September 9, 2013

The results for August 2013, year-to-date 2013 and inception-to-date performance of Threshold Capital Corp for the period ending August 31, 2013 was as follows:

	AUGUST 2013	2013	JAN 1, 2007 TO PRESENT
Threshold(A) **Threshold(B)non-leverage**	**+7.75%** **+4.36%**	**-(1.60)%** **+3.44**	**+15.39%** **+51.21%**
DJIA	-(4.45)%	+13.02%	+18.83%
S&P 500	-(3.13)%	+14.50%	+15.14%
NASDAQ	-(1.01)%	+18.89%	+48.63%
Russell 2000	-(3.29)%	+19.02%	+28.34%

Client portfolio positions remained mostly unchanged during the first half of 2013. Midway through 2013, the top five Client positions were Philip Morris International (NYSE:PM), Sohu.com Inc. (NASDAQ:SOHU), Tiger Media Inc. (NYSEAmex: IDI), Lorillard Inc. (NYSE:LO), and Altria Group (NYSE:MO). While performance was certainly disappointing for the first seven (7) months of 2013, Clients will be content that performance has **exploded** to the upside in August 2013 due to the rebound in gold prices, outstanding results from China Yuchai International Limited (NYSE:CYD), and recent results and news from Tiger Media (NYSEAmex:IDI).

From previous Client correspondence, Tiger Media was classified as a “special situation” by Threshold Capital and it has slowly emerged to be recognized by investors. Tiger Media just reported financial results for the eight (8) months ended August 31, 2013 – progress and execution has been spectacular! The Company generated negligible revenues for the first half of 2013, but in the months of July and August, the Company took in revenues of $2.1 million. Tiger Media will complete the rollout and installation of its Shanghai luxury mall concession this month and they have attracted top tier global Clients including McDonald’s, Pepsi-Cola, BMW, and LVMH’s Benefit cosmetics line. Tiger Media will now begin to rollout other Luxury Mall advertising networks in other Tier 1 cities, specifically Beijing and Guangzhou. Also, and the most exciting news, Tiger Media announced its initiative to enter the mobile space with their advertising network in Shanghai (and other cities when complete) and this new revenue stream will catapult the Company to greater profitability. This entry by Tiger Media into mobile is similar to what Facebook is doing here in the US. This opportunity is tremendous for the Company and Threshold Capital will continue to watch closely to insure they execute their business plan. Financial results from our other companies with China exposure have also performed well recently. China Yuchai International Limited (NYSE:CYD) reported first half 2013 profits of $1.48 per share on US$1.31 Billion in revenue. Diesel engines sales were strong – with the medium and heavy duty truck sales rebounding in China. Threshold Capital liquidated its position for Clients in China Yuchai on these strong results as the second half of 2013 will prove difficult for China Yuchai as government officials in Beijing institute stricter emission standards for the engine industry. Sohu.com (NASDAQ:SOHU), one of China’s leading online media, search, gaming, community, and mobile service group, reported six month profits of US$ 1.16 per share on $646.4 million in revenue. Sohu’s search and gaming divisions – Sogu and Changyou continue to lead the Company’s growth in 2013 – which is the primary reason there have been news articles in the Chinese press that the Company may be a takeover target. Even more notable is Sohu’s mobile application – Sogu Pinyin – which added 60% more users since January 2013 and hence has solidified itself as one of the top three mobile apps in China. As these Chinese based companies continue to do well for Threshold Capital Corp. Clients, China continues to draw investor skepticism as government officials continue to curb real estate speculation in the Tier 1 & 2 cities. China’s economy undoubtedly is no longer growing as fast as it once was – remember the pre-Olympic years of 10-12% GDP growth? Economic officials in Beijing have pledged that the Chinese economy will grow no slower than 7% in the coming years. While this statement may reassure citizens, there are areas of concern; specifically China’s “shadow banking system.” The traditional Chinese financial institution or bank offer various wealth-management products; however these institutions also offer their own branded, non-government sponsored financial products with higher yields (risk!) to draw customers. These products have surged since 2009 and now total approximately 8.2 Trillion

Yuan – that's about the size of the entire Australian economy! As these products mature, these banks must attract more capital/depositors to pay off the previous investors (similar to a Ponzi scheme). Chinese financial institutions have taken these customer deposits and lent them out to local municipalities, property developers, and even to purchase stocks and derivatives. The danger is quite obvious – these investments go bad and depositors lose their money. While these products in China's "shadow banking system" are cause for concern, Threshold Capital does not believe that their failure would result in a crisis. Capital controls protect the country from currency outflows – which triggered the financial crises in Malaysia and Thailand in mid-1998. China's external debt is also very small – only 7.5% of its GDP. Last, Chinese citizens continue to be the largest savers on the globe and the Chinese central Bank holds approximately $3 Trillion in reserves. These three factors show that China has ample cushion in case of any financial stress. China is still a compelling place for investment consideration. Investors should be reminded that since 1978, per capita income has grown from $225 to more than $6,000 and 600 million people have been lifted from poverty. In 2005, China had no high-speed rail; today's it has the world's largest network with over 5,800 miles of track. China has plans to construct an additional 5,000 miles of track, another 50 world class airports, and 400 deep water ports for container ships by the end of 2017. Threshold Capital believes the current Chinese based companies in Client portfolios are wonderful opportunities to capitalize on continued strong (although gradual slowing) GDP growth.

