Total**	**< 1 Year**	**1-3 Years**	**3-5 Years**	**> 5 Years**
Long-term debt	$ 149,066	$ -	$ 28,497	$ 120,569	$ -
Interest on long-term debt obligations	59,693	13,609	34,854	11,230	-
Revolver credit facility	10,000	10,000			-
Equipment capital lease obligations	3,446	3,166	280	-	-
Operating leases	78,118	10,947	29,164	29,860	8,147
Purchase obligations	1,197	1,197	-	-	-
Total	**$ 301,520**	**$ 38,919**	**$ 92,795**	**$ 161,659**	**$ 8,147**

Source: ION Geophysical 2016 Form 10-K

As these obligations demonstrate (which exclude future legal obligations), ION Geophysical barely has enough cash on hand to cover its contractual obligations in the next twelve months, and falls radically short of the cash required to cover obligations in the next one to three years. The company's options appear limited to leveraging the remaining assets further by raising more debt, further diluting shareholders, or some combination of both. If ION's creditors are unwilling to extend new or more flexible terms, and if the legal liabilities result in a near-term order to pay additional damages[54], the company's only choice may be a further restructuring or dissolution in bankruptcy.

Management's thesis on its Geospace commitment can be distilled to the following question: "Will there be future demand for seismic equipment in E&P?" This, of course, is nearly synonymous with asking: "Will there be future demand for stable energy markets?" Since there is no commercially viable technology to displace seismic in exploration and production, and wells, by their nature, deplete[55], seismic studies in exploration and production are directly correlated to stable energy markets, unpopular though manufactures of such equipment may be in the current market environment.

If the answer to these questions is "yes," then there is perhaps no company better suited for a cyclical recovery in E&P spending than debt-free Geospace. Volatility after all works on the up and downsides. Conversely, if the

[52] For example, the word "debt" appears 129 times in ION Geophysical's 2016 form 10-K, 235 times in CGG's 2015 form 20-F and just 29 times in Geospace Technologies 2016 form 10-K

[53] The company may be required to pay damages up to approximately $44 million.

[54] The company will almost certainly have to pay additional damages in the case. The only uncertainty is the timing of the obligation.

[55] Management is unaware of any business in any industry that can maintain output without investment.

answer is "no," then the seismic shifts in the global economy (not unlike managements 2010-2012 thesis on memory and storage as it related to Western Digital) would have to be so massive to render trillions of dollars of existing investment in energy markets and infrastructure futile. Management is confident staking a large part of the partnership's capital on the former.

Yet investments are always a function of time. Given the unprecedented downturn in oil and gas which began in mid-2014, there can be little question that time, as of late, has worked against Geospace, leading to sustained operating losses (although in large part non-cash) and a drawdown in the value of both the company's short and long-lived assets[56] in part because of dramatic underutilization[57] of these assets. Yet, if one subscribes to the rational notion that oil markets (which have always been cyclical), are likely to recover, then time bodes well for Geospace insofar as their competitors, both large and small, are saddled with debt and face potential insolvency.[58]

The weight of this last point is also critical to buyers of seismic equipment who place not only a high value on a product's historical performance but also the ongoing engineering and field support provided by the product's manufacturer. Once a company is marked as failing, it can become a self-fulfilling prophecy as customers, like lenders, back away at precisely the time they are needed most.

The E&P sector, like virtually all industries, functions through market cycles. Downturns tend to have the effect of pruning the weakest players, while a return to an upswing almost always strengthens and enlarges the survivors. A good recent analogue might be the crisis in banking during the recent Great Recession during which several large banks failed but those that survived went on to emerge as significantly larger entities. It is worth pointing out that world oil demand has grown constantly in recent years and that the downturn was supply (a temporal problem) and not demand driven[59].

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[56] Although the assets have been judiciously written down in accordance with GAAP, management does not believe the impairments reflect actual depletion. Rather, management believes the company's real assets available for future production are greater than those recorded presently on the balance sheet. For example, inventory obsolescence expense and inventory write-downs totaled approximately $11.2 million at FYE 2016, an exponential increase over the $3.9 million taken in 2015 and the $2.6 million write-down taken in 2014.

	AS OF SEPTEMBER 30, 2016			
		2016		**2015**
Finished goods	$	40,260	$	55,074
Work in process		8,272		5,632
Raw material		**65,682**		**70,769**
Obsolescence reserve		(9,674)		(6,675)
	$	104,540	$	124,800

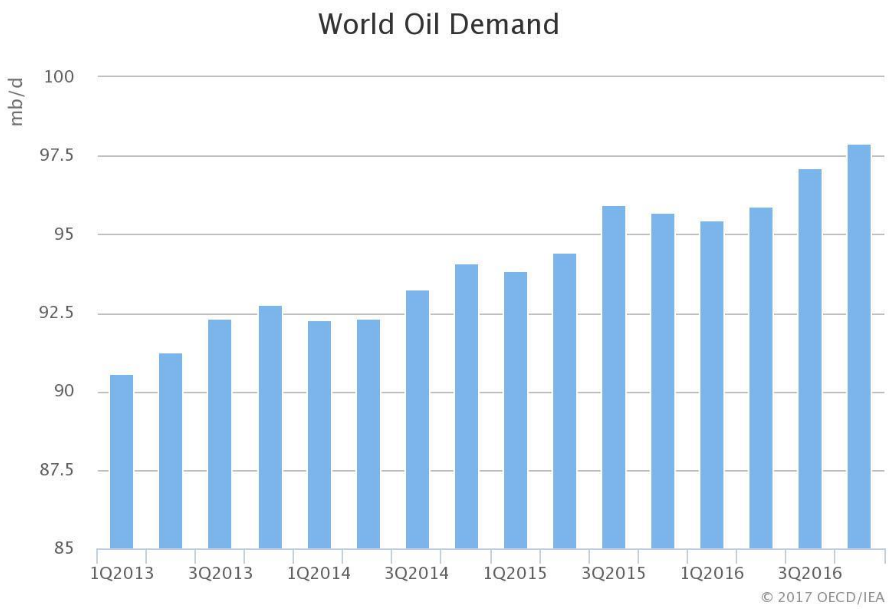
Source: GEOSPACE TECHNOLOGIES (NASDAQ: GEOS) FY 2016 FORM 10-K

[57] This includes both its large fleet of rental equipment, which is subject to depletion, as well as unabsorbed factory overhead.

[58] Even in a bankruptcy event, the companies would not necessarily cease to exist, and could continue to exist in recapitalized form, yet the distractions of such restructurings on management cannot be overstated.

[59] This last point is important as stable supply will require future investment. If the problem were demand-driven, it could be argued that oil and gas are simply in a secular decline.

Fig. 3: World Oil Demand: Q1, 2013 - Q4, 2016



Source: international Energy Agency (IEA)

During 2016, management increased its stake in Geospace by 412,354 shares,[60] bringing the total number of shares owned to 1,200,000[61], or about nine percent of the company's outstanding shares. By year-end 2016, the market value of those shares was $24,432,000, an increase of $13,349,821 over the year-end 2015 market value of the stake.[62] A more extensive discussion regarding the rationale behind the continued purchase of the stock exists in the Fund's 2014 and 2015 Annual Reports.[63]

As the price vacillated during 2016 and into early 2017, management's commitment to ownership remained unchanged. Should the price decline significantly, management will likely seek to add further to its Geospace committment.

"…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"[64]

[60] Management spent $3,009,971 in early 2016 to purchase an additional 318,501 of these shares at an average price per share of $9.45, and continued to buy throughout the year.
[61] This represented an increase of 52.4 percent over year-end 2015.
[62] At year-end 2015, the Fund held 787,646 shares at a market value of $11,082,179
[63] The Amvona Fund, LP – 2014 and 2015 Annual Reports - Link
[64] The Amvona Fund, LP – 2015 Annual Report - Link

Although Apple's price rose 9.94 percent in 2016, Geospace's stock price rose 43.08 percent, significantly outperforming its competitors and validated management's decision to reallocate capital between the two commitments in late 2015 and early 2016.

Fig. 4: Geospace Technologies Price % Change vs. Apple: January 1, 2016 - December 31, 2016

Source: YCHARTS

Fig. 5: Geospace Technologies Price % Change vs. Competitors: January 1, 2016 - December 31, 2016

Source: YCHARTS

The Domino's Pizza Short

Domino's Pizza (NYSE: DPZ)
Quick Service Restaurants
41,677 Shares Short at YE 2016
Market value: $(6,636,645)

> *"As it relates to an increase in shareholder value, the price of the Company's common stock has increased from $12.29 per share to $187.45 per share, or 1,425%, during Mr. Doyle's seven-year tenure as CEO."*

DOMINO'S PIZZA DEFINITIVE PROXY – DEF 14A – MARCH 16, 2017

At year-end 2016**,** Domino's Pizza was the Fund's largest short position with 41,677 shares sold short. Management is confident in its short thesis on Domino's, and accordingly has continued to short the stock in the first quarter of 2017. If the price remains high or climbs, management intends to significantly increase the size of its short stake.

There are two primary reasons why management is short Domino's:

1. The reckless borrowing and wild stock promotion[65] of the current leadership at the firm is 100 percent unsustainable; and
2. The company's current share price is vastly overvalued, reflecting the worst of a stubborn bull market that has resulted generally in equity prices far exceeding the country's real economic output (see "Getting Our Pants On" below).

The following are three key things that Domino's current CEO J. Patrick Doyle has done since taking over as CEO in March of 2010 and February 28, 2017, (a period of seven years):

1. Further leveraged the company's balance sheet by dramatically increasing long-term debt and total liabilities (total liabilities increased by 51.34 percent to $2.59 billion).
2. Further destroyed shareholder value by dramatically increasing the shareholder deficit by about $600 million to minus $1.88 billion.
3. Increased the stock price by 1,390 percent while increasing TTM Revenue by just 68.97 percent, or a ratio of stock price increase to TTM revenue increase of a whopping 20+-fold.

Stock Price % Increase / TTM Revenue % Increase = >20X

[65] Aside from the CEO"s repeated appearance in financial media promotion the company, Domino's has gone further by introducing the idea of stock ownership directly its customers. For example, in December 2016 the company announced that members of Domino's "Piece of the Pie Rewards" program were eligible for a chance to win 10 free shares of Domino's stock. The release suggested that pizza lovers who were "lucky" enough to win the shares, could use the shares to start a stock portfolio. This highly suggestive and broadly syndicated message is a powerful marketing trifecta linking in the minds of average consumer's epicureanism, good fortune and investment - Link

Fig. 6: Domino's Pizza's Stock Price, Total Liabilities and Shareholder Deficit: March 1, 2010 – February 28, 2017

Source: YCHARTS

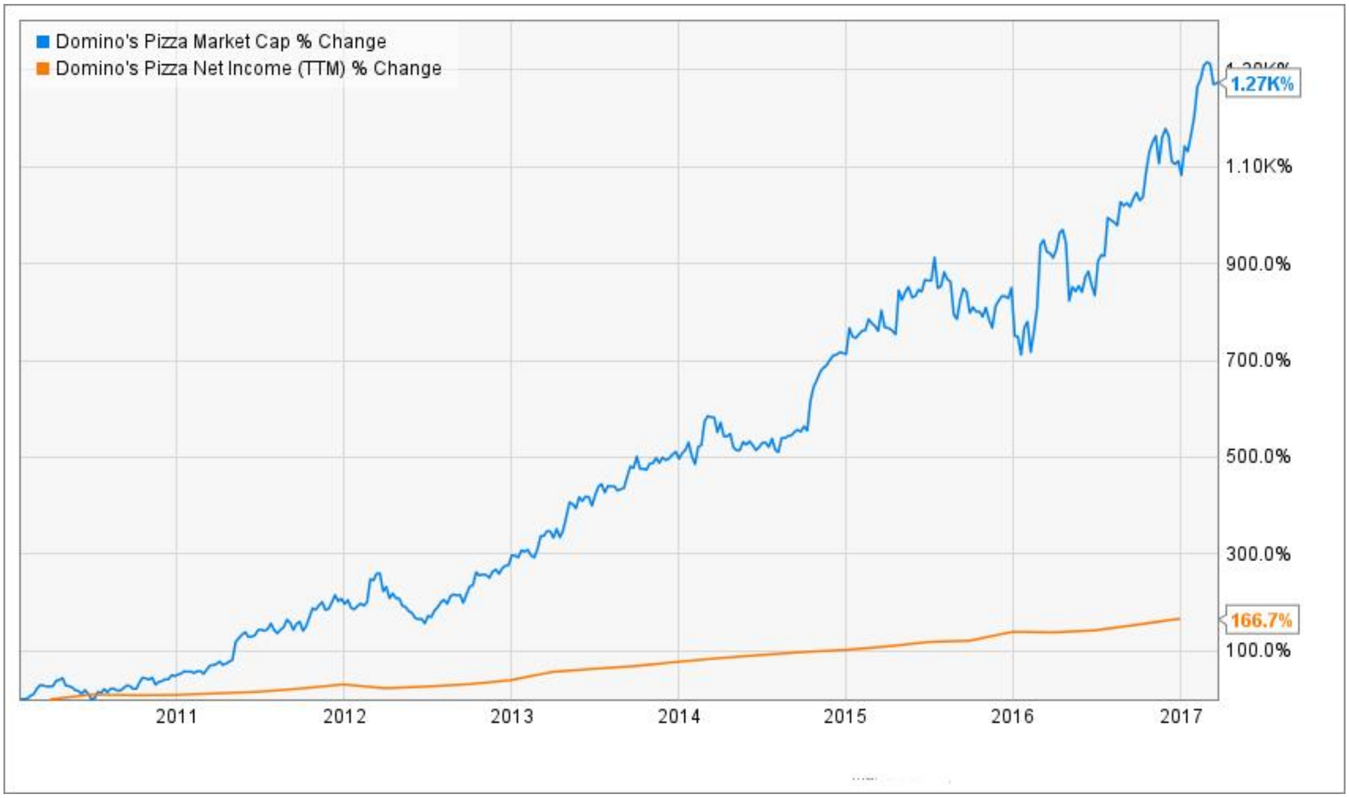
Interestingly, the increase in Domino's total liabilities mirrors almost exactly the expansion of the shareholder deficit entry, creating an almost 1:1 inverse relationship (see Figure 6 above).

