THE AMVONA FUND, L.P.

2014 Annual Report

THE AMVONA FUND, LP - 2014 ANNUAL REPORT

Table of Contents

Business Activities

The Amvona Fund, L.P., was organized as a Delaware limited partnership on July 24, 2012 to operate as a private investment partnership. The Partnership's investment objective in general 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 capital allocation decisions are made for The Amvona Fund, L.P. by Emmanuel Lemelson.

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

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

Period	Gross Return (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%
Compounded Annual Gain…..	71.89%	49.79%	20.27%	51.62%	29.52%
Overall Gain………………………	**253.65%**	**156.70%**	**53.82%**	**199.84%**	**102.89%**

**The performance data represents the performance of The Amvona Fund LP (the "Fund"). The results reflect the deduction of: (i) a quarterly asset management fee of 0.25%, payable in advance; (ii) a quarterly performance allocation of 25%, subject to a high-water mark and a 6% 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.*

Investment Manager's Letter

To the Limited Partners of the Amvona Fund, LP:

In 2014 The Amvona Fund, LP's net income was $5,746,316 representing an increase of 6.9% over 2013 despite a decline in rate of return of roughly 45.7%[2] year over year. Net income since the fund's September 2012 inception through year end 2014 totaled $12,260,258.

Since inception (28 months) the fund has returned 253.65% gross and 156.70% net of all fees and expenses. The fund outperformed the benchmark during this time by 199.84%[3].

In the twelve months ended December 31, 2014, The Amvona Fund, L.P.'s gross gain was 47.24% (or 33.33% net of all fees and expenses) – figures that outperformed the benchmark S & P 500 Total Return Index (which includes dividends) by 33.56%[4].

The compound annual gain[5] at Dec. 31, 2014 was 71.89% (or 49.79% net of all fees and expenses). The compound annual gain for the S & P 500 during the same time frame was 20.27%.

Although the rate of return was lower in 2014 than 2013, on a relative basis The Amvona Fund, LP did far better against the benchmark S & P in 2014 than in the prior year, outperforming the index by a factor of ~3.5 x in 2014 vs. ~2.8 x in 2013[6].

Gross assets at December 31, 2014 totaled $41,049,029 vs. $23,867,525 at December 31, 2013, an increase of 72% year over year.

The Bad News

- The Amvona Fund, which has a significant long-bias, has only yet existed in a rising market. Importantly, long term results ultimately have little relation to short term market prices[7], and the duration in time referenced herein continues to be relatively short.

---

[2] The fund's net rate of return decreased from 61.39% in 2013 to 33.33% in 2014. Despite this decline, actual net income still increased, largely because of the effects of compounding and the related enlarged capital base.

[3] Figures are shown on a gross basis. On net basis, the fund outperformed the benchmark by 102.89% since inception.

[4] The fund outperformed the benchmark by 19.64% on a net basis during 2014. The gross basis is used above as a barometer of the fund's performance vs. the benchmark as the vast majority of expenses are attributable to management's performance allocation. If "Alpha" is viewed as the managers ability vs. the benchmark than the gross figure seems like a more accurate measure.

[5] The compound annual gain is an important measure for determining the rate at which the fund is compounding on an annual basis, since even a slight delta over the benchmark will have an outsized effect on long-term results.

[6] The S & P 500 Total Return Index rose 32.39% in 2013 vs. just 13.69% in 2014.

[7] For example had the current reporting period ended just a month earlier, the results would have been far more favorable. The fact that the market has constantly risen for about six years cannot be over-looked.

- It is not likely that returns such as those achieved between September 2012 and December 2014 will be repeated in future years because these figures simply do not reflect the productive output of the companies which management hopes to own shares of on a long-term basis. Although management certainly expects to be able to continue to purchase pieces of great companies at prices that represent significant discounts to real underlying value, such bargains are rare and the last 28 months has been an unusually good run.

- Although it has been said that there are more sins of omission than commission, management has proven, despite the quantitative advantage of the former category to be equally adept at the later, most recently showing a particular proficiency in outright transgressions that cost the partnership significantly.

  One such example took place[8] in late 2013 when manaagement purchased share of EZ Corp (NASDAQ: EZPW). The blunder was compounded in 2014 as management continued to hold the shares even as the company's economic prospects deteriorated throughout the year and it became increasingly obvious that the company's leadership, including the board of directors, were not likely to turn things around quickly[9]. Though the opportunity presented itself to liquidate shares at only a small loss on more than one occasion, and despite the error becoming increasingly clear to management, the shares were kept. In sum, EZ Corp. was an attractive security in terms of price, but not an attractive business – a fact recognized very early on, but consistently overlooked without good explanation. By the time the shares were finally sold in February 2015, the error in judgement had cost the partnership $836,295.

Some Good News

- Since inception the fund has continued to achieve better than average results and outperformed the benchmark index[10] despite management errors.

- The fund had realized gains of $2,319,100 in 2014 of which $92,806 was long-term. The fund also had $454,256 in dividend income summarized in the following:

[8] Although the severity of the error did not emerge fully until early 2015.
[9] The company underwent a number of leadership changes during the same time.
[10] Outperforming the benchmark index by even a relatively modest margin has a powerful effect on long term gains. See also "On Compounding" below for more on this calculus.

Realized Gain (Loss) Summary

Tax Status	WF	BTIG	Total
Long Term Realized	$ 51,279	$ 41,527	$ 92,806
Short Term Realized	$ 360,958	$ 1,865,335	$ 2,226,293
Dividend Income			$ 454,256
U.S. Dollar Total			**$ 2,773,356**

- Despite a rising market, the majority of realized gains in 2014 were derived from short positions[11], providing perhaps evidence that management's performance is not based merely on a rising market.

- In February 2014 The Amvona Fund, LP was ranked third in the 2014 Preqin Global Hedge Fund report[12].

- In April 2014 The Amvona Fund was ranked amongst the top long-short equity funds for the third time in just eight month's by *Barrons*[13]. This followed a showing in both July and October of 2013 at the top of Barron's list[14] of best performing funds.

- In August, BarclayHedge[15], a global leader in fund performance ranking and assessment ranked The Amvona Fund as the world's top-performing "long-bias" fund for the month of August[16]. The Amvona Fund also ranked as the top-performing on a year-to-date basis, returning 35.14% net of all fees and expenses through August 31, 2014.

- In October of 2014 The Amvona Fund, LP was ranked #1 by BarclayHedge[17] on a year to date basis.

- In January 2015 The Amvona Fund, LP was ranked #1 by the Wall Street Journal[18].

- The number of partners in the Fund grew from four at year-end 2012 to fourteen with twenty-one separate capital accounts at year-end 2014.

---

[11] See also the section entitled "Select Financial Data for the Past Three Years" below.
[12] See the Event Driven league table.
[13] See the "Market Lab" sections in the May 2014 editions of Barron's.
[14] See the "Market Lab" sections in the August and November 2013 editions of Barron's.
[15] BarclayHedge – 2014 Monthly Performance Awards - Equity Long-Bias — Fund Assets Greater Than $10 Million as of Month-end August 2014
[16] The Amvona Fund Ranked World's Top Performing Long Bias Equity Fund for August 2014, StreetInsider, October 2, 2014 Link.
[17] See Equity Long-Bias category through October 2014.
[18] See Fund Score Card, U.S. Long/Short Equity - January 8th, 2015 Middle East edition. However it is unclear to management how WSJ calculated the rankings or the related rates of return.

There were four events that defined 2014 for the fund:

a) The publication[19] and related short stake taken in share of World Wrestling Entertainment announced on March 17, 2014 and reaffirmed on April 8, 2014 that resulted in a loss of some 1.4 billion (63%) in market capitalization in shares of WWE.

b) The reversal of the position in WWE to a long position announced on May 16, 2014, and call for changes to the management team or sale of the company.

c) The publication of Management's April 22, 2014 letter to Bruno Guilmart, CEO of Kulicke & Soffa Industries[20] calling for a share repurchase related to the fund's long position, the firm's heeding of that call, and the related increase in market capitalization of roughly $314 million (~34%) by March 23, 2015.

d) The publication of multiple research reports beginning on June 16, 2014 and related short stake taken in shares of Ligand Pharmaceuticals that resulted in a loss of approximately 500 million (~38%) in market capitalization of the company over the ensuing 115 days.

[19] A copy of the original WWE short thesis can be found online here

[20] A copy of the letter is provided at the end of this report.

A Few Major Commitments

Apple (NASDAQ: AAPL)
Computers, Phones & Household Electronics
178,500 Shares at YE 2014 - Market value at YE 2014: $19,702,830

It's almost embarrassing to make money from such an obvious price-value dislocation. The Fund's largest commitment throughout 2014 continued to be Apple, partly because it started out as a large commitment, and partly because its market price continued to rise throughout the year.

By early March 2013 it became clear that an outsized disparity existed between what the mainstream media was reporting and what the company was actually saying and doing.

The possible psychology behind the swift deterioration in the share price starting in the autumn of 2012 was discussed in the brief essay "Apple's Crime and Punishment"[21]. About eight days after publishing the article, and with a little further consideration, the fund began buying significant blocks of shares. By early July of 2013 the fund held 25,500[22] shares.

Reasoning consisted chiefly of the following:

1. It was expected that the company would return a large amount of capital to shareholders[23].
2. The underlying math was largely misunderstood by the analyst community, with an ever-enlarging install base for iPhone of loyal customers who would almost never switch to android, future iPhone upgrade cycles were set to increase exponentially.[24]
3. The Market was largely failing to properly understand and value the "services" side of the business, which includes iTunes and more importantly, the App store which was and continues to grow at an extraordinary rate.
4. The chorus of voices at the time that insisted Apple was "no longer innovating" seemed to lack sufficient evidence[25] to support their claims.
5. The emotional attachment and loyalty customers felt about the products and the brand was and continues to be unparalleled, contributing to an unusually wide "moat" around the business.
6. The extremely strong balance sheet and in particular the enormous and growing cash position the company had and continues to have, had no equivalent in concerns of such size and quality.

---

[21] Within the first few hours of publication, the article had received about 10,000 page views on SeekingAlpha.
[22] On April 23, 2014 Apple announced a seven-for-one stock split bringing the total number of shares owned to 178,500 – see also: Apple Expands Capital Return Program to Over $130 Billion
[23] This of course did occur with the company's announcement of a 100 B return of capital to shareholders on April 23, 2014, with the majority in the form of share buy-backs. See also: Apple More than Doubles Capital Return Program.
[24] An error which is still being widely made – a larger install base virtually guarantees larger future sales as part of a highly predictable upgrade cycle.
[25] For example, pundits complained about the lack of a new product category, but in fact the company was more or less on the same timeline for new product categories that had been on for much of the last decade.

7. When subtracting cash from the effective purchase price, especially on a per share basis[26], the metrics, especially with only modest forward projected earnings, could only be described as "extremely promising" given the "first-rate" nature of the business.

The fund initially owned a small number of shares that were eventually sold[27] at a profit prior to making the long-term commitment.

Below are the details of the long-term purchases made for the fund.

