VOSS CAPITAL

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Dear Partners,

The Voss Value Fund delivered 4.15% returns in Q2 2014 net of all fees and expenses. Correlation (r^2) to the S&P 500 during the quarter was non-existent at 0.013. Our annualized alpha relative to the S&P 500 during the quarter was 25.8%. Annualized alpha since inception is 18.8% through the end of Q2 2014. The Fund's Sharpe Ratio during the quarter was 1.5 and checks in at 2.0 since inception. The Fund's gross exposure currently sits at 139.0%. The Fund's net long exposure averaged 58.6% and ended at 66.3%. The net exposure averaged just 7.9% over the quarter when considered on a beta-adjusted basis and ended at +24.4%. Our top ten long positions currently constitute only 52.5% of the portfolio as our concentration remains limited. Shorting contributed 1.36% of the returns during Q2.

Voss Value Fund, LP

ESTIMATED NET MONTHLY PERFORMANCE | 2014

PERIOD	VVF (Net)	VVF (Gross)	S&P 500 TR
JANUARY	-1.24%	-1.15%	-3.46%
FEBRUARY	-0.16%	-0.08%	4.57%
MARCH	6.16%	7.43%	0.84%
1st QUARTER	4.68%	6.11%	1.81%
APRIL	6.70%	8.37%	0.74%
MAY	-0.20%	-0.17%	2.35%
JUNE	-2.20%	-2.60%	2.07%
2nd QUARTER	4.15%	5.37%	5.23%
JULY			
AUGUST			
SEPTEMBER			
3rd QUARTER	0.00%	0.00%	0.00%
OCTOBER			
NOVEMBER			
DECEMBER			
4th QUARTER	0.00%	0.00%	0.00%
YEAR TO DATE	9.02%	11.81%	7.14%

All YTD performance figures are unaudited, estimated, and may be subject to subsequent adjustment. A limited partner's actual returns may vary from published fund returns based on the timing of capital and fee arrangements. This statement represents information based on the policies of the fund's managers and general partner. Please contact Travis Cocke, Managing Partner of Voss Capital, LLC, with any inquiries.

Much like Fate, Momentum is a cruel mistress, turning on a dime without notice, suddenly hurtling Teslarians and Tiger Cubs from their cozy dens. As is obvious from us zigging when the market zags, we did well in the months when Momentum stocks and the cubs take a bath. What was surprising is that many of the momentum names quickly resumed leadership with a vengeance, with performance becoming more concentrated into just a few of the cult classics. Our best environment to generate alpha would be low-beta, small-cap value stocks performing well as a group and momentum stocks waning. Recently the environment has been the exact opposite of this, with micro caps and small caps indices flat or down YTD on average and larger cult stocks rising relentlessly.

Having heard the calamitous cry of wolf countless times this cycle and accurately paid no heed, the momentous herd still senses no impending danger from approaching predators and has settled into an unshakeable and peaceful grazing binge. They're not exactly feasting on deep value stocks like Greek gods on ambrosia, but rather little blue pills (of the Matrix variety) to perpetuate their blissful illusion. What we need most is for everyone to disillusion themselves and reset their return expectations. My harsh inner critic, meanwhile, voices the opinion we've all been trekking upwards through increasingly thickening syrup and my over-developed amygdala remains on high alert. Extreme hubris and arrogance everywhere I look, combined with new peak leverage, record margins, peak net exposure while nestled at all-time peak median multiples. The consensus *feels* like we've reached a new paradigm of permanently low volatility and everlasting invincibility. That dark demon of fear of losing money that had been harbored deep inside most of us has been exercised and entirely replaced by an equally powerful fear of leaving the party even one minute early. Some people are acting as if past errors of judgment and silly little capital markets mishaps have been nothing but a convivial dress rehearsal for the future euphoric episodes and "once in a lifetime" mistakes we will all soon be compelled to embark upon. We are just now gearing up to enter the real mania phase, everyone agrees. It is inevitable as the process is already in motion.