Between FYE 2010 and FYE 2016, net Income at Domino's rose just $127 million[66] and free cash flow just $126 million.[67] During the same time frame, however, the market capitalization of the company grew from $958 million to 7.67 billion, and currently sits at an eye popping $8.85 Billion, an increase of roughly $7.9 billion. Put another way, for every extra dollar of net income the firm earned between 2010 and late March 2017, the company's market capitalization increased by roughly $62 dollars.

[66] From $88 million at FYE 2010 to $215 million at FYE 2016

[67] From $103 million at FYE 2010 to $229 million at FYE 2016. In 2016 for example the company had $287 million in cash flow from operations, but used $300 million for the repurchase of stock, $59 million for net issuance of debt (which was offset by $58 million in other financing) and $74 million for dividends. This resulted in minus $376 million in cash flow from financing and a net change in cash of minus $91 million.

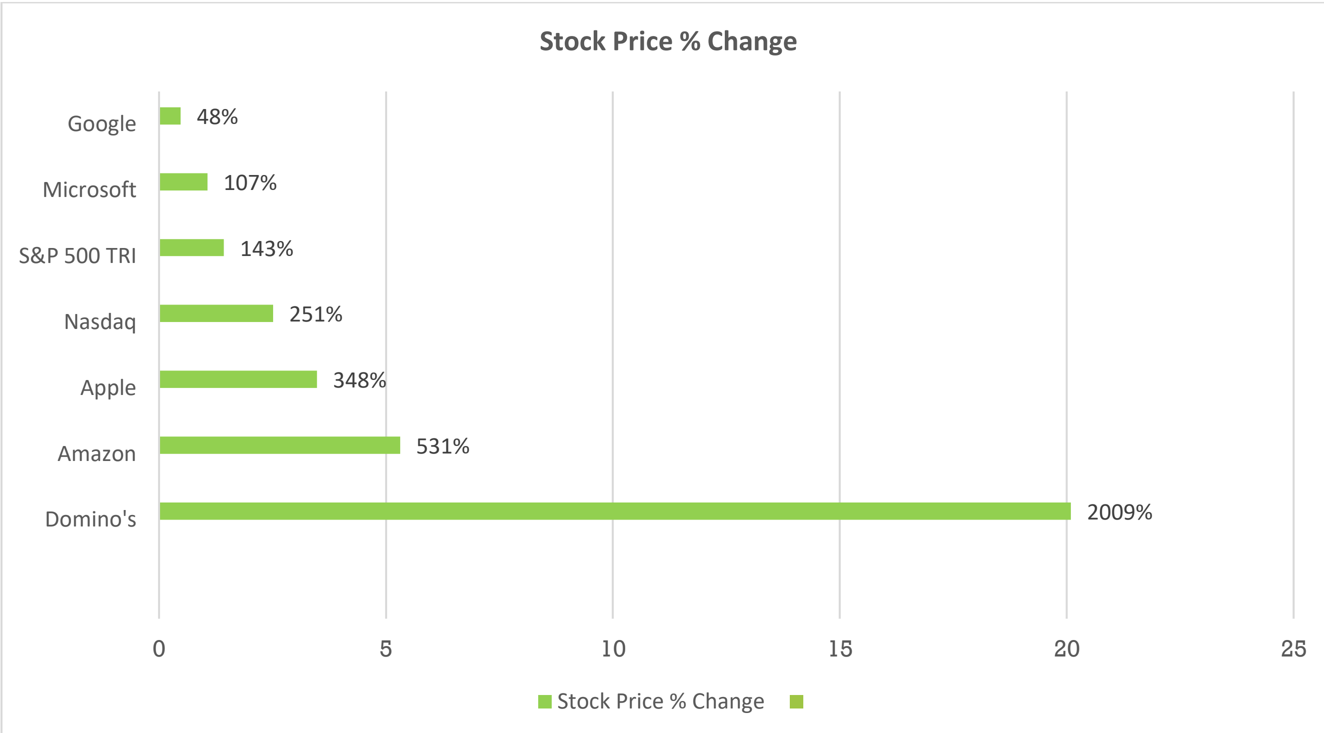
Fig. 7: Domino's Pizza's Market Cap. % Change vs. Net Income % Change: January 1, 2010 – February 28, 2017



Source: YCHARTS

Since Domino's is using "Technology" as the rationalization of its stock price performance, it seemed reasonable to look at how a few other well-known technology stocks performed (stock price % change) between January 1, 2010 and February 28, 2017:

Fig. 8: Domino's Stock Price % Change vs. Major Technology Companies and Indexes: Jan 1, 2010 – Feb 28, 2017



On January 1, 2017, Domino's had roughly $43 million in cash and cash equivalents on their balance sheet. The following is a summary of Domino's significant contractual obligations as of January 1, 2017.

Fig. 9: Domino's Pizza's Significant Contractual Obligations

(dollars in millions)	2017	2018	2019	2020	2021	Thereafter	Total
Long-term debt:							
Principal	$ 38.6	$ 38.6	$ 878.5	$ 488.0	$ 8.0	$ 752.0	$ 2,203.7
Interest	99.2	97.6	54.3	48.3	33.7	125.6	458.7
Capital leases	0.8	0.8	0.8	0.8	0.8	5.2	9.3
Operating leases	45.3	40.6	34.8	29.1	25.4	55.9	231.1
Total:	**$ 183.9**	**$ 177.6**	**$ 968.4**	**$ 566.2**	**$ 67.9**	**$ 938.7**	

Source: Domino's 2016 Form 10-K

Perhaps most notable is the $879 million-dollar principle payment due in 2019, and the $488 million due the following year.

Between 2014 and 2016 alone, Doyle received compensation of approximately $25 million as follows:

Fig. 10: Domino's Pizza's CEO Patrick Doyle Compensation 2014-2016

Year	Salary ($)	Stock Awards ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($) (3)	Total ($)
2016	1,015,192	1,888,923	2,101,620	3,292,300	338,268	8,636,303
2015	965,385	2,894,463	2,047,526	2,669,550	400,489	8,977,413
2014	915,481	2,159,554	1,665,164	2,255,150	457,672	7,453,021
					Total:	25,066,737

Source: Domino's Pizza Definitive Proxy – DEF 14A – March 16, 2017

For 2016, the stock option grant value is based on a Black-Scholes value on February 24, 2016 of $25.142 per share and the performance share grant value is based on the closing stock price on February 24, 2016 of just $117.61 per share (Domino's share price has risen as high as $192 per share recently).

But that was small potatoes compared to Doyle's overall option exercises and stock vesting during 2016:

Fig. 11: Domino's CEO Patrick Doyle option exercises and stock vesting during 2016

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($) (1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) (2)
J. Patrick Doyle	200,000	$ 24,669,422.00	23,224	$ 2,864,259.00

(1) Equals the closing price of Domino's Pizza, Inc. common stock on the NYSE on exercise date minus the option exercise price multiplied by the number of shares acquired on exercise.

(2) Equals the closing price of Domino's Pizza, Inc. common stock on the NYSE on vesting date multiplied by the number of shares acquired on vesting, and an accrued cash dividend for each quarterly dividend paid prior to vesting.

Source: Domino's Pizza Definitive Proxy – DEF 14A – March 16, 2017

In the event of Doyle's termination of employment, he is poised to receive a staggering $23,649,554 payment.

Curiously, the proxy statement reports:

"Awards under the Company's EIP in the form of stock options and performance shares are designed to reward demonstrated leadership, motivate future superior performance, align the interests of the CEO with the shareholders and to retain the CEO."

DOMINO'S PIZZA DEFINITIVE PROXY – DEF 14A – MARCH 16, 2017

This statement left management wondering which shareholders were being referred to and how share price (which effected management compensation) could be so casually interchanged with "shareholder value"? The 2016 proxy statement has no less than twelve references to "stock price", but just two to "shareholder value", the second of which mistakenly equates the former with the latter. The results of such a failure in corporate governance are inevitably the use of senseless leverage, and a CEO geared not to creating enduring, tangible shareholder value but rather pumping his own stock, which almost always results in disaster for common shareholders over the long run. For example, if Doyle was terminated, he would leave with an enormous golden parachute and no consequences of his debt-fueled stock price bonanza he ran up through tireless stock promotion and excessive borrowing. Shareholders, on the other hand, would be left saddled and responsible for the full $2.6 billion in debt used to drive the share price higher and a gapping multi-billion-dollar shareholder deficit.

If ever a CEO was rewarded for levering up a balance sheet to drive the price of his own stock up, shareholder equity be damned, this must be it. But this shining example of board-sanctioned gravy-train-wealth-transfer doesn't stop there. As part of his compensation plan, Doyle also has been given the keys to Domino's Dassault Falcon 2000EX ($34 million-dollar price tag), which *Robb Report* characterized as "Best of the Best 2011" for personal use.[68]

The company's 2016 proxy statement proclaims, "As it relates to an increase in shareholder value, the price of the Company's common stock has increased from $12.29 per share to $187.45 per share, or 1,425%, during Mr. Doyle's seven-year tenure as CEO." This statement of course omits the fact that Doyle took over very near the nadir of the stock market crash that was the defining aspect of the Great Recession of 2007-09 and enjoyed some of longest-running, easiest and lowest cost borrowing rates in U.S. history in the seven years that followed as part of the ensuing great bull run that is the U.S. stock market today. Nor is there any mention of the shareholder deficit, or the enormous leverage Doyle has used to drive the stock price higher.

Boxed in

The two financial dynamics advancing market sentiment at Domino's are share repurchases which boost earnings per share (EPS) and increasing dividends which attracts income seeking investors. Domino's has used tremendous debt to fund both. However, because of the increasing shareholder deficit at Domino's it is likely the company will not be able to continue to borrow to fund these activities at the same rate it has in the past or at all, which will likely result in an eventual decrease in EPS growth and a suspension of dividend increases and/or the dividend altogether. Either or both events will likely serve as a catalyst for a change in investor sentiment.

Had the company not spent over $1.12 billion on stock repurchases in the last three years, percentage growth in EPS would have mirrored percentage growth in net income which averaged approximately 14.5 percent over the last three years, or roughly 12.5 percent net of inflation. During the same time, the stock price increased by an average of 32.2% or roughly 30.2 percent net of inflation, nearly tripling the rate of growth of Domino's overall nominal earnings over the last three years.

Normally a stock repurchase is a positive for common shareholders, assuming the aggregate purchase price of the shares is in the interest of the company's shareholders and the company is adequately capitalized to execute such a program. However, the price Domino's has been repurchasing stock at in the last few years has been dear,[69] especially given the fact that the company is vastly and dangerously undercapitalized.

Further, Domino's repurchase program is indicative of an inherent conflict of interest between Domino's senior management and long-term shareholders, consider the following:

[68] Domino's Pizza Definitive Proxy – DEF 14A – March 16, 2017

[69] Management would not purchase Domino's at any price given the company's precarious capitalization.

1. The company must continue to borrow in an environment of increasing interest rates if it is to extend the repurchase program and continue to fund dividend increases.

2. Doyle is richly rewarded by a high stock price (that directly affects his compensation), driven in part by high-priced, debt-fueled stock repurchases made at ever-increasing and unfavorable prices that skew EPS growth figures, but leaves long-term shareholder[70] saddled with enormous high-risk debt.

