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Dear Partners,

The Voss Value Fund, LP returned 7.31% net of fees and expenses in Q4 2016 and 30.23% for the full year. This compares to the S&P 500's total return of 11.96%. Over the course of 2016 we averaged just 44.0% beta-adjusted net long exposure, roughly in-line with our historical average and median. Annualized alpha for the year was 32.8%. Relative to the S&P 500 the Correlation Coefficient of our daily returns was 0.35 with a Coefficient of Determination of just 0.12. Contribution from the long book in the quarter was ~9.7% and ~35.6% for the year. Shorting and hedging (bearishly oriented options trades) added ~0.4% in Q4 and ~2.1% for 2016. Currently our top 10 long positions make up 56.4% of gross exposure, and our top 10 shorts comprise -9.4% gross. Our net CAGR since inception is 19.4%. Our assets under management is $41.9 million as of 2/15/17.

Voss Value Fund, LP

ESTIMATED NET MONTHLY PERFORMANCE | 2016

PERIOD	VVF (Net)	VVF (Gross)	S&P 500 TR
JANUARY	-3.24%	-3.16%	-4.96%
FEBRUARY	6.48%	7.34%	-0.13%
MARCH	3.43%	4.33%	6.78%
1st QUARTER	**6.56%**	**8.46%**	**1.35%**
APRIL	2.59%	3.27%	0.39%
MAY	0.90%	1.18%	1.80%
JUNE	1.84%	2.33%	0.26%
2nd QUARTER	**5.42%**	**6.93%**	**2.46%**
JULY	7.26%	8.92%	3.69%
AUGUST	1.86%	2.31%	0.14%
SEPTEMBER	-1.12%	-1.26%	0.02%
3rd QUARTER	**8.04%**	**10.03%**	**3.85%**
OCTOBER	2.22%	2.74%	-1.82%
NOVEMBER	1.21%	1.52%	3.70%
DECEMBER	3.72%	4.51%	1.98%
4th QUARTER	**7.31%**	**9.01%**	**3.82%**
YEAR TO DATE	**30.23%**	**39.09%**	**11.96%**

Monthly Returns - Net of Fees and Expenses

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011										1.51%	-4.09%	3.17%	**0.44%**
2012	7.04%	5.72%	3.90%	-3.44%	-1.13%	-0.21%	2.26%	3.04%	-0.07%	-1.49%	1.17%	2.68%	**20.87%**
2013	7.22%	-0.18%	2.18%	-0.63%	8.80%	0.29%	3.32%	0.02%	1.55%	0.70%	3.87%	4.64%	**36.21%**
2014	-1.24%	-0.16%	6.16%	6.70%	-0.20%	-2.20%	-4.47%	0.43%	-3.82%	0.94%	2.69%	6.69%	**11.25%**
2015	-1.21%	7.65%	-1.15%	-0.49%	-0.12%	-1.91%	-2.80%	6.66%	0.22%	7.72%	-5.97%	-1.87%	**5.69%**
2016	-3.24%	6.48%	3.43%	2.59%	0.90%	1.84%	7.26%	1.86%	-1.12%	2.22%	1.21%	3.72%	**30.23%**

Given the poor sentiment at the start of 2016, reality had a low sentiment hurdle to clear throughout the year. Many major market worries fell away one by one, such as an oil price collapse early in the year, Brexit in the spring/summer, and the US presidential election in the fall/winter. Q4 and all of 2016 reinforced several of the main Voss investment tenets, including nothing is certain and it is important to stay as politically agnostic as possible to avoid additional biases.

In Q1 we wrote an article titled "Why Small Cap Value is Poised to Outperform." After many years of underperformance, small cap stocks resumed leadership with a vengeance. The Russell 2000 Value Index returned 31.7% compared to the Russell 1000 Growth Index at +7.1% for 2016. This wide style divergence provided us a terrific tailwind. Given the magnitude of small cap value outperformance in such short order, we can no longer pound the table with the same conviction on this style factor providing a tailwind to Voss Value in the near term. However, we are encouraged by the falling single stock correlations and wide dispersion of returns and have been able to outperform in years even when this style factor was a headwind.