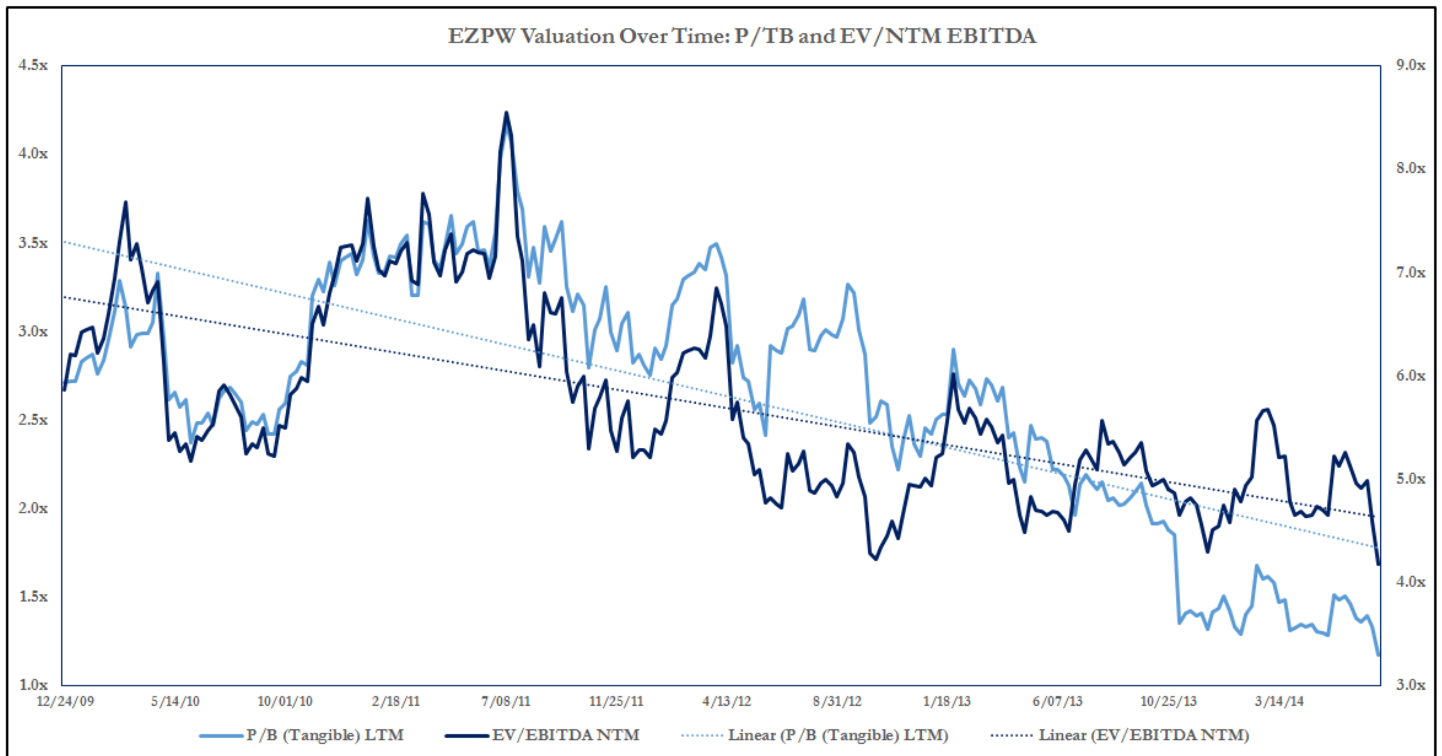
This pervasive mindset makes for a continued downright scary environment for shorting, as the M&A is picking up with bidding wars erupting broadly across sectors and market cap sizes and everything not nailed down instantly rumored to be a top target. The mindset of shorting has shifted from "Is this overvalued by 50% or more?" to "What in the world can possibly scare enough people so that they'll sell just a little bit within the next month?" The answer to the former is quite easy to find affirmatives for, but the latter has become damn near impossible to answer in a satisfactory manner as what we thought could be negative catalysts have themselves proven illusory, malleable, or easily trivialized by greater powers that be.

The sell side has moved beyond their usual role of mind-guards who protect certain shareholders from thoughts that might damage their fragile confidence to blatant manipulators, fighting for the limelight by publishing brazen bull cases as they strive to aggressively reverse engineer price targets that remain above market prices. This has caused a new breed of 'stock market genius' to emerge whose checklist consists all of two items: a large total addressable market (e.g. revenue potential) and a rapidly rising stock price. What matters much more in such an environment is the frequency of non-fundamental oriented, superlative filled press releases that a company can issue to construct a narrative that adds endless dots to their impressive mosaic of hype.

Within the daily trading flows, these anti-value plays seem to act as a vacuum on people's minds and their endless buy-orders. This is a real problem, as in these astonishingly generous capital market environments, this reinforces a strong trend towards mass misallocation of capital and some sort of perverted anti-Darwinism, whereby reckless behavior is generally rewarded due to an endless supply of and easy access to low cost capital for projects/acquisitions/business models that in a more discerning world would have a snowball's chance in hell.

