October 12, 2015

The results of the third quarter, fiscal 2015, and inception-to-date performance of Threshold Capital were as follows:

	Q3 2015	2015	JANUARY 2007 TO PRESENT
Threshold – A	**-(9.42)%**	**+17.55%**	**+96.01%**
Threshold–B(non-levered)	-(0.06)%	**+15.72%**	**+69.54%**
DJIA	-(7.58)%	-(8.63)%	+30.66%
S&P 500	-(6.94)%	-(6.74)%	+35.38%
NASDAQ	-(7.35)%	-(2.45)%	+91.29%
Russell 2000	-(12.22)%	-(8.63)%	+39.74%

Threshold client performance continues to outperform the U.S. market averages this year due to the superior performance of its tobacco positions, Altria Group Inc. (NYSE:MO), Reynolds American Inc. (NYSE:RAI), Philip Morris International Inc. (NYSE:PM) and the new and exciting business direction of Threshold Capital's largest client position – IDI Inc. (NYSEMkt:IDI). Also assisting performance this year was the decision by Threshold Capital to sell its client positions in: B& G Foods (NYSE:BGS – April 2015), Ventas Inc. (NYSE:VTR – June 2015), Kinder Morgan Inc. (NYSE:KMI – August 2015), Roche Holdings (OTC: RHHBY – August 2015), and WR Berkley (NYSE:WRB – August 2015). While Threshold Capital is not and never attempts to "time" the financial markets when it comes to the buying and selling of its stock selections for clients, this past years' selling decision for these positions were prudent given the clear evidence of weak global GDP growth. It should be stated that the above named companies still continue to operate profitably and they continue to be outstanding companies in their respective industries. Clients now have a healthy cash balance in their accounts and Threshold Capital will put this cash to work at its discretion when specific company opportunities present themselves.

IDI Inc. (NYSEMkt: IDI) is currently clients' largest position. To review, over the past year, IDI has transformed itself into an emerging leader in the data fusion industry. Data fusion involves integrating and statistically matching metrics from disparate data sets based on common variables, the underlying principle being that the common characteristics can reliably predict patterns and identifying relationships. IDI delivers otherwise unattainable insight into the ever expanding universe of consumer and business data through its proprietary linking technology, advanced systems architecture, and massive data repository. New executives and the Board of Directors have initially targeted the risk management and marketing and data analytics sectors, which it defines as having a combined market value estimated at over $13 billion. IDI addresses the increasing need for actionable intelligence to support the risk management industry for due diligence, risk assessment, fraud detection and prevention, authentication, verification and more. Additionally, IDI's cross functional core systems and processes are designed to deliver products and solutions to the marketing industry, and to enable the public and private sectors to layer IDI's solutions over their own unique data sets. The Company raised $10 million in an equity offering with a sophisticated investor during July 2015 in order to develop and launch its next generation product – IDICore (whose release is imminent). IDI is now led by Executive Chairman Michael Brauser, a pioneer in the data fusion industry since its inception, Derek Dubner (formerly held Executive positions at Naviant which was acquired by Equifax, and Seisint, which was taken over by Lexis Nexis) now Chief Executive Officer of IDI Inc., and Chief Scientific Officer Ole Paulson. Mr. Paulson along with data fusion visionary, the late Hank Asher both built the early products in the data fusion industry and their legacies remain today at larger companies – specifically Lexis Nexis and TransUnion (product is under Transunion's TLO division). Again, IDI Inc. currently reminds me of another business in this specific space called Choicepoint Inc. and another dynamic company named Palantir Technologies. Palantir is currently a private company who just raised funds at a $20 billion dollar valuation; Choicepoint was acquired by Reed Elsevier in February 2008 for $3.6 Billion. Miami, FL based billionaire, Dr. Philip Frost, continues to be IDI Inc.'s largest shareholder, and he persists in increasing his stake in the company by purchasing stock in the open market. Threshold Capital believes that IDI Inc., now led by individuals primarily responsible for the data fusion business since its infancy, will prove to be an outstanding investment for clients.