The following is a few key financial metrics from Domino's Financial Statements:

Fig. 12: Key Statistic: Domino's Financial Statements

	2016	2015	2014
Net Income	$ 214,678,000	$ 192,789,000	$ 162,587,000
Net Income % Growth	11.4%	18.6%	13.7%
Diluted EPS	$ 4.30	$ 3.47	$ 2.86
EPS growth	23.9%	21.3%	15.3%
Shares Outstanding (Diluted Average)	49900000	55500000	56900000
Tangible Book Value Per Share	$ (40.44)	$ (33.92)	$ (22.62)
Market Capitalization	$ 7,674,000,000	$ 6,080,000,000	$ 5,231,000,000
Repurchase of stock	$ (300,250,000)	$ (738,557,000)	$ (82,407,000)
shares repurchased	2816716	$ 6,152,918	$ 1,151,931
Average price paid per share	$ 107	$ 120	$ 72
Cash Flow for Dividens	$ (73,925,000)	$ (80,329,000)	$ (52,843,000)
Net Cash used in Financing Activites	$ (375,792,000)	$ (80,936,000)	$ (118,898,000)
Liabilities	$ 2,599,000,000	$ 2,600,000,000	$ 1,816,000,000
YE Stock Price	$ 159.24	$ 111.25	$ 94.17
Stock Price % Growth	43.1%	18.1%	35.2%

	2016	2015	2014
Net Income	$ 214,678,000	$ 192,789,000	$ 162,587,000
Net Income % Growth	11.4%	18.6%	13.7%
Diluted EPS	$ 3.77	$ 3.39	$ 2.86
EPS growth (with static share count):	11.4%	18.6%	15.2%
Shares Outstanding (Static)	56900000	56900000	56900000

[70] Total insider stock ownership is just .67 percent

The strategy: Technology

Doyle has created fantastic but wholly unjustified excitement around the stock with all the talk of the prospective impact of technological advances at the company, including everything from apps to order food, to drone and autonomous vehicles for delivery to the use of voice through artificial intelligence to increase efficiency in the order process (think Amazon's Alexa, Google's Home and Apple's Siri). The problem, however, is that none of the technologies Doyle is plugging as part of Domino's blistering hot ~1400 percent stock price pump, which is making Doyle a very rich man, creates any sort of durable competitive advantage for Dominos. In fact, it is little more than a rehashing of the broader technological shifts taking place in the society at large that are being developed and driven not by Domino's but by real technology companies such as Google, Amazon, Microsoft, Apple, Uber, etc. It is those companies, not Domino's that will be the eventual beneficiaries of this new technological shift. Domino's will be in the end, as it is today, a customer of those companies' products, paying a toll, in one way or another, for the use of the technology, the same way it pays for labor costs today.

Doyle recently discussed Domino's prospective use of delivery "platforms" and voice technologies in a CNBC interview.[71] Autonomously driving cars and drones already exist, and it is basically a foregone conclusion for example that they will replace virtually all new car sales sometime in the next decade. This will take place in parallel with the rise of fleet vehicles, which will increase the utilization of automobiles, and parenthetically costs, dramatically and largely diminish personal ownership. Autonomous vehicles will create tectonic shifts in our society, vehicle ownership and the way civic maps are drawn. How, then, is the enterprising investor to convince him or herself that this society-wide shift will uniquely benefit Domino's over competitors Pizza Hut (NYSE: YUM), Papa Johns (NASDAQ: PZZA) or Chipotle (NYSE: CMG)? Fast food king-pin McDonalds (NYSE: MCD), among others, has also recently expressed an interest in expanding its delivery business, which is already massive in China and other non-U.S. markets. Perhaps even more important, it will enable local pizza players, who often have a superior product to Domino's, to utilize the same technology platforms for efficient ordering and delivery, eliminating one of the core advantages Domino's has maintained over competitors.

Is the prospective Domino's investor to imagine that Domino's alone will have its pizza being ordered and delivered via AI voice commands and autonomous vehicles and all the related efficiencies and cost savings at a time when virtually every other vehicle on the road and in the air is also fully autonomous? Are they to believe that Papa Johns, Pizza Hut and other competitors will somehow still be utilizing vintage cars driven by high cost human labor, to deliver food that was perhaps called-in on a rotary phone?

If anything, low cost, autonomously-driven vehicles and related technologies such as drones and voice commands powered by increasingly sophisticated artificial intelligence are not going to be to Domino's advantage over the long-run. Rather, they represent one of the greatest existential threats, eliminating the one core competency the company still clings to: delivery[72]. The rise of artificial intelligence and autonomous vehicles will open the flood gates to every restaurant chain to execute low-cost, dependable, safe delivery, from Shake Shack (NYSE: SHAK) to the local Chinese food restaurant. Large (real) technology companies, whose cut of the pie in this technology shift will depend on broad utilization will ensure that these technologies are as widely and evenly available as possible.

[71] "After betting big on digital, Domino's Pizza is now eyeing voice technology," CNBC, March 16, 2017 - Link

[72] In fact, the company regularly refers to itself as "recognized world leader in pizza delivery", and interestingly, not as "world leader in pizza taste" or "world leader in pizza quality" - Link

In the end, at least stock promotion at the company hasn't gotten so bad that they've got the New York Stock Exchange posting pictures on their Twitter account with brokers posing with Domino's pizza on the floor of the stock exchange and suggestively giving a "thumbs-up". [73]

The story of Domino's and its CEO is emblematic of the worst of corporate governance at the board level. When the CEO's compensation is tied to stock price performance rather than the creation of enduring shareholder value, management is willing to bet, the story, like all the analogues to come before it, will not end well for common shareholders.

Expense Ratios

Expenses are an extremely important aspect of any investment operation and must be carefully accounted for. Although the figures as a ratio may appear immaterial in relation to the overall assets of the Fund, expenses can significantly diminish returns over time and compound, thus reducing the wealth accrued to the partners who choose to own productive assets through the Fund.

In 2016, the average expense ratio (which includes the management fee but does not include any performance allocations) increased to 0.227 percent from the 0.172 percent inception to date (ITD) figure.[74]

The following are the average monthly expense ratios for the onshore Amvona Fund, LP and the offshore Amvona Fund, Ltd.[75]:

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[73] https://twitter.com/NYSE/status/841663519082893312
[74] Representing an increase of roughly 31.98 percent over the inception to date average.
[75] This section of the report has been moved up from "Selected Financial Data" and inserted into the investor letter section of the annual report this year to bring greater attention to these important measures.

Fig. 13: Amvona Fund, LP (onshore) and Amvona Fund, Ltd. (offshore) YTD and ITD Monthly Expense Ratios[76]

Period Expenses	Total	Domestic	Offshore
Average YTD Monthly Expense Ratio	0.227%	0.199%	0.325%
Average ITD Monthly Expense Ratio	0.172%	0.159%	0.288%

As these figures indicate, the expense ratio for FY 2016 was notably higher than the ITD ratio, a trend management expects to reverse in FY 2017.

*Data prior to June 1, 2016 was calculated by the Fund's former admin ALPS.

Organizational Update

The fund lost one of its most trusted advisors and long-term legal counsel to both management and the Fund, Douglas MacLean, who passed away unexpectedly on February 6, 2017. Doug was just 45 and leaves behind a wife and four beautiful children. Beyond being a trusted advisor, Doug had become a close friend to management - he is sorely missed. David Montoya and his firm Robinson Brog will be taking over as outside legal counsel to the Fund.

At the beginning of 2017, our chief investment officer Jim Madison returned to the non-profit world after spending several years as CFO of Lemelson Capital Management. Jim did a fantastic job in his role as CFO, and assisting our very capable new CFO John Zoraian who worked together with Jim through most of the end of 2016 to ensure a smooth and successful transition.

In 2016, we were also pleased to have the noted American economist and investment manager Warren Mosler join our board of advisors. Warren is a former bank owner, founder of Mosler Automotive, and a co-founder of the Center for Full Employment and Price Stability at University of Missouri-Kansas City. Management expects to expand its advisory board even further in the future.

Management also appreciates the ongoing, long-term relationships with Edelstein and Company, LLP, who serve as both the fund's auditors and tax professionals, The Private Bank and Harney's who has served as outside independent directors to The Amvona Fund, Ltd. as well as BVI counsel.

[76] Beginning on June 1, 2016, interest and short interest expense were excluded from the expense ratio calculation as these expenses are more appropriately classified as costs of investments and not operating expenses. Given this material change in accounting, the table above does not adequately convey the significant, relative increase in Fund expenses that occurred in 2016. Due to a variance in how the former administrator booked directors' fees, the onshore fund total expenses and related ratio are overstated by $2,463, or .033% of the Domestic Fund's beginning net asset value. This figure also differs materially from the expense ratio calculated in the Fund's audited financial statements due to different calculation methodologies. For instance, the audited financial statements do not include the general partner's capital and are based on a weighted average net asset denominator on an annual vs. monthly basis.

Getting our Pants On

Management has long believed that markets have become overvalued in recent years. If there is a common challenge posed to the results the partnership has earned since its inception, it has been that the Fund has only yet existed in a rising market. While true, these detractors may have overlooked management's focus on shorting stocks since 2014, an activity that has been fruitful[77], despite the challenges to shorting in a seemingly ever-rising market. This success is perhaps a testimony to management's lack of orthodoxy in its approach to allocating capital. In fact, it's hard to imagine a worse time to be a short seller than the last few years.

As the nearly eight-year bull market pushes ever higher, market participants seem content. Perhaps nowhere is it more true that happiness coalesces with being incredulous, than it is on Wall Street. Since the November election, it seems that hardly a day goes by that market indexes don't achieve yet another new record high. For many, this unfortunately will become the only affirmation needed to join the party, and becomes a sort of self-validation that markets really are "efficient" or that "this time is different".

The media does little to restrain this irrational conduct, particularly since it can ply a profitable trade in producing distorted and often outright fake news. In the realm of personal reputations, this reprehensible conduct can be extremely damaging. The founder and CIO of Bridgewater Associates, Ray Dalio, articulated this well in his January 3, 2017 essay, "The Fake and Distorted News Epidemic and Bridgewater's Recent Experience with *The Wall Street Journal*,"[78] which everyone should take the time read. President Trump has done perhaps more than anyone to constructively bring the epidemic of distorted and fake news to the forefront of the national interest. Whatever one may think of the President's political positions, it is hard not to admire his fearlessness in challenging almost single-handedly an out-of-control, biased and agenda-driven media.

In the market for public securities, distorted news has the same destructive effect it can have on personal reputations, often driving price-value dislocations and volatility as truths along with underlying facts are distorted, omitted or faked. That is not to say that fake news alone drives market prices. The truth, which is far more powerful, can have the same effect if delivered effectively. However, the truth is usually not as enticing to readers, particularly when it interferes with the confirmation bias of a group. Further, uncovering the truth usually involves a great deal of effort and work, something the average political or financial journalist seems averse to doing. Distortions of the truth are not only easier to write, they spread much faster in a viral world of social media. Nothing can be more effective in misleading the public than a little omission here and a little distortion there.

As Winston Churchill once said, "A lie gets halfway around the world before the truth has a chance to get its pants on."

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[77] This is especially true for example of the significant gains made by selling short World Wrestling Entertainment and Ligand Pharmaceuticals in 2014, and the significant gain management expects to earn on its current short position in shares of Domino's. Management has largely been correct on virtually all its short positions, but has not always taken significant positions in those shorts.

[78] "The Fake and Distorted News Epidemic and Bridgewater's Recent Experience With *The Wall Street Journal*," Linkedin, January 3, 2017 - Link

For the patient investor who doesn't mind taking the time to get his or her pants on chances are the financial news media will have delivered some distortion that will have gotten halfway around the world, driving prices either up too far, or down too far, and giving rise to exactly the sort of price-value dislocations the enterprising, hard-working, prepared, value-oriented investors so often seeks to identify.

One way to look at how expensive markets are (or aren't) is to view the rise in broad indices such as the Wilshire 5000 Price Index and their correlation with U.S. gross domestic product (GDP)[79] growth. A basket of 5000 issues should reflect approximately the productive economic output of the country at large. Looking back over the last thirty years, however, it is abundantly clear that not only has the increase in equity prices from time to time risen significantly beyond GDP growth, but the increases in equity prices have also become more and more acute. In each case, these excessive run-ups in price have been followed by precipitous and violent declines. For a time prior to the mid-1990s, growth in equity prices trailed that of GDP more or less. After that time price volatility increased exponentially. The most recent examples of extreme increases in price followed by recessions (gray bars) can be witnessed in the 2001 and 2008 recessions. The following chart, which shows equity prices through late March 2017 in relation to GDP, calls to mind the thought that Mark Twain's aphorism, "History doesn't repeat itself but it does rhyme," might well be true.