Fig. 1 – Purchases of Shares of Apple

Date	Quantity	Unit Cost	Price	Total Cost	Market Value	Unrealized Gains	Pct Gain
3/6/2013	700	$ 60.83	$ 110.38	$ 42,581	$ 77,266	$ 34,685	81.46%
3/20/2013	61,600	$ 64.58	$ 110.38	$ 3,978,084	$ 6,799,408	$ 2,821,324	70.92%
3/28/2013	15,400	$ 64.00	$ 110.38	$ 985,534	$ 1,699,852	$ 714,318	72.48%
4/1/2013	30,800	$ 61.90	$ 110.38	$ 1,906,421	$ 3,399,704	$ 1,493,283	78.33%
4/4/2013	15,400	$ 61.03	$ 110.38	$ 939,906	$ 1,699,852	$ 759,946	80.85%
4/15/2013	700	$ 60.00	$ 110.38	$ 42,002	$ 77,266	$ 35,265	83.96%
6/7/2013	15,400	$ 62.04	$ 110.38	$ 955,438	$ 1,699,852	$ 744,414	77.91%
6/13/2013	7,700	$ 61.41	$ 110.38	$ 472,852	$ 849,926	$ 377,075	79.74%
6/14/2013	7,700	$ 61.29	$ 110.38	$ 471,917	$ 849,926	$ 378,010	80.10%
6/19/2013	7,700	$ 60.52	$ 110.38	$ 466,032	$ 849,926	$ 383,895	82.38%
6/20/2013	7,700	$ 59.55	$ 110.38	$ 458,552	$ 849,926	$ 391,375	85.35%
7/2/2013	7,700	$ 59.38	$ 110.38	$ 457,219	$ 849,926	$ 392,707	85.89%
		U.S. Dollar total		**$ 11,176,535**	**$ 19,702,830**	**$ 8,526,295**	

In addition to the $8,526,295 in unrealized gains, the fund received $335,800 in dividend payments from Apple in 2014, an increase of $125,960 or 60% over 2013[28].

Apple's Share Buy-Backs and Market Price – Q1 2014 as Case Study

Few things could have worked out better in Q1 2014 than the decline in the share price of Apple.

Apple is an active buyer of its own shares, which at the time were considerably under-valued[29]. As the share price declined during that quarter, four things were occurring:

[26] A calculation which was particularly important given the imminent share repurchase that would both reduce shares outstanding, and the related dividend payments the company would be making while increasing pro-rata ownership.

[27] The fund realized $71,520.81 in short-term gains from the initial investment that is not reflected in the working appraisal below.

[28] Total Dividend Income from Apple in 2013 total $209,840. Apple contributed 73.96% of the total dividend income in 2014 of $454,049

[29] Management believes that the shares continue to be under-valued presently as well.

1. The company was able to purchase more shares (under its share repurchase authorization) than it otherwise would have had the share price remained constant or risen.
2. As the number of shares outstanding decreased, the funds' pro-rata ownership of the company increased at zero additional cost.
3. The company's dividend expense in absolute numbers decreased[30].
4. Future EPS figures were buttressed – as the divisor (the "S") in the formula diminished.

Buy-backs are a de facto zero-cost[31] hedge against a negative movement in market prices for the long-term holder.

Apple has been an especially aggressive buyer of its own shares. For example, in late January 2014 the shares lost about 8% of their value almost overnight in part because of commentary provided by analysts[32]. This veritable "panic" followed an earnings report that indicated the company had established new all-time quarterly records for iPhone and iPad sales[33] resulting in their highest ever quarterly revenue[34] and operating profits[35]. EPS of $14.50 was also a new record on better than expected and increasing gross margins.

Indeed as the price of the shares fell (during the quarter) from just over $550 to eventually around $499 (pre-split) the company itself was buying as fast as it seemingly could, spending some 14 Billion (or roughly 40%) of its cash held domestically on the shares. As the shares recovered to around $550 during the quarter some 1.4 billion in capital was then transferred (tax-free)[36] from alarmed sellers to long-term owners.

Something very similar occurred in June 2013 when the company spent ~16 Billion[37] to repurchase about 36 million shares at an average price of just $444. At the closing price of 536.62 on March 31st, 2014 those repurchases would have transferred some 21% or 3.3 billion from those surrendering their shares to continuing owners.

In sum, by the end of Q1 2014 the company had repurchased more than 42 billion of its own shares over the span of just a few years, retiring about 84.5 million or 9% of the total shares outstanding.

---

[30] Along with the number of shares outstanding.

[31] As opposed to the cost of other forms of insurances such as derivative contracts.

[32] If an investor didn't want to do any serious work, they probably could do very well simply by doing the opposite of what both analysts and private wealth managers advise.

[33] Despite supply constraints the company sold 51 million iPhones in CQ4 2013 quarter, a 7% increase over the previous year and 26 million iPads, and increase of 14% year over year.

[34] When foreign exchange headwinds, declining iPod sales and revenue deferrals are excluded, the revenue figure was actually 2.5 Billion higher than reported by the company, a growth rate of about 10% year over year.

[35] Gross Revenue was ~57.6 Billion and Operating Income was ~17.5 billion. It is also worth noting that no technology company had ever generated that much revenue in a single quarter – a record which Apple itself has since broken.

[36] The increase in value to ongoing owners (unlike sellers) was tax-free.

[37] The company also spent about 10 Billion to repurchase shares in the Sep and Dec 2013 quarters.

Apple: The future

To put the magnitude of Apple's resources in perspective, as of the writing of this letter, Apple's stock price has swelled to around $127 per share and a market cap of approximately 740 billion, which is higher than Switzerland's entire gross domestic product.

Management feels confident that Apple will increase their capital return program in April 2015, and will have sufficient free cash flow to continue to meet an expected enlarged buyback program as well as increased dividend payments.

Apple is unique amongst its peers because it is the only major technology company to control both the hardware and software[38] that comprise its platform. This advantage is expanded by the fact that Apple is also the only major technology company to have both successful desktop and mobile businesses[39]. The importance of this last point cannot be overstated, as there is increasingly a tension between a growing base of ios / osx users who both enjoy and are faithful to the Apple ecosystem, but feel somewhat disappointed when using Microsoft Windows, which is often the status quo in most work environments. This strain gives rise to enormous potential for Apple to carry its customer satisfaction and loyalty into the enterprise market.

Aside from these advantages, management feels confident that the Apple watch, announced in late 2014 will dominate the nascent wearable's category.

Making the Apple investment has been an almost awkward chapter in the history of the fund – it required so little thought and seemed so plainly obvious.

Geospace Technologies (NASDAQ: GEOS)
Oil & Gas Related Equipment and Services
352,770 Shares at YE 2014 - Market value at YE 2014: $9,348,405

On February 5, 2014 Geospace technologies reported fiscal year 2014 first quarter net income of $24.2 million, or $1.85 per diluted share on revenues of 101.3 million for its fiscal quarter ended December 31, 2013. The quarterly earnings per share exceeded the highest ever recorded in the company's history by 9%. With $69.56 million in net earnings, or $5.40 in EPS in in FY 2013 Geospace also had its best year on record by a very large margin.

In the second quarter of fiscal year 2014, Geospace saw utilization of its wireless GSX data recorders, one of the company's key product lines, reach new levels.

---

[38] Google for instance has been successful with its android mobile operating platform, but has not been successful in mobile hardware, being forced instead to collaborate with successful hardware manufacturers such as Samsung that are eventually bound to move from partnership to competition. These awkward marriages do not carry the promise of "growing old together".

[39] For example Microsoft has been and continues to maintain a somewhat robust desktop business, but has never enjoyed anything that might be considered "success" in its mobile initiatives. In similar fashion Google has enjoyed considerable success in mobile with its Android operating system, but has never succeeded in gaining a material share of the desktop market.

Then all of a sudden the seismic exploration activities of most oil companies, Geospace included, largely came to a halt as the price of oil began its long spiral downwards beginning in June 2014, all but eliminating demand for the services of Geospaces' customers, and consequently removing the demand for many of the company's products.

Just nine months later on November 20, 2014 the company reported its worst quarterly loss[40] going back 11 years. Indeed in the 58 previous quarters, the firm had reported a quarterly deficit just nine times, with an average quarterly loss of about $662,000.

How could so much change in the span of just nine months?

The company had not recorded a loss on an annual basis since fiscal year 2003[41]. It now appears that in fiscal year 2015 the company may very well record a loss on an annual basis again. In the last eighteen years the company had only suffered a loss on an annual basis twice, in 2000 and in 2003.

On February 4, 2015 the company reported a quarterly loss of 5.4 million or $0.41 per diluted share. Going back fifteen years the largest quarterly deficit the company had reported prior to the two most recent quarters was in September 2009 when the company recorded a quarterly loss of $1.816 million.

Despite the effects of the fiscal year fourth quarter loss and the overall industry downturn, Geospace still recorded diluted net earnings for fiscal year 2014 of $2.81 per share and managed to increase shareholder equity almost 14%. The company started fiscal year 2015 with 103 million in liquidity[42], 146 million in usable inventory[43] and no debt.

However, it is perhaps interesting to note that amidst the volatility in demand that has been the hallmark of the land and marine seismic surveys industry both past and present, there has been one segment that has remained relatively immune thus far in the current crisis; the ocean bottom survey market where tenders continuing to be offered and awarded. Geospace's OBX product line is one of the best on the market in this product category. In addition to this, Geospace provides not only superior support to its customers as a result of decades of experience, but is also the only provider of such equipment that is not in direct competition with its customers.

Most importantly, Geospace's CEO Rick Wheeler, who took the helm on January 1, 2014[44], is first-rate. Rick is also a true engineer at heart having spent virtually his entire career in seismic exploration. Management has gotten to know Rick well - he has management's full confidence[45].

That having been said, oil has become very cheap. In December 2008 at the depth of the financial crisis Brent crude traded at 41.58 per barrel. In January 2015, some seven years later Brent crude traded at 48.42 per

---

[40] For the fourth quarter ended September 30, 2014 the company recorded a net loss of 1.8 million.
[41] In the fiscal year ended September 2003, the company lost 2.53 million.
[42] Consisting of cash, cash equivalents and available credit
[43] The company regularly depletes inventory for obsolescence and the majority of the balance is held either in raw materials or sub-assemblies.
[44] Having joined Oyo Geospace in 1997 after working for 13 years as a Design Engineer at Input/Output, Inc. (now known as ION Geophysical Corp.)
[45] The fund continued to aggressively acquire shares of Geospace throughout Q1 2015.

barrel[46] or 16.5% higher than it did during the financial crisis. However, price cannot be properly understood without the knowledge of the value of the monetary units in which it is calculated.

The following chart illustrates the point (gray bars represent recessions)

Fig. 2 – WTI / Brent Crude to M1 + M2 money supply

Consider for a moment that at December 2008 M1 + M2 money supply stood at 9.77 trillion. At January 2015 M1 + M2 money supply was 14.62 trillion, an increase of over 49.6%. So while the price at January 2015 seems higher than it was at the trough of the financial crisis, it must be taken into consideration that the monetary units in which the price is quoted have been dramatically diluted.

