

Perritt Capital Management, Inc.

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September 2015

This brochure provides information about the qualifications and business practices of Perritt Capital Management, Inc. and, in certain cases, our affiliates and related persons. Our related persons include our non-clerical/administrative employees and our officers and directors (and any person performing similar functions).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Perritt is a registered investment adviser with the SEC; however, such registration does not imply a certain level of skill or training.

A copy of this brochure may be requested free of charge by contacting our Chief Compliance Officer, Lynn E. Burmeister at 1-800-331-8936. A copy of this brochure is also available on the SEC’s Investment Adviser Public disclosure web site (www.adviserinfo.sec.gov) and on our web site at www.perrittcap.com.

Item 2

Material Changes

This page summarizes material changes, if any, to Perritt Capital Management, Inc.'s Form ADV Part 2A as compared to last year's Form ADV Part 2A dated September 30, 2014.

There were no material changes since our last annual update.

Item 3

Table of Contents

Item 1 - Cover Page	
Item 2 - Material Changes	2
Item 3 - Table of Contents.....	3
Item 4 - Advisory Business.....	4
Item 5 - Fees and Compensation.....	8
Item 6 - Performance-Based Fees and Side-By-Side Management.....	10
Item 7 - Types of Clients.....	11
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.....	12
Item 9 - Disciplinary Information.....	23
Item 10 - Other Financial Industry Activities and Affiliations.....	24
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	25
Item 12 - Brokerage Practices.....	26
Item 13 - Review of Accounts.....	31
Item 14 - Client Referrals and Other Compensation.....	32
Item 15 - Custody.....	33
Item 16 - Investment Direction.....	34
Item 17 - Voting Client Securities.....	35
Item 18 - Financial Information.....	37
Item 19 - Requirements for State Registered Advisors.....	38

Item 4

Advisory Business

History & Ownership

“We tailor portfolio investments and recommendations for each account to meet the specific investment needs of each client.”

Perritt Capital Management, Inc. is located at 300 South Wacker Drive, Suite 2880, Chicago, Illinois 60606, and was incorporated as an Illinois corporation on July 8, 1987. We are a wholly owned subsidiary of Investment Information Services, Inc. (referred to herein as IIS). Michael Corbett is the CEO, CIO and Portfolio Manager of Perritt Capital Management, as well as the majority owner of IIS.

Mr. Corbett joined Perritt Capital Management as a research analyst in 1990, began working as Portfolio Manager in 1996 and became the firm’s President in October 2010.



Investment Advisory Services

We provide discretionary and non-discretionary investment advisory services to individuals, institutions, trusts and other entities that require investment advice on an ongoing basis. In addition to our separately managed accounts, we are the investment adviser to The Perritt Funds, Inc., which has three series; the MicroCap Opportunities Fund, the Ultra MicroCap Fund and the Low Priced Stock Fund. Perritt Capital Management is the institutional marketing name for The Perritt Funds and other Institutional Accounts.

Windgate Wealth Management is the marketing name for wealth management clients that are interested in an ongoing investment advisory relationship with an advisor (Perritt Capital Management, Inc.), or clients that are looking for financial planning. Windgate accounts may invest in one of our equity or ETF and mutual fund asset allocation products.

In the future, Perritt Capital Management, Inc. may offer new strategies, either under the name of Perritt or Windgate, as opportunities arise. For those clients that we provide discretionary investment advisory services, we will make all investment decisions and direct the execution of all transactions for the clients’ account, in accordance with the stated objectives, guidelines and restrictions that a client may impose on the account.

Item 4

Advisory Business (Continued)

We may refuse to enter into an investment advisory arrangement with a prospective client whose investment objectives are considered incompatible with our basic investment philosophy or strategies, or if the prospective client seeks to impose unduly restrictive investment guidelines, or if we cannot determine the identity of the ultimate investor. We generally do not impose any specific requirements on the maintenance of client accounts.

