Fellow Shareholders,

There are quarterly letters that talk about a difficult investing environment. They would discuss how the macro-environment caused equity assets to decline in price; how the combination of poor stock selection and asset allocation negatively affected our NAV; or how one of our companies had a misstep in their business causing the stock price to decline. This isn't that quarter! This quarter's letter is the exact opposite of that letter. Let me start with the conclusion. For the quarter ended September 30, 2017, our NAV increased by roughly 10%, from $2.44 to $2.68.

Before going further, let me digress. In 1991, I was a young equity analyst at Merrill Lynch Asset Management. I sat outside the office of Bob Martorelli, who managed a value oriented turnaround fund at the time. Bob had a knock-your-socks-off performance year. He trounced his benchmark index by well over 1000 basis points and ranked number one for his entire Lipper peer group. I was sitting in Bob's office at the end of the year when a young analyst innocently walked in with his arm extended looking to congratulate Bob on his great year with a handshake. It was nothing more than a nice gesture. Bob, looked at the analyst with shock and bewilderment and barked, "Don't ever offer to shake my hand again! Get out of my office!" Bob then proceeded to chase the kid out of the office. I had no idea what was going on. What did I miss? I asked Bob, "What the heck was that about?" He remarked, "When you are wrong, admit it, when you are right, be quiet. If I shake his hand, he will put the whammy on me and my performance will fall apart." I laughed, didn't really understand what he was talking about, thought it was incredibly bizarre, and thought he was being irrational. It only made sense to me when I started managing money in 1993. One of the valuable lessons I have learned over the last 25 years is that the stock market will always humble you. No matter how much success you have in any year, don't have an ego, and never think you are smarter than the market. Just when you think you have it all figured out, the market will embarrass you. Bob wasn't trying to be a jerk. He was simply expressing humility, humbleness, and a healthy dose of paranoia.

With that preamble, although we refuse to accept a handshake (yes, I am as paranoid and superstitious as Bob), I will reluctantly (although proudly) share with you details of our extraordinary quarter. In our last quarter's communications with shareholders, we talked about our three key strategic imperatives: 1) reduce our cost structure, 2) grow our net asset value per share ("NAV"), and 3) narrow the discount our stock trades at relative to NAV. Let's talk about each of them.

1. Expenses

First, we have greatly reduced our operating expenses, which will make it far 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 averaged $1.3 million per quarter. In the first quarter of this year, our operating expenses, excluding a non-cash benefit for forfeited restricted stock, were approximately $1.05 million. In the second quarter of this year, our on-going operating expenses, net of sublet income were $735,000. In the third quarter of 2017, our on-going operating expenses, net of sublet income, were $585,000. Put another way, we have significantly reduced our burn rate from approximately 7.3% percent of net assets in 2016, to a run-rate of less than 4% of net assets as of the end of this quarter. It is much easier for us to grow NAV when the expense hurdle rate is where it is today. We aim to decrease this expense ratio further, however these decreases will likely come from an increase in net assets rather than from further reductions in operating expenses.

One other comment about expenses. 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 thinks long and hard about how to balance these factors, but at the end of the day it is very simple: the growth of the value of 180 Degree Capital 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. The NAV reported for this quarter includes an accrual of approximately $800,000 for a year-end compensation pool. This accrual is based on a number of quantitative and qualitative parameters considered by our Compensation Committee. This is only an accrual based on individual and corporate performance year-to-date, and it may change at the end of the year once full-year performance is available. Additionally, a material portion of the pool will be deferred and only paid to management if its performance during the year is 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 note that should the accrued compensation pool and net assets remain the same at year end, estimated full-year salaries and benefits, or total compensation, as a percentage of net assets in 2017 would be 3.15%, or 0.15% less than the comparable percentage in 2016 of 3.30%.

2. NAV

For the first time in over seven years, our NAV has increased in three straight consecutive quarters. This quarter, our NAV increased nearly 10%, from $2.44 to $2.68. Approximately 90% of this gain in NAV came from increases in the value of our publicly traded securities. Amazingly, we achieved a nearly 10% increase in our NAV with our public market assets equaling only 23% of our total assets to start the quarter. As far as our new strategy goes, it's fair to say we have gotten off to a good start.

Let me share with you some detail on the change in value of our investment portfolio. Our publicly traded positions increased by $7.8 million, or $0.25 per share. Adesto's stock increased by 73% against the backdrop of very strong Q2 revenue and raised FY2017 guidance. USA Truck advanced 62% as the trucking industry has gained strength following a difficult two years.