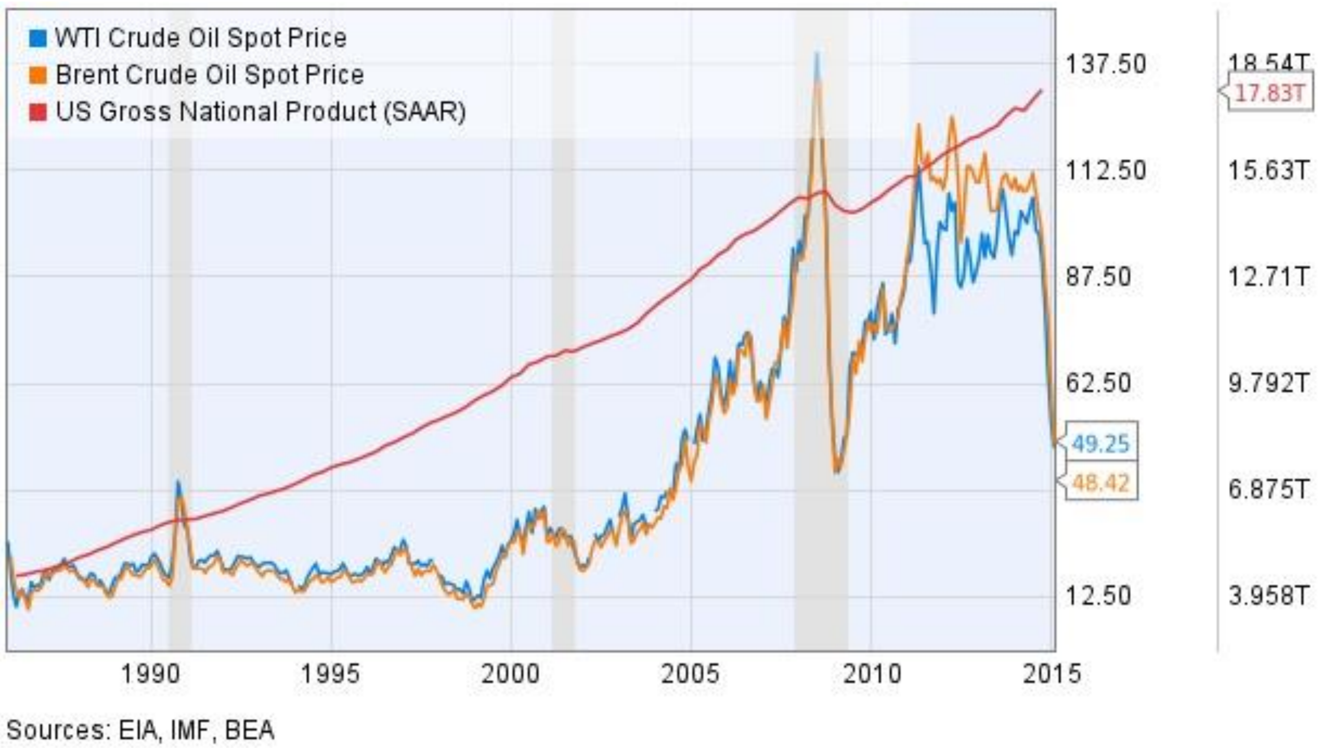
Based on back of the envelope math then, Brent crude in January 2015 was selling for roughly $24.22 in 2008 dollars, or an inflation adjusted discount of ~41.8% to what it did at the moment when it appeared the entire world's economies had arrived at judgment day[47]. Certainly by late summer 2014 it became clear that certain economies were slowing, especially in the so-called emerging BRIC markets, however there was surely no evidence to indicate that a financial crisis anything like that experienced between 2008 and 2009 was brewing. What had occurred was a significant increase in shale oil production in the US, but the increase in supply was not met with a decrease in demand, rather energy demand largely continued to rise during the same period. Overlooked in the frenzy was also the fact shale formations are not only more expensive to bring into production, but also deplete at a faster rate than traditional reserves.

[46] West Texas Intermediary (WTI) closed on January 13, 2015 at just $45.89.
[47] That is to say, at the depth of the financial crisis.

What's more there existed no significant contraction in Gross National Product during the recent decline in oil prices as was the case in the late 2001 recession or 2008-2009 recession. In December 2008 gross national product (GNP) stood at 15.05 trillion.

By September 2014, as the rout in oil prices was well underway, GNP had swelled to 17.83 trillion. Despite this the price of oil and gas continued its precipitous fall in 2015. By late January the national average price for a gallon of regular gas was $2.03, the result of the longest streak of daily price declines on record[48].

Fig. 3 – WTI / Brent Crude to GNP



On March 18th, 2015 Geospace's stock price fell to $14.95 per share. On that day, tangible book value was $24.30 per share, creating a price-to-tangible book value of just .62, the lowest ratio[49] going back fifteen years[50].

At $14.95 per share the company's market capitalization was just $196.5 million. On that same day, the current assets of the company alone were 232.1 million and total liabilities were just 21.8 million, meaning the net current asset value, that is the current assets minus all liabilities was 210.3 million. On March 18, the stock traded at a discount of $13.7 million (6.5%) to net current asset values alone. It did not seem likely the company could lose 13.7 million before being awarded more contracts. Since there were only 13.15 million shares

[48] *The Wall Street Journal* - U.S. Gas Prices End Their Record-Breaking Streak of Daily Declines, January 27, 2015
[49] In March 2009 at the lowest point in equity markets during the financial crisis, the company traded at a price-to-tangible book value of .68
[50] Management did not look back further than 15 years in this case.

outstanding, buyers on that day essentially received an additional rebate of $1.04 for each share purchased, against net current asset values alone, and as a hedge against future quarterly losses.

Oddly enough, on March 18, 2015 buyers of Geospace stock were actually getting paid[51] vis-à-vis the rebate, to take the company's other assets[52], including property, plant and equipment (at a fully depreciated value of $111.1 million) off sellers hands. The management team, intellectual property, customer relationships and the business as a going concern of course, were all thrown in as icing on the proverbial cake.

Management believes this curious phenomenon was due to a few simple factors. First and foremost an emotional reaction, that is to say fear, for all things related to the price of oil and gas which had reached fever pitch in early 2015 and secondly a likelihood that analyst and prospective buyers of the issue were likely too aggressive in writing down the value of the company's inventory[53] in financial models and impairing the receivables entry.[54]

It should be widely held by now that there is a slow secular decline in fossil fuels, and that the future of energy consumption clearly lies with renewables. However, oil and gas as a source of fuel will not be succeeded at the speed in which Sperm whale oil for example was supplanted in the late 19th century by alternatives such as kerosene and petroleum based products, in part because of the enormous existing infrastructure that services the fossil fuel industry, and paradoxically, by low inflation-adjusted prices.

Free markets after all have a way of producing outcomes, which can be unexpected. It is easy to imagine that as a result of lower prices, the life-span for fossil fuels may well be extended, while the cost disadvantages of alternative energy become, at least temporarily, more pronounced – thus ironically ensuring somewhat robust demand for oil and gas for the foreseeable future[55]. Ultimately the share price and related value of companies involved in E & P such as Geospace ought to have little relation to the price of the underlying commodity. Rather it can be reasonably imagined that their fortunes are tied instead to a necessity to continue exploration and production at any price. In this sense, the fact that OPEC in November 2014 made a historic decision not to intervene in markets by curtailing production as they often had in the past, should have been the catalyst for an increase in share price of E & P companies, even if in the near-term, reduced CapEx budgets by oil majors meant near term slowdowns in sales for companies which depend on the spending of these concerns – the fact oil continued to flow unabated through the first quarter of 2015 could only mean enlarged pent-up demand for exploration at a future date.

---

[51] The payment being the delta between current assets minus all liabilities, and the stock's closing price that day acting as a premium to buyers of the issue for purchasing stock from sellers.
[52] Virtually all of which are tangible.
[53] A substantial part of the firms current assets.
[54] Virtually all of which the company had already collected inter-quarter.
[55] There are certainly very powerful interests that have a stake in making sure this happens. At the very moment market participants are selling as a result of fear of low prices and alternative sources, traditional fossil fuels are in fact experiencing an extension on their life span as a result of the same feared low prices.

Further to this point, it is worth pointing out that oil wells are not limitless in their capacity to produce[56], and while production has been scaled back rapidly by the oil and gas industry, much of what is being shipped is "off the shelf", and at some future date must be replaced.

For example, in the week ending February 14, 2015 alone the number of rigs drilling for oil in the United States fell by 84 to 1,056 - the lowest since August 2011 representing the second largest weekly drop on record according to data going back to 1987, and the 10th straight week of declines[57].

Nobody knows for certain when oil companies will resume seismic exploration activities[58]. There are however several key considerations worth noting. Looking at the reports on the performance of energy producers, it is exceedingly clear that new reserves are in fact not being found to replace current output. In the case of BP, for example, only 62% of oil the firm pumped was replaced with new reserves. In the case of Shell, this number was only 26%[59]. These figures represent the lowest percentage of replacement in over a decade in both cases.

The International Energy Agency (IEA) has indicated that at current prices, OPEC countries will also fail to invest enough in new production to provide reliable supplies of oil in just a decade from now. On the demand side, the IEA's "World Energy Outlook 2014" report shows that energy demands are on track to continue growing by 2% per year through 2025, and 1% per year thereafter. When taken together, these dynamics are clearly not sustainable. While it is impossible know when seismic exploration activities will resume to anything approximating prior levels, it seems irrefutable that they must eventually.

It is overwhelmingly clear, and a nearly risk-free bet, that the discovery of new energy reserves along with the prudent management of existing reserves is necessary to meet long-term global energy needs for the foreseeable future, particularly in light of the economic advantages of cheap oil. Management believes Geospace's products and technology will continue providing the best tools to accomplish this, just as before and that the unprecedented and prolonged down-turn in the price of oil and gas that began in the summer of 2014 and that has persisted through early 2015 will ultimately be remembered as one of the truly great opportunities afforded to the enterprising value-oriented investor.

Kulicke & Soffa Industries (NASDAQ: KLIC)
Semiconductors & Semiconductor Equipment
368,429 Shares - Market value at YE 2014: $5,327,483

On January 29, 2013 Management began acquiring shares of Kulicke & Soffa Industries (K & S). The buying continued through April 22, 2014. Management paid $4,147,963 for 368,429 shares, or an average of $11.25 per share. On April 23rd, 2014 Management sent a letter[60] to Kulicke & Soffa's CEO Bruno Guilmart urging the

---

[56] This is especially true of shale reserves.
[57] *Reuters* - U.S. oil rig count falls to lowest since August 2011-Baker Hughes, February 13, 2015
[58] Even if oil prices rebound relatively quickly, a return to spending on exploration is likely to take much longer.
[59] Perhaps prompting Shell's 70 billion bid for rival BG Group in order to boost its oil and gas reserves. The deal was announced on April 8, 2015 - Link
[60] A copy of the letter can be found here and is also published below.

company to initiate a share repurchase. Shares appreciated as much as ten percent[61] within minutes of the announcement of the firm's long position in the stock. In the days and weeks following the announcement, other fund managers globally affirmed the importance of the firm's April 22 letter[62] to K & S management, asking how they can get involved.

On August 27, 2015 the company heeded the call[63], and announced a $100 million[64] share repurchase program[65]. Lemelson Capital was widely credited[66] with the capitulation. By the end of the third quarter shares of K & S had appreciated some 26.4% above The Amvona Fund's average purchase price.

Management continues to believe that the general economics of wire bonding and advanced packaging have a favorable outlook, particularly in light of the emerging "internet of things".

Kulicke and Soffa dominates the wire bonding market[67] with ~63% of the ball and ~53% of the wedge bonder market[68]. Wire bonding has produced remarkably steady cash flow for the company and is set to continue for the foreseeable future[69] with no substantive competitive threats to the company in this category. Looking out on the horizon, management continues to believe the company will also become a leader in advance packaging technologies[70] such as Thermo-compression bonding and will consistently grow revenue for the foreseeable future.