We participate in certain bundled fee programs either by contract with the sponsoring broker dealer or under contracts with individual clients referred by the sponsoring broker dealer. We receive a portion of the bundled fee for our investment advisory services, and that fee can differ by program. In managing accounts under these programs, our overall management strategy does not differ materially from other accounts that we manage. However, certain differences do exist due to the nature of the bundled fee programs, which require, by way of example, that certain models be followed in managing the accounts, that certain program specific restrictions be adhered to, and that certain program specific operational procedures be followed.

As of June 30, 2015, discretionary assets under management are \$622,502,582 and non-discretionary assets are \$936,619.

Financial Planning Services

We provide financial planning services through our Certified Financial Planners. Financial planning involves us conducting a comprehensive evaluation of a client's current and future financial state, using currently known facts to predict the client's future cash flows, asset values and likely withdrawal plans. Through the financial planning process, we consider and evaluate all questions, information and analyses that the client provides to us to determine their likely impact on the client's stated financial goals and objectives. We then provide the client with a written individualized case study, which provides the client with a detailed financial plan designed to assist the client in achieving the client's financial goals and objectives.

Item 4

Advisory Business (Continued)

As desired by the client, the financial plan can address any or all of the following:

- Personal – We review family records, budgeting, personal liability, estate information and financial goals to help the client determine how to achieve the client’s desired financial objectives.
- Tax and Cash Flow – We analyze a client’s income tax, spending and planning for past, current and future years; then illustrate the impact of various investments on the client’s current income tax and future tax liability. We may refer the client to tax accountants. We do not prepare tax returns for clients.
- Investments - We analyze investment alternatives and their effect on the client’s net wealth.
- Insurance – We review existing policies to ensure adequate coverage for life and health. We do not sell insurance, but may refer the client to an insurance agent who may be affiliated with us.
- Death and Disability – We review the client’s cash needs at death, income needs of surviving dependents, estate planning and disability income to help the client be financially prepared for these events.
- Estate – We assist the client in assessing and developing long-term strategies, including, but not limited to, reviewing the client’s living trusts, wills, expected estate tax obligations, powers of attorney, and asset protection plans to help the client assess how these items impact the client’s financial objectives.

We gather required information through an in-depth personal interview and written records. The information we gather includes the client’s current financial status, tax status, future goals, returns, objectives and attitudes towards risk. We then carefully review documents the client supplies to us, including a questionnaire completed by the client, before completing the financial plan that we present to the client. Should the client choose to implement the recommendations contained in the financial plan, we encourage the client to work closely with the client’s own attorney, accountant, insurance agent and investment advisor. Implementation of the financial plan recommendations is entirely at the client’s discretion.

Item 4

Advisory Business (Continued)

Financial Planning Services (continued)

We gather required information through an in-depth personal interview and written records. The information we gather includes the client's current financial status, tax status, future goals, returns, objectives and attitudes towards risk. We then carefully review documents the client supplies to us, including a questionnaire completed by the client, before completing the financial plan that we present to the client. Should the client choose to implement the recommendations contained in the financial plan, we encourage the client to work closely with the client's own attorney, accountant, insurance agent and investment advisor. Implementation of the financial plan recommendations is entirely at the client's discretion.

We may also provide general non-securities advice to the client on topics including tax and budgetary planning, estate planning and business planning.

Typically, we present the financial plan to the client within three months of the client executing a Financial Planning Agreement with us, provided the client promptly supplies us with all the requested information.

It is the client's responsibility to keep us fully and continuously updated as to the client's personal and current financial situation, investment objectives, personal circumstances, needs and goals, and to promptly inform us of any changes to information previously provided to us.

We strive to render our best advice for our clients, but we cannot assure or guarantee that clients will achieve their stated financial goals and objectives.

Item 5

Fees & Compensation

Investment Advisory Services

Our standard annual investment advisory fee for separately managed accounts is 1% of the market value of the portfolio. Advisory fees are billed quarterly, in advance, based on the portfolio's market value on the last business day of the previous quarter. Fees may be deducted from client's account, subject to client approval and authorization, or billed directly to the client.