TheStreet rallied 30% in the quarter following a healthy second quarter earnings report. Following its IPO in the second quarter of 2017, Mersana participated in the biotech rally as its shares rose 24%. On the negative side, Synacor forecasted lower FY2017 revenues as the ramp-up of revenues from the AT&T portal will be slower to materialize than it originally projected; its stock price decreased by 26%. We believe our original investment thesis on Synacor ($300 million in revenue and $30 million EBITDA in 2019) remains intact, and as a result, we added to our position during the quarter. Lastly, we closed out our position in Enumeral following the announcement that the company was shutting down. Its stock price decreased by 67% between the end of the last quarter and our average selling price per share. This position caused a decline of value of $170,000. In total, the value of our public companies rose 44% in the quarter.

Our private portfolio companies increased in value in by $980,000. AgBiome increased by $1.7 million primarily due to an increase in the value of publicly traded comparable companies used to derive valuation. Our biggest decrease was in ABSMaterials, which declined $360,000. This decrease was caused by a decline in the value of publicly traded comparable companies used to derive value. The remaining changes in the value of the portfolio were primarily the result of changes in option-pricing-model derived valuations, including a decrease of $200,000 for our position in HZO. 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 generally are very early in stage of development; 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 just to survive. We seek to use the returns from these investments for either making new investments in publicly traded companies, for distribution to shareholders in the form of dividends or for share repurchases.

3. TURN/NAV; Sum of the Parts

As of September 30, 2017, TURN's common stock traded at 64.9% of our NAV. Our liquid assets, cash and other assets net of liabilities were worth $0.90 per share ($28.1 million), and our stock price was $1.74 per share. If we received 100% credit for the value of these assets net of liabilities, the market is essentially ascribing a value of $0.84 per share ($26.0 million) of TURN's stock price to our private portfolio. Given our private assets are valued by us at $55.3 million, the market is ascribing a 47.2% value to our private portfolio. At the end of the prior quarter, TURN's stock traded at 66.4% of our NAV. Using the same sum of the parts analysis, the market valued our private assets at 53.4% at June 30, 2017. So, in actuality, despite a 10% jump in our NAV, relative to last quarter, TURN's stock is not only cheaper on a price/NAV basis, the market is paying us less for our private assets in a sum-of-the-parts exercise. As we grow our cash and liquid securities, the discount our stock trades at to NAV should narrow. At the beginning of 2016, our cash and liquid securities were 27.5% of our net assets. They are now 36.0%. The good news is that since inception of 180, our stock price/NAV has gone from 53.9% to its current 64.9%. Progress? Yes. Room to improve? Absolutely.

In prior communications with shareholders, we also discussed strategic initiatives around managing third party capital. We have two updates on this front. First, we are pursuing a broker dealer license to expand our ability to raise capital for special purpose vehicles and other managed funds. 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 compensate appropriately the individuals involved in raising such capital. While we are currently focused on raising capital for 180 to manage, having the broker dealer license will also enable us to raise capital for other entities, including our portfolio companies, and to generate income for 180 from such efforts.

To that end, in October 2017, we hired Robert E. Bigelow III as Vice President, Head of Fund Development. Rob graduated from Yale in 1990 and went on to become the founder of Blue River Asset Management, a $1.7 billion municipal bond fund. Rob was responsible for raising a substantial amount of this capital. We believe his relationships should aid us as we embark on similar efforts.

My hope when we started our new path was to be able to show you progress sooner rather than later. As far as expense cuts and reducing our burn rate, we are ahead of schedule. On our strategy for investing in public companies, I thought it would be more of an evolution rather than a revolution; a situation where we walk before we run. This quarter was anything but a walk. It wasn't even a slight jog. It was an Usain Bolt 100-meter sprint at the 2009 Olympic Games in Berlin, Germany. I think it goes without saying that having quarters like the one we are reporting to you today should not be thought of as the norm. It also goes without saying that I am so happy our shareholders have benefited in the increase in value of TURN's stock. Now that I have reported on the quarter, I will head back to where we started. When you are wrong, admit it, when you are right, be quiet. We are already thinking of the next quarter. This one is over. In the words of Bill Belichick, the great coach of the New England Patriots, "We are onto the 4th quarter."

We believe the future for you, our shareholders, is bright, and we appreciate your support.

Best Regards,

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