When an unusually large war-chest is combined with a significant buy-back program, risk can be significantly mitigated even within a business which is highly cyclical such as the semi-conductor industry.

Q2 2014

The second quarter of 2014 proved to be an especially active one for the fund. The fund's short position in World Wrestling Entertainment (NYSE: WWE) concluded in a price within range[71] of the fair value stated in

---

[61] Kulicke & Soffa shares surge after investor urges buyback, *USA Today*, April 22, 2014 Link. As of the writing of this letter the share are up ~32 percent.

[62] "Lemelson Capital Management announces stake in Kulicke and Soffa Industries, delivers letter to management and board members urging immediate share repurchase," Lemelson Capital Management, April 23, 2014, Link.

[63] Lemelson Capital published an open letter to CEO Bruno Guilmart calling on the company to initiate a share repurchase program, Link.

[64] Kulicke & Soffa Announces Repurchase Program, Kulicke & Soffa, August 27, 2014, Link.

[65] Kulicke & Soffa jumps; activist discloses stake, calls for buyback, Seeking Alpha, April 22, 2014, Link.

[66] Kulicke & Soffa heeds activist's call, launches buyback, Seeking Alpha, August 27, 2014, Link.

[67] A virtual duopoly to begin with.

[68] K & S is also in the leader in market share of wafer level bonders and capillaries.

[69] Wire bonding is expected to grow at a CAGR of 6% through 2017.

[70] The total addressable market for TCB will likely exceed half a billion by 2017 and is expected to grow at a CAGR of 14% through 2017.

[71] The report indicated fair value between 8.25 and 11.88 per share. At the time the shares were trading at around 31. On May 16th shares closed at $11.27.

Lemelson Capital's original March 17, 2014 report[72]. The shares declined over 63% in 59 days, representing roughly a $1.4 billion loss in WWE's market capitalization.

Finally, the 25-page research report[73] and follow-on 12 page appendix[74] on Ligand Pharmaceuticals (NASDAQ: LGND) had begun to be proven correct in the second quarter with shares in LGND down roughly 30%[75] in the month following the original report's publication.

A Productive Third Quarter

The third quarter also proved to be lively with the fund's activist positions having come increasingly to a conclusion during the quarter. Aside from the events around shares in K & S outlined above, the following are also worth noting:

The funds commitment in American Eagle Outfitters, Inc. (NYSE: AEO), which the fund acquired between August 2013 and May 2014 at an average purchase price of $11.66 per share[76] came to realization, with a market price much closer to the company's intrinsic value with the stock appreciating 35.91% in August alone.

On May 16, 2014 Lemelson Capital announced that it had taken an equity stake in World Wrestling Entertainment (NYSE: WWE)[77] and called on management to make changes or sell the company. On July 31, 2014 the company announced a 7% reduction in staff[78]. Between May 16, 2014 and February 19, 2015 when management liquidated its long position, WWE appreciated some 40.8%[79].

The following is a brief history of the fund's involvement with shares of World Wrestling Entertainment:

a. March 17, 2014 - the fund shorts WWE at $30.40 per share – LCM publishes short thesis

b. April 8, 2014 **-** management publicly reaffirms short thesis

c. May 21, 2014 - WWE shares collapse – the fund take stake (long) in WWE (around $11 per share, the range the March 17, 2014 short thesis says shares are worth) and calls for changes in leadership or sale of the company.

---

[72] "The Short Case for World Wrestling Entertainment," Lemelson Capital Management, March 17, 2014, Link.
[73] "Ligand Pharmaceuticals - Severe competitive threat to key royalty program and 'going concern' risk drive 100 percent downside," Lemelson Capital Management, June 16, 2014, Link.
[74] "Ligand Pharmaceuticals (NASDAQ: LGND): Appendix." Lemelson Capital Management, July 3, 2014, Link.
[75] Share traded around $69 just before the report was published.
[76] American Eagle has also paid the fund a substantial dividend during the time shares were owned, effectively lowering the purchase price by the amount of the dividend received.
[77] The Amvona Fund, LP had previously shorted WWE at $30.40 per share between March 13 and March 17, 2014. The long position was taken on May 16, 2014 at $11.73 per share.
[78] WWE Reports 2014 Second Quarter Results and Improved 2015 Business Outlook, Link.
[79] See also: Lemelson Takes Down World Wrestling Entertainment, Inc. And Brings It Back Up, Benzinga, September 11, 2014 Link.

d. October 30, 2014 – the fund increases long position in shares of WWE after another fund manager goes on CNBC and announces short position in shares of WWE[80].

e. February 19, 2015 **–** the fund sells its stake in WWE at average of $16.52 per share[81].

f. March 30, 2015 - Shares of WWE collapse again (dropping over 15%)

World Wrestling Entertainment – what's gone wrong?

- The WWE's OTT network continues to average less than 1 M paid subscribers as of Q1 2015 – a figure significantly less than that required to break even.
- Subscribers increased just 27% in advance of Wrestlemania[82] 2015, primarily driven by the company's February free promotion - figures that are almost certain to decline post-Wrestlemania, compelling the company to extend the free promotion another month to the latest subscribers in order to offset what is likely to be a near-term significant drop in overall subscriber numbers.
- The company has lost about half of its overall unique subscribers since its 2014 launch, an astonishing statistic and likely the key driver of the continuous free promotions.
- Corporate governance continues to be a key issue at WWE with the company still moving in wrong direction as evidenced by the recent additions to the board of directors that have further diminished its independence.
- The firm's special controlling class of shares sends an (important) message to common shareholders.
- The company's dividend is increasingly at risk.

While revenue has recovered in recent years (to about where it was at in FY 2008 – that is to say there has not been a material gain in revenue in 7 years), net income has been in steady decline for more than five years. Operating margins have followed the same trajectory, with significant deficits in both areas. Owner equity has been essentially halved since YE 2006, a cause for alarm. As a result, the company is presently in a precarious fiscal position that cannot be sustained for long and which at a minimum jeopardizes the dividend.

The pre-existing corporate governance structure should be examined as causative of such a poor and prolonged financial showing. Without a truly independent board, the much needed changes in executive management are effectively impossible, exposing common shareholders to extraordinary risks. The institution of a special class of voting shares is indicative of managements view of the common shareholder, as not the legitimate owner of the enterprise, but rather (and diminutively) simply as a source of capital.

80 Click here for more information

81 Click here for more information

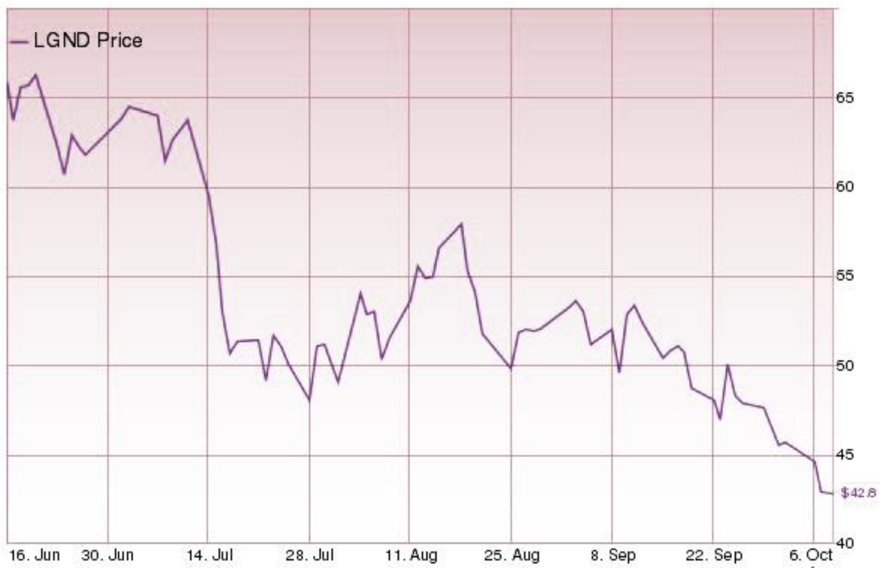
82 The company's largest live event.

Ligand Pharmaceuticals' Slide

From June 16 to August 22, 2014 Lemelson Capital published multiple reports[83] on Ligand Pharmaceuticals concluding the shares had no intrinsic value. On June 16 the shares traded above ~69[84] per share just before the release of the first research report[85]. By early October 2014, the shares had traded as low as $41.99 a decline in share price of ~39%.

The following chart illustrates the intense decline in share price of LGND in just over three months' time:

Fig. 4 – LGND price between June 16, 2014 and early October 2014



Management finished covering the position in mid-October 2014 in the low 40's – booking a better than average rate of return in the roughly 4 months the fund was short the shares.

Volatility, Liabilities and Leverage

The beginning of Q4 2014 was marked by significant volatility in markets with the largest downward corrections and point losses in the major indexes in 2014[86]. The Amvona Fund, despite having increased its short positions

---

[83] Money manager betting against biotech firm Ligand Pharmaceuticals, *USA Today*, June 16, 2014, Link.
[84] The shares closed down that day at $64.89
[85] "Ligand Pharmaceuticals - Severe competitive threat to key royalty program and 'going concern' risk drive 100 percent downside," Lemelson Capital Management, June 16, 2014, Link.

[86] In fact, the week ending October 10, 2014 was the worst week for the S & P 500 and the NASDAQ indexes since May of 2012, Link.

at the end of Q3, was not immune[87] to the change in sentiment[88]. Nevertheless, the volatility provided an outstanding opportunity to purchase shares in a few truly great companies at unexpected prices.

Every effort is made to keep fund expenses at an absolute minimum, as it seems insincere to look for value in securities, but overpay for services. While gross assets increased 72% year over year, operating expenses increased just 9%. The increase in O & O cost charged is entirely due to the expense associated with the formation and launch of The Amvona Fund, Ltd., expenses which are accrued only to the investors in that entity[89]. Interest expense increased as leverage continued to be used against a growing asset base.

Borrowed money, or in financial parlance “leverage” has been the source of many sleepless nights or worse for an indefinable number of persons and organizations. Just pick your favorite financial crisis throughout recorded history, and invariably you will find a prominent “borrowed money” component. However, the prudent management of low cost, reasonable amounts of debt, applied to the strictest standards of value[90] is not necessarily risky. In the most basic terms, if a proverbial dollar can truly be purchased for 60 cents, with borrowed funds at a cost of less than 1% for example, it makes sense to do so, particularly where there exists a convergence of discipline, patience and focus.

Operating expenses for the fund were higher in 2014 at $5,095 per month vs. $4,679 per month in 2013 and just $3,992[91] per month on average in 2012.[92] The year over year increase is largely due to the accounting and administrative costs associated with The Amvona Fund Ltd (offshore fund).