New Long Position: Par Technology Corporation (PAR)

We are constantly honing our routines for detecting opportunities where others see none, looking for industries and securities where we believe the gap between expectations and potential subsequent reality to be widest. PAR is one such long idea where we found the "sentiment hurdle" to be quite low. PAR is an underfollowed special situation that we made our second largest position in Q4 based on its asymmetry to the upside and its long-term, multi-bagger potential. PAR is a two-segment business that is an industry leader within its restaurant technology niche and we think it is about to experience the "Voss Sauce" of accelerating revenue growth and expanding margins simultaneously. The first segment is Government technology, which provides outsourced management and IT solutions to various defense oriented government agencies. This business is a stable cash generator and in a presentation as recent as late January of this year, the CEO of PAR summarized this segment as having "great strategic optionality." We believe this is a signal that management intends to shop the segment in the second half of 2017, leaving PAR a Restaurant Technology pure play. We estimate PAR can divest the government segment for 8.0x LTM EBIT and receive ~$50 million in gross proceeds, compared to the company's current enterprise value of ~$100 million. Pro-forma for the sale of the government segment, PAR would be a highly profitable, cash rich, industry leader in fast food and fast casual restaurant point of sale (POS) system hardware and software. Shares would be trading at an implied multiple of about 0.35x sales, among the cheapest few public tech stocks that are cash flow positive and growing. Once it is a pure play restaurant POS company, if PAR is able to garner just a 1.0x sales multiple, 3.0x EV/Gross Profits, and 10.0x EBITDA, all multiples which are well below trading and direct transaction comps, there is still 73% upside to our base case price target from its recent price of $6.60. Skepticism around management's ability to execute remains due to previous missteps, and even those long the stock are anticipating a collapse of POS hardware sales. We've gotten comfortable enough with both of these risk to establish the position and believe both management's execution and resilient POS hardware sales will allow for upside surprise. A key to our thesis is PAR's hidden gem, Brink, a pure SaaS POS business growing at a ~100% CAGR the last three years. In a sale, we believe Brink could fetch a 6.0x revenue multiple, making it alone worth more than the current EV by the end of 2018, when we project it will be generating >$20 million in recurring revenue.

Overview of Increased Short Position: Park City Group, Inc. (PCYG)

There is a peculiar flaw in human psychology that equates repetition with truth. Some CEOs have learned to embrace this and have been able to distill their "investment thesis" down to a single line or two and then repeat that line thousands of times. The CEO of Exact Sciences (EXAS), is one such executive that has practically willed his way into a bubble valuation of 22.9x sales range through this principle of repetition. In several of the past calendar years, by our count EXAS has attended more investment conferences than any other public company. Amazingly, in their presentations to rooms full of professional investment analysts, they continue to use charts that have no Y-axes, use inconsistent intervals of time periods shown on X-axes, and constantly change their cherry-picked, stale data on the competition to help bolsters the optics of the case for their only cancer diagnostic product. By the CEO's own admission in an old Wall Street Journal interview[2] the keys to his "success" are to:

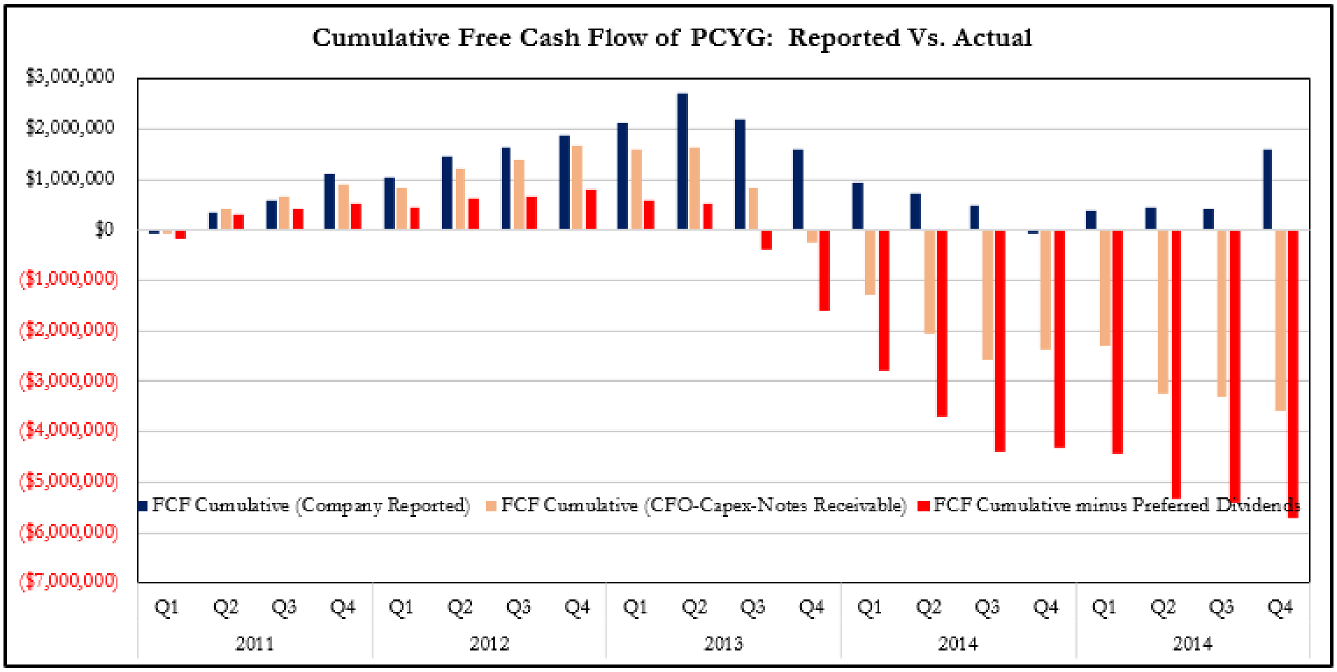
- "Lay out a really clear story…You have to make the story so clear."
- "You should strive for presentations that have maybe one fact or figure…and tell that story."
- "Tell that story until you can't stand the sound of your own voice anymore."