Turning to our exposure to the tobacco sector – Philip Morris International (NYSE:PM), Altria Group, Inc. (NYSE:MO), and Lorillard Inc. (NYSE:LO) – all continue their superb operating performance with increased profitability and pricing power. Philip Morris International reported first half 2013 results of $2.59 per share on $15.5 Billion in revenue. PMI purchased and retired 33.4 million shares for approximately $3.0 Billion in the first half of this year and for the full year 2013, the Company expects to earn in a range of $5.43 to $5.53. PMI currently yields 4.0% for shareholders. The Company also announced a new CEO – Mr. Andre Calantzopoulos – to replace Mr. Louis Camilleri. Mr. Camilleri will remain Chairman of the Board of PMI. Mr. Calantzopoulos has pledged to push harder into emerging growth areas – specifically Vietnam and China (China is the world's largest tobacco consumer with sales expanding an average of 13.5% a year according to Euromonitor International). US based Altria Group (NYSE:MO), the makers of Marlboro, Parliament, Benson & Hedges, Skoal, Copenhagen, etc. also reported strong first half 2013 results. The Company generated $1.32 per share in profits on $10.6 Billion in revenue. Altria continues to reward its shareholders with increased dividends, increasing stock buyback programs and now yields 5.6%. Lorillard Inc. (NYSE:LO), the oldest and third largest manufacturer of cigarettes in the United States, announced first half profits of $1.47 per share on$3.26 Billion in sales. Included in these fantastic operating results were Lorillard's electronic cigarette division – blu eCigs generated $114 million in revenue for the first half of 2013. Lorillard's blu eCigs currently commands over 40% market share of this fast growing segment. Electronic cigarette sales are expected to top $1 Billion this year; Altria (NYSE:MO) and Reynolds American (NYSE:RAI) will also be entering this segment by the end of 2013. These companies are very excited about the electronic cigarette business as it is currently not regulated by the FDA (like conventional tobacco products). Even more important, electronic cigarettes are also **not** subject to the high federal and state tax levies; they are taxed with ordinary sales taxes along the likes of say pencils or paperclips. While this is sure to change in the future (as the US and state governments see the explosive sales of these products and will demand their share), electronic cigarettes are projected to top sales of traditional smoking products in thirty years.

As previously stated in Client correspondence, some investors may shun from the tobacco businesses; however these companies are and continue to be phenomenal cash generating businesses. They continue to take this cash and return it to shareholders in the form of increasing dividends and stock repurchases.