Profitability is effected by three things:

a) Return on assets
b) Cost of liabilities
c) The use of leverage

Leverage can be thought of as a liability which enlarges (productive) assets over existing equity. By way of example, between May and December 2014 (the period during which BTIG was the broker to the fund) the funds’ average loan balance was $15,202,021[93]. The cost of the borrowed funds was on average .7867%

In general terms, management is likely to make both long and short-term commitments in the future, although clearly there is a significant preference for former. As it has already been said, truly great investment ideas occur only occasionally. When extraordinary businesses go on sale, they often represent the ideal circumstance

[87] Particularly as a long-biased fund.
[88] Although it is worth adding that the fund’s major short positions were proven correct adding significant gains to the portfolio.
[89] These O & O costs associated with the establishment and launch of The Amvona Fund, Ltd. is accrued only to investors in that fund even though it is part of the gross expenses calculated at the master fund level.
[90] Especially where priority is given to tangible assets.
[91] See “Statement of Operations” and “Selected Financial Data for the Past Three Years” below.
[92] Both O&O and operating costs, as with all expenses are divided on a pro-rata basis amongst the partners, not only on the basis of pro-rata ownership, but also on which vehicle the investor participates in.
[93] In May the funds’ broker changed from Wells Fargo to BTIG, the changes resulted in, amongst other things, lowered borrowing costs.

for a long term holding, not only because such events are infrequent[94], but also because at the moment a security is sold at a gain, the related capital gains tax ceases to be deferred, and thus net returns to the partner as well as the size of the remaining asset available to produce yield in the future[95] are both meaningfully diminished. Therefore, the company which can continue to produce at a rate higher than average over a long period of time, is indeed the "*pearl of great price*", for it is only issues of this variety which permit the indefinite deferral of the tax on the gain.

Stated in another way, if the investee is able to enlarge its equity on an ongoing basis at or above average rates of return, it is difficult to rationalize selling, *even if* the issue has become *fairly* valued. That is to say it is better to avoid the impairment the tax liability will cause so long as the commitment indicates prospects for a consistently positive future. Of course in the interim, the tax liability is real, even if unrealized. Nevertheless, so long as the gain remains *unrealized*, the related tax liability is not only deferred, but can also be carried in perpetuity at zero percent interest, and entirely without covenants[96]. Over time these zero-cost, covenant-free liabilities begin to look a lot like assets.

Without question it is these long term investments, buttressed by this *liability-asset*[97] as it were, that have the potential to generate *real* wealth over the long run. However, given the fund's continued small size[98], not acting on near-term mis-pricings in issues of secondary quality is also hard to justify, for it seems that greatness in investment philosophy may be indistinguishable from cognitive *flexibility*[99].

That having been said, there continues to be from time to time opportunities in somewhat less than first-rate concerns which can be purchased and usually sold in less than one year's time[100], and it is precisely these occasions which establish the argument for short-term commitments[101].

A Brief Note on Service Providers

In 2014 the fund elected three new service providers. Douglas Maclean of Armor Compliance as legal counsel, BTIG as prime broker and KPMG as auditor. Management has had a long and friendly relationship with both

---

[94] The chances of the price of a first-rate concern falling *significantly* below its real or intrinsic value, is very low.

[95] Equity ownership in a company can produce in three ways a) simple price appreciation b) the payment of dividends and c) as an asset against which leverage can be utilized.

[96] What other creditor can be found that is willing to advance capital on such terms? In stark contrast to this, margin loans not only carry an interest rate above zero, they also include covenants which allow the lender to essentially change equity requirements, that is to say the terms of the agreement, unilaterally – such an arrangement hardly represents any sort of "partnership".

[97] For the superior company purchased using leverage, time causes the related liability to increasingly decay in relation to the asset.

[98] There is a significant number of smaller issues that the fund can allocate a significant percentage of its capital to that will sufficiently "*move the needle*" – such opportunities, by virtue of size are not open to larger funds.

[99] In contrast to formulaic or mechanical investment policy often characterize by "check lists".

[100] Thus incurring the worst tax penalty of all – the "short-term" capital gains tax, an especially painful event for Massachusetts residents who have long-suffered a whopping 12% penalty – the highest in the nation.

[101] Likewise, short sales are taxed as short-term capital gains.

Doug and the team at BTIG[102] - execution and support have already exceeded expectations in both cases since the change was effected.

Doug has followed the progress of the fund since its inception and often added support and feedback in an unofficial capacity. His energy levels and enthusiasm for his profession are impressive. Recently, Doug sent an email on a correction to one of the fund's documents at around midnight, in typical form, he's always on the job with boundless energy. If you ever decide to start a fund, start with Doug.

BTIG is one of the largest introducing brokers servicing around 300 funds. BTIG has an outstanding reputation for customer service and pricing which proceeds them.

The transition to BTIG has also had a net positive effect on expenses. For example, the cost to borrow the fund pays decreased from the US Federal Fund rate plus 90 bps to FDFD plus 70 bps – a savings of over 22%[103].

In addition to the above savings, transaction costs were also cut in half from .015 per share to .0075 per share. By way of example, in 2013 the fund paid $18,613 in commissions. Between May and December of 2014 alone the fund paid $20,515.74 in commissions, saving the same amount as a result of the change to BTIG.

By late fall 2014, KPMG had been elected as auditor. In July 2014 KPMG acquired Rothstein Kass - the combination brought together KPMG's alternative investments presence and global reach with Rothstein Kass' hedge fund industry expertise and personnel. The increase in audit expense will be material, in fact more than doubling, but management felt the benefits of a "big four" accounting firm with a focus in the hedge fund space outweighed the additional costs.

The Amvona Fund, Ltd

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

There are a few points however that are worth noting:

1. The investors in the offshore fund, while saving on UBIT[104], will be subject to a slightly higher cost structure, namely the O & O costs associated specifically with the establishment of the offshore fund.

---

[102] JP Morgan remained as custodian.

[103] See also the section entitled "Selected Financial Data for the Past Three Years" below.

[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 retirement account is exempt from taxation under this subtitle unless such account has ceased to be an individual

2. In this case the initial fees totaled $27,800 which will be amortized and expensed to the investors in the offshore fund over a period of 60 months. The result is an initial additional O & O of $463.33 per month divided on a pro-rata basis amongst the offshore investors according to their pro-rata ownership in the BVI fund.

3. This participation in offshore O & O expense is in addition to the pro-rata share of the onshore fund's O & O expense[105].

4. Also, taxes on dividend income is withheld at the fund level on the offshore fund, and paid to the IRS directly by the fund's administrator, Liccar, when the fund's tax return is filed – the effect of this withholding will also appear to impair the offshores returns vs. those 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[106].

5. Finally there is additional accounting expense which his accrued exclusively to the offshore fund[107]. The final charges, which are "trued up" at the end of each year may be slightly higher or lower than the accruals.

The result is that the rate of return of the offshore fund is slightly lower than that of the Master fund. In the July 2014 period for example, the net rate of return at the master level was 3.04%, while at the feeder level it was 3.01%. The 3/10th of a percent delta is more significant than it would otherwise be since the fund had just launched[108]. As the assets in the offshore fund grow, the O & O[109] as a percentage of AUM should decline materially.

That having been said it seems wise for those with tax deferred accounts to transfer those capital accounts to the Amvona Fund, Ltd., as the potential tax benefits and efficiencies are likely to far exceed the nominal increase in cost over the long run.

---

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] The Amortized O & O expense at the master level for example is $287.64 per month, which also is divided amongst the investors on a pro-rata basis.

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

[107] In July 2014 for example, the month that the offshore fund launched, the sum of the accrued O & O expense and the accounting / fund admin expense was $763.33, which is divided amongst the investor's capital accounts on a pro-rata basis.

[108] The Amvona Fund, Ltd.'s initial AUM was relatively small at launch.

[109] O & O expense is static.

Another Look at General Market Prices

Forecasting *where the market is headed*, is a favorite topic of mainstream financial commentary, even though the activity is an exercise in futility. That having been said, it is not the objective of the fund to try in any way to determine where the market is headed or when its movement higher or lower is subject to ensue.

However, some impartial things can be said about market prices in general in relation to historical data.

There is no question The Amvona Fund has a huge long bias. Further to this point, a few years ago searches for undervalued stocks yielded a substantial variety of issues to choose from. However, in 2014 there were few issue that could be described as anything approximating "value", what was left mostly encompassed the domain of special situations[110] and short candidates.

As a historical reference, and by way of example, it is helpful to examine the relational value of an index such as the Wilshire 5000 full Cap Price Index over GNP as a measure of overall market price.

However, if the objective is to more specifically measure speculative fervor in a market and its related effect on prices, then it can be even more productive to scrutinize investor margin debt as well as the degree to which the Wilshire 5000 price index exceeds GNP.

The following chart illustrates the three data points going back to the late 1950's (gray bars indicate recessions):

[110] Truly significant miscalculations on the part of the market do not occur with great frequency.

As can be seen, the most recent instances where the Wilshire 5000 full Cap Price index significantly outpaced GNP was shortly before recessions, and presently most closely resembles prices akin to those achieved during the extraordinary ".com" bubble of the late nineties.

Taken as another indicator of perhaps over-confidence or speculation is the fact that investor margin debt has soared to new highs[111] in tandem with the price index. Indeed the near exact parallel between Investor Margin Debt (the blue line) and the Price index (the red line) cannot be over-looked.

Similar dynamics occurred in 1929 before the "The Great Crash". However, the current market environment, while imaginably over-priced is not necessarily suggestive of a purely speculative state alone such as that seen most notably in 1929 or 1999 when the chief problem was complete lack of restraint, rather the present environment has been fueled by extraordinary quantitative easing and near-ubiquitous share repurchases initiated by US-listed concerns.

The previous episodes of new market heights achieved in past eras were driven by two key dynamics:

a) Low interest rates which lead to effusive lending and borrowing (in particular margin loans).
b) Palpable fervor and impossible optimism[112] about the future promise of American business at large.

While point "a" certainly does apply to the current environment, point "b" does not apply as universally as in the past. There is extraordinary speculation taking place around a few issues that are well known and deliberately visible such as Facebook (FB), Tesla Motors (TSLA), Netflix (NFLX), Alibaba Group (BABA) and a broad array of small bio-tech related concerns etc., but all the while, the average market participant seems to be aware of the unusual heights the general market has achieved and its disconnect from underlying economic activity – a dynamic which is quite distinct from past speculative bubbles which imploded[113] with a great deal of surprise and disbelief.

That having been said it is not enough to consider merely the price of speculative issues in any study of general market prices, but also to consider the particular business practices taking hold at the time. For instance it is telling when a company such as Amazon whose profitability has never justified its price begins to consider the delivery of packages using drones (a technology which is clearly not mature from a business prospective, let alone a regulatory one), or launches a new set top box to compete in the streaming media arena leaving the casual observer perplexed as to what business exactly the firm is primarily engaged in and what exactly the brand stands for. This is matched only by the extraordinary outlay of capital using inflated stock as currency[114] that Facebook has effected in its string of 2014 acquisitions which defy all financial wisdom.

---

[111] Swelling to over 465 billion by February 2014 and remaining at about 455 billion as of Q1 2015 – an astonishing figure even when adjusted for inflation.
[112] In past chapters this occurred at all levels, from the average retail speculator to the highest strata of finance on Wall Street.
[113] Contrary to the sage interpretation of "leading indicators" by both "experts" and politicians alike.
[114] The parallel here to the late nineties is striking.

Above all, there is the example of Google's 2014 stock split which added absolutely no value to the company yet resulted in an immediate and significant rise in its share price. There are some impressive sounding justifications for why the company did this, but in the end, the tactic is an old story.

To use the urban vernacular – in some sense, it has indeed gotten *loopy*.

These corporate activities are weirdly familiar and are more emblematic of where the markets have arrived than any study of statistical ratios or margin debt. Those who are too young or have short memories won't know it, but these things have all been seen and done before – it won't end well for a large swath of publicly traded issues, and their hopeful investors.

