

T H R E S H O L D C A P I T A L C O R P

January 16, 2012

The fourth quarter, year-to-date 2011 and inception-to-date performance of Threshold Capital Corp for the period ending December 31, 2011 was as follows:

	Q4 2011	2011	JAN 1, 2007 TO PRESENT
Threshold(A)	-(5.70)%	-(22.82)%	-(2.90)%
Threshold(B)non-leverage	-(2.97)%	-(19.72)%	+33.14%
DJIA	+11.95%	+5.53%	-(1.97)%
S&P 500	+11.15%	0.00%	-(11.33)%
NASDAQ	+7.86%	-(1.80)%	+7.86%
Russell 2000	+15.02%	-(5.45)%	-(5.93)%

Threshold Capital underperformed the majority of the U.S. indices for the fourth quarter of 2011 as one of its core positions – specifically SearchMedia (NYSEAmex:IDI) came under severe pressure due to delays in its restructuring. During the fourth quarter of 2011, Threshold Capital liquidated Client positions in Agnico Eagle Mines (NYSE:AEM), Market Vectors ETF Junior Gold Miners (NYSEArca:GDXJ), and initiated new Client positions in Beam Inc. (NYSE:BEAM) and Xylem Inc. (NYSE:XYL).

Based in Deerfield, Illinois Beam Inc. (NYSE:BEAM) is the globe's fourth largest premium spirits company and the largest U.S. based spirits company. The Company was formed in the breakup of Fortune Brands Inc. earlier this year and became publicly listed on October 4, 2011. Consumers all over the world enjoy its brands which are Jim Beam Bourbon, Maker's Mark Bourbon, Knob Creek Bourbon, Canadian Club Whiskey, Teacher's Scotch Whiskey, Laphroaig Scotch Whiskey, Courvoisier Cognac, Sauza Tequila, Hornitos Tequila, Cruzan Rum, EFFEN Vodka, Pucker Flavored Vodkas, and Skinnygirl Cocktails. Now its own separate Company, executives at Beam Inc. are committed to deliver superior performance with its unique combination of scale and a strategy of enhancing its premium brands in order to deliver superior growth. Beam generated sales of U.S. \$2.7 Billion in 2010 on volume of 33 million cases. Analysts are expecting the Company to generate sales of U.S. \$3.5 Billion for 2011 and earn approximately \$2.20. Threshold Capital believes Beam Inc., may be an attractive takeover candidate by the likes of Pernod-Ricard SA or Diageo Plc who lack a presence in the U.S. premium bourbon market.

Xylem Inc. (NYSE:XYL) is a newly formed Company – having been spun off from ITT Corp. ITT Corp, formerly known as International Telephone & Telegraph has an over eighty year history and was once the premier conglomerate corporation run by the legendary CEO, Harold Geneen. Xylem is a world leader in the design, manufacturing, and application of highly engineered technologies for the global water industry. This Company specializes in providing equipment and services for water and wastewater applications with a broad portfolio of products and services addressing the full cycle of water from collection, distribution, and the use to the return of water to the environment. Xylem sells its products in more than 140 countries through a distribution network consisting of a direct sales force and independent channel partners. According to the World Water Council, over 1 Billion people today live without access to clean drinking water and 2.6 Billion lack basic sanitation. Investors in this environmental space need to be aware that despite over 70% of the earth's surface is covered by water – less than 1% is fresh water. Xylem is expected to generate revenues of U.S. \$4.3 Billion in 2011 and earn close to \$2.00 per share. Threshold Capital also believes Xylem has the potential to be a takeover candidate for a larger company such as General Electric, Danaher, or Siemens.

Threshold Capital continues to hold all positions in its tobacco companies – Altria Group, Lorillard Inc., and Philip Morris International Inc. as each respective cigarette producer maintains their commitment to increase shareholder value through share repurchases and increasing stock dividend payouts. Altria Group (NYSE:MO) is expected to earn in a range of \$2.01 to \$2.07 for fiscal 2011; the Company also announced a new \$1 Billion share repurchase program after completing its previously announced 2011 \$1 Billion program. Altria now pays an annual dividend of \$1.64 per share and hence yields 5.6%. Lorillard (NYSE:LO) is expected to earn over \$7.50 per share this year on record revenues of approximately \$6.4 Billion dollars. Lorillard continues to experience great customer acceptance of its new non-menthol brand – Newport Red. Lorillard now pays over \$5.00 per share in dividends and yields 4.5% for shareholders. Philip Morris International (NYSE:PM) is expected to report profits of \$4.76 per share for 2011 on revenues of \$30.8 Billion. PM continues to raise its dividend and increase its stock repurchases; the Company now pays a quarterly dividend of \$0.77 per share and yields 4.05%.

SearchMedia Holdings continues to be a core holding in Client portfolios. This position was clearly the disappointment of 2011 as executive management continues to negotiate with the original Chinese shareholders who misrepresented the business after the public listing of the Company. Shareholders still await financial results for several quarters for 2011 as Threshold Capital believes its business grew and was profitable. This “special situation” is reminiscent of China Yuchai International Limited (NYSE:CYD) – a former holding for Clients of Threshold Capital – as it took over a year to correct problems at the Company. Threshold Capital remains very confident that SearchMedia is a real company with real assets and with continued patience, shareholders will be rewarded with a higher and appreciated stock price. The Chief Executive Officer of SearchMedia has committed to attend and present at Threshold Capital Corp.’s year-end financial discussion on Friday, January 27, 2012 at The Princeton Club of New York at 6pm.

