

# **LAKE UNION CAPITAL MANAGEMENT, LLC**

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## **BROCHURE PART 2A March 30, 2011**

<b>ITEM 1: COVER PAGE</b>
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This brochure provides information about the qualifications and business practices of Lake Union Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (206) 838-3277. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Lake Union Capital Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about Lake Union Capital Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### ITEM 4: ADVISORY BUSINESS

Lake Union Capital Management, LLC (“Lake Union Capital”), is a Delaware, U.S.A. limited liability company, organized in June 2003 that commenced operations in September 2003. Lake Union Capital has been registered as an investment adviser with the SEC since June 2006. Michael R. Self is the sole Managing Member and Portfolio Manager of Lake Union Capital.

Lake Union Capital provides advisory services on a discretionary basis to its client, which is a private pooled investment vehicle (“Fund”) intended for sophisticated investors and institutional investors.

Lake Union Capital does not generally tailor its advisory services to the individual needs of investors in the Fund and does not accept Fund investor-imposed investment restrictions. Lake Union Capital may establish separate accounts for particular clients in the future. These accounts may be subject to investment objectives, guidelines, restrictions, fee arrangements and other terms that are individually negotiated with each such client.

As of December 31, 2010, Lake Union Capital managed the following client assets:

Non-Discretionary Client Assets:	US\$	0.00
Discretionary Client Assets:	US\$	<u>78,113,276</u>
Total Assets under Management:	US\$	<u>78,113,276</u>

#### ITEM 5: FEES AND COMPENSATION

Lake Union Capital receives management fees based on net assets under management of 2.0% annually and an incentive allocation of up to 20% of the annual profit, if any, charged to each client subject to a high-water mark. Management fees are paid quarterly in advance, based on beginning net assets at the first day of each quarter. An incentive allocation is paid annually. A pro rata portion of the management fee will be refunded to Fund investors for any redemptions that occur intra-quarter. Fees and allocations charged are deducted from the Fund’s assets.

The management and incentive allocation may vary. Lake Union Capital may offer lesser or different fee schedules to certain strategic and other investors based on a variety of factors, including nature of investments, length of relationship with the investor and other factors.

The Fund bears legal, auditing, accounting (including out-sourced accounting) and other professional expenses, administration expenses, research expenses (including research-related travel) and investment expenses such as commissions, interest on margin accounts and other indebtedness, custodial fees, bank service fees and other reasonable expenses related to the purchase, sale or transmittal of Fund assets. Fund assets may be invested in money market mutual funds, ETFs or other registered investment companies. In these cases, the Fund will bear its pro rata share of the investment management fee and other fees of the Fund, which are in addition to the investment management fee paid to Lake Union Capital.

**ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Lake Union Capital provides investment management services to one trading vehicle. As stated above, Lake Union Capital receives performance-based compensation from the Fund.

**ITEM 7: TYPES OF CLIENTS**

Lake Union Capital clients consist of a private fund.

With respect to the Fund, any initial investment minimums are disclosed in the offering documents for the Fund.

**ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

**Methods of Analysis and Investment Strategies** - Lake Union Capital generally focuses on equity investments. Lake Union Capital will focus primarily on micro, small and mid cap stocks. Investment ideas typically will have characteristics such as a strong management team, a potential catalyst for the stock or sector, and a balance sheet with manageable debt and an acceptable cash position. Once investment ideas are identified, Lake Union Capital will analyze macro-economic conditions such as interest rates, currencies, and geopolitical risks before making a final investment decision.

Secondly, Lake Union Capital uses a long/short strategy to seek to capitalize on short term market inefficiencies. These opportunities will be identified by using indicators such as volatility indexes, market sentiment, and other technical indicators.

**This investment strategy and method of operation involves the risk of loss to clients and clients should be prepared to bear the loss of their entire investment.**

**Material Risks Related to Investment Strategies:**

**Market Risks.** The profitability of a significant portion of Lake Union Capital's investment program depends to a great extent upon correctly assessing the future course of price movements of specific securities. There can be no assurance that Lake Union Capital will be able to predict accurately these price movements.

**Hedging.** There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while Lake Union Capital may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for Lake Union Capital's investment portfolios than if Lake Union Capital did not engage in any such hedging transactions.

**Issuer-Specific Changes.** Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

**Leverage.** Performance may be more volatile if a client's account employs leverage.

**Short Selling Risk.** Lake Union Capital's investment program may include short selling. Short selling transactions expose Lake Union Capital to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by Lake Union Capital in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein Lake Union Capital might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

**Derivatives.** Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or Lake Union Capital. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose the client's account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

**Equity Securities.** The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

**Risk Arbitrage Securities.** A merger, other restructuring, tender, or exchange offer proposed at the time Lake Union Capital invests in risk arbitrage securities may not be completed on the terms or within the time frame contemplated, resulting in losses.