- "We had over 1,900 meetings in five and a half years and presented at 100 investor presentation meetings. You have to do it so often. Because sometimes you'll meet with an investor ten times before they invest…when they say no, it's okay. Just keep telling the story to them. Eventually, people invest."

After winning Ernst & Young's Entrepreneur of the Year for the Midwest in 2014 (although he is just a hired CEO, not a founder) and presenting to a Michigan business club, he cites how much capital EXAS has raised from Wall Street secondary offerings as one of his main accomplishments, not the amount of profits he has generated. EXAS has burned through $500+ million since he became CEO, and is likely to burn another ~$235 million in 2017+2018. Cumulative revenue over this time period is$127.9 million. This is an interesting dynamic…that the idea of success is how much you can siphon off Wall Street as opposed to focusing on generating an economic return on that capital. Unfortunately, it is a mindset that has been engendered in what seems like a disproportionately high number of companies in today's easy money environment.

One other such firm that we are betting against that is of the EXAS mold that repeats over and over how great things are is Park City Group (PCYG), a software company with a market cap of $300 million that sells supply chain management software to food retailers. Park City describes itself as a "platform company," a SaaS company, and a "hub and spoke company." PCYG's conference calls are perhaps the most self-congratulatory and relentlessly promotional we have encountered, which, when combined with a nose-bleed revenue multiple was enough of an initial red flag to prompt further review. On the calls it is clear the CEO is either unable to answer basic questions about the economics of his business, or is purposefully evasive--neither of which can be construed positively. Upon further digging, going all the way back to Q4 2012 we discover PCYG has built up an impressive repertoire of questionable accounting gimmicks to give the illusion of growth. Over a three-year period, PCYG had built up a $6 million balance within Notes Receivable and Accounts Receivable, a full 20% of their cumulative revenue over this timeframe, from one customer called ReposiTrak. The relationship with ReposiTrak was an interesting one in which Park City advanced $2.3 million directly to ReposiTrak and took that money right back from ReposiTrak as revenue with 100% margin as a royalty for management services. These expenses that were booked as revenue for PCYG, however, never made it back as cash as they were in the form of Accounts Receivable, and were then shifted into long-term Note Receivable. As PCYG moved the ReposiTrak "revenue" from Accounts Receivable to a long-term Notes Receivable, they did so without providing any disclosure or language on allowance for doubtful accounts despite the implicit acknowledgment of un-collectability for at least the next year. Park City would then repeatedly tout their revenue growth (the growth that came entirely from ReposiTrak) and get rewarded with a higher equity valuation.

This maneuvering of Accounts Receivable to Notes Receivable also had the positive optical effect of inflating their reported non-GAAP Free Cash Flow number (since the Note Receivable passed outside the cash flows from ops purview), which they define as "*net cash provided by operating activities less replacement purchases of property and equipment. Capital expenditures related to long-term investments and new technology developments are omitted*." This was quite aggressive to start with, since they understated CapEx by removing anything they define as "growth CapEx." For instance, reported CapEx in the filings is $369k, but they counted only $28k of this as "real" CapEx. The previous fiscal year had CapEx of $400k, implying the $28k was likely not a sustainable level of spending.