Reynolds American Inc. (NYSE:RAI) is a new position for clients as the U.S. Federal Trade Commission finally gave its formal approval for RAI to take over Lorillard Inc., the makers of the popular menthol cigarette Newport. Now with Lorillard a wholly owned subsidiary of Reynolds, former Lorillard shareholders now own approximately 15% of Reynolds American Inc. and also gives Reynolds ownership of three of the top four U.S. cigarette brands – Camel, Newport, and Pall Mall – and an overall U.S. market share of 34%. Lorillard shareholders received $50.50 in cash plus 0.2909 of a share in Reynolds stock making the overall transaction worth $27.4 billion. Reynolds was required to make several divestures in order to get the deal through regulatory hurdles – U.S. cigarette brands Kool, Salem, Winston, Maverick, and popular blu e-Cigs were sold to ITG Brands for $7.1 billion. ITG Brands is the U.S. division of Imperial Tobacco Group (based in London, UK and makers of Davidoff, Gauloises, John Player Special, and West cigarettes). ITG Brands has taken over Lorillard's former Greensboro, North Carolina facilities and its 2,900 person work force. Reynolds American Inc. is led by legendary tobacco industry executive Susan Cameron, and upon closing of the deal she pledged to shareholders that she will put more sales muscle behind newly acquired Newport while also exploring additional Newport products. During the last week of September 2015, Reynolds announced the sale of its international rights to the Natural American Spirit brand name and associated trademarks to the Japan Tobacco Group (JT Group) in an all cash transaction with a value of approximately $5.0 billion. This purchase does NOT include the U.S rights or trademarks to the American Spirit brand – those will stay with Santa Fe Natural Tobacco Company – a wholly owned subsidiary of Reynolds American. For the first six months of 2015, RAI generated profits per share of $4.20 on $4.4 billion in revenue. Reynolds just completed a two-for-one stock split and is expected to earn a full $2.00 per share for the full year; the Board also authorized a 7.5% dividend increase – RAI now yields 3.2%. Clients of Threshold Capital were shareholders in Lorillard since 2008 – this position generated a long term gain of over +200%.

Turning to our other tobacco companies in the portfolio – Altria Group Inc. (NYSE:MO) and Philip Morris International Inc. (NYSE:PM) - these companies continue to demonstrate their ability to generate large profits and cash; all the while rewarding their shareholders with increased dividend payouts and stock repurchase programs. At PMI, international sales of Marlboro continue to be strong – Chief Executive Officer Andre Calantzopoulos commented, "Our organic volume trends, market share growth and robust pricing, exemplified by our flagship brand Marlboro, are driving excellent operational performance within an improving macroeconomic environment for our business. While currency headwinds remain stubbornly high, we are ever focused on the prudent management of cash flow. We are committed to returning around 100% of our free cash flow to shareholders." Due to the stronger U.S. dollar, Philip Morris International has not made any share repurchases this year. During the first half of 2015, the Company earned $2.37 per share in profits on $36.1 billion in revenue. PMI's Board of Directors last month increased its dividend by 2% to an annualized rate of $4.08 per share which equates to a 4.8% yield. Not to be out done by its U.S. counterpart, Altria Group Inc. (NYSE:MO) also had a strong first half of 2015. The Company earned $1.25 per share on $11.1 billion in revenue. Altria also raised its guidance for 2015 – expecting full year earnings per share in a range of $2.76 to $2.81 representing a growth rate of 7.5% to 9.5% over its reported 2014 results of $2.57. "Altria delivered excellent second-quarter and first-half results, growing adjusted diluted EPS more than 13% with a very strong performance from the smokeable products segment and solid contributions across our other businesses. Further, our tobacco companies' brands continued to strengthen their market leadership, with record retail share on *Marlboro* and more than 51% combined share on *Copenhagen* and *Skoal* year-to-date," said Marty Barrington, Altria's Chairman, Chief Executive Officer and President. "Based on this very strong first-half performance and our outlook for the second half, we are raising our full-year adjusted EPS guidance." The Company also announced a new $1 billion share repurchase plan to be completed by the end of fiscal 2016, having completed the current $1 billion share repurchase program in July of this year. Altria has been in the news this week as it is a 27% shareholder of SAB Miller Brewing (South African Breweries). AB InBev has approached SAB about a merger – which has been rebuffed by SAB. The Board of Altria has encouraged executives at SAB to at least engage in a dialogue with InBev; but shareholders should be aware that we are entering the opaque European takeover laws as both companies (AB InBev and SAB Miller) are headquartered outside of the U.S. Threshold capital believes that Altria will do what is best for MO shareholders as Altria's cost basis for its stake in SAB Miller is quite low; and Altria's Board will do all it can to minimize such a large capital gain tax bill. Shareholders should continue to watch the financial news for any further developments.

