Fellow Shareholders:

Andy Grove was the iconic Chief Executive Officer of Intel Corporation. He once said, "Success breeds complacency. Complacency breeds failure. Only the paranoid survive." In my early days as a value analyst at Merrill Lynch Asset Management, my first boss, Paul Hoffman, often said, "In thinking about investments, always remember that cash is more important than your mother." With apologies and all due respect to mothers, especially mine, I have never forgotten Paul's commentary on the importance of cash and cash flow when making investments. Putting the two quotes together, 180 Degree Capital Corp. ("180") is paranoid about its cash. It became obvious to all of us on the Board of Directors (the "Board") and to members of management that we could no longer effectively run a publicly traded business development company focused on early-stage, privately held, equity investments. Our cost structure was entirely too high. We were not increasing net asset value, nor returning sufficient capital to shareholders due to the infrequent nature of monetization events from our private portfolio. A successful investment management business allows portfolio decisions to be made on the merits of the investment, not because of cash considerations to run the business. Left alone, our former company, Harris & Harris Group, may have been forced to liquidate investments for the sole purpose of funding its cost structure. This year, 2017, is the year where your Board, coupled with overwhelming support from you, our patient shareholders, changed the direction of our company towards a different path. 180's strategy is specifically designed to: 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. In short, we had to change, and we did change.

We have greatly reduced our operating expenses, which will make it far easier to grow our NAV than in years past. Over the last five years our quarterly on-going operating expenses 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, the first quarter into our transition, our on-going operating expenses, net of sublet income, were approximately $735,000. 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 approximately 4 percent of net assets. 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 further reductions in operating expenses.

Cash flow is the blood that keeps the heart of 180 pumping. It is the lifeline of our business. It will be managed with paranoia. We believe we are now in good shape on that front. At the end of the second quarter of 2017, our cash plus liquid securities totaled $22.6 million, or $0.73 per share. Our cash and liquid securities increased 18 percent from last quarter's $19.1 million or $0.61 per share. The more cash we have, the better positioned we will be to make new investments and/or return cash to you, our shareholders, through stock repurchases and/or dividends. We also may use some of our cash to make investments designed to grow our business.

Our new strategy is centered on making investments in micro-capitalization publicly traded companies with a constructive activist approach. We are bottoms-up, Graham and Dodd investors. Our overall investment philosophy is centered around the following theses:

- The price we pay relative to the business we buy is the most important driver of investment returns.
- The public markets continuously overreact to near-term or environmental challenges in certain stocks, thus creating attractive valuations and buying opportunities.
- Out-of-favor companies and industries create opportunities to identify investments that offer asymmetric return to risk potential.
- Companies with strong franchises, managements, and balance sheets are best positioned for turnarounds, increased market share, and improved profitability.
- A portfolio of strong business franchises, purchased at the right price, outperforms over a market cycle.

Our ultimate goal is to constructively engage with existing management teams and boards to help unlock value. Some companies may need to realign their financial performance to achieve growth in cash flows, not just focusing on increasing revenues. Others need to improve their investor relations strategies and outreach. Others may need to evaluate strategic options including mergers, acquisitions, sales, and divestitures. Some may need access to management talent. The constructive part is entering into a collegial dialogue with our investee companies to work together on what is required to increase the value of the company's stock. To 180, activism means that when and if required, we will not be averse to pursuing change through other routes, including proxy solicitations. Rather than just talking about our new investment strategy, we spent the second quarter of 2017 implementing it through establishing new portfolio positions in three publicly traded companies: Synacor, Inc. (NASDAQ:SYNC), USA Truck, Inc. (NASDAQ:USAK), and TheStreet, Inc. (NASDAQ:TST).

