Fellow Shareholders:

An out-of-body experience typically involves a sensation of floating outside one's body and, in some cases, the feeling of perceiving one's physical body as if from a place outside one's body. Why do I mention this? If I told you we would have a flat-to-down stock market, 180's private portfolio would decrease in value from the prior quarter, and we would have our normal level of operating expenses (albeit significantly reduced this period versus same period last year); what direction would you guess our net asset value per share, or NAV, would go in the quarter? If you answered down, I am happy to tell you that you are wrong. Our NAV advanced $0.04 per share or nearly 2% in the quarter. Why is that? For the quarter, our public portfolio holdings increased in value by 9.7%. At the same time, an investment in our most comparable indices, the Russell 2000 and the Russell Microcap Index, would have declined 0.1% and increased 0.8%, respectively. Our new strategy has clearly resulted in enhanced value for our shareholders. In fact, our public portfolio has resulted in over 80% of the total gain in our NAV over the course of the last five quarters.

Since taking over as CEO of 180, I haven't spent too much time talking about the macro environment or my views of the stock market. I have focused my attention on discussing with you our strategy for growing our NAV, our expense reduction initiatives, and our investments (both old and new). In general, I plan on keeping my letters simple, straight forward and direct about what we are doing in the portfolio and other efforts to grow NAV. But in this letter, I couldn't ignore the changing market climate we saw in Q1 2018.

Volatility was completely absent in 2017. That's over. Pick your favorite reason why the markets are much more volatile today than in the prior year; there are many to choose from. Inflation fears have risen as interest rates increased against the backdrop of accelerating global growth. Trade wars with China. Potential collapse of NAFTA. The never-ending drumbeat of stories around the Mueller investigation and Russia. North Korea. Syria. I'm getting more and more simple in my older years. You know why I think volatility is up? Because it was down. In actuality, it's because volatility was at historically low levels for an extraordinary long period of time. In 2017, the volatility index (VIX) was running at half its historical average and posted the largest number of prints below 10 in its history. We have had 15 straight months of positive equity returns, with little-to-no movement in long term interest rates. The S&P 500 had entered the longest period since 1929 without a correction of more than 5%. Does this sound "normal" to you? It does not to me.

Historically low interest rates coinciding with high levels of excess cash has also provided a consistent bid for risky assets. In typical Wall Street fashion, derivative contracts tied to the VIX have grown rapidly in recent years as central bank stimulus lowered volatility. It wasn't enough to create volatility products—many of these products now include leverage, sometimes up to three times, and are sold as exchange traded funds (ETFs) or exchange traded notes (ETNs). These structures make it relatively easy for an investor to buy or sell volatility from anywhere around the globe. Let's take the double levered short volatility ETN's as an example of what can go wrong for these types of products. As volatility began to spike, as always happens, selling begets selling begets more selling. Margin calls ensue. Forced selling occurs for those investors who had too much exposure to the ETN and had gotten too complacent about the persistent lack of volatility. The short volatility funds blow up, which leads to further increases in volatility. Complex hedging strategies blow up and investors storm out of the proverbial movie theater *en masse* with everyone trying to get out of the same exit door at the same exact time. The stock market collapses over 10% in a week. That is my short summary of what transpired in early February 2018.

My opinion on increased volatility is simply this: 2018 feels more "normal" than recent years. I don't think volatility is going to dampen anytime soon; I believe the stock market will be more of a see-saw than in years past. Here at 180, we think the economy is on solid footing, tax policy is more favorable, and even though inflation and interest rates are rising, they are still at historically low levels. We welcome increased volatility as it causes price dislocations and often gives investors good entry prices for making long-term investments.

Warren Buffet says, "it's wise to be fearful when others are greedy, and greedy when others are fearful." 180's core investment principals center around Buffet's comment. It doesn't mean we are contrarian for the sake of being contrarian. It means if we have a bullish view on a business, and it collapses 15% because the VelocityShares Daily Inverse VIX Short-Term Exchange Traded Notes close down 93% in one day, we will be a buyer of that business. Actually, as I wrote VelocityShares Daily Inverse VIX Short-Term Exchange Traded Notes, I had to drop the pen because I was laughing so hard. How in Wall Street's infinite wisdom, did anyone think that product was a good idea? Maybe worse, why would any investor want to buy it. Ridiculous on the one hand, but sadly predictable on the other. For Wall Street, the more things change, the more they remain the same. But I digress. Back to 180.