With our positions in Altria Group Inc. (NYSE:MO), the makers of Marlboro, Parliament, Virginia Slims, etc. and now Reynolds American Inc. (NYSE:RAI), the manufacturers of Camel, Pall Mall and also Newport, we are now "owners" of approximately 81% of the U.S. market in cigarette sales. This past week a significant news story hit the financial wires where it has been reported that cigarette sales here in the U.S. have just experienced their first growth since 2006. It has been speculated that due to the lower prices in energy, specifically oil and natural gas, consumers have more disposable income for other items such as cigarettes. This uptick in cigarette sales/shipments of cartons is a tremendous positive for shareholders of these businesses.

Threshold Capital Corp. continues to hold positions for clients in Apple Inc. (NASDAQ:AAPL) and Gilead Sciences Inc. (NASDAQ:GILD). In early September, Apple continued to please its loyal customers by introducing the iPhone 6s and 6s Plus. These new devices introduced 3D Touch which senses force to enable intuitive new ways to access the mobile telephone's features and interact with content. Apple also introduced Live Photos, bringing still images to life by capturing a moment in motion. In just three days, the company announced that it had sold more than 13 million new iPhone 6s and iPhone 6s Plus models – a stunning new sales record for Apple, Inc. These new iPhones will be available in over 130 countries by the end of 2015. Sales of Apple's other popular consumer products – the iWatch, Apple TV, iMacs, and iPads are not as strong, but continue to contribute to the company's top line. Apple Inc. continues to struggle with its Apple Music platform as consumer acceptance has been tepid and feedback has been rather brutal and negative. In Apple's last reported quarterly results, the company earned profits of $1.85 per share on $49.6 billion in revenue. Apple currently yields 1.9% for shareholders. Threshold Capital would like to see Apple explore purchasing a media or cable television business (such as Dish Network (NASDAQ:DISH) in order to once again enter the consumer's home with an Apple Inc. branded television set.

A quick review - Gilead Sciences, Inc. (NASDAQ:GILD) is a research-based biopharmaceutical company that discovers, develops and commercializes innovative medicines in areas of unmet medical need. The company strives to transform and simplify care for people with life-threatening illnesses around the world. Gilead's portfolio of products and pipeline of investigational drugs includes treatments for HIV/AIDS, liver diseases, cancer, inflammatory and respiratory diseases, and cardiovascular conditions. Gilead is known for its revolutionary treatments for hepatitis C with drugs such as Solvaldi and Harvoni; and at present these two drugs continue to generate strong sales while saving the lives of those afflicted with this terrible disease. In late July 2015, the company reported stellar second quarter and first half results – earning $5.68 on $15.5 billion in revenue. Gilead's executives also raised earning guidance for the company and now expect revenues to be in the range of $29 to $30 billion, up from $26 to $27 billion. Fierce debate continues for companies in the pharmaceutical space as they have received tremendous criticism for their high and sometimes large increases in pricing. While the treatments for Gilead's Solvadi and Harvoni are admittedly expensive at over $85,000 for a 12 week treatment – critics should be cognizant of the fact that these drugs have a very successful cure rate – at over 96% for its patients. Compare this with a liver transplant, which can cost anywhere in the range of $300,000 to over half a million dollars and a critic should clearly see that a cost of $85,000 is fair for such treatment. Gilead is due to report its third quarter results at the end of October 2015.