EZCorp – EZPW

We continue our relentless search for any remaining pockets of the market that are out of favor. One such area at the moment (for good reason) is alternative financial services, such as payday lending. One out of favor stock (understatement) within this group that has disappointed for years and has seen its valuation grind down to 10-year lows on all standard metrics is EZCorp (EZPW).



With nine hold ratings and only one buy, the pessimism towards the name is piling on weekly. With a major step backwards in corporate governance announced just last Friday, the stock is down 13% today as of this writing, also hitting fresh lows and we are adding to our position here with shares at adjusted-tangible book value. We think of EZCorp as a hybrid specialty retailer/specialty finance company, perhaps like a micro lender of sorts but with an even better business model. EZPW is the second largest operator in the highly fragmented pawn industry. In addition to Pawn stores they operate 500 financial services stores offering cash solutions for customers through payday loans, auto title loans, and installment loans. These are markets that we believe to be generally saturated overall in the US, but an industry that can certainly consolidate more into the hands of the stronger operators such as EZPW, as the majority of pawn stores are owned by mom & pops that own just 1-3 stores. EZPW typically earns 20% per month on pawn loans, with very high annualized yields. The average loan size is $135 with an average loan-to-value ratio of 25-65%, so the loans are solidly collateralized. With a US Pawn Loan balance in excess of $113 million, they have over 800,000 of these loans outstanding at any given time. The reason these exist is they are attractive from the customer's point of view as they are under-banked (and living paycheck to paycheck) and often need access to short term credit when life throws curve balls, as it is wont to do. Incredibly, there is a pawn collateral redemption rate in excess of 80%, meaning four out of five pawn loans are paid back. Other short term loans offered by EZPW can be even more attractive to issue, with annualized yields on auto title loans anywhere from 120-360%.

The stock has a -1.3% 5-year annualized return and is at a huge discount to trading comps (even including pure play payday lenders) and its own history as the Obama administration has waged war on payday lending via the Consumer Finance Protection Bureau and through banks with Operation Choke Point. It is actually many local municipalities and cities that have led the charge on regulating payday lenders, often likely wishing to regulate them out of business entirely.

A real source of earnings power erosion for EZPW has been the implosion of the gold bubble and along with it, the gold jewelry scrapping bonanza. At the peak in 2011, gold scrapping accounted for as much as 45% of EPS. Their current run-rate EPS would now be just ~9% lower if gold scrapping went back to zero and the stock would still be under 7x EPS. At

only ~9% of EPS contribution currently, we believe this collapse has already played out and is immaterial at this point, yet is still a main focus of the negative commentary. Of course, the jewelry and general merchandise sales would still be highly dependent on traffic coming in through the door and it is possible that gold scrapping drove higher than normal foot traffic. Also as the value of gold jewelry declines, they need a larger volume of collateral, either jewelry or general merchandise, to maintain the same Pawn Loan balances. The average size of a general merchandise backed pawn loan is usually 1/3rd that of a jewelry-backed loan, so they need to originate up to 3x as many loans to keep the Pawn Loans balance flat. So far they have been able to do this, meanwhile 87% of all jewelry is still redeemed and reclaimed in the store. The company has now shifted its model to focus more on retailing the forfeited jewelry in stores rather than scrapping it, as evidenced by their jewelry sales up 26% on a same store sales basis just last quarter. They are quickly transforming in an omni-channel retailer with online sales growing 70% year over year, going from 0% of sales to 8% of total sales in only about one year's time. Selling online is brand new for EZPW and we believe they will get better at it over time and increase inventory turnover and lower their cash conversion cycle. They utilize a hub and spoke model for their stores to move and ship inventory if items are sold online, mostly via Craigslist for heavy goods with low value to shipping cost ratio, and eBay or Amazon for more "globally appealing" merchandise. They have risen to become the #1 third party reseller on Amazon.