Fig. 14: Wilshire 5000 Price Index % Change to US GDP % Change – March 22, 1987 to March 21, 2017

Source: YCHARTS

[79] Gross domestic product (GDP) is one of the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific period; in other words, the size of the economy.

Since the financial crisis, the world has continued to borrow significantly, adding nearly sixty trillion dollars of debt since 2007 and pushing the global debt load to two hundred trillion, nearly three times the size of the entire global economy,[80] Given the Fed's monetary policy during the same time frame, large swathes of corporate America couldn't resist the temptation to lever-up as well.

Update: Investor Activism

A Post-Mortem of the Skechers (NYSE: SKX) Short

2016 included events that continued to make management's 2015 Skechers short[81] appear particularly prescient. The following is a timeline of events:

June 5, 2015: Management announces on the media outlet Benzinga that the firm is short shares of Skechers, saying of the stock price that "the wheels have come off." Management said further that, "this company is still probably worth… maybe $60 per share" ($20 adjusted for 3:1 split). Skechers shares closed that day at $36.59 on a split-adjusted basis, or $109.77 a share pre-split.

For a transcript of some of management's June 5, 2015 Skechers commentary, click here

June 6, 2015: Benzinga publishes an article titled "This mega-hedge fund manager is short Skechers," and quotes management as saying there would be "a steep decline in value."

To read the full Benzinga article, click here

August 5, 2015: Shares of Skechers closed at a split-adjusted price of $53.43 ($160.29 pre-split).

August 12, 2015: Management appeared on Benzinga again discussing the fund's short stake in Skechers, saying "I think they'll have a precipitous fall" (18 min. 30 sec. mark) and explaining that Lemelson Capital Management had continued to short the company. Shares closed that day at a split-adjusted price of $49.65 ($148.95 pre-split)

To listen to the full interview, click here

September 25, 2015: Management again appears on Benzinga Pre-Market prep-show discussing Skechers saying, "it's radically over-priced" and indicating that Lemelson Capital had increased its short position and that the firm's

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[80] The World's Debt Is Alarmingly High. But Is It Contagious?, Bloomberg, February 22, 2016 - link

[81] Previously, management had been long shares of Skechers between 2011 and 2012, purchasing the shares for as low as $11.86 per share. The following articles explained the rationale for the long position 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)

"average short price is around $132" ($44 on a split adjusted basis). Management also states that the firm would "keep shorting" the shares.

To listen to the full interview, click here

October 23, 2015: Shares of Skechers plunge from $46.19 per share to $31.64 per share, a drop of 31.5 percent in one day. *Benzinga* publishes an article titled "Lemelson: Skechers still a short after losing a third of its share value". The article states, "Shares of Skechers USA plunged more than 30 percent after the company's third-quarter top and bottom line fell short of expectations," and quotes management as "valuing the stock in a range of $13-$20 per share."

To read the full article, click here

July 22, 2016: Shares of Skechers fall 22.3 percent from $32.18 to $24.99 per share.

August 2, 2016: Approximately one year after management says Skechers shares will "…have a precipitous fall" and approximately nine months after management values the shares in a range between $13 and $20 per share, shares of Skechers close at $22.88, a decline of $30.55, or 57.2%, from its August 5, 2015 closing price.

October 21, 2016: Shares of Skechers plunge again and close that day at $18.98 per share, exactly within the range management had forecast on October 23, 2015 (almost exactly one year earlier).

Ligand's key royalty generating asset fails, firm writes down value of Viking entry (NASDAQ: LGND)

On June 16, 2014, management released an initial 25-page research report on Ligand Pharmaceuticals, pointing out severe competitive threats to the company's key royalty-generating assets. On July 3, 2014, management published an appendix to the initial report, chronicling accounting malfeasance at Ligand, particularly as it related to the company's reporting of debt expense and its handling of its Viking Therapeutics stake. On August 4, 2014, in a follow-up report, management specifically wrote:

> *Kyprolis also faces an extraordinary competitive threat from two entrenched multiple myloma (MM) indications, Celgene's (NASDAQ:CELG) Revlimid and Takeda Pharmaceutical Company Limited's (OTC:TKPYY) Velcade.*

In September 2016, Amgen Executive Vice President of Research and Development Sean Harper noted that a late-stage Kyrprolis study did not meet its goal in improving progression-free survival versus Velcade in patients who had not yet been treated for the disease. Shares of the company plunged as much as 13 percent on the news.[82]

Subsequently in November 2016, Ligand announced that it would restate its financial statements for multiple quarters due to a material error and that the company did not maintain effective controls over the accuracy and

[82] Shares of Ligand plunge 12% after Amgen drug misses study goal, CNBC, September 27, 2016 - Link

presentation of its accounting.[83] [84] The company was also later forced write-down the value of Its Viking Therapeutics holdings as well.

By late 2016, ten U.S. law firms announced investigations into Ligand for breaching their fiduciary duties to shareholders and for securities fraud. During this same period, eleven U.S. law firms filed class action lawsuits against Ligand, alleging materially false and misleading statements by the company and its management.

Ligand's stock has since fallen as much as 40 percent off its highs, and management believes this downturn will continue to accelerate.

On December 19, 2016 management released a nine-page letter to the U.S. Senate Special Committee on Aging summarizing extensive alleged abuses of accounting, pharmaceutical reimbursement and classification guidelines and regulations by Ligand and urged the U.S. Food and Drug Administration, U.S. Department of Health and Human Services, and other appropriate federal and state regulatory and investigatory bodies to evaluate whether, in these and other business practices, Ligand has abused the Orphan Drug Act and other statutes and regulations in order to dramatically increase the prices of its drugs.

By late 2016, the problem of accounting malfeasance and drug pricing in the pharmaceutical industry had received broad attention globally thanks to the revelations at Mylan and Valeant and the misadventures of Martin Shkreli and William Ackman. President Trump also took to speaking publicly and repeatedly of these problems during his 2016 presidential campaign as well as during his early presidency.

On February 3, 2017, U.S. Senators Susan Collins (R-ME) and Claire McCaskill (D-MO) reintroduced the Increasing Competition in Pharmaceuticals Act,[85] which would ensure that a clear process is in place for FDA to prioritize the review of generic drug applications. The Increasing Competition in Pharmaceuticals Act would help increase competition to lower prices and avoid monopolies as well as deter practices that can lead to exorbitant price hikes on drugs that were previously affordable to patients for decades.

In late March 2017, it was reported[86] that Scott Gottlieb, President Trump's pick to head the U.S. Food and Drug Administration, would make streamlining approval of generics his top priority and would be particularly focused on complex medications that combine old drugs with newer delivery devices, as well as those with unusually complicated formulations.

Management's work on Ligand between 2014 and 2016 now appears largely ahead it's time.

Vince McMahon is now "Open to Anything" (NYSE: WWE)

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[83] On November 9, 2016, Ligand Pharmaceuticals Inc. announced that it would not be able to timely file its Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 and that it was reviewing a potential restatement.
[84] On November 14, 2016, Ligand Pharmaceuticals Inc. announced that it would restate financial statements due to a material error. The company also disclosed that it failed to maintain effective controls over the accuracy and presentation of its accounting.
[85] Increasing Competition in Pharmaceuticals Act - Link
[86] Trump's FDA Nominee Wants to Lower Drug Costs With More Generics - Link

On March 17, 2014 and again on April 8, 2014, management authored and published analysis that World Wrestling Entertainment (WWE) was substantially overvalued and should be shorted

On May 16, 2014, following a $1.4 billion (63 percent) loss in World Wrestling Entertainment's (WWE) market capitalization since management's initial March 17, 2014 short call[87], management announced that it had reversed its short position and was now long WWE stock. Simultaneously, management called for the replacement of WWE's executive management team or a sale of the company. This followed what management said was "a period of ongoing losses, execution failures and material misstatements."

Several hours after management's announcement, former Louisiana Attorney General Charles Foti announced that his law firm would begin an investigation into whether WWE had violated state or federal securities law. 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.

On October 27, 2016, following WWE's Q3 2016 earnings conference call, *The New York Post*[88] and other global financial media outlets reported that McMahon was open to selling WWE.[89]

Kulick and Soffa reprices (NASDAQ: KLIC)

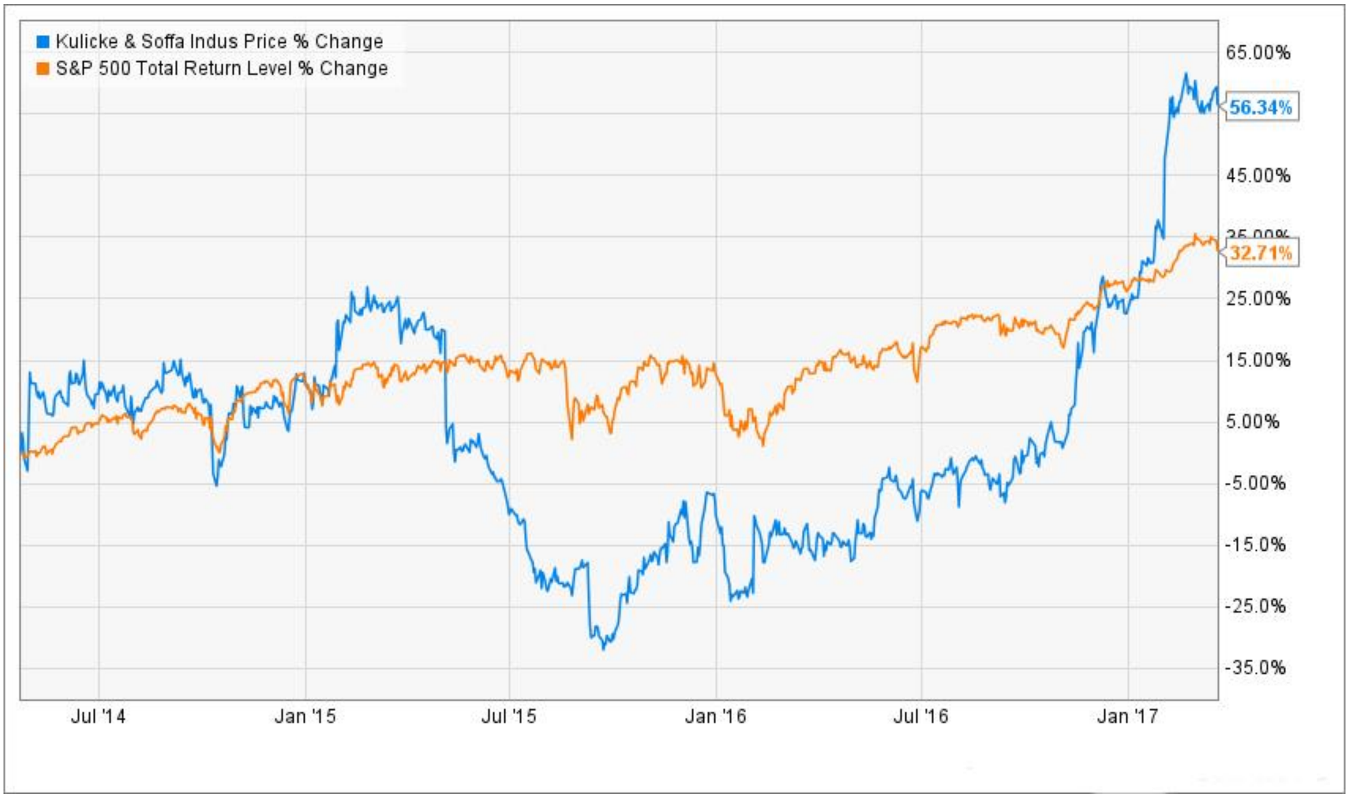
On April 22, 2014, management announced that it was building a stake in the stock of semiconductor and LED equipment maker Kulicke & Soffa Industries and urged the company to authorize a share repurchase.[90] The letter[91], which was highly critical of Kulicke & Soffa CEO Bruno Guilmart, was widely covered in the financial media.

Four months later, on August 27, 2014, Kulicke & Soffa heeded management's share repurchase recommendation, announcing that its Board of Directors had authorized a share purchase of up to $100 million.

On October 5, 2015, Guilmart, who had served in the role of CEO since 2010, resigned abruptly. As of the writing of this letter, shares of Kulick & Soffa have dramatically outperformed the benchmark index.

