MountainWorks, LLC
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January 15th, 2017

2016 Return	October	November	December	Q4	Total Return (Feb 1st to December 31st)
MountainWorks	-4.4%	1.1%	0.4%	-3.1%	40.7%
S&P 500					19.4%

Dear Member,

At the end of the fourth quarter of 2016, the Fund was down 3.1%. For the year starting February 1st, we returned 40.7% against a 19.4% return for the S&P 500 (dividends included). In the fourth quarter, three positions - Hertz (HTZ), Community Health Systems (CYH), and Weatherford (WFT) - experienced drastic negative price swings. Hertz fell 48.9%, Community Health dropped 46.4%, and Weatherford declined over 38% in just a two week period. This resulted in a 4.4% decline to the entire portfolio in October. In the discussion that follows, I will present some numbers on estimated 2016 taxable gains and losses, explain some miscues and reasons for those mistakes, describe some of the great successes we have had throughout 2016, and touch on some new positions as 2017 comes upon us. Finally, I will give an update on the status of the Fund, including a few thoughts on my next steps toward inviting new Members into the Company.

2016 Estimated Taxable Gains. Below is a table of estimated taxable gains for the year, and it provides some insight into the successes and failures experienced this year. Keep in mind that this does not include any unrealized gains or positions that are still open in the portfolio:

*A $2,723 gain in HTZ is the result of a tax-advantaged spinoff of HTZ and HRI that occurred in June.

Company	Estimated ROI to MountainWorks	Est. Taxable Gain/Loss to MountainWorks	Company	Estimated ROI to MountainWorks	Est. Taxable Gain/Loss to MountainWorks
ALR	4.9%	$1,295	LDOS	25.6%	$5,131
APOL	3.7%	$52	NSAM	8.4%	$168
ARLZ	10.6%	$127	ODP	-18.1%	($736)
AXLL	5.0%	$476	PG	-11.6%	($10)
BAX	1.7%	$72	PNK	95.1%	$832
BGCP	18.0%	$288	POM	12.1%	$511
BHI	6.4%	$224	RAD	5.1%	$108
COTY	2.3%	$369	RIG	4.0%	$391
CVT	7.0%	$209	SHPG	5.1%	$165
CYH	5.1%	$153	SNOW	7.3%	$60
GLPI	-18.1%	($4)	SPY	-40.7%	($402)
HRI	4.3%	$78	TWTR	5.8%	$294
HTZ	-55.6%	($2,362)	VA	2.8%	$139
HTZ*	n/a	$2,723	WBMD	1.9%	$99
ISIL	4.1%	$148		Total	$10,598

**When options contracts are written, the underlying liability of the stock is used to calculate ROI above.

2016 Miscues. You can see that Hertz and Office Depot the two biggest miscues of the year. But thankfully, in both cases I was sized appropriately. The 55% loss from HTZ, combined with unrealized losses from Community Health (about -10.3% as of January 15th) resulted in a 4-5% loss to the portfolio in Q4 alone (my position in Weatherford was at a loss in Q4, but has since turned around and now stands as an unrealized gain of over 10%). Why were these positions so volatile? Hertz, Weatherford, and Community Health are all highly leveraged companies, meaning that their debt-to-market cap ratio is high. The result of investing in leveraged companies is that upon any adverse effects to the business, share prices will respond with intense volatility. All three companies are not only highly leveraged, but are also in the midst of revenue declines in consecutive quarters. Because my timing was poor, I invested in these companies too early, while each was in a secular down-trend. As a value investor, one of the outcomes I look for are mean reversions, and at the time I believed Hertz, Community Health, and Weatherford were prime candidates for such reversions. However, my mistakes came about by investing too early, before the worst of the storm is over. The lesson is rather simple: highly leveraged companies can present good investing opportunities, but only in times of revenue and earning up-trends.

On a similar note, Office Depot's 45% decline was the result of a broken merger with Staples. I worked hared on valuation and deal theory, but in the end I was simply wrong about the merger, and I paid the price. However, because I am using options much of the time, the downside experienced in Office Depot was somewhat mitigated. Specifically, by writing puts on ODP shares, I was able to capture over $400 of premium. Had I simply bought ODP shares in anticipation of a merger, the loss would have been $1,169 instead of the reported $736. Actually, the failed ODP merger gave me my first lesson in sizing appropriately, so the loss I incurred was perhaps not in vain.

