Dear Shareholders,

"Rome was not built in a day." "This is a marathon, not a sprint." "Slow and steady wins the race." "Even a long journey begins with a single step." "Don't worry if you're not where you want to be yet; great things take time." There are probably 20 other sayings like these. Here's what is most relevant to our fourth quarter at 180 Degree Capital Corp. and our shareholders. "Stocks don't go up all the time and forever."

In the fourth quarter of 2017, our net asset value per share ("NAV") declined to $2.60, or by $0.08, from $2.68 as of the end of the prior quarter. Further below, we discuss in detail all the puts and takes for what helped and hurt in the quarter. Our biggest holding, Adesto Technologies Corporation (NASDAQ:IOTS), declined from $7.85 to $6.45, which, for us, equates to a decline of $0.067 per share, or 84% of the total decline in our NAV. Given that Adesto started the year at $1.85 and rose to $7.85 at the end of the third quarter of 2017, we shouldn't be surprised the stock pulled back. We continue to believe Adesto is positioned to deliver substantial revenue growth and significantly improved EBITDA and earnings. If we are right on the fundamentals, the stock should resume its growth trajectory and continue to add to our NAV.

180's view is that persistent long-term performance trumps short-term results. Our goal is to make money for our shareholders. That didn't happen in the fourth quarter. We mentioned last quarter that it would be irrational to annualize what was a staggeringly great quarter of 9.8% growth. We don't think the fourth quarter is the new norm either. A year is more representative for evaluating success than is a quarter. For the first time since 2010, 180's NAV grew on an annual basis. 180 started the year at NAV of $2.34 and ended at $2.60. One could argue the increase in our NAV was because of a bull market. Our response to that is simple: we have had a rising market each of the last six years, and during that time we never grew our NAV.

In the fourth quarter, 180 announced that it led a $7.85 million round of financing in TheStreet, Inc. (NASDAQ:TST), which we believe has the potential to materially increase our NAV over the next 1-2 years. This financing included $4 million of capital from our balance sheet and $3.85 million raised from a family office and high-net-worth individuals through a fund formed and managed by 180. The proceeds from this financing, along with cash from TST's balance sheet, were used to retire TST's preferred stock, which served as an overhang on TST's ability to build value for common stockholders. In conjunction with this investment, 180 received the right to appoint a board seat that I currently occupy.

The TST transaction serves as a model for the type of 'constructive activism' we talk about when describing our investment process. We found a good company with a strong management team whose value was hindered by a capital structure problem. The turnaround at TST was already underway when we became interested in the company and its story. We worked with TST's management and board to find a solution to its preferred stock overhang that provided benefits to all parties involved. We are pleased that it came together the way it did. We have already rolled up our sleeves and are working to assist the company in creating value for all common shareholders. We believe TST is undervalued as it currently trades at less than 1x enterprise value to revenues. Given that 90 percent of TST's revenues are recurring subscriptions, we would expect the business to trade at a minimum of twice that multiple based on comparable publicly traded companies. We are excited about TST's prospects and look forward to updating you on our progress.

The TST transaction also affords us the opportunity to manage third-party capital, which provides 180 with income and the potential for additional returns on invested capital. It also allows us to take advantage of opportunities for investment that would otherwise be difficult to complete solely from cash on our balance sheet. Consequently, this transaction embodies everything we aimed to accomplish when we changed our strategy to build our brand of constructive activism.

In previous communications, we have talked about our three key strategic imperatives: 1) reduce our cost structure, 2) grow our NAV, and 3) narrow the discount our stock trades relative to NAV. We will add a fourth as we think about 2018: more on that after we discuss our progress on our three 2017 imperatives.

1. EXPENSES

We have greatly reduced our operating expenses, which makes it easier to grow NAV than in years past. Over the last five years, our operating expenses, excluding stock-based compensation and interest on outstanding debt, averaged approximately $1.6 million per quarter. In 2016, our operating expenses, excluding stock-based compensation and interest on outstanding debt, averaged approximately $1.3 million per quarter. In 2017, our operating expenses, excluding stock-based compensation, one-time restructuring costs, and the year-end compensation pool and including sublease income, averaged approximately $730,000 per quarter. In other words, we have significantly reduced our on-going expense-related burn rate from 7.3% percent of net assets in 2016, to a run-rate of less than 4% of net assets.