We think there are at least two major blind spots within the analyst community when it comes to EZPW. Firstly, any payday lending regulation will not result in a binary outcome for the company—it is not all or nothing. As they have already been demonstrating, EZPW will continue to shift their loan products based on changing regulations as well as consumer preferences. If someone walks in to a store and needs to borrow $250 for a short time, they can utilize installment loans, signature loans, pawn loans, or auto title loans. This fact is demonstrated by the auto title loan and installment loan balances growing more quickly than payday loans are shrinking (US Auto Title Loan balances up 27.9% Year over year). This mix-shift in loan balances to longer term loans is creating a strong earnings headwind in the form of asset yield compression for EZPW, but the overall earnings power of the business remains quite high. One way we think of the yield compression on payday assets is if the yield on payday assets were cut in half or converged more towards the pawn loan yields, the company could lose up to $20 million in pre-tax income but would still be under 9x NTM EPS (versus just over 6x now). When considering payday loan shrinkage in this context (yields cut in half on a forward basis), the stock would still be at a 7-turn P/E discount to First Cash Financial (more of a pure play pawn company), 1-2 turns below Cash America, and still well below Conn's and about even with World Acceptance Corp, a pure-play payday lender. We think this outcome is the most likely--less and lower yielding payday, but more than sufficiently offset by other loan balances and fees so no one will notice any hiccup in earnings power. Management states that after new Colorado payday regulations were implemented many of the mom & pops closed shop and EZPW's payday loan balance exploded (at much lower yields), actually allowing them to generate more profit overall. A new Houston Ordinance on payday lending restrictions passed in December 2013 and is now taking effect just this month (July 2014). We will monitor the local situation very closely and maintain an ongoing dialog with management and store managers. The restrictions include provisions such as improved record keeping, increased disclosures, limiting the number of loan rollovers, limiting the dollar amount borrowable benchmarked to income (or collateral value for Auto Title Loans). Any final ruling from the CFPB on payday lending will remove the extreme regulatory uncertainty hanging over the stock and could potentially force weaker players out of the market allowing EZPW to capture more market share.

Another analyst blind spot is that the Mexican payroll withholding loan securitization will be an ongoing part of the business model, while it has been earmarked as one-time in nature in sell-side commentary. EZPW is originating ~$30 million in new loans per quarter and selling off ~1/3 for $10 million worth per quarter. The loans are so high yielding (40-50%) that they are able to sell these at a substantial gain on sale ($10mm of loan face value sold at $15mm last quarter). The analysts are treating this gain on sale, which shows up in an "other revenue" line item, as a one-time event. After numerous discussions with the company, they are confident they can continue to securitize and sell about that same amount each quarter in the foreseeable future. The buyers of such loans have been Latin American insurance companies that are getting 12-15% rates of return on these packaged loans. The beauty of this type of loan is the principal and interest are drawn directly from the borrower's bank account and in this case 100% of the borrowers are Mexican government employees with government jobs having very low turnover there. In the current low yield environment there is an insatiable demand for these securitized products and this practice should generate gains on sale on a quarterly basis, causing sell-side EPS estimates to be conservative. There is also the attitude that EZPW has negative intentions by securitizing their loans, e.g. pulling cash flow

forward out of necessity or burning furniture to heat their house, but this does not appear to be the case and the sell-side community may be under estimating earnings by upwards of $20 million annually.

EZPW has a few other hidden assets, such as a 31.3% stake in Cash Converters (CCV Australian listed). They acquired the stake for $68.8 million and it is currently on the books at $88 million and change, with a current market value of $143 million. The company also previously owned a stake in Albermarle & Bond that has been written off entirely and whose losses were being lumped into the same line item as Cash Converters profits, thereby somewhat masking the profitability of the CCV stake. These profits only affect net income and not EBITDA, so if in theory if they were to immediately liquidate this stake at the current market value and pay taxes on the gains, it would lower their EV/EBITDA ratio almost a full turn making the stock screen slightly better. Another hidden item is the fact that EV can decline by $58 million in one fell swoop between now and the end of FY 2017 as a put option on their Mexican subsidiary Grupo Finmart expires and this contingent liability falls out of the Redeemable Non-controlling Interest line.