Threshold Capital still holds positions with exposure to Brazil’s growing economy. These are Telefonica Brasil SA (NYSE:VIV), the Brazilian Infrastructure ETF (NYSEArca: BRXX), and Ultrapar Participacoes S.A. (NYSE:UGP). To review, Brazil is the globe’s sixth largest economy; it is the world’s largest producer of sugar, coffee, orange juice and is the second largest exporter of soybeans and iron ore. Brazil’s economy continued to slow during the second half of 2011, but is still on track to produce GDP growth of approximately 3.25% for the year. Ratings agency Fitch states that “Brazil’s growth will be supported by domestic demand, but will be dampened by high international financial volatility affecting the currency, commodity and domestic asset markets, which in turn hits domestic confidence.” Ultrapar (NYSE:UGP) continues its outstanding operating performance as it reported its twenty first consecutive quarter of earnings growth as overall sales grew 18% versus the quarter of last year. The Company also recently completed its acquisition of the LPG (liquefied Petroleum gas) business of Repsol Gas Brasil, strengthening its position in the bulk segment. Ultrapar currently yields 3.4%. Telefonica Brasil (NYSE:VIV) – formerly known as Vivo continues to add wireless subscribers to its service as well as seeing net additions in broadband and pay TV services. In 2012, the Company will embark on a complete rebranding of all services under the “Vivo” name. Telefonica Brasil has a strong financial position, attractive valuation and is expected to continue to generate ample cash, which in turn it has committed to pay out to shareholders in the form of increasing dividends.

As of January 15, 2012 Threshold Capital Corp. current Client long positions are:

Altria Group Inc.	Philip Morris International Inc.
Beam Inc.	SearchMedia Holdings Limited
Brazil Infrastructure ETF	Telefonica Brasil SA
Lorillard Inc.	Ultrapar Participacoes S.A.
Market Vectors ETF Gold Miners	Xylem Inc.
Newmont Mining Corp.	Yamana Gold Inc.

As previously stated in Threshold Capital’s third quarter correspondence to Clients, we are experiencing what can be characterized as a “political recession.” On both sides of the Atlantic, politics now dominates the financial landscape and are driving the global market indices. No one is willing to make a stand – either politically or financially - and do what is necessary to maintain and/or stabilize the fiscal imbalances inherent in the system. Threshold Capital is still of the opinion that it will come to a point (both in Europe and the U.S.) where we will be backed into a corner and will have no other choice but to inflict painful austerity measures that will leave no one unscathed. While the U.S. financial indices were relatively unchanged for 2011, many advanced economic countries as well as emerging countries experienced large corrections in their own respective markets. The Japanese financial markets dropped 17%, Russia fell 20%, India 25%, China – Shanghai 22% and even Brazil suffered an 18% loss. Bloomberg has estimated that global investors lost \$6.3 Trillion in 2011. Several times a week, news emerges from the European Union that financial decisions are made and agreed upon – only to be quickly dismissed or pushed aside by political opponents seeking a quick headline. The European Central Bank continues to expand its balance sheet by purchasing the sovereign bonds of Greece, Spain, Portugal, and Italy. These recent purchases totaling \$275 Billion represent a growth rate of 87% as the ECB’s balance sheet now stands at 2.5 Trillion Euros! Global investors should be aware that the European Union accounts for about 20% of global economic output. Bond yields of several of these troubled sovereigns spiked alarmingly higher during the fourth quarter of 2011, further weakening European bank balance sheets. It is estimated that approximately \$650 Billion in European and sovereign debt is due in the first quarter of 2012. Threshold Capital does believe that the EU is in recession and this will last well into 2012 and quite possible, the first half of 2013.

Looking at Asia, specifically China – still the globe’s fastest growing economy at 9.2% for 2011 – grew at its slowest pace in 2 ½ years. Government officials in Beijing and other large cities continue to manage the country’s developing economy by gently deflating commercial real estate prices (which has been the fuel for growth in the Tier 1, Tier 2 and small cities). In response to slowing GDP growth, officials have begun to urge domestic consumption and spending while shifting its focus away from targeting inflation. In November, Beijing cut reserve requirements for its banks by

½ percentage point – the first in three years. More easing measure are expected in 2012. Global economists expect China's economy to slow to a range of 8.2-8.6% for 2012.

Here in the U.S., 2012 will prove to be another year of political fireworks as the re-election madness has begun. When Mr. Obama was sworn into office in January, 2009, the federal debt was \$9.1 Trillion; today, it has risen by over \$6.0 Trillion – an increase of over 66% to staggering levels. The U.S. Treasury should consider itself extremely fortunate that the Chinese, Germans, and Japanese continue to purchase our sovereign debt. On a positive note, the U.S. economy added 200,000 jobs in December and the unemployment rate dropped to 8.5%, the lowest since February 2009. U.S. companies continue to report healthy profits and they remain cautious looking into 2012. These companies have hoarded over \$2 Trillion in cash on their balance sheets; but are still hesitant to roll out capital spending projects or hire new employees. Instead, companies continue along the path of making strategic acquisitions with this cash in addition to buying back their own stock and increasing dividends to shareholders. However, questions still remain unanswered – how can and how will Europe emerge from its fiscal crisis? Will the U.S., China, and Russia step in if needed? Threshold Capital believes that Federal Reserve Chairman, Ben Bernanke is drawing up plans for “QE 3” if the dismal European insolvency issue cannot be resolved in early 2012.

Looking towards 2012, Threshold Capital will continue its in-depth fundamental research and analysis – searching for opportunities, including special situations. Threshold Capital Corp is dissatisfied with its year-to-date 2011 performance and no assurances can or will be made to outperform the US market indices.

Threshold Capital Corp will hold its year-end financial meeting on Friday, January 27, 2012 at The Princeton Club of New York at 6pm. Please contact me if you wish to attend.

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 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
www.thresholdcapitalcorp.com