Looking Ahead

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

The compound annual gain of 71.89% (49.79% net) achieved between the September 2012 inception through December 31, 2014 has been better than average and consistent with the returns achieved in the years prior to the launch of the fund that were outlined in articles published in the Finding Alpha category of Amvona between 2010 and 2012.   However, **it is important to dispense with expectations of such returns in the future**.

A disciplined focus on uncovering price-value disparities in common stocks will invariably be out-of-sync with the entirely unrelated beginning and end of fiscal periods. It is not the objective of the fund to meet monthly or even quarterly performance targets, but rather there is a single-minded focus on uncovering value in advance of other market participants or that has been otherwise over-looked with the idea of maximizing long-term gains[115]. When or if the market will concur with managements appraisal of value of any given issue is impossible to know, in other words while approximate value can be determined with a great deal of confidence, attempting to determine when that value will harmonize, even roughly with quoted prices remains an opaque endeavor.

For these reasons it is inevitable that future reports will from time to time reflect an "under-performance" against the benchmark index, which may last several quarters if not longer.

In 2014 this certainly was the circumstance in more than one instance and it has already proven to be the case again in 2015[116]. Amongst other reasons, this is because the funds' guiding principles place it in an absolute minority.   It is expected that a large number of other market participants, indeed a majority, will be buying when the fund is selling and selling when the fund is buying – and it is this majority that moves markets.

[115] Especially as it relates to tax considerations.
[116] As of the writing of this letter the fund will significantly under-performed the benchmark S & P 500 total return index for the Q1 2015 period.

Notwithstanding the aforementioned, it is expected that if taken in multi-year cycles (vs. individual quarters or years) the fund will continue to outperform the benchmark index in rising or declining markets[117]. If the fund outperforms by even a few points, results in the long term should be satisfactory to the partners[118].

In The Rear-View Mirror

The business of allocating capital is truly unique amongst all businesses. In the first twenty-eight months, non-performance based expenses for operating the fund total $416,429[119]. From this outlay, the fund generated $12,521,636.

Looking back, if the events leading up to the establishment and later growth of the fund seemed a bit unlikely to the casual observer, then the events that took place in 2014 must seem completely implausible. Indeed the results appear to be something of a "curiosity" for which management can hardly take full credit.

Indeed much recognition continues to be legitimately due to the limited partners for their continued confidence and support. Discussions regarding proposed strategy and investment ideas, were always met with universal confidence in management that remained unshaken even when performance swooned[120]. In addition some truly outstanding people participated in helping management realize a vision of what the fund could achieve in 2014.

Executing on behalf of the funds' partners will continue with unqualified focus and dedication.

March 2015

+ Emmanuel Lemelson
Investment Manager
Lemelson Capital Management, LLC

---

[117] In this case if considered in 3-5 year cycles.

[118] For more on the reasoning behind this point see the section below entitled "On Compounding".

[119] This figures includes the management fee, but excludes the performance allocation which is purely variable and subject to both a hurdle and high watermark.

[120] In October 2012, only one month after launching, the fund had lost more than 18% of its value. Nearly the same thing occurred in June of 2013 when the funds' assets lost more than 17.5% of their value in just four weeks and again in January 2014 the fund lost 18.76% in just one month. During such instances, management has relayed what was happening to the partners and indicated it would be a good idea to increase commitments. In most cases the partners responded with additional subscriptions.

The Amvona Fund, LP

Selected Financial Data for the Past Three Years

The majority of income earned by the fund in 2014 was unrealized at year end, continuing a pattern since inception. While recorded on the statement of operations as "Income", the figure is not truly income until the gain is realized, something management hopes not to do for a long time when possible.

Importantly, the fund continued its shift away from short term capital gains (a decrease of ~1% year over year) and increased unrealized gains, the vast majority of which are long-term (an increase of ~11%) and dividends (an increase of ~74%).

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

The following is the gross income figures for the master fund:

Gross income		2014		2013		2012
Dividend Income	$	454,256	$	261,012	$	55,690
Net realized gain from closed positions	$	2,319,100	$	2,342,956	$	183,331
Change in unrealized gains on open positions	$	3,234,533	$	2,907,521	$	763,237
Total gross income	**$**	**6,007,889**	**$**	**5,511,489**	**$**	**1,002,258**

The following is the net income figures for the master fund:

Net income		2014		2013		2012
Total investment income	$	454,256	$	261,012	$	55,690
Short interest expenses	$	(8,207)				
Total other expenses	$	(253,365)	$	(133,886)	$	(29,178)
Net income (loss) on investments	$	5,553,633	$	5,250,477	$	946,568
Total net income	**$**	**5,746,317**	**$**	**5,377,603**	**$**	**973,080**

The following is the realized gain and loss summary:

Realized gain & loss summary		2014		2013		2012
Long term	$	92,806	$	-	$	-
Short term	$	2,226,293	$	2,342,956	$	183,331
Total net income	**$**	**2,319,099**	**$**	**2,342,956**	**$**	**183,331**

Long term gains accounted for 4% of realized gains in 2014, up from 0% in 2013. Short term gains decreased 4.98% year over year. Realized gains in 2014 accounted for 40.36% of net income in 2014.

In 2014 roughly 76% of realized gains was derived from short sales, while realized gains derived from long positions decreased by approximately the same percent as illustrated below:

Realized gain & loss by position type		2014		2013		2012
Long..	$	566,157	$	2,342,956	$	183,331
Short..	$	1,752,942	$	-	$	-
Total net income	**$**	**2,319,099**	**$**	**2,342,956**	**$**	**183,331**

The majority of realized gains on short sales was derived from short positions in World Wrestling Entertainment (WWE) and Ligand Pharmaceuticals (LGND).

Expenses are an important aspect of any investment operation that must be carefully accounted for. Although at first glance the figures may appear immaterial in relation to the overall assets of the fund, expenses can significantly diminish returns over time, and mitigate the wealth accrued to the partners who own productive assets through the fund.

In 2014, the average expense ratio for the master fund[121] (which includes the management fee, but does not include the performance allocation) was .13%[122]. The average inception-to-date ratio for the master fund was .08%.

The average expense ratio[123] of the fund in 2014 over inception to date figures is illustrated below:

Expense ratios				Onshore		Offshore
December Total Expense...	$	64,422	$	50,359	$	14,063
December Beg. NAV..	$	20,256,709	$	15,976,574	$	3,856,723
December 2014..		0.32%		0.32%		0.36%
Average 2014...		0.13%		0.13%		0.12%
Average ITD..		0.14%		0.08%		0.14%

121 The expense ratio for the offshore Amvona Fund, Ltd. are outlined in the table below.
122 .13% represents an increase of roughly 18% over the .11% average expense ratio in 2013.
123 In this case the expense ratio is calculated by dividing the monthly expenses including the management fees, by the NAV value at the beginning of the period. The reason the performance fees are excluded from the calculation is because they are variable, only payable once both the high water mark and hurdle are exceeded and instituted by management itself. The remaining values are a more accurate gauge of management's ability to control costs.

In the December period the monthly expenses totaled $26,274.47, an increase of about 57% (as a ratio of net assets at the beginning of the period), over the average inception to date figure. The primary driver of this is the increase is interest expense[124] as can be seen below.

The following is total fund expenses:

Expenses		2014		2013		2012
Interest expense..	$	125,443	$	63,349	$	10,867
Short stock interest..	$	8,207	$	-	$	-
Management fee	$	59,954	$	11,635	$	492
Organization and offering costs charged	$	6,827	$	2,751	$	1,851
Operating expense...	$	61,142	$	56,148	$	15,968
Total expenses	**$**	**261,573**	**$**	**133,883**	**$**	**29,178**

The following is fund expenses delineated between the onshore and offshore entities:

Account		Onshore		Offshore		Total
Interest expense..	$	110,409	$	15,034	$	125,443
Short stock interest	$	6,742	$	1,465	$	8,207
Management fee	$	48,954	$	10,999	$	59,953
Organization and offering costs charged	$	3,452	$	3,375	$	6,827
Operating expense...	$	46,736	$	14,406	$	61,142
Total	**$**	**216,293**	**$**	**45,280**	**$**	**261,572**

The following is summary of borrowing costs:

Borrowing Costs		2014		2013		2012
Average Balance..	$	14,037,792	$	4,845,096	$	1,421,819
Average %..		0.8490%		1.0046%		1.0707%
Average Monthly Cost	**$**	**9,900**	**$**	**4,056**	**$**	**1,995**

[124] Importantly December 2014 figure includes interest accruals for both the November and December periods.

Management's Report on Internal Control over Financial Reporting

The General Partner of The Amvona Fund, L.P. is responsible for establishing and maintaining adequate internal control over financial reporting. The compilation of financial statements including Net Asset Values (NAV) is handled by the fund administrator Liccar, a licensed independent public accounting firm which specializes exclusively in the securities / futures industry. Liccar handles the administration of over 6 billion in assets.

Management carefully reviews and examines the work being performed by Liccar on behalf of the fund. With the participation of the administrator, the general partner conducts ongoing evaluations of the effectiveness of the Company's internal control over financial reporting.

Lemelson Capital Management, LLC
March 20th, 2015

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

To the Partners of The Amvona Fund, LP

We have audited the accompanying financial statements of The Amvona Fund, LP (the "Partnership"), which comprise the statement of financial condition, including the condensed schedule of investments, as of December 31, 2014, and the related statements of operations, changes in partners' capital, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 Partnership'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 Partnership'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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial condition of The Amvona Fund, LP as of December 31, 2014, and the results of its operations, its changes in partners' capital, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
March 20, 2015

THE AMVONA FUND, LP

STATEMENT OF FINANCIAL CONDITION

December 31, 2014

Assets	
Investments in securities, at fair value (cost $34,100,185)	$ 41,009,419
Dividends and interest receivable	29
Organization costs (net of accumulated amortization of $11,429)	39,581
Total Assets	$ 41,049,029
Liabilities and Partners' Capital	
Liabilities:	
Securities sold short, at fair value (proceeds $23,269)	$ 27,210
Cash debit at broker	21,923,551
Due to broker	352,959
Dividends and interest payable	15,516
Advance capital contributions	56,000
Dividends taxes withholding/payable	13,049
Accrued expenses and other liabilities	45,735
Total Liabilities	22,434,020
Partners' capital	18,615,009
Total Liabilities and Partners' Capital	$ 41,049,029

See accompanying notes to financial statements.

THE AMVONA FUND, LP

STATEMENT OF OPERATIONS

Year Ended December 31, 2014

Investment income	
Dividends (net of foreign withholding taxes of $501)	$ 454,256
Expenses	
Interest and dividends	133,650
Management fee	59,954
Amortization of organization costs	6,827
Professional fees and other	61,142
Total expenses	261,573
Net investment income	192,683
Realized and unrealized gain on investments	
Net realized gain on securities	2,319,100
Net change in unrealized appreciation from securities	3,234,533
Net gain on investments	5,553,633
Net income	$ 5,746,316

See accompanying notes to financial statements.

THE AMVONA FUND, LP

STATEMENT OF CHANGES IN PARTNERS' CAPITAL

Year Ended December 31, 2014

	General Partner	Limited Partners	Total
Partners' capital, Balance as of January 1, 2014	$ 3,868,581	$ 8,233,672	$ 12,102,253
Capital contributions	68,766	1,123,223	1,191,989
Capital withdrawals	(390,000)	(35,549)	(425,549)
Transfers of capital	(84,000)	84,000	-
Allocation of net income			
Pro rata allocation	1,898,811	3,847,505	5,746,316
Performance allocation to the General Partner	927,132	(927,132)	-
	2,825,943	2,920,373	5,746,316
Partners' capital, Balance as of December 31, 2014	$ 6,289,290	$ 12,325,719	$ 18,615,009

Certain LP's are related to the GP (see footnote 7)

See accompanying notes to financial statements.