After a few quarters went by and while the uncollected receivables balance from ReposiTrak grew and grew, PCYG eventually acquired ReposiTrak, in an all-stock transaction, valued at a bubbly 12.7x EV/Sales and promptly wrote off the $6 million of Note Receivable due to them from ReposiTrak. So, to summarize, they lent capital to a firm, booked that as revenue with 100% gross margin from the borrowing firm to show revenue growth, touted their revenue growth and got a higher stock valuation, and then used the stock as currency to acquire that company and wrote off the Note Receivable. Since the inception of their relationship with ReposiTrak until the acquisition, we estimate the following:

- Total ReposiTrak Revenue: $967,366
- Total Revenue Booked by Park City from ReposiTrak: $7,473,863 (19% of total Park City Revenues during that time)
- Total "Eliminated" Receivables Post Acquisition, previously booked as PCYG revenue: $6,035,657
- Total Disclosures on Collection Ability: zip, zilch, nada. They never once booked any doubtful accounts to offset these receivables.

The very first disclosure we can find about the magnitude of revenue coming from ReposiTrak came a full six quarters after they began booking the revenue. It is possible there was never an intention to collect the funds lent, but it was purely a scheme to show high margin revenue growth. While the relationship with ReposiTrak was supposedly at arm's-length and unrelated, the reality is different due to the nature of the management services contract and proximity of their offices (suites right next to each other). The dollar amounts were, in the words of Elon Musk, "mouse nuts," but they were material to PCYG at 19% of their total reported revenue. Park City's investors never cared, the auditor never cared, and the regulators never cared.

Why does this matter? Fast forward 18 months and at a software industry high 22.0x EV/Sales, PCYG is a great short already on a valuation basis, but the management team seems to once again be up to the same shenanigans. Their financial reporting has most closely resembled a shell game with a reshuffling and continual lessening of transparency.

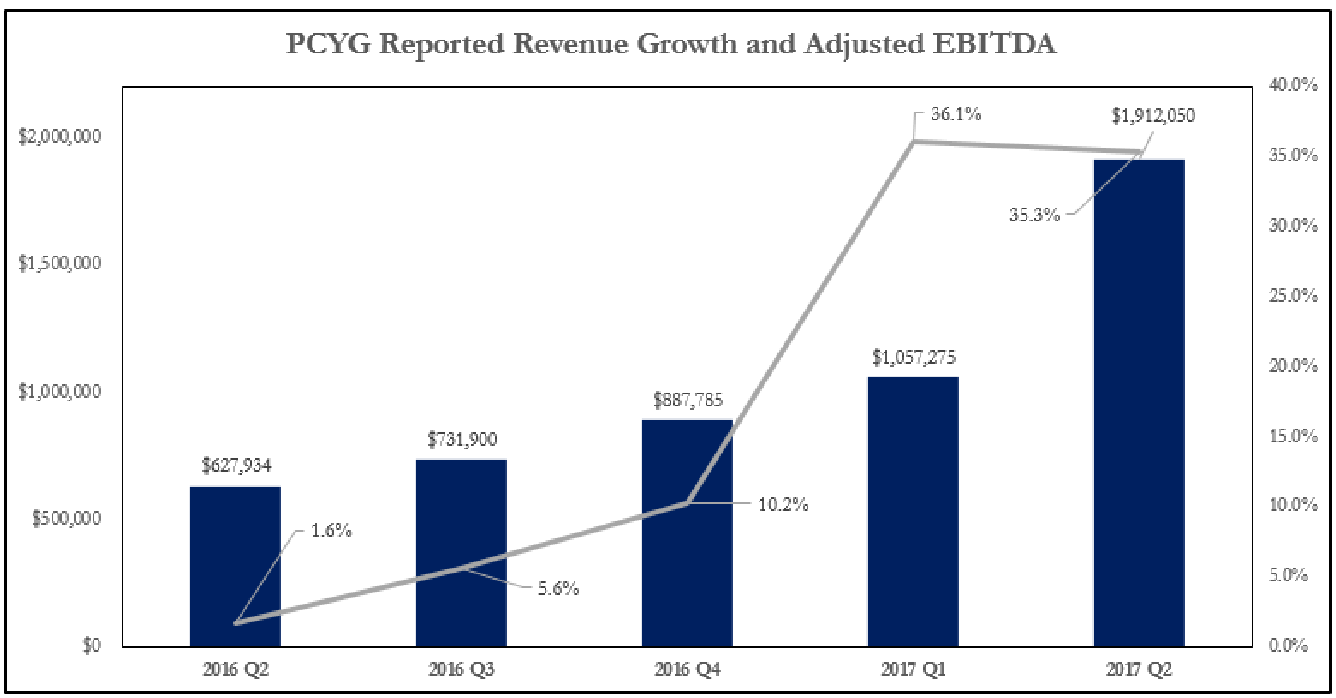
To start, PCYG has never reported ReposiTrak revenues. In fact, as soon as they made the acquisition they stopped breaking out Subscription revenue from Professional Services revenue, making it impossible to ascertain a recurring revenue base. Although the CEO initially insisted they would provide Key Performance Indicators (KPIs) to help model ReposiTrak progress, none have been forthcoming except, when the CEO feels like reporting the range of "connections" that ReposiTrak has made with suppliers.

