February 22, 2016

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

	Q4 2015	2015	JANUARY 2007 TO PRESENT
Threshold – A **Threshold–B(non-levered)**	**+1.40%** **+0.33%**	**+16.56%** **+18.11%**	**+57.00%** **+72.35%**
DJIA	+7.00%	-(2.23)%	+39.81%
S&P 500	+6.45%	-(0.73)%	+44.11%
NASDAQ	+8.38%	+5.73%	+107.32%
Russell 2000	+3.20%	-(5.71)%	+44.21%

Threshold Capital Corp outperformed the U.S. market averages in 2015 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). Clients continue to 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) continues to be clients' largest position. To review, over the course of fiscal 2015, 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. In December 2015, IDI announced its strategic acquisition of New York based Fluent. Fluent is a leader in people-based digital marketing and customer acquisition, serving over 500 leading consumer brands and direct marketers. Fluent's proprietary audience data and ad-serving technology enables marketers to acquire their best customers, with precision, at a massive scale. Leveraging content, first-party data, and real-time survey interaction with consumers, Fluent has helped marketers acquire millions of new customers since its inception. Fluent's growth is supported by the increased demand in the marketplace for people-based marketing solutions, as well as the overall continued growth in digital advertising, and in particular, performance-based advertising models. People-based marketing is a method of deterministically targeting consumers across various marketing channels and devices, as opposed to probabilistic, cookie-based targeting that has proven less effective on mobile devices, where support for cookies is infrequent or non-existent. Fluent is able to facilitate people-based marketing because it specializes in the opt-in acquisition of personally identifiable information on behalf of its clients, such as email addresses, which can be used for traditional email marketing but also increasingly for the precise targeting of ads to individuals across mobile, social, search, video, and display advertising via emerging advertising solutions such as Facebook's "Custom Audiences," Google's "Customer Match," and similar solutions offered by data management providers (DMPs) such as LiveRamp, which enable email-match based targeting of advertisements. In addition, Fluent employs a "performance-based" pricing model for online customer acquisition, rather than a cost-per-thousand impressions ("CPM") model. This means that Fluent's clients only pay when consumers take meaningful action(s) in response to the marketing communications they are presented with, such as joining a loyalty club, signing up for an email marketing list, installing a mobile application, paying for a subscription, or any number of other ways of actively responding to an ad (as opposed to simply viewing an ad). Fluent's technology platform and systems enable it to collect four types of user data: 1) Meta-data: information gleaned by the system such as the user's IP address, browser type, operating system, and, for mobile connected devices, the device model, device ID, browser, and mobile carrier; 2)Demographic data: self-reported user information such as name, address, gender, email address and telephone number; 3) Ethnographic data: user responses to dynamically curated and served survey questions; and, 4) Behavioral data: purchase history, interests, likes and dislikes, preferences and frequencies. Fluent also uses third-party services such as Experian Data Quality and Neustar in order to verify and supplement some of the data collected. This data is stored and analyzed, and can be further enhanced in real-time when consumers respond to dynamically populated survey questions, enabling precise targeting and profiling for ad serving and customer acquisition purposes. By using the system and the insights gained, Fluent can develop deep and relevant insights into each individual consumer. The platform and user volume has enabled Fluent to accumulate a massive data warehouse, which contains first party data on over 100 million consumers, 1.2 billion survey responses and growing by 5.5 million responses a day, and more than 450,000 unique user registrations per day. Fluent drove more than 100% year over year revenue growth from 2014 to 2015 and added 172 new advertisers to its client roster, bringing its total client list to over 500 top brands and direct marketers whose names include Pepsi, Cheapflights.com, Western Union, Shoe Carnival, and Smart Balance. The Fluent business now combined with IDI's data fusion products and capabilities will catapult the Company to the attention of the investment community. IDI's largest shareholder continues to be Miami based billionaire Dr. Philip Frost who has recently joined the company's Board of Directors as Vice Chairman. Company insiders, including Chairman Michael Brauser, Vice Chairman Dr. Philip Frost, and Director Ryan Schulke (from Fluent) continue to purchase stock in the open market with their own capital; since the beginning of 2016 these purchases have totaled over 130,000 shares. Threshold Capital believes 2016 will be a tremendous year of growth for IDI Inc. and estimates the Company will generate revenues in a range of $170 to $180 million and earn $0.35 per share in profits.