[87] See: "Overview: Commentary and Activism" - Link
[88] "Vince McMahon open to selling WWE, *New York Post*," October 27, 2016 - Link
[89] "World Wrestling Entertainment's (WWE) CEO Vince McMahon on Q3 2016 Results - Earnings Call Transcript" - Link
[90] "Kulicke & Soffa shares surge after investor urges buyback," by Gary Strauss, *USA Today*, April 22, 2014 - Link
[91] To read a full copy of the letter, see The Amvona Fund, LP 2014 Annual Report - Link

Fig. 15: Kulicke & Soffa Industries % price change vs. S&P 500 Index - April 22, 2014 – March 17, 2017



Source: YCHARTS

2016 was a year that continued to prove several of management's previous and long held theses correct. Yet, management has no intention of resting on its laurels. Despite the continued rise in markets, 2016 presented a few significant opportunities on both the long and short side, which management quickly seized upon. As always, management has great conviction in its ideas and believes time will work favorably on the side of the partnership and its current commitments.

For management, the activity of security analysis and selection is filled with just as much excitement, interest and sense of adventure today as it was in those early days of 2010 when management made the analysis of securities its sole focus. It also continues to be an enormous privilege to be entrusted with the capital of a growing number of families and entities, who have placed their trust in management's stewardship and discernment.

As has been said before, while management has no idea where prices will head in the near-term, management is as confident as ever that, over multi-year cycles, the partnership will continue to outperform the benchmark S&P 500 Total Return Index, leading to significant positive compounded results for the partnership.

March 30, 2017

Rev. Fr. Emmanuel Lemelson

Rev. Fr. Emmanuel Lemelson
Chief Investment Officer
Lemelson Capital Management, LLC

Selected Financial Data for the Past Five Years

The Amvona Fund, LP

A significant part of the gains in the Fund in 2016, unlike previous years, were realized at year end. Despite this, there also remained a large unrealized gain, continuing a pattern since inception[92] of having either a large positive or negative unrealized showing.

The following are the gain (loss) from operations for the Master Fund[93]:

Gross gain (loss) from operations		2016		2015		2014		2013		2012
Dividend Income	$	173,948	$	341,552	$	454,256	$	261,012	$	55,690
Net realized gain from closed positions	$	4,995,134	$	(632,511)	$	2,319,100	$	2,342,956	$	183,331
Change in unrealized gains on open positions	$	3,294,599	$	(7,877,195)	$	3,234,533	$	2,907,521	$	763,237
Total gain (loss) from operations	**$**	**8,463,681**	**$**	**(8,168,154)**	**$**	**6,007,889**	**$**	**5,511,489**	**$**	**1,002,258**

The following

Net gain (loss) from operations		2016		2015		2014		2013		2012
Total investment income	$	174,104	$	341,552	$	454,256	$	261,012	$	55,690
Short dividends & interest expenses	$	(189,493)	$	-	$	(8,207)				
Total other expenses	$	(344,913)	$	(366,834)	$	(253,365)	$	(133,886)	$	(29,178)
Gain (loss) on investments	$	8,289,733	$	(8,509,706)	$	5,553,633	$	5,250,477	$	946,568
Total net gain (loss) from operations	**$**	**7,929,431**	**$**	**(8,534,988)**	**$**	**5,746,317**	**$**	**5,377,603**	**$**	**973,080**

is the net gain (loss) from operations[94] for the Master Fund:

[92] The 2012 period consisted only of the last four months of the year.
[93] Net realized gain from closed positions includes realized gains on short positions. Dividend Income is gross of withholding tax – the audited financial statements report dividend income net of withholding tax.
[94] Total investment income includes "other income" of $42.15. Short dividends and interest expense includes $155,231 in interest expense and $34,262 in short-dividends expense. Total other expenses include management fees of $79,659 and withholding tax payable of $11,547 associated with the offshore Amvona Fund, Ltd.

The following is the realized gain and loss summary:

Realized gain & loss summary	2016	2015	2014	2013	2012
Long term	$ 3,874,476	$ 1,045,535	$ 92,806	$ -	$ -
Short term	$ 1,120,658	$ (1,677,546)	$ 2,226,293	$ 2,342,956	$ 183,331
Total realized gain (loss) from operations	**$ 4,995,134**	**$ (632,011)**	**$ 2,319,099**	**$ 2,342,956**	**$ 183,331**

The following is the realized gain and loss summary by position type:

Realized gain & loss by position type	2016	2015	2014	2013	2012
Long	$ 4,995,492	$ (680,534)	$ 566,157	$ 2,342,956	$ 183,331
Short	$ (358)	$ 48,023	$ 1,752,942	$ -	$ -
Total net income	**$ 4,995,134**	**$ (632,511)**	**$ 2,319,099**	**$ 2,342,956**	**$ 183,331**

The Amvona Fund, LP

(a Delaware Limited Partnership)

Financial Statements

December 31, 2016

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December 31, 2016

edelstein

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Amvona Fund Ltd.

We have audited the accompanying financial statements of The Amvona Fund, Ltd. (the "Fund"), which comprise the statement of assets and liabilities as of December 31, 2016 and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Amvona Fund, Ltd. as of December 31, 2016, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Edelstein & Company LLP

Boston, Massachusetts
March 28, 2017

December 31, 2016

Assets	
Investments in securities, at fair value (cost $26,311,395)	$ 29,249,391
Cash	225,434
Due from The Amvona Fund, Ltd.	423
Other assets	19,178
Total assets	$ 29,494,426

Liabilities and partners' capital	
Liabilities	
Securities sold short, at fair value (proceeds $6,022,111)	$ 6,637,409
Payable for investments purchased	1,185,896
Due to broker	4,683,296
Interest payable	7,048
Capital contributions in advance	225,000
Capital withdrawals payable	25,000
Accrued expenses and other liabilities	33,272
Total liabilities	12,796,921
Partners' capital	16,697,505
Total liabilities and partners' capital	$ 29,494,426

The Amvona Fund, LP — Statement of Operations

For the Year Ended December 31, 2016

Investment income	
Dividend income (net of witholding tax of $11,547)	$ 162,401
Other income	155
Net investment income	162,556
Expenses	
Interest and dividends on securities sold short	189,493
Management fee	79,659
Administrative fee	33,450
Professional fees	219,891
Other expenses	6,263
Total expenses	528,756
Net investment loss	(366,200)
Realized and unrealized gain on investments	
Net realized gain on investments	4,995,134
Net change in unrealized appreciation on investments	3,294,599
Net realized and unrealized gain on investments	8,289,733
Net income	$ 7,923,533

The accompanying notes are an integral part of these financial statements

Statement of Changes in Partners' Capital

For the Year Ended December 31, 2016

	General Partner	Limited Partners	Total
Partners' capital, December 31, 2015	$ 1,743,166	$ 7,717,104	$ 9,460,270
Capital contributions	67,427	275,543	342,970
Capital withdrawals	(741,768)	(287,500)	(1,029,268)
Allocation of net income			
Pro rata allocation	1,100,943	6,822,590	7,923,533
Performance allocation to General Partner	144,978	(144,978)	-
	1,245,921	6,677,612	7,923,533
Partners' capital, December 31, 2016	$ 2,314,746	$ 14,382,759	$ 16,697,505

The accompanying notes are an integral part of these financial statements

For the Year Ended December 31, 2016

Cash flows from operating activities	
Net gain from operations	$ 7,923,533
Adjustments to reconcile net gain to net cash provided by operating activities:	
Operating activities:	
Net realized gain on securities	(4,995,134)
Net change in unrealized appreciation on securities	(3,294,599)
Management fees paid through capital contributions	67,427
Purchases of investment in securities	(13,142,788)
Proceeds from sales of investments in securities	18,707,071
Proceeds from securities sold short	7,670,175
Payments to cover securities sold short	(1,672,624)
Changes in operating assets and liabilities:	
Dividends and interest receivable	80
Due from The Amvona Fund Ltd	(224)
Other assets	(65,925)
Payable for investments purchased	1,185,896
Due to broker	(11,357,620)
Dividends and interest payable	6,537
Payable to the Amvona Fund, Ltd.	(21,517)
Accrued expense and other liabilities	(23,328)
Net cash provided by operating activities	986,960
Cash flows from financing activities	
Capital contributions	332,543
Capital withdrawals	(1,094,268)
Net cash used in financing activities	(761,725)
Net change in cash and cash equivalents	225,235
Cash, beginning of year	199
Cash, end of year	**$ 225,434**

The accompanying notes are an integral part of these financial statements

	Number of Shares/Contracts	Percentage of Partners' Capital	Fair Value
Investments in securities, at fair value			
Common stocks			
United States			
Basic Materials		0.0 %	56
Consumer, Cyclical		0.0	89
Energy			
Geospace Technologies	1,200,000	146.3	24,432,000
Other		0.0	5,980
Industrial		0.0	170
Technology			
Apple	41,500	28.8	4,806,530
Other		0.0	68
Germany			
Consumer, Cyclical		0.0	1,308
Singapore			
Technology		0.0	3,190
Total investments in securities, at fair value (cost $26,311,395)		175.1 %	$ 29,249,391
Securities sold short, at fair value			
Common stocks			
United States			
Communications		0.0 %	$ 690
Consumer, Cyclical			
Domino's	41,677	39.7	6,636,645
Other		0.0	74
Total securities sold short, at fair value (proceeds $6,022,111)		39.7 %	$ 6,637,409

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Amvona Fund, LP (the "Partnership"), a Delaware investment limited partnership, commenced operations on August 24, 2012, with investment activity beginning on September 1, 2012. The Partnership was organized for the purpose of trading and investing in securities. The Partnership is managed by Lemelson Capital Management, LLC (the "General Partner"). The Partnership was organized with the objective of focusing on deep value and special situation investments.

The Partnership is 22% owned by The Amvona Fund, Ltd. (the "Offshore Feeder").

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as detailed in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification. The Partnership is an investment company and follows the accounting and reporting guidance in FASB Topic 946.

Fair Value - Valuation Techniques and Inputs

Investments in Securities and Securities Sold Short

Investments in securities and securities sold short that are traded on an exchange are valued at their last reported sales price as of the valuation date.

Many over-the-counter ("OTC") contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that the marketplace participants are willing to pay for an asset. Ask prices represent the lowest price that the marketplace participants are willing to accept for an asset. For securities whose inputs are based on bid-ask prices, the Partnership's valuation policies do not require that fair value always be a predetermined point in the bid-ask range. The Partnership's policy for securities traded in the OTC markets and listed securities for which no sale was reported on that date are generally valued at their last reported "bid" price if held long, and last reported "ask" price if sold short.

To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy. Securities traded on inactive markets or valued by reference to similar instruments are generally categorized in Level 2 of the fair value hierarchy.

Investment Transactions and Related Investment Income

Purchases and sales of securities are recorded on a trade date basis. Realized gains and losses are determined on the specific identification method. Dividend income and expense are recognized on the ex-dividend date net of any applicable withholding tax. Interest and all other expense are recognized on the accrual basis. Interest expense included in the statement of operations is on securities sold but not yet purchased and due to broker balances. All amounts are stated in U.S. Dollars.

Income Taxes

The Partnership does not record a provision for U.S. federal, state, or local income taxes because the partners report their share of the Partnership's income or loss on their income tax returns. However, certain U.S. dividend income and interest income may be subject to a maximum 30% withholding tax for those Limited Partners that are foreign entities, foreign individuals, or tax deferred accounts. Further, certain non-United States dividend income may be subject to a tax at prevailing treaty or standard withholding rates with the applicable country or local jurisdiction. The Partnership files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states and foreign jurisdictions. Generally, the Partnership is subject to income tax examinations by major taxing authorities since inception. Income tax returns for tax years beginning with those filed for the year ended December 31, 2013 are open to examination.

1- Nature of Operations and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Partnership's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material.

Organization Costs

Organization costs are stated net of accumulated amortization and are included within other assets on the Statement of Assets, Liabilities, and Partners' Capital. At December 31, 2016 the un-amortized organization costs were $19,177.

2. FAIR VALUE MEASUREMENTS

Fair Value - Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Partnership uses various valuation techniques. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available. Valuation techniques that are consistent with the market or income approach are used to measure fair value. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access.

Level 2 - Valuations based on inputs, other than quoted prices included in Level 1, that are observable either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measure, based on assumptions of prices and inputs considered from the perspective of a market participant that are current as of the measurement date, rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Partnership's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

The availability of valuation techniques and observable inputs can vary from investment to investment and are affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the Partnership in determining fair value is greatest for investments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement.

All of the Partnership's investments are classified as Level 1 as of December 31, 2016.

2- Fair Value Measurements (continued)

The Partnership's assets and liabilities, recorded at fair value, have been categorized based upon a fair value hierarchy as described in the Partnership's significant accounting policies in Note 1. The following table presents information about the Partnership's assets and liabilities measured at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Investments in securities				
Common stocks	$ 29,249,391	$ -	$ -	$ 29,249,391
Total investments in securites	$ 29,249,391	$ -	$ -	$ 29,249,391
Liabilities (at fair value)				
Securities sold short				
Common stocks	$ 6,637,409	$ -	$ -	$ 6,637,409
Total securities sold short	$ 6,637,409	$ -	$ -	$ 6,637,409

Refer to the Condensed Schedule of Investments for detailed disaggregation of the Partnership's investments by industry. There were no transfers between levels during the year ended December 31, 2016.