The company is also not as leveraged as they look on the surface. Out of $228 million of debt on the books, $145 million is non-recourse to the parent company. So they have only $83 million in recourse debt with $63 million in cash, so there is very little effective net-debt here. In fact, they are likely under-levered and could perhaps lever up a bit to buy back stock and juice their ROE, and thus P/B ratio. The EPS run-rate in the six months ended 3/31/2013 was $2.60+, which at today's stock price would put them under 4.5x P/E. However, excluding gold-scrapping entirely the EPS run-rate was around $2.00. Since that time, the overall total earning assets balance is higher by 7.3% and there has been slight yield compression on the payday loans, which has led to an out-sized hit on earnings. Thinking out to calendar year 2016, that year's earnings should start to get priced in late next year and we think they can re-attain 1H 2013 earnings power and if stay at the same forward P/E, then it's a $15 stock for a 57% return. EZPW's own 10-year average forward P/E is 11.6x, but over the last ten years there was undoubtedly more freakishly profitable growth ahead of them due to the growth of payday lending and the gold scrapping bubble. Now the forward multiple is well over one standard deviation below the ten year level under 6x, and outside of a very brief period in the 2009 panic, EZPW's P/E had never even averaged below 10x for a full quarter prior to Q2 2012. We are only counting on very minor mean reversion, but a still undemanding 50% (!) discount to the S&P 500 and a 30% discount to its comp group. It is currently over two standard deviations away from its comp group on a forward P/E basis compared to the last five years (comps being FCFS and CSH). One may argue that with an ongoing shift in earning assets towards less headline risk-prone (from a regulatory point of view) pawn assets, that slight multiple expansion to mirror that of pawn peers should be a base case scenario (instead of mirroring or being at a discount to payday peers). One logical stopping point on the way down for a valuation floor on any decently profitable financial would be tangible book value. In this case we calculate this to be about $9.29 per share, about 2% below market price, if you adjust their CCV AU stake for its current market value. This is about the level where we first started buying the shares. Like most other retailers hurting in this environment it will be key to keep an eye on gross margin trends in the next few quarters, but we are confident the company has a lot of different growth levers to pull to maintain profitability even if gross margins continue to dip a bit: US pawn unit growth, enhancing profitability and loan balances at their new UK online lending segment Cash Genie, growing the miniscule Canadian store base, growing the Mexican operations, growing profits at Cash Converters, growing loan balances at the US on a same store basis, slight cost-cutting, etc. In the vein of Bruce Berkowitz, it is very hard to kill this business. In fact, they are somewhat akin to the mythical creature Hydra whereby if you cut off one head, in this case Payday or Gold Scrapping, it seems two new earnings streams grow back in its place. Hopefully this analogy carries all the way through and so the largest head, which is immortal on a Hydra, is the everlasting core US Pawn operations.

At the time of our first purchase the most important catalyst was due to impending positive changes in corporate governance. EZPW has an unfortunate dual class share structure and the shareholder vote is controlled by one person, Philip Cohen, whose investment firm Madison Park LLC, owns less than 6% of the economic interest. Cohen is not on the board and had been receiving a $7.2 million/year fee for an unspecified consulting duties, so there was extreme insider dealings. Why did we think this would change? The previous Chairman of the Board, Sterling Brinkley, was the connection and liaison between the company and Mr. Cohen and he announced his retirement effective 6/30/14. So we figured the Board would soon be more independent with zero close ties to Cohen because they also announced the formation of a corporate governance evaluation committee as a way to enhance shareholder value. At the time of purchase, we only baked in a status quo continuation of the self-dealings and thought that any change would likely be very incrementally positive, possibly

shrinking the relative valuation gap of EZPW's shares to their peer group. If eliminating the $7.2 million consulting fee and only capitalizing the savings at the current multiple assuming no multiple expansion from cleaning up corporate governance issues, we thought that alone would add ~$42 million to the market cap (versus $500 million market cap at the time). Unfortunately, after the close on July 18th, Cohen is re-exerting his control by replacing board members and the CEO, so just as quickly as things looked to be improving they've reverted back to the previous status quo. With the stock down 14.2% the day of this writing, it is very painful to see as clearly investors are voting with their feet. The stock is now much lower than it was before the announcements that things would change for the better. We'll point out that this dual-class share structure with vote controlled by Cohen has been around since the company has been public, but now the valuation is hitting 10+ year lows as investors re-focus on this and downward momentum takes control. The market is now implying a significant deterioration in the business, somewhere on par with the early 2000's when they were much more levered and on the verge of bankruptcy.

There is certainly the risk of even greater multiple contraction and continued earnings declines especially due to other future regulatory risk or new investments that continue to gradually erode ROIC, but as always we have sized the position accordingly and are not too concentrated. The risk-reward ratio seems very much skewed to the upside at this point with shares at tangible book value, as there is almost no net debt and low risk for total loss of investment.

Fortegra Financial – FRF

Another stock that has had CFPB regulatory worries delicately dangling over its shares like the Sword of Damocles is Fortegra Financial (FRF). Ahh, an old friend (or perhaps nemesis), Mr. Fortegra. A long term acquaintance whom we posit most in the investment community are unacquainted with and one who has kindly offered a compound annual return of -11% since its December 2010 IPO (and an only slightly less stingy return on our cost basis).

FRF has grown its top line at a 19% CAGR since its IPO, trades at 5.6x trailing FCF, possesses a mostly fee based revenue model with 95%+ customer retention (proof of providing a substantial value proposition to clients), highly recurring revenue, EBITDA margins in the mid-30s%, scalable platform (as evidenced by a doubling of revenue without adding another person to payroll in one segment) and has an incented private equity firm keeping guard over major capital allocation decisions.