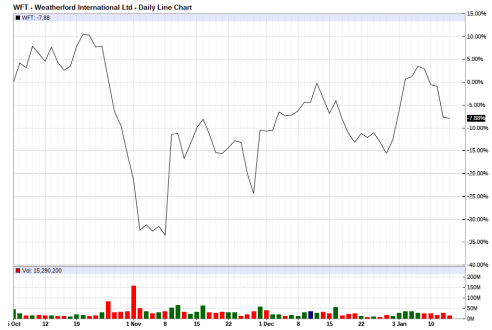
See below for some price action in these four companies. I have current positions still open in Community Health and Weatherford, where unrealized gains/losses as of January 15th are provided (note that taxable gains on WFT fall on January 2017, and are not included in the taxable gains table):

ODP Taxable Loss: -$736

HTZ Taxable Loss: -$2,362

CYH Taxable Gain: $153

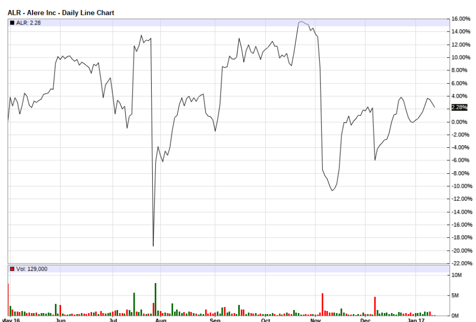
CYH Unrealized Loss: -$413



WFT Taxable Gain: $117

WFT Unrealized Gain: $427

2016 Successes. Another perfect example of how I use options can be found in the merger-arbitrage of Alere, Inc., while we await a decision on its acquisition by Abbott Labs. Below is a graph of ALR's stock price from the first time I invested in it up to the present day, as well as a table indicating the annualized return that can be achieved by writing put options:



ALR Taxable Gain: $1295

ALR Unrealized Gain: $184

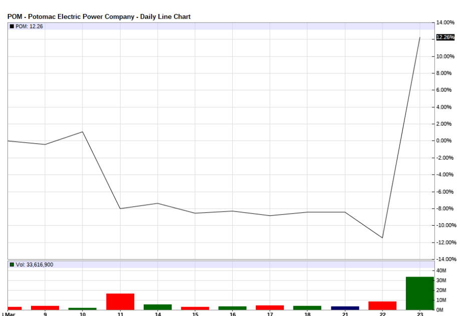
Date Sold	Strike Price	Premium	Annualized Return
4/29/16	$38	$3.20	62.7%
7/5/16	$37	$2.00	43.8%
7/28/16	$34	$2.25	48.3%
8/26/16	$37	$1.00	46.9%
9/9/16	$41	$1.85	39.2%
11/4/16	$36	$2.10	50.6%
11/29/16	$39	$1.30	86.9%
12/7/16	$35	$2.00	47.4%

Even though ALR shares have shown only a 2% gain over 8 months, I have managed to capture a significant return on investment. Remarkably, at the time of writing, none of these contracts expired in-the-money. By using a combination of fundamental analysis, reports, merger arbitrage strategy, event driven outcomes, and options, investing in Alere by writing puts has generated consistent returns throughout the year.

Pepco Holdings was another merger-arb that took place in Q1. Pepco Holdings, Inc. - a public utility company - received a buyout offer for $6.8 billion over two years ago from Exelon Corporation. In that time period Pepco common stock traded near the buyout price of $27.25 per share. Four state Public Service Commissions - New Jersey, Maryland, Virginia, and Delaware - and the Federal Energy Regulatory Commission approved the merger. The only Commission left was Washington D.C. Early in 2016 year the D.C. Mayor and People's Counsel both rejected the merger, crying foul that a $78 million fund set aside to prevent rate hikes to D.C. customers was not enough. As a result of the news, the stock plummeted to pre-deal prices, largely due to investor fear of a deal-break. In my opinion, the $78 million cog was a surmountable obstacle considering it was such a small portion of the $6.8 billion merger. This time my studies into the merger paid off with a gain of over 12% in only a few weeks.

Sometimes I will act on "news" of a corporate event, rather than the corporate event itself. This is what occurred with Axiall Chemical early in the year. On January 25th, 2016, Axiall Chemical rejected a $1.4 billion bid from Westlake Chemical. When news hit of a potential behind the scenes deal on the 29th, Westlake's offer of $11 per share in cash plus 0.1967 shares of WLK sent AXLL shares up 79 percent to $17.60. Although Axiall's board of directors wanted nothing to do with Westlake's buyout, there was definite game theory that created an opportunity. Axiall's board rejected a $1.4 billion buyout, arguing that AXLL traded well above $20 per share for years, and the company was worth way more than what Westlake proposed. Given that Westlake put money on the table, was it reasonable to assume that AXLL was worth less than $11? Or $15? Or $17?