Advisory fees that are different from the standard investment advisory fee may be negotiated at our sole discretion. Circumstances that may be considered when amending the standard fee include a client's history with us, the nature of the account (charitable trust, foundation, etc.), types of investments in the account and any extraordinary administrative work requested.

Accounts opened will be charged an initial fee prorated through the end of the current calendar quarter end. Accounts closed will have their investment advisory fee prorated through the date of termination, and any unearned portion of the fees, that were paid in advance, will be refunded to the client.

The investment advisory fee does not include brokerage commissions, transactions fees or other related costs and expenses that may be incurred in connection with your investment advisory account. Brokers, custodians and other third parties may charge our clients for items such as commissions, custodial fees, wire transfer and electronic fund fees and taxes. Please refer to Item 12 in this brochure for further discussion of our brokerage practices.

For some of our client accounts, we may invest in third party mutual funds or ETFs. In those instances, clients pay two levels of advisory fees – our direct advisory fee and an indirect management fee to such unaffiliated investment companies.

We may recommend to our clients the purchase of shares of the Perritt Funds, and our aggregate compensation may increase as a result of the purchase of shares of one of the Funds by our clients. However, the value of such Fund shares is excluded from the value of the client's account for purposes of computing our management fee with respect to that account. This is done in order to prevent us from receiving a fee from both the client and the Perritt Funds with respect to the same assets under management.

Item 5

Fees & Compensation (continued)

Financial Planning Services

For the financial planning services that we provide to our clients, we typically charge a fee based upon a percentage of the client's current assets or a fixed fee, as negotiated between the client and us. This fee cover our review and analysis of the client's financial position and the preparation and presentation to the client of a written individualized case study, which provides the client with a detailed financial plan designed to assist the client in achieving the client's financial goals and objectives. The exact fees are specified in the Financial Planning Agreement.

A fee for subsequent updates of the financial plan may be charged in addition to the initial fee, as agreed to between the client and us. We reserve the right to waive any updates fees for any reason.

In determining the appropriate fee to charge a client, we assess the complexity of the client's financial circumstances, the level of skill required to complete the proposed financial planning process and related financial plan, and the time likely to be required to perform the services. One-half of the fee is usually due and payable upon acceptance of the Financial Planning Agreement, with the balance of the fee due and payable upon presentation of the plan. Under no circumstances do we require prepayment of a fee more than six months in advance.

Some of our affiliated persons are able to implement investment recommendations made in the financial plans that we present to our clients. When these person act in such capacity, they may charge a separate fee (for example, commissions or other sales-related forms of compensation). This presents a potential conflict of interest to the extent such an affiliate recommends that you invest in a product which results in a commission being paid to the affiliate. Clients are fully informed of any such potential conflicts of interest, and are under no obligation to engage such affiliates when implementing recommendations made in their financial plans.

Mutual Funds

The Perritt MicroCap Opportunities Fund's annual investment advisory fee is 1% of its average daily net assets.

The Perritt Low Priced Stock Fund's annual investment advisory fee is 1% of its average daily net assets.

The Perritt Ultra MicroCap Fund's annual investment advisory fee is equal to 1.25% of its average daily net assets less than or equal to \$100 million; 1.00% with respect to average daily net assets in excess of \$100 million and less than or equal to \$200 million; and 0.50% with respect to average daily net assets in excess of \$200 million.

Item 6

Performance-Based Fees and Side by Side Management

We do not receive performance-based fees.

Item 7

Types of Clients

We provide investment advisory services to many different types of clients including open-end registered investment companies, individuals, institutional investors, trusts, estates, pension and profit sharing plans, and retirement plans.

The minimum account size to open a separately managed account is generally \$500,000. We may waive this initial investment requirement.