FRF previously fell into my favorite "platypus stock" category—a multi-operating segment business whose segments are disparate. And, like the curious looking platypus, not well respected within the community because the sum of the parts is believed to be less than the whole, or maybe outright suspected of being an elaborate hoax. Fortegra is an under followed specialty insurance and insurance services business. FRF should certainly be classified as a mistake in the Fund, but patience is indeed a virtue of value investing and hopefully holding onto can still prove wise. The stock's valuation has compressed to less than 3.3x our 2015 EBITDA estimates, but is a mid-30s percent EBITDA margin business with a lot of recurring revenue, and a solid history of brisk growth. The stock's meaningful discount can mostly be attributed to dour sentiment due to regulatory enforcement and uncertainty from the CFPB in regards to credit protection/insurance, no easily discernable direct trading comp group, as well as the limited float and trading volume due to the aforementioned 63.2% private equity holder (Summit Partners).

The business model has numerous positive elements that make for an ideal equity investment with seemingly more positive contingencies than negative ones (save for losing large customers). Fortegra had consisted of three distinct operating segments, until December 2nd, 2013 when they announced the sale of their insurance brokerage business and consolidation of their remaining two segments. The two are Business Process Outsourcing (BPO) and Payment Protection. They were previously fairly leveraged and then sold Bliss & Glennon (which they bought at the bottom of the cycle in 2009) and eReinsure at 9x EBITDA for $83.5 million of gross proceeds, retiring debt and deleveraging by $77.5 million in one fell swoop.

Payment Protection Segment

Payment protection means credit insurance--business credit insurance, such as A/R insurance, or consumer credit insurance and credit disability insurance. . These insurance products enable a purchaser to insure repayment of loans. These

insurance products enable a purchaser to insure repayment of loans if the borrower dies, becomes disabled, loses their job, or faces other circumstances that may stop them from being able to generate the income that was assumed to be there for servicing of the debt. It's sold as an add-on when the consumer is getting the loan. The policy is bought by the borrower, but paid directly to the lender in the event of a claim. Sometimes the insurance only covers minimum payments for a certain length of time, such as 12-18 months. A well-known example of this type of insurance is when you buy a new car and take out a loan for it, the lender ask if you want to pay a small extra nominal fee to cover the full unpaid note should you meet your maker...this is what is called credit life insurance (or Gap Insurance in some instances).

There are three main types of insurance within Payment Protect:

1) Credit Life: Credit Life policies pay out a benefit to the lender equal to the outstanding loan balance if the borrower dies during the term.
2) Credit Disability: Credit Disability policies pay out a benefit to the lender equal to the monthly loan payments if the borrower is disabled during or throughout the term of the loan.
3) Credit Property: Credit Property insurance pay a benefit to the lender after an event causes a loss of property value (the loan collateral) from physical damage or disappearance. The benefit is usually capped at the amount of the loan outstanding, so the exposure declines as the loan is paid down.

Their Payment Protection segment serves over 1,100 customers. The top 10 customers account for roughly 50% of revenue in the segment, and 80% of all customers have been with FRF for 5+ years. Additionally, their payment protection segment offers Warranty and Services contracts on cell phones, appliances, furniture, computers, etc. (large ticket consumer goods). And lastly, they offer car club memberships that offer services like road side assistance and vehicle towing. Fortegra owns and operates the actual insurance subsidiaries and their customers/partners just sell the insurance. Clients can then partake in the underwriting profits if they choose through retrospective commission arrangements or fully-collateralized reinsurance companies, owned by the clients, which FRF administers on their behalf. For a retrospective commission arrangement, Fortegra will pay a higher commission to a marketing partner if the estimated claims come in under a certain level, or will get a clawback on previously paid commissions if claims exceed a pre-determined level. In total, with these "collars" in place, Fortegra only takes on about 10% of the underwriting risk, which is actually a bummer as this is a very good niche within insurance and the credit insurance loss ratios has remained stable in a tight band around 30% over time.

As a numerical example of the micro-economics, say a customer has a $1,500 loan on a new TV. The insurance premium may be $100. 50% of this goes to FRF's client off the top as a sales commission, so there is $50 paid. About 30% is paid in losses, so $100*30%, there is $30 paid out. There is now $20 left. There is then also on average a $2 insurance premium tax levied by states. If the loss rate on the insurance generated by that one marketing partner comes in at 30% or lower, FRF would pay them an additional $8 in retrospective commission, earning $10 themselves over the term of the coverage. If the loss rate is ~50%, that producer would have to pay at least $2 back to FRF. Overall, roughly 40% of the net revenue falls to the bottom line as profit for Fortegra. This insurance is distributed through small banks, consumer finance companies, furniture and appliance retailers, warranty administrators, auto dealerships, credit unions, and vacation ownership developers.

