July 25, 2012

The second quarter, year-to-date 2012 and inception-to-date performance of Threshold Capital Corp for the period ending June 30, 2012 was as follows:

	Q2 2012	2012	JAN 1, 2007 TO PRESENT
Threshold(A)	**-(0.17)%**	**+12.97%**	**+16.33%**
Threshold(B)non-leverage	**-(1.03)%**	**+10.51%**	**+47.84%**
DJIA	-(2.51)%	+5.42%	+3.35%
S&P 500	-(3.29)%	+8.31%	-(3.96)%
NASDAQ	-(5.06)%	+12.66%	+21.52%
Russell 2000	-(3.83)%	+7.77%	+1.37%

Despite the continued debt crisis in Western Europe and persistent sluggishness here in the U.S., Threshold Capital performed brilliantly for Clients during the second quarter of 2012. No new company positions were instituted for Client portfolios during the quarter; Threshold took advantage of market weakness to add to current positions in Brasil Foods SA (NYSE:BRFS), EGA Emerging Global Shares Brazil Infrastructure (BRXX) and SearchMedia Holdings (NYSEAmex:IDI).

Threshold Capital continues to have exposure to China's growing economy through its positions in Sohu.com Inc. (NASDAQ:SOHU) and SearchMedia Holdings (NYSEAmex:IDI). It has been quite some time since I have written about the macros on China – so I will take this opportunity to go into some detail and updates. Over the past three decades, China has grown its economy on average 10% per year. This rapid growth has made China one of the leading growth engines for the entire globe. Investors need to keep in mind that nearly thirty years ago, Shanghai was nothing more than a swamp surrounding few multi-story government buildings; nowadays, Shanghai is one of the most cosmopolitan cities on the globe with a population of over 23 million citizens. Also, thirty years ago, most Chinese citizens were employed – either on the farm or in a state-owned business. Back then, these citizens earned very little money and there was very little to buy. In the late 1970's citizens yearned for a bicycle, a radio, a wristwatch, and a sewing machine. Owning such items were equivalent to "having made it" in China. Premier Deng Xiaoping changed all that with his famous speech in December 1978 where he proclaimed "to be rich is glorious!" The farm communes began to disband and the Chinese government established Special Economic Zones which then spread across the country. Fast forward to present day, and we see a transformation of epic proportions; however, China's extremely meteoric rise has also brought unintended consequences – rising unemployment, environmental damage, corruption, large income gaps within its population, rising crime, and industries with overcapacity. Investors currently are seeing such overcapacity in industries such as solar cell production and steel. There is no doubt that China is slowing – second quarter 2012 GDP growth slowed to 7.6% from 8.1% the previous quarter. Critics of China are now busy waving the red flags and claim that China as a growth story has ended and investors should beware of a hard crash. These speculators also point to the devastating case of Bo Xilai – former head of the city of Chongqing – who has been accused or torture, massive corruption – and whose wife is suspected in the murder of British businessman Neil Heywood. Threshold Capital **does not** concur with the "hard crash" opinion. This fall, Chinese government leadership will undergo its planned transition - Vice President Xi Jinping will be taking over from President Hu Jintao. The Chinese leadership is well aware of the current conditions in the Chinese economy and new leadership has pledged to manage growth accordingly. These leaders will also hand pick companies that some economists have dubbed "Economic Champions" to improve life for their citizens. On May 30, 2012, China's leaders publicly designated seven strategic industries from which the "economic champions" will be selected: energy conservation and environmental protection, information technology, biotechnology, advanced equipment manufacturing, new energy, new materials, and new energy vehicles. New stimulus measures will focus on the tier 2 and tier 3 cities – again, spending on infrastructure will be at the top of the agenda. These tier 2 and tier 3 cities are not small towns or municipalities such as here in the U.S. Tier 2 and tier 3 cities in China are cities with eight to fifteen million citizens. There is much more tangible evidence that investors can point to in order to make a convincing argument to continue to invest in China. First, the Chinese government, over the past forty years has moved more people out of poverty than the entire U.S. population. Second, the average age of the Chinese millionaire is 39, at least 15 years younger than in the U.S. Third, China will be the largest market for luxury goods by the year 2015 and approximately 45% of these luxury consumers are under the age of 35 (McKinsey & Co.). Last, it is interesting to note that the approximately 250 million Chinese citizens born after 1980 and now in the job market have been raised with a western style capitalist spirit. These citizens will become China's leaders in the future and there is one thing that investors can definitely count on – these individuals will undoubtedly make a mark on China's economic future and that of the human race.