Turning to events across the globe, there has been much focus on Asia – specifically the China mainland as there is clear evidence of slowing GDP growth. Official Chinese government statistics claim a growing economy of approximately 7%, but many economists now agree that it is much lower – probably in the 5 % to 6% range. Investors are advised that China has a central government planned economy; meaning central government planners authorized and promoted a credit explosion and enormous spending on infrastructure and housing which resulted in 10% annual GDP growth from 1980 to 2012. According to global consultants McKinsey & Company, China is now suffering from tremendous levels of debt; totaling over $28 trillion or approximately 282% of the country's GDP. China's imports of raw commodities – crude oil, iron ore, copper, rubber, etc. have all been decreasing since late 2013; and it has been only in this year have we seen the impact of that decreased buying by much lower overall commodity prices. China's stock exchanges – located in Shanghai and Shenzhen have experienced increased volatility this year. Officials in Beijing encouraged individual investors (numbered to be over 90 million) to buy stocks on these domestic exchanges; specifically the Shanghai Composite surged more than 150% in the twelve months leading to its June 2015 peak. From this point in June, the Chinese markets have plummeted over 40% wiping out over $3 trillion in market value. President Xi Jinping has begun to take drastic steps in restore confidence on the mainland by restricting stock sales by state owned enterprises and their executives, and also encouraged state owned banks to pledge at least $200 billion to brokerages to help buy shares. The Chinese central bank has cut borrowing rates four times this fiscal year in an attempt to jump start stronger growth. Investors around the globe are quite nervous about the current situation in China – how will they stabilize their economy – implement another stimulus infrastructure package? Use Beijing's over $3 trillion in dollar reserves to prop up their own stock markets? Any negative news emanating from China will continue to cause stress in other global financial markets; Threshold Capital believes the U.S. and the rest of the globe unfortunately may become a victim of China's fiscal difficulties.

Here in the U.S. all focus is on the Federal Reserve led by Janet Yellen. The back and forth debate on when the Fed will begin to raise interest rates rages on, as investors hang on every word that a Federal Reserve Governor says in a speech which appears to be almost every week nowadays. The Dow Jones Industrial Average peaked at over 18,300 back in May 2015 and has stabilized at its current level of 17,000. The Fed formally ended its QE program in October 2014 and the U.S. financial indices have struggled ever since. The U.S. economy has experienced a total of seven years of near zero interest rates to stimulate growth with not much to show for it. The U.S. debt has quintupled to over $4.5 trillion during this process of stimulus and while we have seen specific instances of asset growth – equity prices, junk bond price appreciation combined with an immense increase in supply of non-investment grade debt, commercial real estate and some instances of consumer housing, the real U.S. economy struggles to achieve growth. U.S. job growth appears to exist averaging close to 200k jobs created per month; but looks to be offset with recent corporate job layoff announcements. The following companies over the last three months have announced job eliminations: Target (2,700 reductions), Microsoft (8,000 people), Marvell Technology (17% of its workforce), Hewlett Packard (35,000 new job cuts), Qualcomm (15% of its workforce) and even industrial behemoth Caterpillar says it will cut 10,000 people. While the drop in commodities prices is an encouraging sign for consumers, that historical bump in spending has failed to come to fruition. U.S. consumers are saving more and paying down debt. This does not bode well for the retail sector as we enter the beginnings of holiday shopping season. Threshold Capital continues to believe the U.S. Federal Reserve has painted itself into the corner, leaving very little room for error in its plan to begin raising interest rates. Investors have shifted to a short-term outlook for all of their expectations and this has added tremendously to recent volatility in U.S. markets. These 750 to 1,000 point swings in the Dow Jones Industrial Average over a matter of days has begun to frustrate global investors; but they continue to move in and out of the markets at great speed, further exacerbating stock price moves. Once again, Threshold Capital believes that investors have transformed themselves into speculators and have forgotten what it means to be an investor. Put yourself into the scenario again of buying a business – you purchase that business, invest in that business and over time, one's hopeful goal is that your business would now be worth more than you paid and invested in it. It is unreasonable to think that your business would be worth 50% to 70% more only after six months of ownership. Unfortunately, many investors are shying away from such investing time horizons. Investors are choosing to buy the likes of Tesla Inc., Amazon, Netflix, Facebook, Workday, and Salesforce in the hopes of making a quick 20%, 30% or even 40% in a short period of time. Fair warning – if one chooses to own these companies at current prices, then an investor should be prepared to suffer the consequences in case their investing thesis is wrong.

To conclude, Threshold Capital is here to remind investors that many of the developed equity markets across the globe are currently at artificially marked price levels due to government monetary intervention and NOT the result of a free market process. We continue to be cautious at the present time and feel comfortable with a generous cash cushion in case of any market duress.

For the remainder of 2015, 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
Managing Director
Threshold Capital Corp
www.thresholdcapitalcorp.com