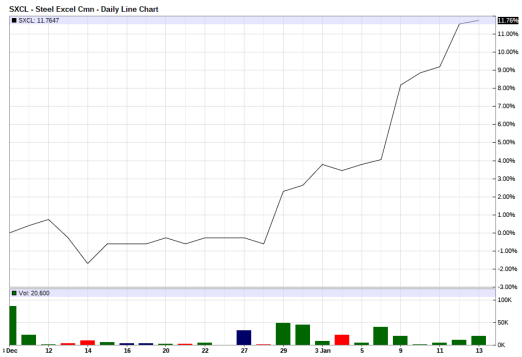
I established a position in AXLL on February 5th, with the idea of looking at two possible outcomes: either Axiall would accept Westlake's bid, or Westlake management would increase their bid given any negotiations that might ensue. By April 4th, Westlake raised its bid to $14 cash and 0.1967 shares WLK (at the time, a total consideration of about $23.35 per share for AXLL). In addition, Westlake planned a proxy battle due to Axiall's continued rejections; the company offered no negotiations or counter-offers. It was indeed a hostile takeover at its core. As time went on, a third player came into the picture - Lotte Chemical Corporation, based in South Korea - who eventually forced Westlake's hand. Westlake obviously wanted Axiall badly because on June 10th, shortly after Lotte's bid, Westlake cut a deal with Axiall for $33 per share in cash. The pressure of a third party entering into the Axiall bidding resulted in very favorable circumstances for AXLL shareholders.



POM Taxable Gain: $511

AXLL Taxable Gain: $476

New Positions in 2017. Even though the year is young, I have already started actively searching for our next investments. My first idea comes from Steel Partners' (SPLP) acquisition of Steel Excel (SXCL) for $17.80 per share, payable in preferreds. There is relatively no deal risk, because the merger is small (about $200mm), is not contingent upon financing, and by owning 64% of SXCL shares, Steel Partners is already a majority shareholder (not to mention both corporate offices are in the same hallway of the same office building on Madison Avenue; I think both managements are familiar with both companies). There should be no issues with the two-step merger process; upon completion, SXCL holders will receive 6% preferred units with a 9 year term. Although the spread has closed significantly since announcement, there is still room for about 7% return if the deal closes in February, plus the 6% annual distribution paid out to the preferred units on an annual basis:



Thank you, GAMCO Investors, for suggesting cumulative dividends and a 20% liquidity event after three years.

My second idea is Kate Spade (KATE). Back in November, Caerus Investors, a NYC-based asset management firm, wrote a letter to Nancy Karch (Chairman of the KATE board) pushing for a sale of the company. Investors at Caerus "think Kate Spade would make a great acquisition candidate for a strategic company in the lifestyle accessories category. The Company's margins are well below peers with material opportunity for expansion as licensing revenues grow and the business scales over time. Kate is still under penetrated overseas with a nice runway for growth. A potential buyer would be able to realize material cost and revenue synergies over time allowing for the ultimate expansion of EBITDA margins toward the peer set". KATE shares are down over 43% since January 2015, yet total revenues over the past two fiscal years have held strong at about $1.2 billion.

While I believe the retail sector is in a secular downtrend, I try to find opportunities that stack the cards in our favor. I have entered into a KATE position at a time when the shares are depressed, both investors and analysts are forecasting a sale, and revenues are holding strong. Possible buyers include Michael Kors, Coach (who has been rumored to be in talks with Burberry), and VF Corporation. All three companies are larger than Kate Spade, and would be able to acquire the company with not too much financial difficulty. Caerus estimates the take-out price at about $22.50 per share. At $18, the opportunity is good, not great.

I have a few ideas that are still in the works, including Quorum Health Corp, Weatherford (of which I have already established a base position at about $5.00 per share), Square, Inc., Quality Care Properties, Conduent, Inc., Fidelity Guaranty and Trust, and Genworth Financial. Similarly, I am very close to opening an account with Coinbase, which will allow me to diversify into Bitcoin.

Next steps for the Fund. There are five laws that I have to comply with as a pooled investment fund manager - The Investment Company Act of 1940, The Securities Act of 1933, The Investment Advisers Act of 1940, The Securities Exchange Act of 1934, and the Commodities Exchange Act of 1936. In order to do so, I must be very particular about the structure of the Fund and its Members. It is a concern for me and not for any Members, but just know that my timeline for accepting new Members has been pushed back to about March. At that time, new Members will (1) Sign the LLC agreement, (2) Read the Private Placement

Memorandum, (3) Complete an Investor Questionnaire and Determination of Accredited Investor Status, and (4) Complete a Form of Subscription Agreement. The minimum investment will be $2,500, and I am looking for 10 investors to help be a part of the Fund in its infant stage. This is essentially a "Friends and Family Round" of seed capital, and I ask for your support and patience as I finalize these required documents.

I hope you find these letters and the financials provided valuable. Please feel free to contact me via email, phone, or in person so that I can answer any questions you might have.

All the Best,

Justin Polce
Managing Member
MountainWorks, LLC

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