The Payment Protection segment did have EBITDA margins in excess of 53% back in Q4 2010 when the business was much smaller, and we think they could once again achieve high 40s EBITDA margins. If last quarter's results are any indication they appear to be just now hitting an operating leverage inflection point, whereby they can hopefully really start to leverage their fixed expense structure and incremental margins tick meaningfully higher.

There is some seasonality around holidays when consumers tend to make large ticket items that would need insurance (smart phones, cars, TVs). How can this segment grow and increase profitability? The most obvious way it to expand geographical reach within existing distribution channels/partners. Also, an economic upturn and increase in consumer loans and auto loans would boost demand for their service. In terms of total market size, the net written premiums for credit related insurance is around $7 billion in the United States so they have less than 10% market share. A growing part of Fortegra's revenue mix is administering warranties and extended service contracts. FRF implements marketing strategies for the retailers to sell these products, such as offering cell phone insurance to independent cell phone retailers, after its ProtectCELL acquisition at the start of 2013. There is an increasing trend towards getting cell phone insurance due to higher penetration of

high-end smart phones, and this is another very profitable niche within insurance. Recently management has highlighted several times they are increasing market share in Payment Protection overall after a large competitor exited the market, allowing them to capture an additional $100mm run-rate in gross written premium. This type of insurance has been under attack because there is a high rejection rate on claims since there is little attention paid to policy eligibility conditions at the time of purchase.

The CFPB has slapped Capital One, Discover Financial, and American Express with small fines and made them temper their aggressive marketing practices for credit protection products which has done its part causing a large overhang on FRF stock. CFPB enforcement actions against the credit card companies was not for payment protection services only—they also were docked for credit monitoring services and identify theft protection that customers were hardly aware they were purchasing.

It is our belief that the CFPB will not engage in a broad-based enforcement of credit protection marketing practices, but instead is going through and investigating individual companies, one-by-one and thus a widespread collapse of business is unlikely. FRF says that the enforcement actions have already altered their customers' behavior and is tempering their potential for revenue growth, yet they are still growing nicely. Either way, there has been a high degree of uncertainty due to no set marketing guidelines for Fortegra's insurance marketers. Perhaps it is true that customers have continued being cautious because they are uncertain of what will happen. Either way, in the face of all of this uncertainty, the payment protection business has continued to grow sales at a decent clip while expanding EBITDA margins. Fortegra overall has guided for ~8% net revenue growth in 2014 versus 2013 with adjusted EBITDA margins expanding 260-460 bps over 2013 to 32-34%, while a majority of the sell side still not giving management credit for even the lowest end of their guidance. With Payment Protection now making up a larger mix of revenue and this having previously been as high as 53% EBITDA margin segment, there could be a lot of longer term upside to estimates as operating leverage kicks in.

The second remaining segment is Business Process Outsourcing, under the brand names Consecta & Pacific Benefits Group. They offer sales and marketing, underwriting, premium and policy administration, claims handling, and call center services. In other words, they handle a variety of back office tasks for insurance companies, hence business process outsourcing. This segment is also extremely profitable. EBITDA margins were 40%+ in Q4 2009 and have come all the way down to the low 20s. This segment's EBITDA margins over the previous three years averaged 24.7%, but had been in the upper 40's several years ago. The value proposition to clients is that they can outsource the fixed cost aspects of certain lines of insurance. A niche for them is to handle insurance lines that are in run-off, so the insurance carrier can shift internal resources elsewhere. Fees are under "per-unit" priced contracts--dependent on total premium placed in the lines FRF is handling and are based on complexity of tasks and volume of business with that client. This segment obviously has no underwriting risk. Outsourcing of this nature within the insurance industry as a whole has grown at about a 15% CAGR from 2008-2013. This segment has a high 90s-% customer retention rate--as once clients get hooked, they become highly integrated through various functions such as payment processing. This segment is surprisingly very scalable through the use of technology and they can easily add new clients. Only a few dozen individuals run billing of 38,000 customers, 5,500 policies, handle ~1,000 phone calls, and take care of ~1,000 claims daily. Looking at a basket of seven similar BPO comps, they trade at an average and median trailing EBITDA multiple of 10.0x, and 8.5x forward estimates. A glaring flaw in some sell side analysis is that this segment was ascribed zero value in a sum of the parts analysis up until they stopped disclosing the revenue separately. Although lacking the same scale as peers, in a hypothetical divestiture, it is likely FRF's BPO segment could fetch at least a 32% multiple discount to the comp group at 6.8x ~$4 million in trailing EBITDA and be worth over $26 million, or >17% of the current enterprise value, not zero.