**Lack of Diversification.** The client's portfolio may not be diversified among geographic areas or types of securities. Further, the portfolio may not be diversified among a wide range of issuers. Accordingly, the investment portfolio may be subject to more rapid change in value than would be the case if Lake Union Capital were required to maintain a wide diversification among investment areas, types of securities and issuers.

#### ITEM 9: DISCIPLINARY INFORMATION

As of the date hereof, there has been no material litigation or investigation involving the firm or its management persons.

#### ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Lake Union Capital is not registered as a broker-dealer.

Lake Union Capital is not registered as a commodity pool operator or a commodity trading adviser.

Lake Union Capital does not have material relationships or arrangements with any related persons that are financial industry participants.

Lake Union Capital does not recommend or select other investment advisers for its clients.

#### ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING

Lake Union Capital recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its clients; (ii) its long-term business interests are best served by adherence to the principle that the interests of clients come first; and (iii) it has a fiduciary duty to its clients to act solely for their benefit. All personnel of Lake Union Capital must put the interests of Lake Union Capital's clients before their own personal interests and must act honestly and fairly in all respects in dealings with clients. All personnel of Lake Union Capital must also comply with all federal securities laws. In this regard, Lake Union Capital has adopted a Code of Ethics governing personal trading by its personnel. It is Lake Union Capital's general policy that neither the Managing Member nor the employees of Lake Union Capital nor any of their respective family members for whom they provide material support will engage in new discretionary personal securities transactions. Exceptions may be made in the sole discretion of the Compliance Officer, as defined below, if such transaction is not contrary to the interest of a client or applicable law and only upon pre-clearance and approval by the Chief Compliance Officer. Among other requirements, the Code of Ethics requires

employees to report any such personal securities transactions and holdings to Lake Union Capital at least quarterly, and Lake Union Capital is required to review such reports.

Lake Union Capital, in the course of its investment management and other activities, may come into possession of confidential or material nonpublic information about issuers, including issuers in which Lake Union Capital has invested or seeks to invest on behalf of clients. Lake Union Capital is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. Lake Union Capital maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that Lake Union Capital is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, Lake Union Capital may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but Lake Union Capital will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, Lake Union Capital will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that Lake Union Capital possesses such information), or not using such information for the client's benefit, as a result of following Lake Union Capital's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

Clients or prospective clients may obtain a copy of the Code of Ethics by contacting Amber Bosch-Blomquist (Chief Compliance Officer) by email at [amber@lakeunioncap.com](mailto:amber@lakeunioncap.com) or telephone at (206) 838-3277.

Lake Union Capital and its personnel may have conflicts in allocating their time and services among the Advisory Clients. Lake Union Capital will devote as much time to each of the Advisory Clients as it deems appropriate to perform its duties in accordance with its investment management agreements. In addition, Lake Union Capital, its affiliates and employees may conduct outside business activities.

#### **ITEM 12: BROKERAGE POLICIES**

Lake Union Capital possesses the discretion to determine the broker or dealer to be used for each securities transaction for each client account. In selecting brokers or dealers to execute transactions (or series of transactions), Lake Union Capital considers a number of factors to determine the reasonableness of the broker-dealer's compensation. Such factors include price, ability to effect the transactions, the brokers' or dealers' facilities, reliability and financial responsibility, special execution capabilities, block trading capabilities, willingness to execute related or unrelated difficult transactions in the future, quotation services, custody, recordkeeping and similar services, and any research or investment management-related services provided by such brokers or dealers; however, Lake Union Capital need not solicit competitive bids from broker-dealers and does not have an obligation to seek the lowest available commission cost. Where it utilizes full-service brokers, it is not Lake Union Capital's practice to negotiate "execution only" commission rates, thus a client may be deemed to be

paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. Selected employees of Lake Union Capital meet periodically to evaluate the broker-dealers used by Lake Union Capital to execute client trades using the foregoing factors.

Lake Union Capital may receive research from certain broker-dealers in connection with client securities transactions. This is known as a “soft dollar” relationship. Lake Union Capital limits the use of “soft dollars” to obtain research and brokerage services as permitted under the safe harbor of Section 28(e) of the Securities Exchange Act of 1934 (“Section 28(e)").

When Lake Union Capital uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Chief Compliance Officer periodically reviews and evaluates its soft dollar practices to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or Lake Union Capital’s overall responsibilities to the accounts or portfolios over which Lake Union Capital exercises investment discretion.

During the last fiscal year, as a result of client brokerage commissions (or markups or mark downs), Lake Union Capital and/or its related persons acquired research products.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, Lake Union Capital will not have to pay for the products and services itself. This creates an incentive for Lake Union Capital to select a broker-dealer based on its interest in receiving those products and services.