Minimum investments in The Perritt Funds are as described in their prospectus, which can be found at www.perrittfunds.com.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

Each of our investment strategies uses an investment philosophy that combines our long-term investment horizon with a fundamental understanding that a well-balanced and diversified portfolio can help clients further achieve their investment goals and satisfy their risk tolerance.

Our investment strategies may use model portfolios. However, not all of our clients will hold all of the same securities contained in the applicable model portfolio. This may be due to general market conditions, the availability of a particular security within the target price range, a client's investment restrictions or investment guidelines, or other considerations that may make certain investment recommendations impossible or inadvisable to execute in all client accounts.

On occasion we may invest in Initial Public Offerings (IPO'S) or Secondary Offerings for our mutual fund accounts. Due to the limited availability of shares in these situations, our wealth management accounts generally will not participate in these transactions.

A summary of our investment strategies, the investment portfolios we offer, and the individual risks involved follows.

EQUITY PORTFOLIOS

SMALL/MICRO-CAP/ULTRA SMALL COMPANY

The investment objective of the Low Priced, Micro-cap and Ultra Small Company Strategies is to provide our clients with exposure to the Smaller Company and Microcap Universe of stocks. Based on academic research, our investment philosophy for this strategy is to take advantage of the long- term tendency of common stocks of small and micro-cap companies to outperform

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

EQUITY PORTFOLIOS (cont'd)

SMALL/MICRO-CAP/ULTRA SMALL COMPANY (cont'd)

Investment Process

stocks of large companies at equivalent levels of risk. The principal difference between our three micro-cap company strategies is the size of company at the time of initial purchase. The Perritt Ultra MicroCap Strategy invests in the common stocks of companies with a market capitalization below \$300 million at time of initial purchase; the MicroCap Opportunities Strategy invests in the common stocks of companies with a market capitalization between \$50 and \$500 million at time of initial purchase; the Low Priced Strategy invests in the common stocks of companies with a market capitalization below \$3 billion at the time of initial purchase.

For each of the small/micro-cap company equity strategies, we follow a disciplined investment process that uses a bottom-up approach, which favors companies with modest valuation multiples relative to long-term growth prospects. Steps in this process include:

- Companies are first subjected to a nine-point evaluation - based on balance sheets, cash flow statements and income statements.
- For companies whose fundamentals look favorable based on the nine-point evaluation, the next step is to assess its broader business prospects. The focus of this step is to identify growing, niche companies with innovative products and/or services with the potential to build franchises and brands.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

EQUITY PORTFOLIOS (cont'd)

Blue Chip

The investment objective of the Blue Chip Strategy is to offer our clients a portfolio designed to achieve long-term capital appreciation by investing primarily in the common stocks

of 40 to 50 U.S. companies with market capitalizations above \$5 billion at the time of initial purchase.

Investment Process

Our research process for the Blue Chip Strategy begins with screening the Russell 1000 Index companies with a minimum \$5 billion market cap, using a variety of investment valuation metrics, i.e. P/B, P/S and Price to Cash Flow. Companies with a strong balance sheet and sustained cash flow, as well as a high ROE (Return on Equity) are considered for further research.

Internal and external research is considered, and companies that are determined to be undervalued are placed on the watch list for possible inclusion in the portfolio.

ASSET ALLOCATION PORTFOLIOS

The investment objective of our **Asset Allocation Portfolios** is to offer our clients an opportunity to invest in diversified portfolios with exposure to sectors of the economy, various global regions and a variety of asset classes. Each asset allocation strategy is focused on undervalued areas that may generate positive returns based on relative valuations and growth prospects.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

ASSET ALLOCATION PORTFOLIOS (cont'd)

Investment Process

The investment process for our **Asset Allocation Portfolios** begins typically with a top down approach while maintaining a diversified portfolio. First, a menu of various asset classes is decided upon based on historical performance, risk and correlation characteristics. Second, we examine various mutual funds, ETF's and alternative investments and invest in those that we believe are positions consistent with the economic sector outlook and strategy of the portfolio.