For the first few quarters post-acquisition they actually did report the number of connections, then stopped as the CEO stated on the November 7th, 2016 conference call, that things are just too good to report now:

> "**You can probably assume from our not mentioning it [ReposiTrak connections] that it was higher than we expected.** That's a reasonable interpretation of our not speaking to it."

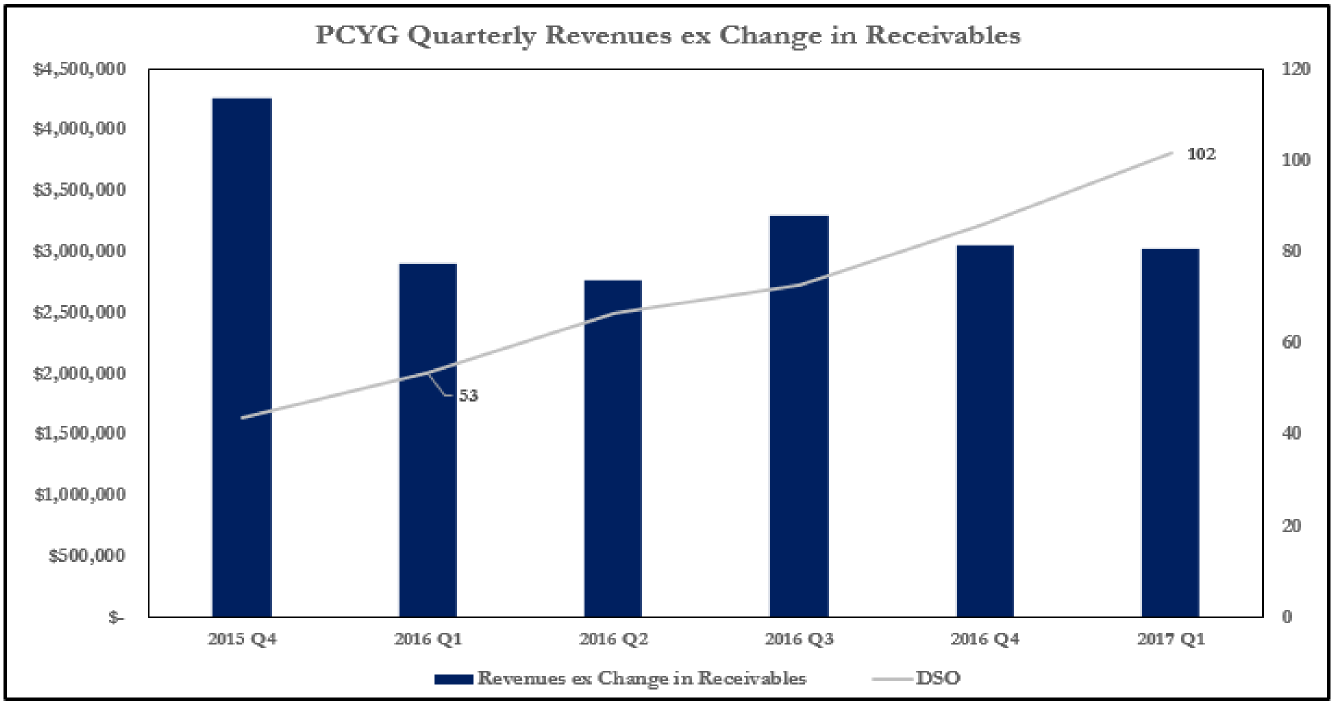
Actually, that doesn't sound like a reasonable explanation to me. Putting this aside, knowing the number of connections is meaningless without other data, such as ASP of the recurring portion of their business. The connections are described as "economic relationships"…besides that we do not really know what a connection means, outside of the CEO saying the rate they charge is "very cheap." In the most recent quarter they did announce breaking 20,000 connections, which implied they had added about 10,000 new customer connections in the previous six months. We calculate they are adding a new customer once every 9.6 minutes during a typical 40-hour work week, and they are doing so with a barebones sales/support staff and with rapidly declining operating expenses overall. Typically, a software company in hyper-growth mode is growing expenses, but Park City has managed through this initial growth period while materially reducing costs. Sales and Marketing is down more than 30% since the acquisition, and even absolute support and implementations costs have gone down during this time (not just gone down as a percentage of sales, but gone down on an absolute level). The company does not even report R&D (another anomaly for a software company), so it is difficult to know if some of this cost cutting is simply stopping all additional development or where the actual cuts are occurring. Adding a new customer once every 10 minutes is an impressive feat that would almost seem a logistical impossibility were they not so "very, very, very good"[1] at what they do.