3. DUE TO BROKER

Amounts due to broker represent margin borrowings of $4,683,296 that are collateralized by certain marketable securities.

In the normal course of business, substantially all of the Partnership's securities transactions, money balances, and security positions are transacted with the Partnership's broker: Wedbush Securities. In January 2016, all assets were transferred from the Partnership's then prime broker, BTIG, LLC, to Wedbush. The Partnership is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Partnership's management monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

4. SECURITIES SOLD SHORT

The Partnership is subject to certain inherent risks arising from its investing activities of selling securities short. The ultimate cost to the Partnership to acquire these securities may exceed the liability reflected in these financial statements.

5. RISKS

The following summary of certain risk factors is not intended to be a comprehensive summary of all risks inherent in the Partnership.

Legal, tax and regulatory changes could occur that may adversely affect the Partnership. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by the Partnership and the ability of the Partnership to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, securities markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organizations and exchanges

5- Risks (continued)

are authorized to take extraordinary actions in the event of market emergencies. The regulation of short selling and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The effect of any future regulatory change on the Partnership could be substantial and adverse.

Market risk is the potential loss the Partnership may incur as a result of unfavorable movements in the fair value of a particular investment.

Concentration risk represents the potential loss the Partnership may incur as a result of an adverse change in performance of a single issuer, sector and asset class representing a majority of partners' capital.

The Partnership enters into short sales, which are shown as liabilities in the Statement of Assets, Liabilities, and Partners' Capital. To settle the obligation, the Partnership would need to purchase the applicable securities at prevailing market prices. Therefore, these short sales involve a market risk in excess of the amount recognized in the accompanying Statement of Assets, Liabilities, and Partners' Capital, and such risks can be unlimited.

The Partnership uses various forms of leverage including short sales, which increases the effect of investment value changes on net assets. At December 31, 2016, the Partnership had leverage in the form of borrowings from brokers. These types and other forms of leverage may not always be available at requested amounts or on acceptable terms and conditions. In adverse market conditions, collateral requirements with respect to leveraged positions can change rapidly leading to additional collateral calls or sales of collateral by counterparties. Unfavorable economic conditions also could increase funding costs, limit access to the capital markets or result in a decision by a lender not to extend credit. Accordingly, the Partnership may be unable to maintain leveraged investment positions which could have a material adverse effect on the Partnership.

The Partnership primarily maintains its cash positions at the broker. Credit risk is measured by the loss the Partnership would record if the broker or other counterparties fail to perform pursuant to terms of their obligations.

There are risks involved in dealing with custodians or brokers who settle trades. Under certain circumstances, including certain transactions where the Partnership's assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of the broker, or where the Partnership's assets are held at a non-U.S broker, the securities and other assets deposited with the custodian or broker may be exposed to a credit risk with regard to such parties. In addition, there may be practical or time problems associated with enforcing the Partnership's rights to its assets in the case of an insolvency of any such party.

Due to the nature of the master fund/feeder fund structure, the Partnership could be materially affected by the actions of its Offshore Feeder Fund or their underlying investors. If there is a substantial demand for redemptions from its Feeder Fund, it may be more difficult for the Partnership to execute its investment strategies on a smaller capital base. The General Partner might have to liquidate the Partnership's positions at a time when market conditions are not favorable or on unfavorable terms, to be able to fund its Feeder Funds redemptions, potentially resulting in losses and decreased diversification to the Partnership.

As discussed in Note 1, the General Partner provides investment management services to the Partnership. The Partnership could be materially affected by the actions and liquidity of the General Partner.

6. COMMITMENTS AND CONTINGENCIES

In the normal course of business the General Partner, on behalf of the Partnership, enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the General Partner expects the risk of loss to be remote.

7. PARTNERS' CAPITAL

In accordance with the limited partnership agreement (the "Agreement"), profits and losses of the Partnership are allocated to partners according to their respective interests in the Partnership. In addition, the General Partner shall receive a performance profit allocation (the "Performance Allocation") in an amount equal to twenty-five percent (25%) of the net capital appreciation allocated to each Limited Partner during each calendar quarter provided such profits exceed a quarterly rate of return equal to 1.5% of each Partner's beginning Capital Account balance for such quarter (the "Hurdle Rate"); further provided however, that such Performance Allocation shall be subject to a loss carry-forward provision, also known as a "High Water Mark," so that the Performance Allocation will only be deducted from a Limited Partner's Capital Account to the extent that such Limited Partner's pro rata share of such appreciation causes its Capital Account balance, measured on cumulative basis and net of any losses to exceed such Limited Partner's highest historic Capital Account balance calculated as of the first business day of the applicable calendar year or, if higher, such Limited Partner's Capital Account immediately following its admission to the Partnership (as adjusted for any withdrawals at a time when a Limited Partner's Capital Account balance is below the applicable "High Water Mark"). The Performance Allocation is accrued monthly and paid quarterly. Per the amended and restated limited partnership agreement, dated February 1, 2016, Performance Allocation will only be deducted from a Limited Partner's Capital Account to the extent that such Limited Partner's pro rata share of such appreciation causes its Capital Account balance, measured on cumulative basis and net of any losses to exceed such Limited Partner's highest historic Capital Account balance calculated as of the end of any prior accounting period. The Performance Allocation may be computed at any time, in the sole discretion of the General Partner, for a Partner who makes a partial or complete withdrawal. The Hurdle Rate is not cumulative or compounded and is reset at the beginning of each calendar quarter of the Partnership. The Performance Allocation for the year ended December 31, 2016 was $144,978.

Limited Partners have redemption rights which contain certain restrictions with respect to rights of withdrawal from the Partnership as specified in the Agreement.

Advance capital contributions represents amounts owed to Limited Partners for cash received prior to the effective date of such contributions.

8. RELATED PARTY TRANSACTIONS

The Partnership pays the General Partner a management fee, calculated and payable quarterly in advance, equal to 0.25% (1% per annum) of the beginning Capital Account balance of each Limited Partner for such quarter including, for this purpose, such Limited Partner's interest in all Side Pocket Investments.

Management fees may be waived, reduced or calculated differently with respect to the Capital Account(s) of certain Limited Partners, including, without limitation, Limited Partners that are partners, affiliates or employees of the General Partner, members of the immediate families of such persons and trusts or other entities for their benefit. For the period ended December 31, 2016, there were no management fees waived.

Certain Limited Partners are affiliated with the General Partner. The aggregate value of the affiliated Limited Partners' share of partners' capital at December 31, 2016 is approximately $921,764 in addition to $3,759,526 from the offshore feeder.

Certain Limited Partners have special management fee arrangements, performance arrangements, or redemption rights as provided for in the Agreement.

9. ADMINISTRATOR

On July 1, 2016, the Partnership transferred administrative services from ALPS Fund Services, Inc. to Horseshoe Fund Services Ltd. (the "Administrator"). The Administrator performs certain services on behalf of the Partnership.

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10. FINANCIAL HIGHLIGHTS

Total Return:

Total return before Performance Allocation to General Partner	85.50	%
Performance Allocation to General Partner	(1.47)	
Total return after Performance Allocation to General Partner	**84.03**	**%**

Ratio to average limited partners' capital:

Expenses	4.08	%
Performance Allocation to General Partner	1.27	
Expenses and Performance Allocation to General Partner	**5.35**	**%**
Net investment loss	**(2.89)**	**%**

Financial highlights are calculated for the Limited Partner class taken as a whole based upon the change in value of certain Limited Partners' capital during the year. An individual Limited Partner's return and ratios may vary based on different performance and/or management fee arrangements, and the timing of capital transactions. The net investment loss ratio does not reflect the effects of the performance allocation to the General Partner. The expense and net investment loss ratios are calculated based on the average monthly limited partners' capital during the year. Expenses include interest and dividend expense, administrative fees, management fees, professional fees and other expenses of the Partnership. The expense ratio includes dividend and interest expense related to securities sold short. Excluding such dividend and interest expense, the ratio of expenses to average net assets for The Amvona Fund LP would be 2.62% for the year ended December 31, 2016.

11. SUBSEQUENT EVENTS

Significant events or transactions occurring after December 31, 2016 through March 28, 2017, the date the financial statements were available to be issued, have been evaluated in the preparation of the financial statements. There were no events that require recognition or disclosure.

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[95] by committing capital only where a substantial margin of safety exists.

c) The general partner will maintain a material 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.[96]

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 in many cases entrusted 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 this 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 and their investment in the Fund.

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[95] The reference in this case is to permanent capital impairment, not loss because of a quoted price in the open market at a given moment in time.

[96] As of December 31, 2016, the general partner and related parties, either directly through The Amvona Fund, LP or indirectly through The Amvona Fund, Ltd., accounted for 20 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? Management's hypothesis is comprised of three answers to this question:

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[97], 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 significance because it is categorically false and subtle in nature. This folklore is comprehensively expounded throughout investment businesses[98] 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[99] 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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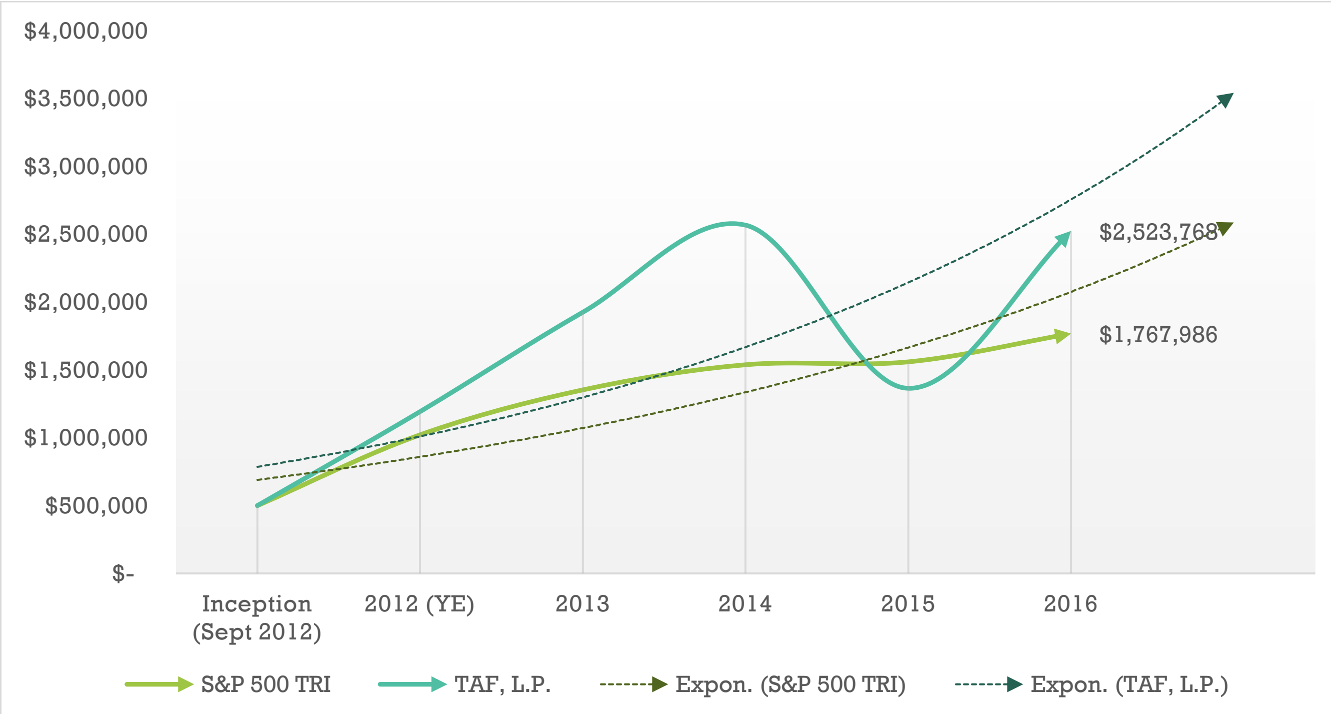
[97] In a sense, both are a tax; one visible, the other much less so.

[98] 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.

[99] 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. 16: The Net Value of $1,000,000 invested on September 1, 2012 [100]



The objective of the Fund, after preservation of principle, is the outperformance of the benchmark index. As shown in the chart above, if such a nominal feat is not achievable when taken in multi-year cycles[101], it would be difficult to justify doing anything more enterprising than buying an index fund.

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 1986 and January 2016, when adjusted for inflation, is 326.30 percent, or 4.95 percent on an annualized basis. If dividends were reinvested, the total price return over the same period is 735.28 percent, or 7.33 percent annualized[102]. Because of the compounding effect of reinvestment, the delta in the two figures is substantial (as can be seen in the illustration below). A modest aggregate increase in return of only 2.38 percent per year (the amount of reinvested dividends) over 30 years equated to an overall increase in gain of 408.98 percent.[103] 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.