Expenses:

As we have noted in previous letters, we have dramatically reduced our cost structure under our new strategy. Over the last 5 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 $1.3 million per quarter. In 2017, the beginning of 180, our operating expenses, excluding stock-based compensation, averaged approximately $730,000 per quarter. For the first quarter of 2018, our operating expenses were $740,000 versus $1.05 million in the same quarter of 2017, a 30% year-over-year reduction. Please note that the first quarter of 2017 was the last quarter of operations as our predecessor company, Harris & Harris Group. Going forward, the quarterly year-over-year comparisons will no longer show the drastic drop in expenses as those reported over the last four quarters. As we seek to grow, we may make investments by adding to our investment staff, but only if we believe that investment will help us launch new funds, either managed and/or co-managed by 180. We remain committed to treating every dollar of shareholder money with the utmost care and consideration.

Net Asset Value Per Share (NAV):

Our NAV increased from $2.60 to $2.64 in the first quarter of 2018. As you know, the variance in 180's NAV on a quarter-to-quarter basis results from three sources: our publicly traded portfolio companies, our privately held portfolio companies, and our expenses. For the quarter, our publicly traded portfolio companies added $0.08 per share to our NAV, while our private portfolio decreased our NAV by $0.02. Expenses, net of investment and other income, decreased NAV further by $0.02 per share.

At the end of the day, we are focused on increasing NAV and less concerned with how that is accomplished between our public and private portfolios. That said, a year ago we embarked on a new strategy to invest in small public companies. How have we done? Over the course of the last 5 quarters, we have generated a total of $0.48 per share of net investment gains. Approximately 85% of that total, or $0.41 per share, have come from our publicly traded companies. I would humbly call that a successful beginning for 180. In this quarter alone, our publicly traded portfolio companies advanced nearly 10%, trouncing all of the comparable indices we referenced above. Here is a bit more detail on our publicly traded portfolio companies during the quarter.

- Adesto Technologies Corporation (NASDAQ:IOTS) continued its upward trend, rising 15% in the quarter, as the company reported its fourth straight quarter of +30% revenue growth. This position increased our NAV by nearly $0.05 per share.

- TheStreet, Inc. (NASDAQ:TST) advanced approximately 30% in the quarter following the retirement of its Series B preferred stock that included a $55 million senior liquidation preference in November 2017. Under new management, TST's income statement has produced improved EBITDA and bottom-line performance. We are proud that 180 was able to assist the company in simplifying its capital structure, and we have thoroughly enjoyed working with the company and its Board since our investment. As I have said previously, the retirement of TST's preferred stock was a seminal moment that we believe cleared the path to enhance value for all of its common shareholders. We invested in TST because we believed the future for the company was bright and the stock was materially undervalued. After 6 months on the Board, I have been thoroughly impressed with the management team, the Board, and the collection of TST's assets. 180's investment in TST symbolizes the kind of constructive activism that is core to our strategy. Since the announcement of the deal, the stock is up 63% from 180's purchase price. And yet, we still believe the market is not valuing TST's businesses properly. For the quarter, TST added $0.06 per share to our NAV.

- Synacor, Inc. (NASDAQ:SYNC) declined 30% in the quarter, adding to its declines since the second half of 2017. Here is the pattern: Synacor reports earnings. It reduces its revenue guidance from AT&T and for the overall business. Wash. Rinse. Repeat. Everyone has heard of the phrase, "snatched victory from the jaws of defeat." Synacor has done the opposite. Over the course of the last 3 years, Synacor has grown its revenues from $110 million in 2015, to $127 million in 2016 to $140 million in 2017. The average of analyst estimates for 2018 is $152 million, which is essentially the midpoint of the company's guidance for the year. After an investment period following the AT&T win in 2016, analysts estimate that adjusted EBITDA in 2018 will be $9.6 million, or at the high end of the company's guidance of $7-10 million. This level of adjusted EBITDA would be a multi-year high.