As is typical in these situations, on the surface, things look great for PCYG (although still nowhere near deserving of 22.0x sales kind of great). It appears that the revenue growth rate is accelerating and **adjusted EBITDA** is stair-stepping ever higher:

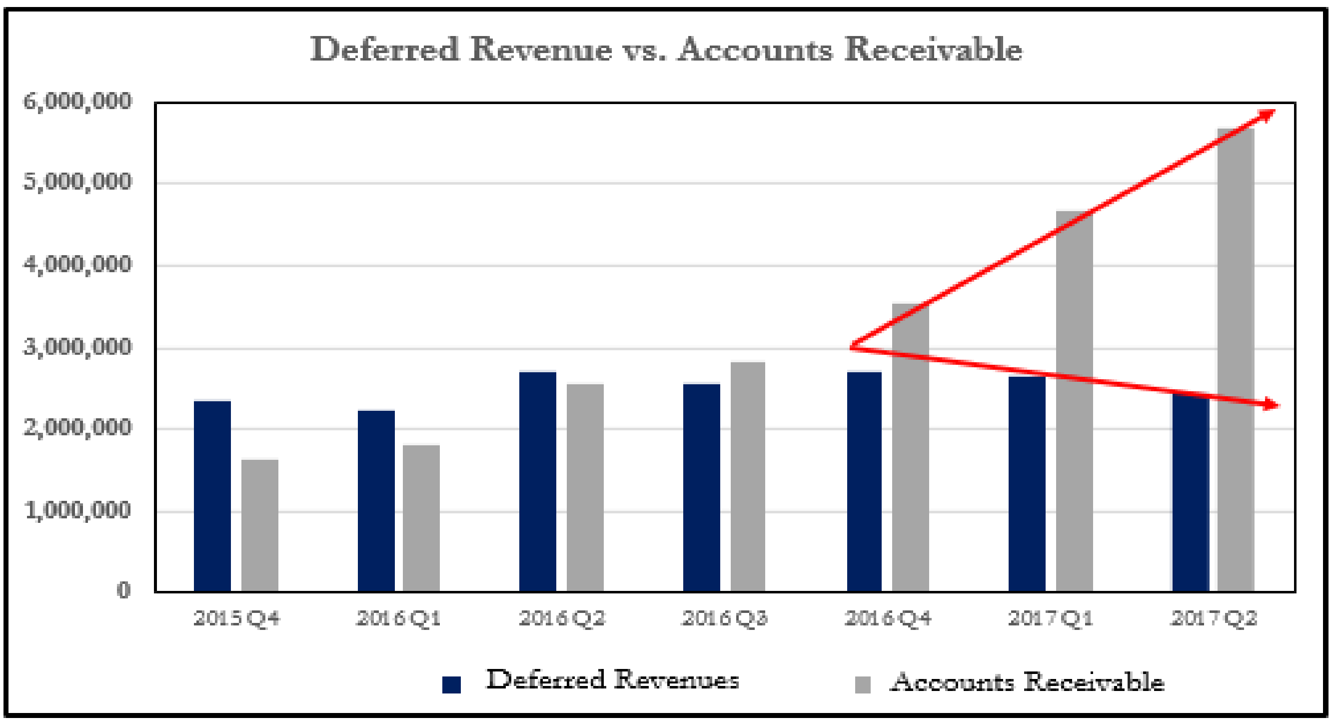


However, closer examination reveals that the company is back to their old receivables tricks.

Over the last twelve months, their total reported revenue was $16.4 million, but revenue ex-change in receivables was only $13.1 million, which was less than the previous twelve months (although a big portion of that revenue was the questionable ReposiTrak revenue). So, there may be some growth, but it is not nearly as material as the company would have you believe.