THE AMVONA FUND, LP

STATEMENT OF CASH FLOWS

Year Ended December 31, 2014

Cash flows from operating activities	
Net income	$ 5,746,316
Adjustments to reconcile net income to net cash (used in) operating activities:	
Net realized (gain) on securities	(2,319,100)
Net change in unrealized appreciation on securities	(3,234,533)
Changes in operating assets and liabilities:	
Purchases of investments in securities	(24,111,963)
Proceeds from sales of investments in securities	10,734,137
Dividends and interest receivable	329
Organization costs	(26,926)
Other assets	27,550
Proceeds from securities sold short	28,310,292
Payments to cover securities sold short	(26,534,081)
Cash debit at broker	10,215,629
Due to broker	352,959
Dividends and interest payable	5,669
Dividends taxes withholding/payable	13,049
Accrued expenses and other liabilities	(1,767)
Net cash provided by (used in) operating activities	(822,440)
Cash flows from financing activities	
Capital contributions, net of change in advance capital contributions	1,247,989
Capital withdrawals, net of change in capital withdrawals payable	(425,549)
Net cash provided by (used in) financing activities	822,440
Net change in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	$ -
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 119,774

See accompanying notes to financial statements.

THE AMVONA FUND, LP

CONDENSED SCHEDULE OF INVESTMENTS

December 31, 2014

	Number of Shares	Percentage of Partners' Capital	Fair Value
Investments in securities, at fair value			
Common stocks			
United States			
Consumer Cyclicals			
Leapfrog Enterprises CL A	524,696	13.3 %	$ 2,476,565
Other			25,544
Consumer Non-Cyclicals			
Other			10,957
Energy			
Geospace Technologies	352,770	50.2	9,348,405
Hollyfrontier	33,024	6.6	1,237,740
Other		-	7,809
Financials			
Ezcorp CL A Non Vtg	237,063	15.0	2,785,490
Other		0.2	31,185
Industrials			
Other		-	5,218
Technology			
Apple Inc	178,500	105.8	19,702,830
Kulicke & Soffa Ind	368,429	28.6	5,327,483
Other		0.2	38,492
Telecommunications		0.1	11,700
Total investments in securities, at fair value (cost $34,100,185)		220.0 %	$ 41,009,419
Securities sold short, at fair value			
Common stocks			
United States		(0.1) %	$ (13,058)
Biotechnology (Healthcare)		-	(5,326)
Household Goods		-	(5,974)
Technology		-	(2,852)
Textiles & Apparel			
Total securities sold short, at fair value (proceeds $23,269)		(0.1) %	$ (27,210)

See accompanying notes to 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 in September 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"). Refer to the Partnership's Private Placement Memorandum for more information**.**

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.

These financial statements were approved by management and available for issuance on March 20, 2015. Subsequent events have been evaluated through this date.

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.

1. Nature of operations and summary of significant accounting policies (continued)

Fair Value - Definition and Hierarchy (continued)

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, 2014.

Fair Value - Valuation Techniques and Inputs

<u>Investments in Securities and Securities Sold Short</u>

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

Investment transactions are accounted for on a trade-date basis. Dividends are recorded on the ex-dividend date and interest is recognized on the accrual basis.

1. Nature of operations and summary of significant accounting policies (continued)

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 or foreign individuals. 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.

The Partnership is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authorities. Based on its analysis, the Partnership has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2014. The Partnership does not expect that its assessment regarding unrecognized tax benefits will materially change over the next twelve months. However, the Partnership conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions, compliance with U.S. federal, U.S. state and foreign tax laws, and changes in the administrative practices and precedents of the relevant taxing authorities.

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 amounts disclosed in the financial statements. Actual results could differ from those estimates.

Organization Costs

Organization costs are stated net of accumulated amortization. Management has elected to capitalize organization costs of approximately $51,000 and amortize them on a straight-line method over 60 months. Management believes this method to be more equitable to the limited partners than the method prescribed under GAAP, which requires organization costs to be expensed as incurred, resulting in the original partners bearing all such costs. As presented on the Statement of Financial Condition, the un-amortized organization costs at December 31, 2014 were $39,581. This amount represents both the master and offshore feeder remaining un-amortized organizational costs $9,204 and $30,377 respectively. The amortized amount is expensed respectively on a pro-rata basis to the both the master and offshore feeder.

2. Fair value measurements

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 measured at fair value as of December 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets (at fair value)				
Investments in securities				
Common stocks	$ 41,009	$ -	$ -	$ 41,009
Total investments in securities	$ 41,009	$ -	$ -	$ 41,009

The following table presents information about the Partnership's liabilities measured at fair value as of December 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Liabilities (at fair value)				
Securities sold short				
Common stocks	$ (27.2)	$ -	$ -	$ (27.2)
Total securities sold short	$ (27.2)	$ -	$ -	$ (27.2)

3. Due to broker

Amounts due to broker represent margin borrowings 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: BTIG, LLC**.** 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. Concentration of credit risk

In the normal course of business, the Partnership maintains its cash balances in financial institutions, which at times may exceed federally insured limits. The Partnership is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. Management monitors the financial condition of such financial institutions and does not anticipate any losses from these counterparties.

6. 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 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.

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.

7. 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.

Certain limited partners are affiliated with the General Partner. The aggregate value of the affiliated limited partners' share of partners' capital at December 31, 2014 is approximately $510,800 in addition to $3,612,000 from the offshore feeder.

7. Related party transactions (continued)

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

8. Administrative fee

Liccar (the "Administrator") serves as the Partnership's administrator and performs certain administrative and clerical services on behalf of the Partnership.

9. Financial highlights

Financial highlights for the year ended December 31, 2014 are as follows:

Total return	
Total return before reallocation to General Partner	44.7 %
Performance allocation to the General Partner	(10.8)
Total return after reallocation to General Partner	33.9 %
Ratio to average limited partners' capital	
Expenses (including interest and dividends)	2.5 %
Performance allocation to the General Partner	9.0
Expenses and reallocation to General Partner	11.5 %
Net investment income	1.9 %

(a) Total return is based upon the change in value of limited partners' capital during the year. It includes investment income, expenses and net gain on investments before the performance allocation to the General Partner.
(b) Expenses include interest and dividend expense, administrative fees, management fees, professional fees and other expenses of the Partnership.

Financial highlights are calculated for the limited partner class taken as a whole. 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 income (loss) ratio does not reflect the effects of the performance allocation to the General Partner.

10. Subsequent events

From January 1, 2015 through March, 20 2015, the Partnership accepted additional capital contributions of approximately $146,000 of which approximately $56,000 is included in advance capital contributions as of December 31, 2014 and had additional capital withdrawals of $418,200.

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 else, principle will be shielded from loss[125] by committing capital only where a substantial margin of safety exists.

c) The general partner will maintain a significant percentage of its net-worth in the fund. Whether results are positive or negative in the future, the General Partner will share fully in the experience of the Limited Partners[126].

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

It is clear to management that the limited partners have entrusted in many cases a significant part, if not a majority, of their family's net worth to management. The seriousness of this fact is not lost on management, who considers the bond a sacred act of trust. Not to be outdone, management's pro-rata ownership in the partnership has remained significant despite the continuous growth in Assets Under Management (AUM) that took place during 2014, that is to say, management's commitment in absolute numbers has grown considerably[127].

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.

---

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

[126] At Dec 31st, 2014 the General Partner, and related parties, either directly through The Amvona Fund, LP or indirectly through The Amvona Fund, Ltd. accounted for 36.8% of the funds' total AUM. This represented a 2.6% increase over the 34.2% of AUM held by the general partner and related parties at year-end 2013.

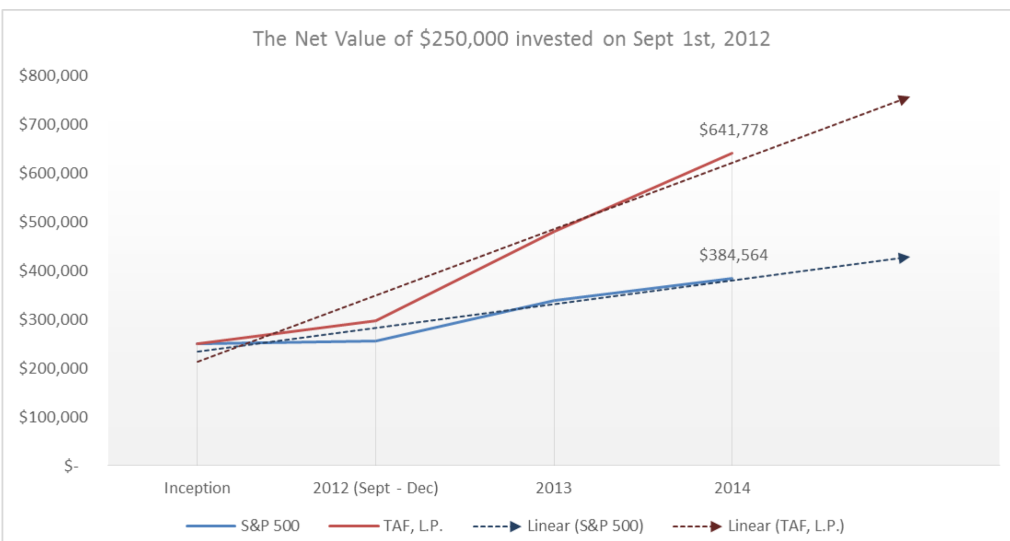
[127] In part this has occurred because the general partner's performance allocation has been reinvested in the general partners' capital account without exception. For example, despite the 54% growth in Assets Under Management in 2014, the General Partner and related parties pro-rata share of the fund actually increased.

On Compounding

The greatest engine of growth is compound interest. Surprisingly this important point is rarely discussed in the asset management industry. How is it possible that such a simple and powerful principle is so often passed over? There is hypothesis comprised of 3 parts:

a) Consistency is elusive. If this is the case, even when taken in multi-year cycles, compounding will take place just as soon as pigs fly.
b) Results are often sub-par. Indeed in most instances less than the rate of return required to keep pace with both taxes and inflation[128], in which case compounding has nominal to negative effects.
c) The concept of compounding does not comport with the industry's "*mythology*", that one must take greater risk to achieve greater returns.

This last point is of particular significance not just because it is categorically false, but also because it is subtle in nature. This folklore is comprehensively expounded throughout "*investment businesses*"[129], because it is a panacea for the problem of accountability. If one is asked "*is preserving principle 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[130] to asking "*why must one exclude the other*". Because the myth is so ubiquitous he feels uncomfortable contemplating the question even in his private thoughts.