Looking to our tobacco companies in client portfolios - Reynolds American Inc. (NYSE:RAI) remains a core holding. With the completion of its acquisition of former Threshold client position Lorillard, 2015 was a transformational year for shareholders. The Company generated revenues of $10.67 billion and earned $2.57 per share. CEO Susan Cameron commented: "Each of our operating companies delivered excellent results both in the fourth quarter and for the full year. The integration of the Newport cigarette brand is going extremely well, and I believe we've entered 2016 with significant momentum. I'm very pleased to (also) announce that we have increased our quarterly dividend by 16.7% - reflecting RAI's strong adjusted EPS growth in 2015 and our outlook for 2016." Reynolds now owns three of the top four U.S. cigarette brands – Camel, Newport, and Pall Mall which have an overall market share of 34%. For 2016, the Company is estimating profits in the range of $2.25 to $2.35 per share; RAI currently yields 3.4% for shareholders.

Altria Group Inc. (NYSE:MO) and Philip Morris International Inc. (NYSE:PM) also remain core positions for Threshold Capital Corp clients. 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 (MO only for 2015). At PMI, international sales of Marlboro continue to be strong; the Company generated sales in excess of $73 billion and earned $4.42 per share. Chief Executive Officer Andre Calantzopoulos commented, "PMI had an excellent year in 2015. Against a backdrop of improving industry volume trends in many key geographies, our cigarette brand portfolio performed superbly, driven by solid market share gains – underpinned by the successful roll-out of the Marlboro 2.0 Architecture – our enhanced commercial approach, and investments made in both 2014 and 2015 to support our business. Furthermore, our underlying financial results underpinned by robust pricing, and our strong free cash flow, were equally impressive. We continued to make exciting progress on the development, assessment and commercialization of our Reduced-Risk Products. We significantly expanded the roll-out of iQOS in Japan and introduced it into several new markets. We are well positioned to accelerate deployment in additional geographies this year. We enter 2016 with enhanced business fundamentals and ongoing strategic initiatives that will strengthen them further. While currency headwinds endure, we fully expect to continue to grow our business and generously reward our shareholders." In 2015, PMI increased its quarterly dividend by 2.0% to $1.02; representing an annualized rate of $4.08 per common share, which equals a yield of 4.47%. Marty Barrington, Altria's Chairman, Chief Executive Officer, and President also had positive attributes to discuss for Altria's (NYSE:MO) stellar 2015 financial results: "We grew full-year adjusted diluted EPS by 8.9%, in line with our long-term EPS growth objective. Our core business generated impressive and consistent income growth during the year behind the strength of their premium brands. Marlboro grew retail share for the fourth consecutive year. And in smokeless products, our leading premium brand, Copenhagen, was the fastest growing brand in the category, supporting USSTC's strategy of combined Copenhagen and Skoal retail share growth. In Threshold Capital's previous investment performance letter, we touched upon the potential combination of AB InBev and SAB Miller (where Altria is a 27% economic and voting interest holder). On November 11, 2015, these two companies reached a definitive agreement to effect a business combination. Altria expects to receive an approximate 10.5% equity interest in the new, combined company and approximately $2.5 billion in pre-tax cash. Altria will also receive two (2) seats on the new company's board of directors and continued use of equity accounting for the beer asset's contribution to Altria's earnings. Altria paid its shareholders over $4 billion in dividends in 2015 and currently yields approximately 4%.