Threshold Capital continues to have Client exposure to precious metals through its ownership in Newmont Mining Corp. (NYSE:NEM), Yamana Gold Inc. (NYSE:AUY), the Market Vectors Gold Miners ETF (NYSE:GDX), and the Market Vectors Junior Gold Miners (NYSEArca:GDXJ). The price of many commodities, especially gold and silver, experienced extreme volatility during the first half of 2013. In the month of April 2013, the price of gold plummeted as short speculators drove gold down to its temporary lows of around $1,300 per ounce – this was the largest two day decline in thirty years. Over the course of these two (2) trading days, gold fell over $200+ per ounce. A majority of this pricing move was triggered by a sale in the futures market in the overnight session where liquidity is challenged. These sales over two days totaled 1 million contracts – the equivalent of over 3,000 tons of gold (more than the entire production of 2012). Investors should keep in mind that these sales occurred in the futures markets and were not of physical gold. Also spooking the market were fallacious rumors that the International Monetary Fund would force Cyprus to sell its gold holdings and that this action would lead to forced selling by other weak European Union members, specifically Portugal and Italy. Gold reached a low of $1,180 per ounce in late June 2013. The price of gold was short lived however, and as expected, central banks and consumers rushed in to purchase bullion as they saw a tremendous opportunity to add to their holdings. India's demand for gold rose swiftly on this correction even as their central government imposed tariffs on the commodity. Indian consumers of the precious metal were not dismayed and paid the high tariff; but also, the smuggling of gold bullion into India exploded. Chinese consumers also took advantage of gold's price weakness to add to their holdings. Gold imports from Hong Kong to mainland China (up 157% to 276 tons in the second quarter versus last year) reached a record 706 tons in the first half of 2013. Since its low in April of this year, the World Gold Council has stated that there continues to be a shortage of physical gold – coins, bars, and ingots. Newmont Mining (NYSE:NEM), founded in 1921 and publicly traded since 1925, is one of the largest gold producing companies on the globe. Its mining operations are located in the U.S., Australia, Peru, Indonesia, Ghana, New Zealand, and Mexico. For the first half of 2013, Newmont reported a loss of $(3.43) per share on $4.17 Billion in revenue. During the second quarter of 2013, the Company took an impairment charge of $1.7 Billion on the value of stockpiles and two Australian mines due to the slump in gold prices. Newmont currently yields 3.28%. GDX is an Exchange Traded Fund that holds a "basket" of gold mining stocks that comprises such companies as Barrick Gold Corporation, Goldcorp Inc., AngloGold Ashanti Limited, and Kinross Gold. By owning this fund, investors gain a diversified holding of mining companies which will appreciate on a rising price of gold bullion. GDXJ is a similar Exchange Traded Fund that holds a basket of gold mining companies, but these are considered the "junior miners" as they have smaller operations. The top names in this ETF basket are Argonaut Gold, Torex Gold Resources, Lion Gold, and Seabridge Gold Inc. Yamana Gold (AUY) is a Canadian based gold producer with properties in Brazil, Argentina, Colombia, Mexico, and Chile. For the six months ended June 2013Yamana Gold generated revenues of $965.3 million and $0.13 per share in profits. Yamana currently yields 2.31%. Gold mining companies have announced at least $15 Billion of asset write downs in 2013 after gold experienced its most dramatic drop in over thirty years. Again, this precipitous drop was mostly fueled by speculators; and patient and long-term investors have taken advantage of this weakness to add to their positions.

Threshold Capital continues to have Client assets invested in Brazil with positions in Telefonica Brasil (NYSE:VIV), and Ultrapar Participacoes SA (NYSE:UGP). Brazil, the largest economy in Latin America and number seven on the globe continues its preparations for hosting the World Cup in 2014 and the Summer Olympic Games in 2016. While Brazil continues to spend Billions on these projects, the country is experiencing economic strain. The US dollar has risen over 15% versus the Brazilian currency (Real) with the majority of this deterioration occurring over the last four (4) months. Inflation remains a problem for Brazilian citizens attempting to break into the ranks of the middle class. Food and energy prices have crept up to hurt consumers and several months ago, just prior to the Pope's visit to Brazil, the government attempted to raise municipal travel (bus) fares by approximately nine cents. Brazilians took to the streets in protest and last month, the Brazilian central bank raised interest rates by 50 basis points to 9%. While the Brazilian economy sputters along, Threshold Capital's positions continue to operate profitably. Ultrapar (NYSE:UGP), a company engaged in fuel distribution (Ipiranga), specialty chemicals (Oxiteno) and storage for liquid bulk (Ultracargo), continues its outstanding operating performance. Ultrapar generated BR$28.8 Billion in revenue and $0.98 per share in profits. Ultrapar currently yields 2.80% for shareholders. Telefonica Brasil (NYSE:VIV) generated BR$17.04 Billion in revenue for the first half of 2013 and BR$1.72 Billion in net income. VIV continues to be the leader in mobile and fixed line telecommunications in Brazil; the Company currently yields approximately 3.5%.

Clients of Threshold Capital Corp continue to hold their positions in Beam Inc. and Xylem Inc. Beam Inc. (NYSE:BEAM), the makers of premier branded spirits such as Jim Beam Bourbon, Makers Mark, Canadian Club, Courvoisier, Sauza Tequila, and Skinnygirl, reported first half 2013 revenues of $1.50 Billion and $1.15 in earnings per share. Maker's Mark and Canadian Club grew sales by over 15%; while some of Beam's smaller brands contributed to top line growth – Laphroaig up 13%, Knob Creek up 16% and Basil Hayden's up 34%. During the second quarter, Beam's Board of Directors authorized a share repurchase plan for 3 million shares. For 2013, Beam Inc. remains committed to deliver high single digit growth in earnings per share from its base of $2.40 in fiscal 2012. Xylem Inc. (NYSE:XYL), a leading global water technology provider, reported first half 2013 revenues of $1.83 Billion and profits of $0.47 per share. While these results were weaker than in 2012, Xylem won significant contracts to fuel future growth. The Company expects revenue of $3.7 Billion for the fiscal year 2013 and profits of $1.50 per share. Xylem's Board of Directors also authorized a $250 million stock repurchase plan to reward shareholders. And today, the Company appointed a new President and Chief Executive Officer – Mr. Steven R. Loranger – to replace Gretchen McClain who stepped down to pursue other career opportunities. Mr. Loranger is the former CEO of ITT Corp., the previous parent of Xylem Inc.