[131]

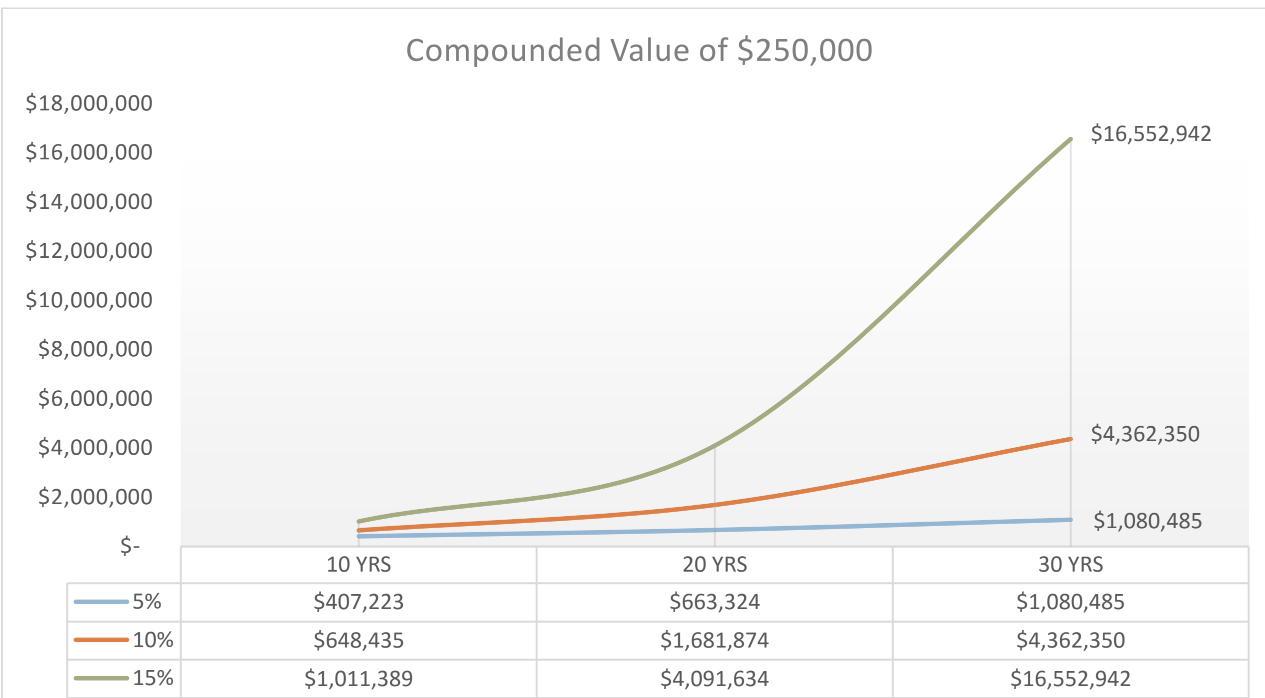
[128] In a sense, both are a tax; one visible, the other much less so.
[129] One who runs an "Investment Business" should not be confused with a true "Investor", though the etymology is the same, they are very different personalities. The former is primarily interested in the building and marketing of a business which will collect fees while the other considers rates of return.
[130] 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.
[131] Figures are for The Amvona Fund, LP and are net of all fees and expenses.

The objective of the fund, after preservation of principle, must be the outperformance of the benchmark index. As stated above, if such a nominal feat is not achievable when taken in multi-year cycles[132], it would be difficult to justify doing anything more enterprising than simply buying an index fund.

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

For example the total price return of the S&P 500 between January 1984 and January 2014, when adjusted for inflation is 380.57% or 5.37% on an annual basis. If dividends were reinvested the total price return over the same period is 885% or 7.92% per year[133]. Because of the compounding effect of reinvestment, the delta in the two figures is substantial. In other words, a modest aggregate increase in return of only 2.55% per year, over 30 years equated to an overall increase in gain of 504.43%[134]. The increased return from reinvestment, if viewed on an annual basis, is wholly unimpressive, although the increased yield at the end of the period is nothing short of remarkable.

Therefore it is logical that if The Amvona Fund can outperform the benchmark index by even a few points when taken in 3 to 5 year cycles, the compounded results in the long run should be agreeable. The chart below illustrates the long-term effects of 5% increases in yield over different time frames.



[132] For example a 3 year cycle would be comprised of the following time frames 2012-2015, 2013-2016 etc.
[133] The returns in the index over those years would in reality 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.
[134] S&P 500 Dividends Reinvested Price Calculator (With Inflation Adjustment) - http://dqydj.net/sp-500-return-calculator/ - data provided by Robert Shiller - http://www.econ.yale.edu/~shiller/data.htm

Letter to management and board members of K & S urging immediate share repurchase

April 22, 2014

Mr. Bruno Guilmart
President and Chief Executive Officer
K&S Corporate Headquarters
23A Serangoon North Ave 5 #01-01
Singapore 554369

Dear Bruno,

Congratulations on what can only be described as first-rate execution since taking over as CEO of Kulicke and Soffa Industries in 2010.

The firm's focus on transitioning to copper wire bonding proved timely while your and Jonathan's operational acumen appear to have contributed significantly to K & S's sizeable war chest of approximately $556 million and its near flawless balance sheet.

Additionally, your leadership team deserves much credit for achieving an important shift in corporate culture that has fueled higher employee morale while lowering turnover.

After following your progress over the years, Lemelson Capital on behalf of its clients has picked up some 368,429 shares over the last 14 months, increasing the positional size some 65% since YE 2013 alone, which is indicative of a firm conviction that the market continues to radically under-value the company and its future prospects.

Lemelson Capital intends to continue buying on behalf of its clients.

As you know, cash and cash equivalents now represent approximately 60% of the company's market capitalization. The wedge bonder business remains undervalued on the balance sheet and the flexible operating model that has been adopted has reduced OpEx when needed. Also, the steady, high margin expendable tools business combined with the absence of the convertible debt that was paid off in 2011 have worked to minimize the correlation in the share price to the overall semi-conductor industry cycles while "juicing" cash flow. As a result of these changes, short interest in K&S has never been lower.

At the same time, the thin analyst coverage the firm has received has been either dead-wrong in its appraisal of the firm's value or significantly under-estimated the Total Addressable Market going forward. All of this has contributed to the shares remaining unappreciated for a curiously long period of time.

However, the purpose of this letter is not only to recognize the recent achievements of management but also to express to you directly (with the expectation that you will in turn share this letter with the company's board of directors) Lemelson Capitals unwavering belief the time is long overdue for the company to authorize a sizeable (at least $250 million) share buy-back. While it is appreciated that a substantial part of K&S's cash is held off-shore, the company could easily use debt to finance such a repurchase at very favorable interest rates.

Lemelson Capital considers K&S to be one of its most important commitments, and to be abundantly clear is very much supportive of your leadership and strategy. The sole criticism outlined in this letter stems from the conspicuous absence of a significant buyback program.

There are two drivers of a share buyback, the first is that the current share price is absurdly low in relation to the company's intrinsic value.

Time is of the essence. Vivid price/value disparities, such as that occurring at the moment in the shares of K&S typically remain for but a short time, as the market eventually comes around to more or less correctly weighing the value of a growing balance sheet and an unusually high growth in per share book value (K&S's growth in per share book value has averaged a remarkable 36.3% over the last five years[135]).

You have indicated in the past that you would like to reserve this abnormally large cash position for potential acquisitions, but this argument is increasingly losing merit, as the future of the company, which rests in large part on advanced packaging, has already developed its own next generation solution, with a commercially viable product, that is, by your own estimate just six to nine months away. Meanwhile the underlying wire bonding business has become a steady source of free cash flow that you acknowledge is easily projected many years into the future.

K&S currently holds roughly $556 million in cash and cash equivalents, while average free cash flow between 2010 and 2013 equaled 131 million. With 2014 EBITDA likely to approximate at least $85-100 million and future bonding technology emerging as a home-grown solution, it is becoming increasingly difficult to defend any further delay in initiating a large repurchase program.

The forward PE ratio of the S & P 500 is about 15.7. After backing out net cash, K&S trades at just 5.4 x conservative forward earnings estimates, this does not account for the company's 10% tax rate, which is significantly lower than that used by analysts in such calculations.

This (cash adjusted) discount becomes even more significant when viewed in terms of projected free cash flow. If future cash flows approximate the average of the last four years, then the cash-adjusted price to free cash flow ratio is just 2.9x. That is to say the company arguably may generate enough free cash flow in the next 2.9 years to cover its entire enterprise value.

With such a massive valuation gap and an inordinate amount of cash on the balance sheet, it is difficult to understand why the board would not act now to aggressively buy back stock by immediately announcing a tender offer for at least 250 million (financed with either debt or a mix of debt and cash). K&S generates more than enough cash flow to service such an amount.

[135] Per share book value is used in this instance due to the steady issuance that brought diluted shares outstanding from 68.6 million FYE 2004 to 76.2 million by FYE 2013 – an increase of just over 11%.

For example, if the company decided to borrow the full $250 million to commence a buyback at $12 per share, the result would be a reduction of 20.8 million or ~28% of the shares outstanding. This in turn would result in a ~38% lift to earnings per share (based on 2013's anomalously low earnings), and a commensurate 38% increase in the value of the shares. This conservative math assumes no multiple expansion of the forward PE or the ridiculously low P/FCF ratio outlined above.

In the not too distant future, if such a buyback were executed, today's forward (and conservative) EPS estimates of just 89 cents per share would grow to $1.23 based on a reduced ~55 million share count. It seems reasonable to expect that with these enlarged figures the share price would appreciate beyond $19 if the market prices the shares at approximately the same forward multiple as the S & P 500 (a multiple at any rate substantially lower than the company's peers).

The second driver of a share repurchase, is the perpetual dilution of long-term owners in order to compensate management

Management teams that insist on holding large amounts of cash typically do so out of a fear that they will not be able to effectively compete in the future based on ability. This widely understood premise, when taken with management's perpetual stock sales, is sending a message (perhaps wrongly) to owners both existing and prospective.

It is also worth pointing out that management's shares sales have unfailingly excluded management from participating in gains as the price of the shares has risen steadily over the years. This pattern of share issuance and near immediate selling (perhaps perceived as *de-risking*) is being done at the expense of ongoing owners, indicating that while management's operational ability is solid, it appears to have little understanding of how to properly value a security. Needless to say, this has serious implications when discussing an election to repurchase shares.

Delaying the execution of a buyback any further will only serve to validate this point.

Ideally, management would keep its financial interests significantly aligned[136] with that of long-term owners, particularly in light of the highly undervalued nature of the shares. However, if management insists on selling as quickly as options vest, then at a minimum the board must act quickly to mitigate the resultant damage caused to long-term owners.

A significant component of the board's responsibilities is to be aware of occasions to increase owner-shareholder value[137]. There are few things the board could do at this time that would be more effective than to implement a large and well-timed buyback.

[136] That is to say beyond holding merely 2-3x annual salary in shares.

[137] This is especially true in cases where stock grants continuously dilute existing and ongoing owners

Commencing the proposed buyback will likely result in considerable stock appreciation of at least 60% for owners who choose not to sell into the proposed tender offer. Lemelson Capital can be counted as first amongst those committed to long-term ownership.

Sincerely,

+ Emmanuel Lemelson

Chief Investment Officer
Lemelson Capital Management, LLC

The General Partner

The Amvona Fund, L.P.

LEMELSON CAPITAL MANAGEMENT, LLC
General Partner
The Amvona Fund, L.P.

+ Emmanuel Lemelson
Investment Manager
Lemelson Capital Management, LLC

Availability of Reports and Investor Information

The lemelsoncapital.com site allows for pdf downloads of *Annual and Interim* reports as well as all fund related documents including the following:

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

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

Investment theses including rationale for some investments made between 2010 and 2014 and other information about the investment philosophy employed by the fund can be found at the "Finding Alpha" category of Amvona.

Information on readership and influence can be found at the "About Us" page.