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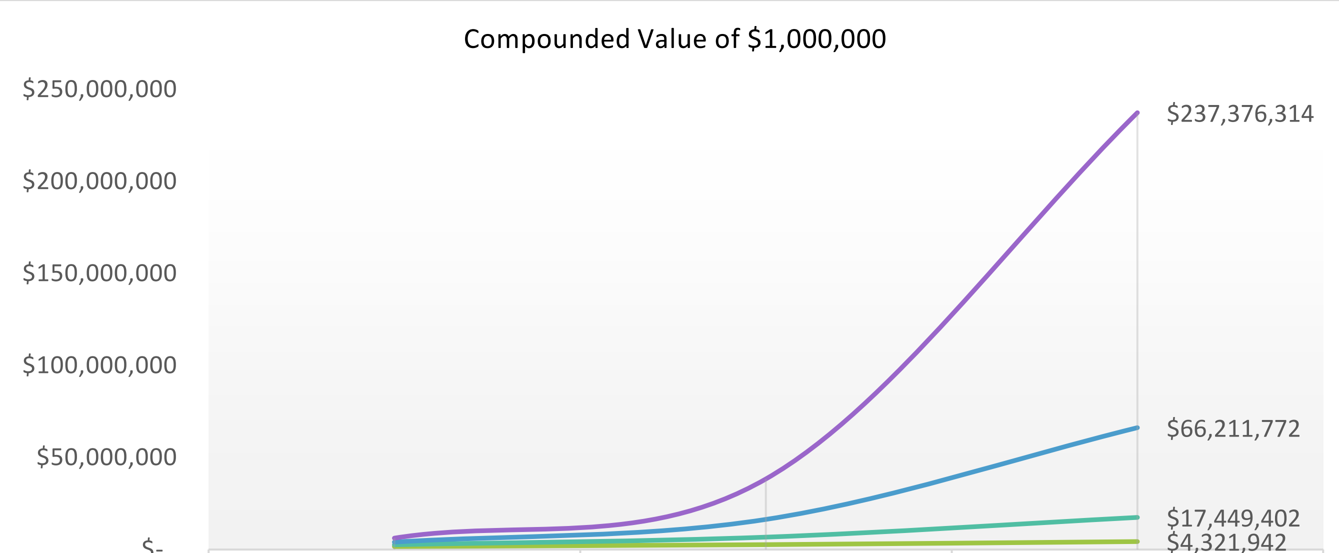
[100] Figures are for The Amvona Fund, LP and are net of all fees and expenses.
[101] For example, a five-year cycle would be comprised of the following time frames: 2012-2017, 2013-2018, etc.
[102] The returns in the index over these years would be somewhat less to an investor (outside of the assets 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.
[103] "S&P 500 Dividends Reinvested Price Calculator (with Inflation adjustment)" - https://dqydj.com/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 timeframes.

Fig. 17: Long-term effects of 5% increases in yield over different time frames



	10 YRS	20 YRS	30 YRS
5%	$1,628,894	$2,653,298	$4,321,942
10%	$2,593,742	$6,727,499	$17,449,402
15%	$4,045,557	$16,366,537	$66,211,772
20%	$6,191,736	$38,337,600	$237,376,314

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 the 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 system.

A few relevant points:

1. The investors in the offshore Fund, while saving on UBIT[104], 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.

[104] **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[105].

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. [106]

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)

[105] Although in the case of retirement accounts this amount would become due when the assets are disbursed.

[106] The additional operating expenses associated with The Amvona Fund, Ltd are largely static.

Appendix

Lemelson Letter to U.S. Senate Special Committee on Aging

Rev. Fr. Emmanuel Lemelson
The Lantern Foundation
225 Cedar Hill Street Suite # 200
Marlborough, MA 01752

December 21, 2016

Honorable Susan M. Collins
Chairman
U.S. Senate Special Committee on Aging
G31 Dirksen Senate Office Building
Washington, D.C. 20510

Honorable Claire McCaskill
Ranking Member
U.S. Senate Special Committee on Aging
628 Hart Senate Office Building
Washington, D.C. 20510

Dear Senators Collins and McCaskill:

Having followed and appreciated the Committee's hearings and investigations into pharmaceutical pricing and other industry abuses that have proven extremely burdensome to patients, U.S. taxpayers and investors, I commend you for uncovering unethical and sometimes criminal behavior on the part of unscrupulous pharmaceutical companies.

I write to call your attention to a similar but even more egregious case than those the Committee has evaluated to date: Ligand Pharmaceuticals, a publicly-traded U.S. pharmaceutical company. Ligand may be the industry's most significant abuser of these standards and laws. These include multiple abuses and violations of existing pharmaceutical classification, reimbursement, and accounting statutes and standards by Ligand. In particular, Ligand Pharmaceuticals' so-called "licensing" model is a nexus for a new breed of unethical pharmaceutical companies whose primary goal is to reap extraordinary profits on the backs of patients, taxpayers and shareholders by (among other things) abusing the Orphan Drug Act of 1983 as well as a litany of accounting loopholes.

Under this model, Ligand essentially plays the role of a special purpose acquisition company to licensees that, with superior resources, stifle access to these drugs by generic drug companies through misuse of the Orphan Drug Act, ensuring these drugs are sourced and licensed by Ligand, a company that now lies at the heart of this new, unethical breed of pharmaceutical companies. In turn, Ligand receives excessive royalties from the enormous increase in revenues generated from these drugs' price increases.

The Ligand business model is very much at the center of the larger, emerging crisis in spiraling health care costs that is threatening patients and the fiscal stability of our country.

Public policy must be constructed and enforced in ways that account not only for the companies driving these unethical and likely illegal entities, but also their enablers, who work for a cut of the profits. In addition to investigating these abuses by Ligand, Congress must act swiftly to tighten the Orphan Drug Act to ensure drugs meet the legitimate purpose intended under this statute to prevent these abuses, and ensure policy reforms to fast-track the approval of generics are passed.

Separately, this past January, after several years of research into Ligand, a whistleblower report was filed with the U.S. Securities and Exchange Commission (SEC) regarding Ligand's material misrepresentations to investors.

I am attaching a more detailed report on Ligand's extensive abuses of pharmaceutical classification, pricing, accounting and other regulations, standards and statutes.

I strongly encourage the Committee to commence an investigation into Ligand. I also will gladly make myself available to the Committee to review and understand these abuses and to testify under Congressional oath on them.

Thank you for your attention to this important matter.

Sincerely,

Rev. Fr. Emmanuel Lemelson

Rev. Fr. Emmanuel Lemelson
Founder and President
The Lantern Foundation

Enclosure

cc:
U.S. Senate Special Committee on Aging members
Kevin L. Kelley, Staff Director
Derron Reynard Parks, Staff Director
Mia Lenee Woodward, Investigative Counsel

Background

Ligand Pharmaceuticals' so-called "licensing" model is a nexus for a new breed of unethical pharmaceutical companies whose primary goal is to reap extraordinary profits on the backs of patients, taxpayers and shareholders by (among other things) abusing the Orphan Drug Act of 1983 as well as a litany of accounting standards. In fact, it is Ligand that systemized the monopoly pricing practices that has given rise to similar accounting and regulatory abuses subsequently adopted by Valeant, Martin Shkreli's Retrophin, Mylan and other pharmaceutical companies, which the Committee previously has called as witnesses.

The Ligand business model is not based on finding the best drugs to cure or treat rare conditions, as the Orphan Drug Act, which Ligand is exploiting, encourages. Instead, Ligand's model consists of locating drugs whose price, through the Orphan Drug Act, can be continually and radically increased with negligible benefit to patients with these rare conditions.

Exploiting the Orphan Drug Act of 1983: An Overview

Ligand is in the business of locating drugs that are candidates for orphan drug status. Once the enhanced patent-like protections under the Orphan Drug Act of 1983 are granted, providing seven years of protection against generic competition, these drugs are then pre-packaged as drug monopolies for licensees. When Ligand engages in this activity, the U.S. taxpayer underwrites the cost of the subsidies and incentives that are granted to Ligand through the orphan drug designation program. Then, in turn, Ligand through its licensees drastically increases the price of these drugs, which are then billed (under federal Medicare and state Medicaid programs), to the very same taxpayers.

The Orphan Drug Act was enacted by Congress with laudable intentions, namely to incentivize research-based pharmaceutical companies to invest in clinical research and development of therapies to treat rare diseases that (absent the Act) would not likely be discovered or developed. However, under the leadership of Ligand CEO John Higgins, who has run the company since 2007, Ligand's research and development spending, which the Act was designed to stimulate, has been gutted from $44.6 million in 2007 to $13.4 million in 2015, a decrease of seventy percent, even though the company now has substantially more drugs under orphan drug status today than it did in 2007.

Ligand's fleecing patients and taxpayers

The structure of Ligand's business model consists of:

(1) Ligand acquires licensing rights to older, sole-sourced drugs that face no generic competition. These usually include drugs that serve a small patient population since few patients typically means less regulatory scrutiny and less motivation for competitors to enter the market;

(2) Ligand then misrepresents these drugs as the "gold standard" for the condition or symptoms it treats, so that health care providers are dissuaded from prescribing equally and often more suitable substitutes at lower prices;

(3) Ligand seeks and obtains "orphan drug" designation for these drugs, which then bars generic competition and enables virtually unlimited price increases because of the veritable monopoly the designation creates for these drugs; and

(4) Ligand then licenses these monopolistic drugs to companies that raise the price on these low-profile medications, which are now protected from competition due to their orphan drug status.

What sets Ligand apart from Retrophin, Turing, Valeant, Mylan and others is that, unlike these companies which have exploited the opportunity for nearly limitless price increases on some of their drugs, this is Ligand's exclusive mission and function. In fact, no company is currently more engaged than Ligand in abusing the Orphan Drug Act for the purpose of grossly increasing drug prices that are ultimately absorbed by taxpayers.

As is the case with both of Ligand's primary royalty-generating drugs, both of which have been granted orphan drug status, Ligand is generating massive royalties from drugs for which vastly cheaper and typically equally and if not more effective alternatives exist.

The first disgraceful example is Ligand's licensing of Kyprolis[107], a failed oncology drug that has shown no progression-free survival benefit over its much less expensive competitors.[108] Despite Kyprolis' lack of clinical efficacy, however, the federal Medicare program was billed roughly $280,000 per round of treatment per patient for Kyprolis for a total of $228 million in 2015 alone, an increase of 43 percent over 2014, and $387 million over 2014 and 2015. Outrageously and unjustifiably, this now makes Kyprolis one of the most expense drugs billed to the Centers for Medicare and Medicaid Services (CMS). [109] [110]

A second outrageous example can be found in Ligand's other primary revenue-generating drug Promacta[111]. Ligand represents that Promacta is primarily used to treat idiopathic thrombocytopenic purpura (ITP), an extremely rare condition. In these cases, Promacta is sold to these patients at the exorbitant price of $10,196 for 30 75 mg. tablets. Promacta is not a cure for ITP and it will not make a patient's platelet counts normal if the patient has this condition[112].

Accounting, fiduciary and corporate governance violations

In addition to Ligand's abuse of the Orphan Drug Act, its gross overpricing of drugs billed to public payers systems under the Act, and the clinically unconvincing value and designation of these extraordinarily expensive drugs, our organization has previously uncovered and reported on Ligand's clear violations of Sections 10(b) of the Securities Exchange Act of 1934, which prohibits any act or omission resulting in fraud or deceit in connection

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107 Kyprolis is a drug that uses Captisol (a Ligand product) in its formulation. Ligand has a license agreement with Amgen and receives royalties on Kyprolis sales.

108 Lemelson Capital reported in August 2014 that Kyprolis was facing extraordinary competitive threats from *two entrenched multiple myloma (MM) indications, Celgene's Revlimid and Takeda Pharmaceutical's Velcade. The Lemelson Capital report was subsequently proven correct when Amgen Executive Vice President of Research and Development Sean Harper noted recently that a late-stage Kyrprolis study did not meet its goal in improving progression-free survival versus Velcade in patients who had not yet been treated for the disease.*

See "Update: Lemelson Capital Further Increases Short Stake in Ligand Pharmaceuticals (NASDAQ: LGND) as LGND EPS Plunges 76 percent in Q2 2014," available here: Link

109 See: "Rough Month: A Closer Look at Ligand's Fall From All-Time Highs," available here: Link

110 See: "How Much Will Amgen's Carfilzomib for Multiple Myeloma Cost?" available here: Link

111 Promacta is an oral thrombopoietin receptor agonist

112 See: "What is Promacta?" Drugs.com, (available here: Link).

with the purchase or sale of a public security.[113] Specifically, in 2014, we reported that much of Ligand management's commentary was knowingly and materially false and misleading.[114]

Over the past several weeks, ten U.S. law firms have announced investigations into Ligand for breaching their fiduciary duties to shareholders and for securities fraud. During this same period, eleven U.S. law firms have filed class action lawsuits against Ligand, alleging materially false and misleading statements by the company and its management.