The question is, how does a business of $7-10 million in EBITDA and $150-155 million in revenue, have an enterprise value of $55 million? Our answer: Over the course of the last several years, Synacor has simply over-promised and under-delivered. From predicting $100 million of AT&T revenues (will be more like $35 million in 2018), to achieving $30 million in EBITDA in 2019 (the current average of analyst estimates is $15 million), and $300 million in 2019 revenues (the current average analyst estimates is $167 million); Synacor's management team has destroyed its own credibility. If they had simply been conservative in their business outlook, the stock would likely be meaningfully higher. Instead, Synacor has snatched defeat from the jaws of victory. We hope that Synacor has finally gotten the message and provided more reasonable estimates for the company's performance in 2018. Approximately 40% of Synacor's revenues in 2017, or $56.5 million, were recurring revenues from its Zimbra (email) and CloudID (authentication) businesses. Investors usually pay a minimum of 1x revenues for companies with recurring revenues, and often higher multiples if such revenues are growing rapidly. Synacor's current enterprise value is ***less*** than its recurring revenues. At that valuation, the market is saying the rest of Synacor's business that generates $100 million of revenues is valued at $0. We believe this valuation is absurd. The issue isn't Synacor's balance sheet, income statement, or capital structure. Case in point, 33% of Synacor's current enterprise value is in net cash on the balance sheet. Synacor's issue is simple to fix; under-promise and over-deliver. It is not that complicated. Synacor decreased our NAV by $0.03 per share.

- Mersana Therapeutics, Inc. (NASDAQ:MRSN) declined by 4% during the quarter. There is really nothing new to report here. The company continues to progress through its Phase I trials toward reaching a maximum tolerated dose for each of its drug candidates. The company currently plans to update on the progress of these efforts at the American Society of Clinical Oncology meeting in June 2018.

As far as the private portfolio goes, it declined in aggregate by $0.02 per share. It was about as quiet a quarter as we have had in years. We only had one private position, Essential Health Solutions, Inc., that moved our NAV a penny a share in either direction. Essential declined by $0.013 per share based on the terms of a round of financing. We continue to believe in the potential of our most mature private portfolio companies, D-Wave Systems, Inc., AgBiome LLC, HZO, Inc., and Nanosys, Inc. There are other companies in the private 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.

TURN/NAV: SUM OF THE PARTS:

At the end of the first quarter of 2018, our stock traded at 70.5% of our NAV. Our liquid assets, cash, and other assets net of liabilities were $0.87 per share. Our stock price closed at $1.86. If we received 100% credit for the value of these assets net of liabilities, the market is ascribing $0.99 per share ($30.8 million) of TURN's stock to our private portfolio. As of the end of the quarter, our private assets were valued at $55.1 million. The market is discounting the value of our private portfolio assets by approximately 45%. As we grow our cash and liquid securities through growth in the value of our publicly traded investments and monetization of our privately held investments, the discount our stock trades to NAV should narrow. We had 25% of our net assets in public companies and cash at the beginning of our strategy. Today that number is 34%. We want that trend to continue and to accelerate so that we can achieve our goal of having substantially all of 180's assets in cash and liquid securities. We need to keep moving the ball down the field.

In summary, against a volatile backdrop, we generated an increase in NAV. While we are pleased with how the quarter ended, we are now focused on the second quarter and we believe it has started out on a strong footing. On April 27, 2018, we announced an investment in Turtle Beach Corporation (NASDAQ:HEAR), a leading provider of headsets to the gaming industry. The company had a similar problem as TheStreet: a complex balance sheet that included $19.3 million of preferred stock accruing interest at a relatively high rate. 180 invested $1 million as part of a total takeout price for this preferred security of $7.45 million. We purchased shares of Turtle Beach as part of this transaction at $3.50 per share. It currently sits above $5.00. The environment for gaming is exploding due to the introduction of new multiplayer games such as Fortnite and PlayerUnknown's Battlegrounds. We believe Turtle Beach is well positioned to build value from this trend. Additionally, during the second quarter of 2018, we closed on our second special purpose fund, or SPV, with $3.35 million in committed capital. We are not ready to share the identity of our target investment for these funds, but we look forward to being able to do so in the near future.

In closing, the TST and HEAR capital structure situations are the types of problems we are helping companies solve. Constructive activism. I think we are building 180 into a very credible, effective and leading investor in the small cap world. We will continue to strive for excellence in investment performance. At the end of the day, the only reason why I agreed to become CEO of 180 was to create value for you, our shareholders. Nothing else matters. The first year for 180 was good. The first quarter of 2018 was good. Since our start, our stock price has increased 42%; 2.5x the relevant indices. The aggregate performance of our publicly traded holdings is north of 60%. I'm happy about that. But not for one minute, do I think our job is done. Not even close.

Kevin Rendino
Chairman & Chief Executive Officer