May 9, 2016

Cable Car Capital LLC Q1 2016 Letter

Dear Friends,

Financial markets in the first quarter were full of sound and fury, but the larger significance of recent volatility eludes me. Uncharacteristically, I will make my report quickly and pray you not mistake it for idiocy.

Performance

The Cable Car Composite returned +0.2% net of expenses and fees in the first quarter, matching the return of worldwide equity markets, as measured by the MSCI All Country World Index (ACWI).

CCC	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	ACWI
2013											+4.2	(0.3)	**+3.8**	**+3.9**
2014	(3.3)	+3.9	+1.9	+1.6	+3.3	(0.5)	(1.6)	(0.5)	(6.2)	+4.7	(1.6)	+5.8	**+7.2**	**+4.2**
2015	(3.8)	(0.9)	+17.5	+4.6	+24.9	(6.1)	(2.9)	+4.5	(1.7)	+3.5	+1.9	(4.2)	**+38.4**	**(2.4)**
2016	(5.5)	+5.1	+0.9										**+0.2**	**+0.2**
Annualized since inception (November 8, 2013)													**+19.9**	**+2.4**

Please note that third-party verification occasionally corrects minor rounding and computation errors. The 2015 net return of 38.4% differs slightly from last quarter's presentation due to the identification of a deposit in 2015 that was incorrectly recorded. No error correction to date has resulted in an adjustment of more than 0.2% to any period.

Attribution

As of March 31, the five largest long positions, which comprised 75% of the representative account's net assets, remained Insignia Systems (ISIG), Retrophin (RTRX), NetDragon Websoft (777 HK), The ADT Corporation (ADT), and Pangaea Logistics (PANL). The greatest performance impact by issuer for the representative account was as follows, expressed in basis points (bps) on beginning-of-period assets:

Contributors		**Detractors**	
Position	*Performance (bps)*	*Position*	*Performance (bps)*
Long ADT*	+263	Long RTRX	(480)
Long Company E*	+244	Short PLUS LN	(145)
Short GBSN*	+109	Long PANL	(123)
Long KXM CN	+89	Short Company D	(89)
GDPM Preferred Arbitrage*	+78	Short MNKD	(55)

*Denotes closed positions. Please see important disclosures on the last page of this letter.

Thanks to reader feedback, the table above reflects position-level attribution of broker interest paid on hard-to-borrow short positions, which was previously reported only for all short positions in aggregate. Old-timers are fond of reminiscing about rebates that used to be reliably positive. If the rate-hike cycle continues, I look forward to perhaps reporting a net benefit from interest income on the collateral someday.

Commentary

The acquisition of ADT was completed this month, and Kobex Capital will soon return capital through a tender offer. As a result, Cable Car will shortly have its lowest gross exposure since inception. While the pipeline of potential opportunities remains robust, particularly on the short side, my excitement at the chance to redeploy capital is tempered by a desire not to rush into long-term commitments. While the portfolio remains quite concentrated, current political and economic uncertainties make conservative overall exposure seem opportune at the moment. Average exposure for the representative account during the first quarter was 84% long and 19% short.

Long positions contributed modestly to returns in the quarter, primarily due to the acquisition of ADT. RTRX continues to suffer from negative drug pricing and specialty pharmaceutical sector sentiment, but I remain confident in the value of its marketed orphan disease therapeutics. I have little to add to my public comments at the moment. If market participants learn nothing else from recent missteps by activist investors, it is that reticence can sometimes be a virtue. Cable Car's two largest long positions are currently embroiled in controversy. Naturally, I have given much thought to both situations and come away with conviction underpinning Cable Car's positioning. However, I apologize for the lack of further details at this time and encourage you to contact me if you would like to discuss either position.

This quarter's attribution includes an undisclosed long position in a microcap, Company E, one of the "cash shells" mentioned in last quarter's letter. I am not ready to disclose the name because I hope to have an opportunity to buy it again. During the market dislocation early this year, Cable Car purchased approximately 2% of the company's equity at a valuation about 50% below its net cash position. Company E has no continuing operations and a prior history of very bad capital allocation. It is clear that the incumbent board and management intend to identify a reverse merger candidate in order to continue to derive personal benefits from the public listing. Such a transaction would almost certainly destroy value, but at a sufficiently large discount to cash, the margin of safety is large enough to warrant involvement anyway. Cable Car had a few discussions with allocators and came close to offering to purchase a much larger stake at a premium, in order to encourage the company to liquidate instead. However, Company E's share price quickly recovered along with the broader market, reducing room for error. I chose to take advantage of the sudden windfall and sell the entire position at a roughly 30% discount to net cash, 40% above cost.

Company E is unlikely to be the last such opportunity. Please let me know if you are an allocator or fellow manager with interest in discussing similar situations in the future.