As of September 10, 2013 Threshold Capital Corp. current Client long positions are:

Altria Group Inc.	Philip Morris International Inc.
Beam Inc.	Sohu.com Inc.
Lorillard Inc.	Tiger Media Inc.
Market Vectors ETF Gold Miners	Telefonica Brasil SA
Market Vectors ETF Junior Gold Miners	Ultrapar Participacoes S.A.
Newmont Mining Corp.	Xylem Inc.
	Yamana Gold Inc.

Turning to Europe, the European markets were shaken earlier this year (March 2013) as the small island of Cyprus (population of 800,000 people – or the size of Jacksonville, FL) had to be rescued with monetary aid. Over the past fifteen years, Cyprus has become a smaller version of a Caribbean offshore banking haven (Cayman Islands). Wealthy Russians, along with other Europeans flocked to the island and brought their cash – lured by competitive deposit rates. These large cash infusions drove the Cyprus economy – Cypriot banks took these deposits from their customers and purchased Greek government bonds. As Greek bonds declined in value, Cypriot banks required a rescue. These banks lost approximately $8.3 Billion. On Saturday, March 16th (over a 3-days holiday weekend), the country announced its intention to impose a levy (6.75%) on depositors whose accounts totaled 100,000 Euros. Depositors with over that amount would be taxed a 9.9% rate. These levies were needed in order for Cyprus to receive a $12.8 Billion bailout from the EU, European Central Bank, and International Monetary Fund. Once again, this tremor that occurred on the small banking island of Cyprus has further weakened the European Union. The large European financial institutions still shun away from the weaker countries (Spain, Portugal, Greece, etc.) and refuse to lend to businesses in those locales. Germany, the wealthiest and strongest member of the EU is willing to assist, but only on its terms. Headwinds still remain for the European Union – unemployment continues to be high in Spain, Greece, and Portugal – all over 20%. Businesses are still operating profitably; but nowhere near where they were before the global financial crisis in 2008. All eyes will be on Germany as elections are slated to be held the weekend of September 21st. European Central Bank Chief Mario Draghi has pledged “to do whatever is necessary” to rescue members in need, but the real danger is waiting too long to institute a policy to fix the system.

The US continues on its tepid path of economic recovery. Fed Chairman Ben Bernanke is in the final innings of his tenure and great debate has begun over his next successor (Janet Yellen or Larry Summers). Chairman Bernanke commentary of tapering the $85 Billion a month in purchases (quantitative easing – QE4) sent the global financial markets downward and has driven interest rates here and abroad to the upside, further crimping economic growth. The yield on the US 10 year Treasury bond has spiked from 1.6% to approximately 3% in only a few months. US Bond funds have felt the pinch and investors have withdrawn over $70 Billion from these funds. Since the financial crisis in 2008, the United States has added $6 Trillion in debt and we continue to pile on these obligations every month. GDP (for the second quarter of 2013) expanded at a 2.5% rate, still below the historical average. It is clear that Chairman Bernanke’s quantitative easing program has lifted asset prices, specifically equity markets and real estate, but it has not helped the economy grow. Equities and fixed income instruments have become addicted to these easy money policies and it will be extremely difficult to exit these assets (without significant consequences).

Threshold Capital believes this continued stimulus will limit our financial flexibility when the next crisis arrives. While the U.S. indices have begun 2013 in positive territory, individuals who are interested in investing their hard earned money into well-known, high flying stocks should proceed with caution. It is Threshold Capital’s belief that investors have mostly forgotten on “how to be an investor.” It is becoming commonplace to be asked – “Do you own Amazon…do you own Google…do you own Facebook….do you own Apple?....do you own Tesla?” Buying the above named companies and hoping they rise thirty, forty, or even fifty dollars in a short time period is NOT investing. This is speculating and investors who choose this course more often than not wind up losing a substantial amount of capital. Investors should follow a steady course to build wealth over time and reject a focus on short term results.

For the remainder of 2013, Threshold Capital will continue its in-depth fundamental research and analysis – searching for opportunities, including special situations. Threshold Capital would like to remind Clients that it has always been my goal to outperform the markets over a long term time horizon and not to focus on short-term quarterly returns. We will continue to invest in well run businesses with exceptional managements, including at times taking advantage of (short-term) pricing inefficiencies. Please feel free to contact me with any questions, comments, or ideas. Thank you for your continued support.

Sincerely,

Peter A Delgado II
Principal
Threshold Capital Corp
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