Threshold Capital Corp. continued to hold positions for clients in Apple Inc. (NASDAQ:AAPL) and Gilead Sciences Inc. (NASDAQ:GILD heading into the end of fiscal 2015. In its last twelve months of fiscal 2015, Apple Inc. generated $235 billion in revenue and $9.42 per share in profits for shareholders. Apple's CEO Tim Cook recently commented on Apple's recent quarter: "Our team delivered Apple's biggest quarter ever, thanks to the world's most innovative products and all-time record sales of iPhone, Apple Watch, and Apple TV. The growth of our Services business accelerated during the quarter to produce record results, and our installed base recently crossed a major milestone of one billion active devices." Diving further into the Apple results, Apple's new iPhone 6 results came in a bit below expectations; while sales of the iPad dropped a hearty 25%, with iMacs also declining by 4%. The Company to date has declined to break out sales of the iWatch. While Apple Inc. continues to be a very profitable enterprise with great products, Threshold Capital has exited this position as it has become clear that Apple's future sales growth will be difficult to continue into 2016. Apple Inc. also ended the year with an enormous cash hoard – now totaling over $215 billion. There continues to be much speculation as to what the Company will do with such a high quality problem. 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.

Gilead Sciences, Inc. (NASDAQ:GILD), a pharmaceutical company based in Foster City, CA 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, known for its revolutionary Hepatitis C treatments Solvadi and Harvoni reported full year 2015 revenues of $32.6 billion and earned $11.91 per share in profits for shareholders. Gilead continues to unfortunately be painted with the public perception of price gouging and profiteering given the high prices of its regimens. At the end of January 2016, the Massachusetts Attorney General announced that that Gilead's cost of Harvoni and Solvadi drugs "may constitute an unfair trade practice in violation of Massachusetts law." Threshold Capital does not agree with the honorable Massachusetts Attorney - Gilead's products have clearly proven to be life-saving in addition to drastically reducing hospital and surgery costs. The high prices of drugs here in the U.S. continues to make headlines and this discussion is sure to increase in scope as the U.S. enters the next presidential election phase. 2016 has proven to be difficult for Gilead shareholders as its stock price has suffered a correction along with the indices. Hence, Threshold Capital undertook the decision to liquidate its position for Clients above $87 per share.

