MountainWorks, LLC
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2017 Return	April	May	June	Q2	2017	Return Since Inception
MountainWorks	-1.7%	0.8%	12.6%	11.6%	19.1%	67.5%
S&P 500				2.6%	8.2%	24.9%

Dear Member,

In the second quarter of 2017, MountainWorks LLC generated an 11.6% return, versus 2.6% for the S&P 500, dividends not reinvested (according to barchart.com). Through June 30th, the fund has returned 19.1% in 2017, and 67.5% since its inception in February 2016. I welcome the nice returns, despite some of the mistakes I have made in this quarter and ones previous. The time has come for me to be demonstrative about my audacity in starting a bootstrapped hedge fund. In the discussion that follows, I will highlight some upsides and pitfalls, a couple examples of high velocity-of-money investments, and also point out key risks associated with the Fund, including margin, leverage, and illiquid securities.

Portfolio. Our best performing position in 2017 has come from an unlikely place: cryptocurrency. Back in the Q1 letter, I mentioned widening the Fund's capability by expanding into Ethereum, the digital oil of cryptocurrency, and I entered into a position at about $50 per token. Since then, the crypto markets have moved fast. At one point Ethereum prices rose to over $400, up from $20 in a matter of months. Unfortunately though, the trip down can be just as precipitous as the way up, and at $200, I decided to liquidate the investment - not because I believe Ether has less value, but more so due to the high degree of uncertainty surrounding Bitcoin, Ethereum, and other digital coins that has yet to be settled. It is a more in-depth conversation than can be presented in this letter, but I am open to discussing further at any time. For now, we'll settle for our first 300% gain, and continue to evaluate the cryptos for any possible openings down the road.

On the M&A side, Rite Aid and Walgreens Boots Alliance ended their merger, and re-negotiated the deal in order to avoid regulatory risk from the FTC. What did this mean for the Fund? I was long both RAD and FRED (Fred's was in line to buy 1,200 Rite Aid stores as part of WBA's acquisition of Rite Aid), in a bet that the FTC would approve the deal. When news came that Walgreens and Rite Aid were calling off the merger, RAD shares fell from ~$4.00 to $3.00, and FRED shares crashed from $12.50 to $9.00 in a single day. Because I was an arbitrageur in the deal, I quickly shed both the positions at around $3 (RAD) and $9 (FRED), and incurred losses of 40% and 37.5%, respectively. Indeed, broken deals are a part of the life cycle that is merger arbitrage, and I consider each experience - both success and failure - valuable to my future success. I have other positions in M&A that have been successful: Syngenta (SYT), Kate Spade (KATE), Alere (ALR), and Akorn (AKRX), to name a few, and I am awaiting closure on Staples (SPLS), Cabelas (CAB), and Genworth Financial (GNW). About 90% of all M&A deals go through, but it is the 10% that represent the depths of the chasm.

Bootstrapped Fund. Bootstrapping refers to forming a fund with little assets, and the entrepreneur uses his/her own funds as startup capital. This is exactly how MountainWorks began. I have taken the bootstrapping idea one step further, and I have utilized both loans and credit cards to finance my investments. In doing so, I have flexibility and full control of the Company. On the other hand, I am taking on a high degree of risk with the Fund. Should I fail in generating returns, I could expose myself to burdensome debt and financial distress. Therefore, any investment from prospective members would require a well-rounded understanding of the risks involved.

Furthermore, in addition to personal loans from credit cards and 403(b) accounts, I use a margin account that allows me to leverage my investments. For example, if I decide to write a put option contract on Syngenta at \$85, I am effectively underwriting \$8,500 of risk. If I do not have \$8,500 in cash to back the contract, then I have to rely on margin trading in my brokerage account. At this point, there are two outcomes: either the contract expires worthless or is assigned. If it expires worthless, then I do not need to provide \$8,500 in cash. If it is assigned, then I am responsible for coming up with \$8,500 to purchase SYT shares. If I do not have the cash on hand, then the brokerage firm may require me to sell other positions in the Fund in order to generate the necessary capital to finance the transaction (often referred to as a "margin call"). This is an inherent risk associated with both options and margin accounts. In my attempts to leverage capital, I am willingly exposing myself to higher degrees of risk in order to generate investment returns.