Synacor provides technology development, offers multi-platform services and is a revenue partner for video, internet and communications providers, device manufacturers, and enterprises. The company reaches over 100 million monthly visitors, over 100 service providers, over 3000 enterprises, over 500 million email boxes and more than 1000 web publishers. Most recently, AT&T selected Synacor to provide portal services to its customers. Synacor has publicly estimated that this engagement will generate approximately $100 million in revenues per year after full deployment. The company has also publicly stated its operating goals are to reach $300 million in revenues and $30 million in EBITDA in 2019. At our initial entry price, Synacor was trading at a multiple of 0.9x enterprise value to 2016 revenues. At its current multiple, we believe the stock has growth potential of over 100 percent from our cost basis if Synacor is able to achieve its $300 million in revenue goal in 2019.[1]

USA Truck provides a broad range of truckload and logistics services to customers in a variety of industries. Following poor performance over the last two years, an entirely new management team joined the company and is presently implementing a turnaround plan focused on profitable revenue growth and improved operational efficiency. At our average cost of $6.59, the company's multiple of enterprise value to its prior peak EBITDA in 2014 was 3x. For perspective, the company's median multiple of enterprise value to EBITDA during the prior eight years was 5.4x. We believe a reversion to the median multiple may occur if the company is able to improve its EBITDA. The combination of these two factors could result in the potential increase of the company's stock price of more than 150 percent, without requiring the company to reach its prior peak level of EBITDA. We currently believe any of USA Truck's operational issues were the result of poor execution by former management teams rather than a systemic problem with its business or its segment of the trucking industry. We are excited about the potential for the new management team to turn around the business.[1]

TheStreet is a financial news and information provider to consumers and businesses. The company's brands and businesses include TheStreet.com, The Deal, BoardEx, and RateWatch. An entirely new senior management team and Chairman of the Board joined the company in the last two years. We like teams that have worked together successfully in prior companies. Many members of this team, including the CEO and the Chairman of the Board, worked together to build and sell MarketWatch. Following MarketWatch, they successfully turned around USA Today. This management team has been focused on fixing TheStreet's businesses and returning it to profitability. We believe there are two major near-term issues that create an overhang on the stock and limit its ability to increase in value: 1) resolution of an expiring agreement with Jim Cramer; and 2) a $55 million convertible preferred security that has senior liquidation preference to the common stock. We believe both of these issues need to be resolved for the stock to trade to its full potential. We believe this potential could lead to a greater than 130 percent increase in value of the company's common stock when valuing the business on market multiples for comparable financial data subscription companies (recurring revenue) and advertising-based media companies (non-recurring revenue).[1]

While we are making progress implementing our new investment strategy, we note that a majority of our assets continue to be in private investments. To be clear, we are not running away from our private portfolio companies. We continue to believe there is considerable value in those companies. In fact, 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 continue to believe in the potential for our most mature companies, D-Wave Systems, Inc., AgBiome LLC, HZO, Inc. and Nanosys, Inc. to return more capital than we currently value these positions. There are other companies in the portfolio that also hold promise, however these companies generally are very early in stage and the timelines and potential exit values for these companies are highly uncertain.

Our current stock price translates to our existing business being worth approximately 65 percent of our NAV as of June 30, 2017. We note that during the prior quarter one of our privately held positions, Mersana Therapeutics, Inc., successfully completed an initial public offering. Our holdings of Mersana Therapeutics at its IPO price of $15 per share were valued at $4.4 million, or an increase of $1.6 million from the value of our holdings at March 31, 2017. We understand it is hard for investors to value our private holdings. We expect that not every one of our private holdings will end up returning their current values or more. As in the example of Mersana Therapeutics, however, we believe the potential return from some of our investments is greater than their current values. We stand ready to make decisions that we believe are in the best interests of our shareholders and position the business as a whole to be successful in the future. These decisions include taking advantage of near-term opportunities to transition capital out of privately held securities when such opportunities present themselves and where we believe the terms are appropriate from a risk/return perspective.

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[1] We note that the discussions of potential appreciation of stock prices above are illustrations of what we currently believe are possible based on our financial models and historical performance of certain stocks or comparable companies. Past performance may not be indicative of future results and actual results may be materially different than those discussed above. We are not responsible for the accuracy of estimates provided by portfolio companies or analysts.

I hope this letter provides a clear sense for what we are driving towards. At its most maximized level, and as soon as we can, we seek to convert our private portfolio to cash. We seek to use the cash for either making new investments in publicly traded companies or for distribution to shareholders in the form of dividends or share repurchases. We are focused on growing our NAV. We can now do so against the backdrop of lower expenses. We also note that the first and second quarters of 2017 were the first time in nearly five years where NAV increased in two successive quarters.

180 Degree Capital Corp. is the result of the recognition that our old model was not working and that a different strategy held the potential to generate value and a higher stock price for shareholders. We think we are on our way towards delivering on this goal. 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.