Taking a look at our China focused companies, to date our position in Sohu.com Inc., a Beijing, China based company that provides online media, search, gaming, and mobile services throughout China, has been disappointing. Speculators have punished the share price of Sohu.com as they focus on their "China is crashing" theory. Sohu.com is currently trading at a very inexpensive multiple of only 12 times profits as it is expected to report 2012 profits of $2.70 per share on $1.0 Billion in revenue. Sohu.com is expected to report its second quarter and first half 2012 results in early August. SearchMedia Holdings continues to improve its business operations and provided an investor update in early May 2012. New CEO, Peter Tan, appointed in February 2012, announced the final settlement with previous shareholders, a majority of who forfeited their shares; and under Mr. Tan's leadership, the Company has eliminated a significant amount of its earn-out obligation liabilities. Mr. Tan will now focus on completing the addition of his management team and driving the Company forward with new business. SearchMedia generated $55.6 million in revenue in 2011 and Threshold Capital is estimating the Company to grow revenues by at least 30% for 2012. SearchMedia continues to be a "special situation"; investors should be reminded that such situations require patience.

Threshold Capital continues to have Client assets invested in Brazil with positions in Telefonica Brasil (NYSE:VIV), Ultrapar Participacoes SA (NYSE:UGP), Brasil Foods SA (NYSE:BRFS), and EG Shares Brazil Infrastructure ETF (NYSEArca:BRXX). Telfonica Brasil and Brasil Foods have suffered price declines since the beginning of 2012 due to the slowing of emerging economies, while Ultrapar and BRXX have performed better. Telefonica Brasil reported stellar results for the first half of 2012. The Company has over 90 million subscribers in Brazil (both mobile and fixed-line) with mobile, business customers, and broadband additions showing the highest growth. The Company also continues its internal integration of computer systems and nationwide call centers; Telefonica Brasil currently yields 4.4% for shareholders. In early May, 2012, Ultrapar reported volume and net revenue growth across all its business lines. First quarter revenues grew 15% over the first quarter of 2011. Ultrapar was also voted the fifth most admired energy company worldwide by Fortune magazine. Ultrapar executive management is optimistic about its outlook for the remainder of 2012 as the leaders in Brazil take measured steps to increase economic activity. BRXX remains a fantastic investment on Brazilian economic activity as the country continues to prepare for hosting the World Cup in 2014 and the Summer Olympic Games in 2016. This fund holds a mix of utility companies, industrials, telecoms, and financials.

Two new positions initiated in late 2011 for Clients, Xylem Inc. and Beam Inc., are both off to a fantastic start in 2012. Xylem Inc. (NYSE:XYL), spun-off from ITT Corporation in late October 2011, is a world leader in the design, manufacturing, and application of highly engineered technologies in the water industry. In 2011, the Company earned $1.93 per share on $3.8 Billion in revenue. In its first quarter of 2012, Xylem reported revenue of $925 million and earned $0.36 per share. For 2012, Xylem expects to generate revenue in the range of $3.9 to $4 Billion and earn $1.95 per share in profits. Xylem Inc. also pays its shareholders a dividend and currently yields 1.7%. Beam Inc. (NYSE:BEAM), spun-off from Fortune Brands in early October 2011, is a premier branded spirits maker of products such as Jim Beam Bourbon, Makers Mark Whiskey, Canadian Club Whiskey, Courvoisier, and Sauza Tequila. Beam Inc. generated 2011 sales of $2.8 Billion and earned $2.12 per share in profits for shareholders. Beam reported first quarter revenues of $662 million and profits of $0.49 per share. Its "power brands" – Jim Beam Bourbon and Maker's Mark grew 19% in the quarter while Beam's "rising stars" – Pucker Vodka and Skinny Girl grew 690% and 325% respectively. Beam currently yields 1.30% for shareholders. Threshold Capital believes both Xylem Inc. and Beam, Inc. make compelling acquisition candidates for the likes of GE Water/Siemens and Diageo Plc./Pernod Ricard.

Threshold Capital continues to hold all positions in its tobacco companies – Altria Group, Philip Morris International Inc., and Lorillard, 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) reported 2011 profits of $1.64 per share on $23.8 Billion in revenue. Just this past week, Altria reported first half 2012 profits of $1.08 per share on $11.0 Billion in revenue. Market share was flat, cigarette volumes decreased again slightly, but profits rose as the Company instituted tight cost controls and price increases. Altria continues to yield over 4.5% for shareholders. Philip Morris International (NYSE:PM) in 2011 earned $4.88 per share on $31.1 Billion in revenue. Last week, PM reported exceptional first half 2012 financial results. The Company earned $2.60 per share on $15.6 Billion in revenue. During the last quarter, the Company also announced a new three year share repurchase program of $18 Billion scheduled to begin on August 1, 2012. For this year, PM expects to repurchase and retire $6 Billion worth of shares. For 2012, PM expects to earn in a range of $5.10 to $5.20. PM currently yields 4.5%. Lorillard Inc.