We are aware that every dollar we spend is a dollar from the shareholders. Therefore, we are hawks when it comes to our cost structure. Over the past year, our professional fees declined 60% from $1.37 million to $550,000. Our administration and operations expenses declined 45% from $560,000 to $300,000. Our office in Montclair, New Jersey, costs $33,600 per year, or 89% less than the $300,000 per year for our old office space in New York City. All in all, as it relates to reducing our costs, we did what we said we would, and more.

We spoke last quarter about our compensation program for management. In general, the objectives of the company's compensation program are to align the interests of shareholders and employees; motivate and retain employees by providing market-competitive total compensation; and attract talented new employees in a competitive market. Our compensation committee analyzes how to balance these factors, but at the end of the day it is simple: the growth of 180's value is the prerequisite for an end-of-year compensation pool. The compensation committee has designed this pool to reward both annual and persistent performance of individuals and the company. Our NAV last quarter included an accrual for a year-end compensation pool. The NAV reported for this quarter includes an additional accrual of $150,000 for a year-end compensation. All in, including the year-end compensation pool for 2017, our total compensation expenses, not including a stock-based compensation net benefit, still decreased as a portion of net assets from 3.3% in 2016 to 2.9% in 2017. A material portion of the year-end compensation pool will be deferred and only paid to members of management if their performance on board-defined metrics during the prior year are persistent over subsequent years. We care about performance over one year, but true success should only be measured over a longer period of time. We will only earn compensation beyond base salaries and benefits if shareholders win. In 2017, we all won.

2. NET ASSET VALUE PER SHARE

Following last quarter's nearly 10% increase in our NAV, our NAV declined 3.0% from $2.68 to $2.60 in the fourth quarter. As noted above, 84% of the decrease in our NAV ($0.067 per share) came from a decrease in the value of Adesto. A deeper dive into the quarter shows in total, our total public markets portfolio declined by $0.05 per share.

- TheStreet rallied 34% in the quarter and increased our NAV by $0.04 per share. We note that the value of our unregistered shares of TheStreet included a discount for lack of marketability of 6.4% to the closing price of TST's stock at the end of the year.
- Synacor (NASDAQ:SYNC) declined 15% in the quarter after the company lowered expectations for the ramp up of revenues from the AT&T portal. Synacor trades at what we believe is an incomprehensible 0.35x enterprise value to estimated 2018 revenue. The company also has growing EBITDA. So, what is the problem? The issue is the company's credibility with Wall Street; it currently has none. The company did a secondary offering in the spring of 2017 and made bold predictions for its revenue growth. Quite simply, they over-promised and under-delivered. Financial analysts reduced their financial expectations for 2018 and the share price has reset at lower levels. With lowered and more reasonable assumptions for forecasted revenues in 2018, we are hopeful the current trend in its stock price can be reversed. If the company focuses on cost control, we believe they should have double-digit EBITDA margins on current revenues. If they achieve double-digit EBITDA margins, the stock should be meaningfully higher.
- Finally, Mersana (NASDAQ:MRSN) declined 5% in the quarter against general weakness in the biotech sector.

Combined, Synacor and Mersana reduced our NAV by $0.023 per share.

Our private portfolio companies decreased in value by $237,000, or slightly less than $0.01 per share. The largest sources of change in value during the quarter are discussed below.

- AgBiome increased by $527,206 ($0.017 per share) due to an increase in the value of publicly traded comparable companies used to derive valuation.
- Essential Health Solutions increased $418,735 (shade over $0.013 per share) for the same reason.
- Produced Water Absorbents, our biggest decrease in value, declined by $839,343 ($0.027 per share.) This decrease resulted primarily from the terms of additional capital the company needed to fund operations.

We continue to believe in the potential for our most mature companies, D-Wave Systems, Inc., AgBiome LLC, HZO, Inc. and Nanosys, Inc. There are other companies in the portfolio that also hold promise, however, these companies are in early stages of development and the timelines and potential exit values for these companies are highly uncertain.