Typically, receivables growth would not be alarming for a fast-growing company, but it sticks out like a sore thumb compared to deferred revenue, which is a better gauge of growth health for a software company. As you can see below, deferred revenues have actually **declined** as receivables have ballooned.



The magnitude of A/R growth relative to deferred revenue growth implies that a lot, if not the majority, of PCYG's new revenue is one-time in nature, or implementation based (or imaginary), as opposed to recurring in nature or consisting of SaaS contracts, despite the company management pumping themselves as a SaaS player. This makes the company's decision to merge their Subscription revenue and Professional Services revenue all the more suspect.

For instance, the CEO told us that they generate $150 per connection as a one-time setup charge. If you take that number at face value, the 10,000 connections they did in the last six months would have resulted in $1.5 million in one-time set up revenue, representing 63% of the company's revenue growth.

The straw that breaks the camel's back for us (to share this idea publically) came in the most recent quarter. As they did in the past, PCYG is **once again moving Accounts Receivable to an entirely new line item** created out of thin air: "Long Term Receivables, Deposits, and Other" which took the place of "Deposits and Other Assets."

To wit, here is Q1's reported assets:

Assets	September 30, 2016	June 30, 2016
Current Assets:	(unaudited)	
Cash and cash equivalents	$11,385,641	$11,443,388
Receivables, net of allowance of $150,000 and $75,000 at September 30, 2016 and June 30, 2016, respectively	4,655,527	3,547,968
Prepaid expense and other current assets	320,068	393,275
Total current assets	**16,361,236**	**15,384,631**
Property and equipment, net	**401,454**	**469,383**
Other assets:		
Deposits and other assets	14,866	14,866
Investments	471,584	471,584
Customer relationships	1,149,750	1,182,600
Goodwill	20,883,886	20,883,886
Capitalized software costs, net	182,942	182,942
Total other assets	**22,703,028**	**22,735,878**
Total assets	**$39,465,718**	**$38,589,892**

And here is Q2's:

PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

Assets	December 31, 2016	June 30, 2016
Current Assets:	(unaudited)	
Cash and cash equivalents	$12,062,764	$11,443,388
Receivables, net of allowance of $210,215 and $75,000 at December 31, 2016 and June 30, 2016, respectively	4,143,662	3,048,774
Prepaid expense and other current assets	350,043	393,275
Total current assets	**16,556,469**	**14,885,437**
Property and equipment, net	**340,387**	**469,383**
Other assets:		
Long-term receivables, deposits, and other assets	1,533,082	514,060
Investments	471,584	471,584
Customer relationships	1,116,900	1,182,600
Goodwill	20,883,886	20,883,886
Capitalized software costs, net	167,696	182,942
Total other assets	**24,173,148**	**23,235,072**
Total assets	**$41,070,004**	**$38,589,892**

Despite moving $1.5 million of receivables into Long Term Receivables with the stroke of a pen, the allowance on the short-term receivables still rose from $150k to $210k. There is no disclosure of this change that we are able to find in the 10-Q.

The problem of their abysmal earnings quality is further compounded when the company removes their Bad Debt Expense from their reported adjusted EBITDA number, which investors, like Pavlovian dogs, have been conditioned to focus on:

	3 Months Ended			6 Months Ended		
FY ENDS June	**12/31/2016**	**12/31/2015**	**% Change**	**12/31/2016**	**12/31/2015**	**% Change**
Net Income (Loss)	$ 1,378,328	$ 281,183	390 %	$ 1,992,781	$ (126,109)	NM
Adjustments:						
Depreciation and Amortization	112,861	127,416	(11 %)	229,441	256,514	(11 %)
Bad Debt Expense	75,000	-	NM	155,700	33,576	364 %
Interest Income (Expenses)	6,836	(3,691)	NM	13,323	(21,314)	NM
Stock Compensation Expense	339,024	223,026	52 %	578,080	484,859	19 %
Adjusted EBITDA	**$ 1,912,049**	**$ 627,934**	**204 %**	**$ 2,969,325**	**$ 627,526**	**373 %**

The number may not look large now, but if they potentially write off the long-term receivables in a few quarters it will look much more material. In fact, if you simply subtract the long-term receivables from their EBITDA, EBITDA is roughly flat year over year through the last six months.