Lastly, I want to briefly mention trades that are both illiquid and hard to value. Specifically, I purchased a contingent value right - CYHHZ - for less than a penny at ~\$0.0075 per share, and recently, the CVR has traded up to around ~\$0.018, an increase of 140%. Each time I report on the net asset value of the Fund, I mark this CVR to market. But, because it is illiquid, it is also extremely volatile. In the near future, it is possible that CYHHZ could trade at \$0.01, or \$0.03. What this means for the Fund is that small differences in the CVR can translate to huge changes in the value of the Fund, with changes in the vicinity of 5-10%. Therefore, while year to date the Fund has returned 20%, it is conceivable that next month I could lose 5%, and the month after gain 10%, or visa-versa. I have thoroughly researched this investment for over 20 hours already, and while I believe the long term will provide valuable gains, in the short term the assets and the Fund itself may be very volatile (as this CVR and other investments like cryptocurrency are fast-moving and unpredictable).

But fear not, for prospective members will have a comprehensive conversation with me concerning these risks - options, margin trading, leverage, and illiquid investments - as well as others before becoming a Member of the Company. As I said in the last quarterly letter, I will most likely take on only one Member this year, due to partnership fees required by the state of New Jersey (if the company has more than 2 members, I must pay \$150 per member to the state). Recall that the process for contributing to the Fund consists of (1) becoming a Member of the Company by signing the Operating Agreement, (2) completing an Investor Questionnaire, (3) completing a Determination of Accredited Investor Status form, (4) Signing a Form of Subscription Agreement, and (5) making an Initial Contribution. Also understand that the fees follow a "1 & 10" structure - 1% management fee and a 10% performance fee, which roughly translates to 1% in total fees for every 10% of gains. For example, a \$10,000 investment that earns 25% in 2017 would at year-end have a net asset value of $12,500. A 1 & 10 fee structure dictates a $350 charge for 2017, or 2.8% of the total value. This entire process is laid out in the Private Placement Memorandum, which is available upon request.

Company Updates. Aside from investments, I have continued to focus on compliance and improvements to MountainWorks that will help me with research and member engagement. First, I have filed an amended Form D with the Securities and Exchange Commission and the NJ Bureau of Securities. I am happy to report that the amount of securities in the Fund has doubled in one year (a combined result of investment returns and continued contributions to the Fund on my part). Second, I have expanded on my computer coding skills in both Google Scripts and Visual Basic. I recently wrote a small program that will allow me to auto-forward updates on buy & sell orders, transactions, and dividend payments to the Fund. On a consistent basis, future directors of the Company will be able to receive updates on the day's action, which helps ensure both compliance and investor oversight of Fund management. Finally, I am in the middle of a major re-vamp of my research project, written in VBA. The update should help smooth out my research and allow for faster analysis of companies. To date, I have written over 1,500 lines of code with more to come. Because of this work, I can get a good picture of a company's value inside of an hour.

Last Quarter Updates. I am still holding Aralez Pharmaceuticals, and view the company as a speculative growth investment. ARLZ prices have been beat down significantly in the past year, creating an opening as management executes a turnaround (you can view my article on seekingalpha.com regarding Aralez for a more detailed discussion). I have since sold out of Depomed (DEPO), due to multiple contractions related to failed activism by Starboard Value, investigations spurned by Senator Claire Mccaskill, and a general downward trend in the prescription opioid market. Community Heath Systems (CYH) remains a significant position in the portfolio, as well as Quorum Health Corp. (QHC) - both are plays in the hospital space amidst uncertainty with the Affordable Care Act and the future of healthcare in the United States. Weatherford (WFT) is no longer in the portfolio, and my timing turned out to be fortunate, as I sold WFT at $6.00 and it now stands between $3.00 and $4.00 per share. But Weatherford was not the extent of my investment in the oil space, as I now have positions in both Transocean (RIG) and Atwood Oceanics (ATW) - offshore oil drillers trading at value investment levels.

Thank you for your time and devotion. Cheers to a successful Q2, and onward to Q3 2017.

Best,

Justin Polce
Managing Member

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