Investors across the globe continue to be riveted by news headlines of slowing growth in China, the rising interest rate cycle here in the U.S., and the continued weakness in commodity prices. The Bloomberg Commodity Spot Index dropped 19% in 2015. This index is comprised of energy (WTI & Brent crude oil, natural gas, diesel fuel, unleaded gasoline), grains (corn, soybeans, wheat, soybean oil), industrial & precious metals (copper, aluminum, zinc, nickel, gold, silver), soft commodities (sugar, coffee and cotton), livestock (live cattle and lean hogs). Much focus and news continues to be on the unprecedented drop in crude oil prices over the last two (2) years. Late in 2014, OPEC (led by Saudi Arabia) instituted a plan to allow market forces determine the price of oil (versus that of OPEC production quotas). It should be noted that the Saudis have the lowest production costs, approximately $10 per barrel – but the Saudis also need a price of $100 per barrel to balance their fiscal books (as their citizens don't pay any taxes on income, interest, or stock dividends). The kingdom announced in December 2015 that its budget deficit for 2015 was $98 billion; and it expects a deficit of $87 billion in 2016. Saudi Arabia has steadfastly refused to cut production in order for prices to rise – they continue to pump in order to maintain market share and inflict pricing pressure on U.S. producers. As the United States has ramped up its own domestic production, mostly due to the process of hydraulic fracking, supply now easily outpaces demand and the price of crude oil has fallen over 60% over the past twenty four months. Here in the United States, the energy industry has been an enormous driver of growth – creating jobs and generating billions in economic value. However, investors should note that many of these small to mid-size exploration and production companies have used borrowed money, somewhere in the range of $250 to $300 billion. That is a significant amount of debt out there in the financial system (but alas – not comparable to the mortgage debt during the housing bubble years). In order for these companies to pay off their high levels of leverage, they must and need to continue to drill and bring their product to market. In 2015, 41 exploration and production companies went bankrupt. Their debt outstanding was approximately $16 billion. Earlier this month, Standard & Poor's Rating Services downgraded the junk territory ratings on 25 oil and gas companies on expectations that credit quality will continue to deteriorate owing to low commodity prices. U.S. Federal Reserve officials have recently publicly stated that they have noted an increase in weakness among credits related to oil and gas exploration, production, and energy services following the decline in energy prices since mid-2014. Also, major U.S. financial institutions have begun to raise red flags regarding the health of these loans – Wells Fargo, J.P. Morgan Chase, Bank of America, and Citibank have begun to set aside reserves to cover potential losses. Turning to the subject of demand, economists now estimate there is 1.5 million barrels of over supply oil produced each day. As OPEC accounts for over 40% of the world's oil production, its member nations are experiencing immense pressure in their own economies and high levels of domestic debt. Most recently, Iran, coming off its extended period of economic sanctions and embargo from the West, will bring its own production to the global markets; and it is estimated that the Iranians are holding anywhere from 35 to 50 million barrels of oil in storage. Iran has already made public the fact that it expects to produce 4 million barrels of crude a day by the end of 2016. Oil Ministers form the OPEC countries continue to be quoted on a weekly basis in the news and the price of oil continues to fluctuate wildly on each quoted sentence. The latest news is that four (4) oil producing countries (Saudi Arabia, Russia, Venezuela, and Qatar) have agreed on principle to "freeze" production levels from the previous months' levels in order to achieve some sort of stabilization. Historically, oil producing countries have failed to heed any type of production agreements, for fear of losing their market share and hard earned dollars. Current low prices of crude has devastated the economies of these oil producing nations – specifically Russia, Venezuela, Nigeria, Saudi Arabia, etc. Global equity market indices continue to be volatile and continue to trade based on any news emanating from crude producing members. Threshold Capital continues to watch this space closely as many companies have corrected sharply in price; opportunities may arise in the future to purchase positions in companies such as Chevron(NYSE:CVX), Kinder Morgan (NYSE:KMI), Pioneer Natural Resources (NYSE:PXD), and Parsley Energy (NYSE:PE).

The People's Republic of China reported official fourth quarter GDP growth of 6.8% and overall growth of 6.9% for 2015. This annual pace is the slowest in twenty five years. Following the credit crisis in 2007 to 2009, China quadrupled its debt from $7 trillion to now over $30 trillion. Its traditional policy tools to revive the country's growth – infrastructure spending, loose credit, and heavy focus on exports – have begun to show signs of being ineffective. Cash hungry companies in manufacturing, construction, and mining have begun delaying paying their employees (according to Bloomberg News), which has led to increased labor unrest – as serious issue for Beijing government officials. Also, downsizing of heavy manufacturing and mining industries has already begun in the country. Coal companies have let go 890,000 workers since 2013; while China's steel industry, already suffering from overcapacity, has dropped 550,000 workers over a similar timeframe. Threshold Capital is now of the firm opinion that Chinese officials are in deep trouble due to very high levels of debt, dwindling foreign exchange reserves, and the rising number of unemployed workers. China is attempting to do the "unthinkable" – specifically they would like to have a flexible monetary policy, a fixed exchange rate, and free flows of capital. Hundreds of years of economic theory and practice have proven otherwise. To put it more simply, in order to stimulate economic activity, Chinese officials may elect to lower interest rates; this however causes its currency to weaken, which leads to capital flowing out of the mainland. You cannot have all three (3) elements equal as they work against one another. Chinese leaders held a policy meeting in January 2016 to address slowing growth and methods of stimulus. Once again, these officials are pushing in the same direction with infrastructure projects and continued support of large money losing state owned industries in mining and manufacturing. According to research firm Gavekal Dragonomics, new lending in China is now used to service debt rather than fund new ventures. Domestic households and companies in China now spend the equivalent of 20% of the country's GDP on interest payments, more than the U.S., Japan, or the United Kingdom. Chinese businessmen and their joint venture partners are moving their Chinese currency (the Renminbi) out of the country resulting in a loss of overall business investment. Continued negative economic 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.