Last quarter's letter noted that the final exercises of GBSN warrants detracted slightly from mark-to-market returns in January. The representative account was able to obtain additional borrow on GBSN beyond what was needed to hedge the warrant exercise, contributing to returns as shares declined on further dilution. Excluding the benefit of GBSN, the short portfolio generated an approximately 10% loss on capital employed for the representative account, a poor result attributable to bad timing on my part, as well as animal spirts and promotional activity in March that were reminiscent of 2013. No less than three short positions with going concern warnings and minimal equity value doubled during the period, and they were not even businesses with any link to the recovery in oil prices. These positions were sized conservatively and have largely returned to earth in April.

Cable Car continues to mostly avoid commodity-linked businesses but did participate in a small capital structure arbitrage at the now-bankrupt Goodrich Petroleum (GDPMQ). I continue to learn about new operational risks from experiences like this. In the case of Goodrich, FINRA inexplicably delayed approval for OTC trading of a newly issued class of convertible preferred stock for nearly three months, increasing carrying costs on the short leg of the trade. This eliminated most of the positon's profitability for smaller accounts, since it was not economical to convert the preferred shares due to DWAC fees.

It has been a little while since I published a full-length investment thesis, and I have been more quiet than usual on Cable Car's blog. Partly that is due to the hopefully virtuous restraint described earlier. It is also a consequence of having several projects underway that I am unfortunately not able to discuss publicly. There never seems to be a shortage of new threads to pull on some of the more promotional or outright fraudulent short positions in the portfolio, and lately I have been devoting a significant amount of time to documenting some of the more egregious behavior Cable Car has discovered. Given my past experience communicating with regulators, this is an effort that I pursue without much expectation of success or pecuniary reward. It nevertheless is the right thing to do. I have written before about the potential for short sellers to perform a public service, and I hope to contribute in some small way to improving the integrity of capital markets.

Cable Car has submitted detailed whistleblower or regulatory complaints regarding five companies currently held in the short portfolio, some of which I wish I could share for the entertainment value alone. Perhaps it may be possible to speak about some of these situations in the future. For instance, while I still intend to refrain from discussing Plus500 for the time being, I am pleased by the renewed attention to abuses in the online brokerage industry, thanks to excellent reporting by the Times of Israel. I am also gratified by the recent arrest of Aviv Talmor, an important vendor to Playtech and the alleged operator of a Ponzi scheme.

Thank you for reading.

Jacob Ma-Weaver, CFA

Important advertising disclosures

Please be aware that because this letter is shared with non-clients, it may be considered an advertisement under Rule 206(4) of the Advisers Act. It is therefore subject to GIPS guidelines regarding advertising disclosure and SEC guidelines regarding references to past specific recommendations.

The SEC requires that references to past specific recommendations, including attribution calculations, be based on a reference account and that at least ten holdings be disclosed. Cable Car's largest account serves as the reference account. Detailed computation methodology and a list of all holdings' contribution to the account's performance are available upon request. The holdings identified in this letter do not represent all securities purchased or sold for advisory clients, and past performance is no guarantee of future results.

Please note that Cable Car maintains a selective public disclosure policy regarding positions that may be competitively sensitive, difficult to borrow, or otherwise unlikely to benefit from publicity. Clients retain complete portfolio transparency, and Cable Car will disclose the subject securities to non-clients upon request.

Cable Car Capital LLC ("Cable Car" or the "firm") is a limited liability company with principal place of business in San Francisco, CA. The Cable Car Composite reflects the performance of the firm's concentrated, hedged value investing strategy. The composite contains all fully discretionary accounts managed by the firm, and it is the firm's only composite. Cable Car claims compliance with the Global Investment Performance Standards (GIPS). To obtain a compliant performance presentation and composite description, contact Jacob Ma-Weaver at jacob@cablecarcapital.com or (415)857-1965. Verification and performance examination reports are also available upon request.

ACWI is a trademark of MSCI, Inc. "The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets." ACWI total returns are presented including dividends net of withholding taxes. Composite returns are presented net of all expenses and fees, including accrued but unpaid performance fees. Returns are expressed in USD.

Cable Car implements its strategy in part through short sales and makes limited use of derivatives and leverage. Gross exposure is generally limited to 200% and portfolios maintain a net long bias. Additional disclosures regarding the risks associated with the firm's investment approach are contained in the firm's brochure on Form ADV. The firm's list of composite descriptions and additional information regarding valuation policies, performance calculation, and performance presentation is available upon request.

The performance of individual client accounts can vary significantly from the performance of the composite. The timing of cash flows, the size and type of account, the account's base currency, the fee arrangement, and the availability of investment opportunities for each account may lead to significant divergence from composite returns. In 2014, net returns of accounts funded for the full year ranged from 6-10%. In 2015, net returns of funded accounts ranged from 22-55%.

While the composite is benchmarked against the ACWI in order to compare performance to broad market equity returns, client portfolios are not managed to any particular benchmark, and performance is likely to vary from the performance of any given index.