Ligand has made demonstrably false and misleading statements and failed to disclose other negative material facts, including:

(1) In 2015, Ligand grossly overstated the value of certain deferred tax assets by approximately $27.5 million;
(2) As of December 31, 2015, Ligand's outstanding convertible senior unsecured notes, due 2019, were misleadingly misclassified as long-term debt rather than (as the company stated over a year later) short-term debt; and
(3) In November 2016, Ligand acknowledged that it did not maintain effective controls over the accuracy and presentation of its accounting and financial reporting, as is required of publicly-traded companies such as Ligand.

Since Higgins' appointment in 2007 as Ligand CEO, stock option awards and compensation packages to Ligand executives and board members have increased exponentially. These insiders have then methodically sold their stock awards at prices artificially inflated as a direct byproduct of their unduly optimistic misrepresentations of the company's financial condition. Ligand executives and board members have thus benefited directly from their material misrepresentation of the company's value. Based largely on these and other misrepresentations, Ligand stock price rocketed 1,550 percent higher between January 1, 2011 and June 30, 2016, a period of just five and half years, even as the company's GAAP earnings declined dramatically in recent years.

Further, Ligand has made materially misleading statements to investors regarding its debt expense and made excessive use of non-GAAP measures to disguise the true cost of the company's stock awards to its management. Ligand's unethical engineering of its financial statements has allowed the company to raise more capital from public markets both directly and indirectly through proxies, which has allowed the company to obtain the rights to even more orphan drug candidates whose prices can be unjustifiably increased under the respective market monopolies afforded them.

In addition to these substantial abuses and misrepresentations, a significant part of the proceeds from Ligand's misclassified 2014 debt offering was used to acquire one of Ligand's largest investors' (BVF Partners) stake in Ligand in a private transaction at extraordinary and misrepresented expense to Ligand shareholders.

Finally, Grant Thornton, Ligand's auditor, has also been complicit in these abuses, wrongly providing a clean audit opinion to Ligand's material misrepresentations.

Ligand's documentable record of accounting, regulatory and ethical abuses is one of the worst in the history of modern public markets. Further, the company's management team and board of directors are operating

[113] Lemelson Capital Management, LLC published five research reports between June and August of 2014 outlining materially misleading statements made by Ligand Pharmaceuticals.
[114] Since 2011, Ligand has amended their quarterly and annual reports an extraordinary 14 times

consistently in ways that represent exclusively their own self-interests and not, as is required of fiduciaries, those of the company's shareholders.

Variable interest entity abuses and conflicts of interest

Ligand also has significantly abused other accounting standards, including the variable interest entity (VIE) standard. Ligand's abuse of the VIE has been designed to disguise the company's true operating expenses and create phantom profits in ways very much like Enron criminally misused special purpose entities (SPEs).

On May 4, 2015, Viking Therapeutics, a pharmaceutical startup closely intertwined with Ligand and initially a tenant in its La Jolla, California office building, began trading publicly on the NASDAQ stock exchange. Ligand is mentioned 348 times in Viking's 2015 10-K[115] **.** At the time of this IPO, Viking was operating effectively as a Ligand proxy with Ligand sponsorship. As part of the offering, Viking sold three million shares of its common stock at a public offering price of $8.00 per share. In connection with the IPO, Ligand received 3.4 million Viking shares in part for agreeing to purchase $9 million worth of Viking's stock, or 38 percent of the total offering, creating both a market for the shares and a trading price that were both engineered in advance.

Shortly after the IPO, Ligand then deconsolidated its equity stake in Viking off their balance sheet, claiming the company was no longer a VIE. Ligand recorded a $28.2 million gain on the deconsolidation for the year ended December 31, 2015 related primarily to the equity milestone received from Viking upon the close of the IPO. However, Ligand retained the intellectual property in the Viking transaction and virtually controlled Vikings stock and board[116] while Viking booked the significant losses related to developing the Ligand assets it licensed to Viking.

In 2015, Viking went on to lose approximately $23.4 million, or $3.68 per share, developing assets owned by Ligand.

Despite the IPO support from the Ligand purchases, Viking shares recently traded as low as $0.94 per share, a decline in value of 88.25 percent from its offering price, while Ligand's 49.4 percent initial stake in Viking common stock virtually eliminated the ability of other shareholders to influence corporate matters at the company, contradicting Ligand's claim that Viking was no longer a VIE at the time of its deconsolidation off their balance sheet. Barely a year and a half later, Viking now faces almost certain delisting from the NASDAQ stock exchange.

As of October 31, 2016, Viking had a market capitalization of approximately $21 million (roughly 23 percent less than the value of the approximately $28 million initial entry on Ligand's statement of income), which was to represent only 49.4 percent of the company's outstanding shares.

The unethically cozy relationship between Ligand and Viking's IPO underwriter Roth Capital also has developed into a glaring conflict of interest with Roth Capital receiving transactional banking fees for Ligand's proxy Viking while absurdly placing "strong buy" ratings on Ligand stock and predicting even higher future trading prices for it. In so doing, Roth Capital fails to disclose clearly its conflict of interest to existing and prospective investors, driving Ligand stock higher and enabling stock awards and subsequent sales by Ligand insiders.

Ligand has used Viking and other equity partners, such as Shkreli's Retrophin and TG Therapeutics, to create a pyramid-type equity scheme used to indirectly harvest capital from public markets. This, in turn, has been fed

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[115] Viking Therapeutics, Inc. Form 10-K available here: [Link]

[116] Matthew Foehr, Ligand's Executive Vice President and Chief Operating Officer serves on Viking's board of directors.

upstream to the effective sponsor, Ligand, which has used the entries to artificially buttress their statement of income while their legitimate expenses have been disavowed and attributed to surrogates further down the pyramid. Absent any scrutiny of this unethical practice by regulators or lawmakers, Ligand now appears ready to conduct a similar transaction with Seelos Therapeutics, a company whose website consists of just one page with an indiscernible logo and 18 characters of text (their name) and their address[117]. Yet, Ligand is already representing to investors that it stands to make millions from the licensing arrangement with Seelos and undoubtedly a future IPO.

Material misrepresentations lead to vast overvaluation

Based on Ligand's multiple misrepresentations and omissions, even though the company's total revenue increased a very modest $7 million between 2014 and 2015, its market capitalization more than doubled (by 104 percent) from roughly $1.04 billion at FYE 2014 to approximately $2.16 billion at FYE 2015, and recently has exploded further to nearly $3 billion. Further, in the first nine months of 2016, Ligand's income from continuing operations was just $759,000 against a market capitalization at September 30 of $2.1 billion, or an extraordinary 2,800 times trailing nine-month income from continuing operations.

Ligand's real income (excluding non-cash items) is down 80.8 percent[118] year over year through year-end 2015, cash and cash equivalents have dropped by roughly 40 percent year over year[119], and the company's long-term debt has increased from $196 million to $205 million in the same timeframe.

Meanwhile, Ligand has taken equity in three companies (not including its recent transaction announced with Seelos Therapeutics) with combined deficits of $268.9 million and combined losses in 2015 of $137.1 million while representing its stake in these companies as $30.4 million in income on its statement of operations, an accounting abuse that is entirely misleading.

Ligand CEO Higgins' ties with Shkreli

The U.S. Senate Special Committee on Aging, led by Senators Susan Collins (R-ME) and Claire McCaskill (D-MO), has properly investigated the fraudulent schemes of Martin Shkreli and the companies he founded, Retrophin (a Ligand partner) and Turing Pharmaceuticals, which set out to obtain licenses on out-of-patent medicines and increase the prices on them dramatically in pursuit of windfall profits without either of Shkreli's companies needing to develop and bring its own drugs to market. Since markets for out-of-patent drugs are often small, and obtaining regulatory approval to manufacture a generic version is expensive, Shkreli calculated or perhaps was shown that, with closed distribution for the product and no competition, his companies could set nearly limitlessly high prices for these drugs.

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[117]Available here: Link

[118] When the roughly $255 million non-cash entry (deferred tax asset of $219.6 million from the release of valuation allowance, a $28.2 million gain on deconsolidation of Viking) are removed from the statement of operations, Ligand's income fell from $12 million at FYE 2014 to approximately $2.3 million at FYE 2015, representing a decrease of 80.8 percent. The deferred tax assets were recently further written down.

[119] Cash and cash equivalents fell from approximately $160 million at FYE 2014 to roughly $97 million at FYE 2015, representing a drop of approximately 40 percent.

Less known, however, is the fact that it was Ligand CEO John Higgins who set Shkreli up as a biotech executive in 2012,[120] helping Shkreli establish this monopoly business model [121] at Retrophin through the licensing of DARA (dual acting receptor antagonist of angiotensin and endothelin receptors) intended to be developed for orphan indications of severe kidney disease[122] from Ligand.

In fact, in 2012, announcing his partnership with Shkreli, Ligand's Higgins issued a press release praising Shkreli and the unethical monopoly business model that he helped Shkreli establish, stating:

> *""This is an attractive deal for Ligand and our shareholders. We have partnered DARA with a team that has great credentials, is highly motivated to advance the program and has a compelling development plan. This is another valuable asset in our late-stage portfolio."* [123]
>
> *and*
>
> *"The leadership at Retrophin has shown tremendous passion and commitment to advance this important program, working with the FDA and raising additional capital."* [124]

Shkreli, in turn, recently appeared as cognoscenti in an interview, praising Ligand as "a very well run business."[125] In fact, Ligand's relationship with Shkreli's is so close that Retrophin director John W. Kozarich simultaneously serves as Ligand's chairman of the board. However, Higgins has been even more deceptive than Shkreli since price hikes of Ligand drugs such as DARA are both carried out and buried in third-party licensees, allowing Ligand to focus almost singularly on the task of sourcing new drug monopolies under the Orphan Drug Act.

After the publication of our June 16, 2014 report criticizing Ligand, Roth Capital (a firm both Ligand surrogate Viking[126] and Shkreli's Retrophin utilize for underwriting[127]) vigorously defended Ligand's unethical business model. About two weeks later, on July 1, 2014, Roth Capital appeared as an underwriter of the Viking IPO, which later would directly account for $28 million in ghost profits on Ligand's income statement as described above.

Conclusion

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120 See: "The next Sage? Shkreli partner Ligand puts together another sweet startup package deal for Seelos" available here: Link

121 See: "Sudden Price Spikes in Decades-Old Rx Drugs: Inside the Monopoly Business Model" available here: Link

122 See: Ligand Licenses DARA Program to Retrophin, available here: Link

123 See: Ligand Licenses DARA Program to Retrophin, available here: Link

124 See: Ligand receives equity milestone payment from Retrophin: Link

125 See: "Martin Shkreli Thinks Jazz Pharmaceuticals Could Be Worth $20 Billion, While Mast Therapeutics Is 'Worthless" available at the 10 minute, 45 second mark here: Link

126 See: Page 153 of the Viking S-1 available here: Link.

127 "Shkreli began with receiving a $4 million series A funding round, followed by a pipe deal with Roth Capital Partners valued at $10 million that was raised at a deep discount and had warrants attached. From here, Shkreli was able to acquire the rights to Thiola and Chenodal, and subsequently raise the price of each drug. Thiola was marked up nearly 20 times its original price, while Chenodal was raised around five times its beginning price," See: "Exclusive: Why Martin Shkreli Feels He Has Been Vindicated" available here: Link

Ligand Pharmaceuticals' free-for-all money grab, like Shkreli's Retrophin, Valeant and Mylan, has not played out in a vacuum; it has real public policy and health-care ramifications for real patients, real taxpayers and real shareholders.

The company's licensing model has multiplied its price gauging scheme exponentially and has, in turn, held patient's hostage, burdening the U.S. taxpayer, preventing generic competition, fleecing shareholders and enriching Ligand executives. Even with Shkreli and former Valeant executives having been arrested and charged with fraud in what the U.S. Department of Justice correctly labeled "a trifecta of lies, deceit and greed,"[128] and the Justice Department engaged in an ongoing multi-year federal antitrust investigation into anticompetitive conduct in the pharmaceutical industry, Ligand CEO John Higgins, who is the key node in this web of pharmaceutical industry malfeasance, is still shamelessly pushing the unethical Ligand model forward at astonishing cost to patients, taxpayers, and investors.

[128] See: Former Hedge Fund Manager And New York Attorney Indicted In Multimillion Dollar Fraud Scheme, available here: Link

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