On December 16, 2015, The Federal Open Market Committee, led by Janet Yellen raised its target for the federal funds rate to a range of 0.25% to 0.50% from zero, were it stood since December 2008. The U.S. unemployment rate (January 2016) now stands at 4.9% down from 5.7% one year ago. While this job creation looks encouraging, many workers continue to leave the workforce as wages remain flat. In anticipation of higher borrowing rates here in the U.S., the dollar has risen against major currencies (Euro, British Pound, Japanese Yen); and hence U.S. companies have begun to feel the results of a strong dollar (as the appreciation in our currency makes our products more expensive overseas). Combined here with tepid growth, U.S. corporations have experienced four consecutive quarters of revenue and earnings declines; GAAP (Generally Accepted Accounting Principles) reported numbers are down anywhere in a range of -(10)% to -(15)% versus a year ago. Job cuts/layoffs have begun to increase – U.S. based companies announced over 75,000 job cuts last month led by the retail and energy sectors. Walmart will let go 16,000 workers and close over 250 stores (this year), Macy's will also cut almost 5,000 jobs. Schlumberger, Halliburton, and Baker Hughes – all leading producers of oil and gas equipment have announced job cuts as they see continued weakness in orders for new equipment. Multiples remain elevated for U.S. businesses as investors continue to chase the growth names such as Facebook, Amazon, Netflix, and Google (now renamed Alphabet). Netflix Inc., down over 20% so far in 2016 and trading around $90 per share is currently reflecting a price earnings ratio (both trailing and forward) of over 300X. And Amazon is trading at a multiple of over 400 times profits. Speculation has only increased in the press with regard to how many interest rate increases the U.S. will experience in 2016. With global growth clearly slowing, Chairwoman Yellen and her Governors are being watched very closely; and Threshold Capital believes they are "trapped" and really in a "no win" situation as other central banks have embraced negative interest rates. In early December 2015, Mario Draghi of the European Central Bank extended their quantitative easing program – 60 billion Euros a month until March 2017. This action drove their interest rates to - (0.30) %. Late last month in a shocking decision, the Bank of Japan announced that they will charge Japanese banks 0.1% for keeping additional reserves at the central bank. Japan, the world's 3rd largest economy, entered its 5th recession in the last seven years. Yields on short term bonds in Germany and Sweden have also gone negative. Simply put, an investor is PAYING for the privilege of parking (storing?) their money at these central banks. This negative rate "policy" has further weakened equity prices across the globe – here in the U.S. the Dow Jones Industrial Average and S&P 500 are down over 6% for the year, the NASDAQ down over 10%, Germany down 12%, Italy down over 20%, Japan down over 16%, China Shanghai down 20%, and Hong Kong down 12%. Fierce debate has now begun by global economists about the possibility of entering a global recession. Threshold Capital does not believe this is of great concern at this juncture; however, Threshold Capital does believe, at least here in the U.S. we are on the verge of an earnings recession. S& P 500 companies are expected to earn approximately in a range of $114 to $118 for 2015, which places the current index at a multiple of roughly 16.5X profits; for 2016, economists are estimating profits in a range of $120 to $124. Threshold Capital believes these 2016 estimates are too optimistic given sluggish global GDP growth. Investors continue to possess a short-term outlook for their investing activities and this has added tremendously to recent volatility in U.S. and global equity markets. These 800 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 40% to 50% more only after six months of ownership. Unfortunately, many investors are shying away from such investing time horizons.

For 2016, 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,

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