In order to manage the conflicts of interest inherent in its brokerage practices, Lake Union Capital has adopted the following policies:

- (i) Lake Union Capital limits the use of “soft dollars” under client commission arrangements to those products and services that are permitted under the safe harbor of Section 28(e); and
- (ii) Lake Union Capital’s brokerage policies are disclosed to clients in writing prior to the provision of Lake Union Capital’s services, generally as part of the investment management agreement or the applicable offering memorandum.
- (iii) Lake Union Capital has implemented and maintains policies and procedures designed to obtain “best execution” and govern the use of soft dollars.

In selecting or recommending broker-dealers, Lake Union Capital may consider whether it receives client referrals from a broker-dealer or third party or participates in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to the Fund. Lake Union Capital may have an incentive to select or recommend a broker-dealer

based on its interests to receive client referrals rather than on the client's interests to receive most favorable execution. To address this conflict of interest, Lake Union Capital only executes client trades through broker-dealers that refer clients to it only if it is determined by the Chief Compliance Officer that using such broker-dealers for client trades is otherwise consistent with seeking best execution.

#### **ITEM 13: REVIEW OF ACCOUNTS**

Michael R. Self, the Portfolio Manager & Managing Member of Lake Union Capital typically reviews the most significant holdings of the Fund on a daily basis. These holdings are monitored in light of trading activity, significant corporate developments and other activities which may dictate a change in portfolio positions. The Fund will be analyzed in connection with certain prudent risk-management measures, including, but not limited to, stop-loss protections and diversification guidelines (by industry and number of positions). If a decision is made to purchase or sell with respect to a specific security holding, the Fund will be reviewed in full prior to selling or purchasing such security. In addition, the Fund will either be reviewed periodically from the standpoint of the Fund's specific investment objectives, or as particular situations may dictate.

Significant market events affecting the prices of one or more securities in the Fund may trigger reviews on other than a periodic basis.

Investors in the Fund are provided with reports pursuant to the terms of each fund's offering documents. These reports generally include a monthly performance report, annual audited financial statements within 120 days after the financial year end, and annual tax reports.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Lake Union Capital does not receive any economic benefit from any person who is not a client for providing investment advice or other advisory services to Lake Union Capital's clients, other than from broker-dealers in the form of soft dollars as described in Item 12 above.

Other than as described in Item 12 above, Lake Union Capital does not currently directly or indirectly compensate any person who is not its supervised person for client referrals.

#### **ITEM 15: CUSTODY**

This Item is not applicable.

#### **ITEM 16: INVESTMENT DISCRETION**

Lake Union Capital provides investment advisory services on a discretionary basis to clients. Please see **Item 4 – Advisory Business** for a description of certain limitations clients may place on Lake Union Capital’s discretionary authority.

Prior to assuming full discretion in managing a client’s assets, Lake Union Capital enters into an investment management agreement or other agreement that sets forth the scope of its discretion.

Lake Union Capital has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) (ii) the amount of securities to be purchased or sold for the client account.

If it appears that a trade error has occurred, Lake Union Capital will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, Lake Union Capital's error correction procedure is to ensure that clients are treated fairly. Lake Union Capital has discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy. In the event that a client account incurs a trade error as a result of Lake Union Capital’s gross negligence, willful misconduct, or fraud, trade errors will be corrected by Lake Union Capital as soon as practicable, in a manner such that the client incurs no loss.

#### ITEM 17: VOTING CLIENT SECURITIES

To the extent Lake Union Capital has been delegated proxy voting authority on behalf of its clients, Lake Union Capital complies with its Proxy Voting Policies and Procedures (the “Procedures”) that are designed to ensure that Lake Union Capital votes proxies with respect to client securities in the best interests of its clients. The Procedures also require that Lake Union Capital identify any conflicts of interest between Lake Union Capital and its clients. If a material conflict exists, Lake Union Capital will determine whether voting in accordance with the voting guidelines and factors described in the Procedures is in the best interests of the client or take some other appropriate action.

In voting proxies, Lake Union Capital generally votes in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated). For all other proposals, Lake Union Capital will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and Lake Union Capital’s opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

Because Lake Union Capital provides investment advice to a commingled investment entity, individual investors in the Fund will not be able to direct Lake Union Capital on how to cast a proxy vote.

Clients may obtain a copy of the Lake Union Capital's Procedures and information about how Lake Union Capital voted a client's proxies by contacting Amber Bosch-Blomquist (Chief Compliance Officer) by email at [amber@lakeunioncap.com](mailto:amber@lakeunioncap.com) or telephone at (206) 838-3277.

<b>ITEM 18: FINANCIAL INFORMATION</b>
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This Item is not applicable.