One particular growth initiative we are enthused about is FRF's new Plus 1 marketing, which works mostly with furniture retailers, such as Babdcock Home Furniture. Say a customer buys a sofa from Badcock and did not purchase a warranty initially, FRF obtains a list of those customers and their contact info to try and sell them an extended warranty after the fact. FRF claims they have a surprisingly high ~20% take rate with this method and have lots of growth opportunities going after additional retail partners.

We first bought FRF shares at $5, they marched immediately to $9, and we have bought more on most subsequent pullbacks below $7. Peers trade at average EV/EBITDA closer to 8-9x on a forward basis. FRF is actually a higher margin business, with similar recurring fee-based revenues in nature and trades at 4.3x TTM Adjusted-EBITDA, and under 3.8x on a forward basis. If the company achieves $42 million in EBITDA, each turn of multiple expansion would boost the equity by 29% and it would need to go up at least three and a half turns to be on the lower end of lower margin, lower growth peer-group averages. Adjusting ROE to exclude Goodwill + Intangibles is a better indicator of the likely incremental ROE that will drive FRF's equity cash flow going forward and, hence, value creation. ROE with goodwill is a still respectable 13.6%, ROE without goodwill is well over 50%.

Summit Partners has now been holding their investment in Fortegra for over seven years. With the new slimmed down Fortegra, and the company consistently delaying the execution of its share buyback program, it is highly possible that Summit is currently looking for a liquidity event through a sale to a larger insurance company. If it reverted to just 7x our 2015 EBITDA estimates, FRF has 70% upside.

Both FRF and EZPW operate in specialty finance niches, are under attack from the government, and have washed out sentiment. Both businesses were stress-tested in the Great Recession and proved the robustness of their business models. With diverse revenue sources they grew organically, even in the midst of a deep recession, as their channels and end markets are somewhat counter-cyclical to easy traditional bank credit and credit cards. They both continue to innovate and adapt in their respective niche markets, introducing new products that are less and less affected by the current regulatory headwinds. They both have earnings yields that are up to 5x greater than current triple-A bond yields. They are both under 1.7x EV/5-year cumulative free cash flow, trading at very high normalized FCF yields and extremely low forward multiples. There are very few truly out of favor stocks left in the market, but these are two of our favorite contrarian ideas.

Our greatest frustrations and biggest mistakes since inception have been from shorting too many cult-stocks that are run by anointed leaders (Zillow, Tesla, Exact Sciences, Opko Health, TherapeuticsMD). These anointed stocks whose CEOs have hypnotized investors are likely destined to be sanctified with nosebleed valuations for years or decades (see AMZN) to come, even in the face of a bleak reality while the top brass laughs all the way to the bank. This is all enabled by the pool of blind capital being as deep as it has ever been. We participate in a game in which we must content ourselves with probabilities, acting on imperfect knowledge, but hopefully anchoring ourselves to history. In these times it seems we may need to prepare to widen the band of possible outcomes that history has provided us, as after all, a valuation record is only a record until it is broken again. We know people to have been consistently irrational for all of eternity, especially in matters of money. Therefore to have any chance at sustainable success in this business we must objectively see the reality of human nature as it is—not as we expect it to be, nor how we wish it were.

Setbacks from shorting in one of the most speculative, most powerful bull markets in all of history are inevitable as a year or more of gains from a dozen different shorts can instantly be wiped out from a single concentrated bet gone awry. At the time it was filmed, Howard Hughes' *Hell's Angels* was the most expensive film ever produced. It is purported that three people died during the filming of the aerial fight scenes and only one foot of film was used in the final cut for every 249 feet of film shot. When Pixar made *Brave*, deleted scenes would have made the movie at least five times longer. In these situations and probably most other creative oriented ventures, thousands of man-hours of brilliant work were thrown out. It often feels like most time spent on fundamental research in the investing world is all done in vain, especially on the short side lately, but we know that the knowledge developed and experience gained are forever cumulative. Shorting can pay off suddenly, such as in March or April of this year or at the end of 2008, so while it often feels unmanageable or unendurable, the only thing unmanageable is ourselves as soon as we think something is unmanageable.

As easy fortunes continue to beckon the masses, we're confident The Great Humiliator's next shock-and-awe campaign is lurking just around the corner, reminding us to vehemently shun pride and keeping us ever vigilant. Thank you for your ongoing investment in Voss. Please let us know if we can be of assistance to you in any way.

To continued alpha,

Voss Capital, LLC

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