The strategy of our company is to convert, at the highest value possible, our private portfolio into cash. Given our reduced operating expenses, we are in a much better position to determine when to realize value, rather than being forced to sell our positions to survive. We seek to use the returns from these investments for making new investments in publicly traded companies, or for distributions to shareholders in the form of dividends or share repurchases. Finally, as it relates to our quarterly NAV change, our operating expenses net of investment and other income reduced our NAV by $0.02.

As for calendar year 2017, we achieved a nearly 11% increase ($0.26 per share) in our NAV. More specifically, our public portfolio added $0.38 per share and our private portfolio added $0.03. Our operating expenses net of investment income were ($0.10) per share and we had ($0.05) per share in restructuring charges. We generated $12.0 million in growth from our public holdings on a starting value of $17.7 million (excluding warrants and including Mersana's year-end 2016 valuation; Mersana completed an IPO June 2017) and achieved a 68% return on our public portfolio. Yes, it was a bull market, but by comparison, the Russell Microcap Value index total return was 15.1%. We generated nearly 4x the performance of our closest benchmark index. As for our new strategy, it was successful, and our stock selection in 2017 was exceptional.

3. TURN/NAV; SUM OF THE PARTS

As of end of 2017, TURN's common stock traded at 75.8% of our NAV. Our liquid assets, cash and other assets net of liabilities were worth $0.83 per share ($25.9 million). Our stock price was $1.97 per share. If we received 100% credit for the value of these assets net of liabilities, the market is ascribing a value of $1.14 per share ($35.5 million) of TURN's stock price to our private portfolio. Given our private assets are valued by us at $55.2 million, the market is discounting the value of our private portfolio assets by 35.8%. As we grow our cash and liquid securities, the discount our stock trades to NAV should narrow. At the beginning of 2016, our cash and liquid securities were 27.5% of our net assets. They are now 34.0%. In the beginning of the year our stock traded at 59% of our NAV. Today, that number is 76%. That's progress and illustrates why our strategy to focus on public companies was conducive to restoring value in our share price.

4. THINKING ABOUT 2018

In prior communications, we discussed strategic initiatives around managing third-party capital. We are continuing to pursue a broker dealer license to expand our ability to raise capital for special purpose vehicles and other managed funds. We are aiming to have that license by the end of the second quarter. The success of efforts to raise capital are often related directly to the people who have extensive networks of potential investors. The broker dealer license will enable us to hire, and appropriately compensate, individuals involved in raising such capital. Having the broker dealer license will also enable us to raise capital for other entities, raise capital for our portfolio companies, and generate income for 180 from such efforts. Our investment in TheStreet was our first foray into managed funds. We want to do more. As a strategic priority for 2018, we will look to engage with other like-minded investors to see if there are partnerships available that could lead to launching new funds; managed and/or co-managed by 180. By the end of 2018, our goal is for 180 to have significantly more assets in managed products.

We had a down quarter but a good year. My hope when we started was to be able to show progress sooner rather than later. For the year, our NAV was up 11%. Prior to that, one had to travel back to 2010 to find a year where our NAV increased. For the year, our share price was up 43%. The last time our share price was up for the year was 2009. While that's hard to believe, it's the stark reality of our past. Today, we are in a better place. The father of value investing, Benjamin Graham, explained the concept of voting and weighing machines. He said, in the short run, the market is like a voting machine --- it tallies up which firms are popular and unpopular. But in the long run, the market is like a weighing machine --- it assesses the substance of a company. What matters the most for 180 is our underlying business performance over the long term; not the investing public's fickle opinion about our prospects in the short run. Don't get me wrong, we are thrilled our shareholders have benefited in our new strategy and the performance of our stock in 2017. We have bigger goals in mind for 180. We want 180 to be known as a prominent and dominant leader in our world of public company constructive activism. We will continue to strive for excellence in investment performance. We want to be known as game changers in helping businesses generate positive shareholder returns. The first year was good. We hope the next several years provide a step function in our success and additional value creation for shareholders.

Best Regards,

Kevin M. Rendino
Chairman and Chief Executive Officer
180 Degree Capital Corp.