(NYSE:LO), the makers of Newport cigarettes, reported first half 2012 results of $3.87 per share on $3.25 Billion in revenue. Lorillard continues to gain market share with its brands and now totals 14.3% of U.S. tobacco sales. Lorillard currently pays its shareholders $1.55 per share each quarter for a yield of 4.56%. Lorillard also completed its acquisition of Blu ecigs in the second quarter. Blue ecigs is the best-selling e-cigarette brand, with the look and feel of traditional cigarettes; but without the tobacco smoke, ash, or smell. On a side note, my family recently returned from a trip to London and Paris; Clients of Threshold Capital Corp (and investors) in the above companies can rest assured that smoking is indeed alive and well in these European locales. Even though most of the European Union is currently experiencing economic duress, this does not appear to be affecting those who purchase and consume tobacco products – they continue to purchase the premier brands.

As of July 25, 2012 Threshold Capital Corp. current Client long positions are:

Altria Group Inc.	Philip Morris International Inc.
Beam Inc.	SearchMedia Holdings Limited
Brasil Foods SA	Sohu.com Inc.
EGA 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.

Once again, the European debt crisis dominated the news headlines in the second quarter of 2012. The economies of Spain, Belgium, Greece, Ireland, Italy, the Netherlands, and Portugal all reported dismal economic results and consequently, have entered recessions. Protesters took to the streets in a repeat of last year's actions. In France, one of the European Union's stronger economic members, a new President was elected - Mr. Francois Hollande – who happens to be France's first Socialist elected in over 17 years. In his victory speech, President Hollande pledged to roll back the austerity measures brought in by the previous administration. These careless comments have sparked more fear in an already fragile European environment. Not to be outdone, Greek citizens barely voted to stay within the European Union; Greece's equity markets currently trade at 22 year low. Greece is now one of the worst places to do and start a business – wealthy Greeks have been leaving the country, taking their cash with them and depositing it into Swiss and German financial institutions. The country of Spain now appears to be the primary focus of the next country to be bailed out. During the second quarter of 2012, the Spanish government stepped in to rescue Cataluña Caixa Bank and Bankia SA – providing over $10 Billion Euros in aid. As a result, Spanish bond yields have spiked to over 7.5% - this is up from less than 6% in the first quarter of 2012. Also, in the past two weeks, Spanish regions have asked for aid from leaders in Madrid; they have run out of cash and cannot pay their workers. Bonds yields have also risen in several of the other weaker EU members – Portugal and Italy. And to top off all of this terrible news, European financial regulators are now investigating the LIBOR scandal. U.K. based Barclays agreed to pay $450 million to settle allegations of manipulating this overnight lending rate. Threshold Capital believes this scandal will not only grow in scope and size, but may cause severe tremors at financial institutions across the globe. Economists continue to call this a "Euro crisis"; Threshold Capital still believes this is mislabeled. A better characterization – Europe is experiencing a solvency crisis. These countries and their corresponding banks simply do NOT have the money to solve this problem. Here at Threshold Capital, we do not claim to be Economists, but rather, "economic realists". The only way that we see this enormous problem being solved is for the European Central Bank to print Euros – simply put….they must monetize their debt. Threshold Capital believes this may be the only tangible solution that is left when their backs finally come against the wall (later next year?). Come on now ECB…..What's 2 Trillion Euros amongst friends? If Europe cannot get their act together, and a severe downturn is in the future, Threshold Capital will take advantage of such a distressed environment and research great European companies such as Siemens, Pernod Ricard, Fresenius, Unilever, Reckitt Benckiser Group Plc., etc.

Looking in our own backyards, here in the U.S., economic growth remains sluggish. For the first half of 2012, the U.S. has grown at less than 2%. Job growth has also proven to be disappointing; adding less than 250,000 jobs during the second quarter. U.S. unemployment appears to be stuck in a range of 8.0 to 8.4%. And there still remains the question of the U.S. debt problem. U.S. federal debt has risen approximately $5 Trillion in the past four years and now tops $15 Trillion dollars. This explosion in U.S. debt does not appear to dampen demand for U.S. treasuries however. Japanese, German, Russian, and Middle Eastern investors continue to purchase U.S. debt. At the end of June, Chairman Bernanke re-instituted "Operation Twist" instructing the U.S. Federal reserve to purchase long term debt in exchange for shorter term duration bonds. To date, these Fed actions have failed to spur any significant job growth here in the U.S. Very soon, President Obama and Governor Romney will do battle as to who will lead this country in the next four years. Their campaigns will undoubtedly be focused on the economy and who will have the best policy going forward. U.S. multinationals are currently reporting better financial results than their European counterparts. While second quarter revenue growth is showing to be flat, companies remain profitable. Several U.S.

large capitalization companies, such as Caterpillar, Cummins Engine, General Electric, and Nike have specifically detailed very difficult economic conditions in Europe and slowdowns in the BRIC (Brazil, Russia, India, and China) economies. U.S. companies still hold over $2 Trillion in cash on their balance sheets and 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. U.S. companies are also waiting to see if a more "business friendly" administration will move into Washington D.C. come January 2013.

For the remainder of 2012, 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 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