Why might the CEO be tempted to artificially boost revenue? Incentives are the cornerstone of modern life. The firm has a Services Agreement with Mr. Fields' consulting firm, Fields Management Inc., in which his cash salary that started at a $500,000 base annually is "subject to annual increases equal to 75% of the Company's percentage annual revenue growth beginning in the 2014 fiscal year." Coincidentally, the timing of the initiation of his compensation being tied to revenue growth lined up with the first real shenanigans to aggressively book uncollectable receivables and artificially boost reported sales.

Additionally, Mr. Fields has a built-in structure for further cash compensation and dilution at the expense of minority shareholders due to the company's Series B Preferred share structure (currently 87.3% held by the CEO and 12.7% by one director), which is cleverly allowing him to extract another ~$630k/year from the company and hide it from the summarized compensation table in the proxy filings. These preferred dividends are over and above the high salary, high bonus, high stock awards, high premiums paid on life insurance, $20k/year for a company car, etc. The CEO has received >$2.18 million of total compensation on average the last three years, including the Preferred dividends and Preferred shares issued in kind.

Despite all of this and numerous other red flags in their filings, we still have no proverbial smoking gun that implies a share price collapse is imminent. They have, after all, kept up their aggressive revenue recognition for several years and their promotion is relentless, with investors continuing to eat it up. However, the pattern of questionable behavior from management and accruing of receivables is unmistakable and the company is a fascinating real time case study in evasiveness and hype. Despite the mark-to-market losses we have absorbed on the short side, the fundamental value is asymmetrically skewed to the downside and its recent parabolic spike created a good entry point to add to our short. At 22.0x EV/Sales, shares are at risk of a huge multiple derating even if all of their accounting is proper. Our base case target price is 8.0x EV/Sales ex-change in receivables, which is still overly generous for a company growing just 35%. This multiple would result in nearly 70% downside from current trading levels.

We are in a dangerous shorting environment, where stocks such as PCYG are rising in parabolic fashion (from already elevated valuation levels) and can spike on press releases of irrelevant and immaterial news, such as announcing the hiring of a new sales person. It is worth repeating that we believe it is tough to outperform the market not because it is so efficient, but because when you look beneath the surface, its individual components are so wildly inefficient. There are pervasive and persistent discrepancies between price and fair value of most securities and PCYG is just one microcosm of the broader market. While everyone is not quite fully saturated in the chemicals of euphoric emotions that signal a market peak, the mindset required for an all-out equity bubble does seem to be growing more pervasive. If you point out the flaws in fundamental logic in owning certain securities, counter arguments and justifications are likely to just get more ridiculous. This is precisely the mindset and mass psychology that is the hallmark of a bubble and it is the mindset that characterizes many company's shareholders. "I don't care." and "who cares?" are now common refrains when someone is presented with unpleasant or conflicting data on their longs and their reasoning 90%+ of the time is because the stock just keeps going up, and we certainly can't argue that. Entrenched beliefs that are invulnerable to evidence and are passionately defended can be rather durable beliefs, meaning the bull market can continue for a long time. One thing we've often failed to account for in such situations is those with this mindset who "want to be lied to" and wish at all cost to believe. From our point of view, the simple inferential shortcomings of people buying these sorts of stocks is massive, but ultimately we should be thankful, as they provide us with an opportunity to coldly exploit their analytical deficiencies.

It is uncertain where our best opportunities will come from in the future, but we will diligently apply our process and allocate capital in a contrarian fashion. While in 2016 our process yielded a favorable return outcome, in other short intervals it is likely that the outcome won't be so rosy despite the same general philosophy and persistent effort.

At Voss, we value and strive for intellectual honesty and independent thinking. We view investing as an endless odyssey of mental grit that requires us look within to pry apart the conjoined factors of clearheaded cognition and erratic emotion. This is not easy to achieve and our unique culture as an investment firm must be carefully cultivated with the best habits of mind nurtured in order to keep developing better investment judgment. We will continue working to conquer the behavioral side of investing that is key for our Partners' continued long term success.

I realize in this letter I already stated that one of our core investment tenets is that "nothing is certain" as it pertains to capital markets. However, there are three things I believe are rather close to absolute certainties. First is that even in this day and age of "big data" and advanced neuroscience human nature won't change. Second, this means there will always be bubbles and busts, and thirdly, because of points one and two, our portfolio management approach will always be anchored in humility and caution.

To continued alpha,

Travis

1: Park City Group CEO during investor presentation to Southwest Ideas Conference, November, 2016.

2: https://www.wsj.com/articles/ceo-has-high-hopes-for-at-home-cancer-test-1413926879