The equity exposure in these Portfolios can be segmented into investments by region and market-cap size, including domestic and international equity, as well as emerging markets. The Fixed income exposure can include government and corporate bonds of short, intermediate, or long term that are either high yield or investment grade. Alternative investments, i.e. real estate, commodities, etc. will be used based on the individual strategy of each strategy.

ALL WEATHER STRATEGY

The investment objective of the All Weather Strategy is to provide our clients with a balanced portfolio using a dedicated allocation to fixed U.S. and International income securities, U.S. and International equities, and alternative investments. This portfolio seeks capital appreciation, current income and preservation of capital by maintaining a well-diversified portfolio invested in no-load mutual funds and ETF's.

Allocation to the various asset classes in this portfolio will be shifted based on our economic/sector outlook, while keeping a focus on the benefits of a diversified portfolio at all times. In general, the All Weather Strategy will strive to retain at least some investment in each asset class irrespective of economic assumptions.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

ASSET ALLOCATION PORTFOLIOS (cont'd)

ALL WEATHER STRATEGY cont'd

Portfolio assets are rebalanced periodically back to target allocations to ensure that allocations are kept suitable to the market environment. Income will be generated by investing in assets that pay dividends, short and long-term gain distributions, or interest payments from fixed income investments.

GLOBAL GROWTH STRATEGY

The investment objective of the Global Growth Strategy is to provide our clients with an equity based portfolio-using investments in U.S. and Global Equities no-load mutual funds and ETF's. This strategy will also have some exposure to high yield fixed income and commodities based on current economic and market conditions.

Investments are chosen based on low expense ratios, low turnover and an accurate representation of the asset category. In general, the Global Growth Portfolio will have a concentration in equity investments.

Portfolio assets are rebalanced periodically back to target allocations to ensure that allocations are kept suitable to the market environment. Although portfolio turnover is expected to be modest, rapidly changing economic circumstances can increase portfolio turnover.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

ASSET ALLOCATION PORTFOLIOS (cont'd)

INCOME PLUS STRATEGY

The investment objective of the Income-Plus Strategy is to provide our clients with an income generating portfolio that maintains an equity allocation to allow for potential capital appreciation.

The Income-Plus Portfolio will normally be invested in at least 80% of its net assets in domestic exchange traded funds (ETS's) and mutual funds made up of equity, fixed income and alternative asset portfolios. Each position will be evaluated within the context of its yield and potential for capital appreciation relative to the risk of the investment. Fixed income products will be evaluated based on their yield spreads to U.S.

Treasuries and equities will be evaluated based on valuation metrics as well as their dividend yield.

The allocation to the various holdings will be based on market conditions, economic volatility or interest rate pressures.

INTERNATIONAL EX-U.S. STRATEGY

The investment objective of the International Ex-U.S. Strategy is to provide our clients with a portfolio focused on international exposure outside of the United States. Using investments in both developed and emerging markets outside of the United States, this strategy attempts to provide diversification and positive returns to the portfolio.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

ASSET ALLOCATION PORTFOLIOS (cont'd)

INTERNATIONAL EX-U.S. STRATEGY cont'd

Using different asset classes, including equity, fixed income and real estate, portfolios in this strategy will contain ETFs selected based on a number of criteria, including asset size, liquidity, management fee, inception date, and number of holders. The companies within the ETF's may be of any market capitalization and may be well-known established firms or small emerging growth companies.

Typically, portfolio assets will be rebalanced annually; however, rebalancing may occur when there is an event that could potentially affect regions where the strategy is invested.

TACTICAL ASSET ALLOCATION STRATEGY

The investment objective of the Tactical Asset Allocation Strategy is to provide clients with an actively managed portfolio focused on exposure to current and developing market trends while maintaining a passive core equity exposure to the general market. The Tactical Asset Allocation portfolio will normally be invested in 40% to 60% actively selected ETF's and mutual funds of Global equities, fixed income and alternative investments.

This strategy has two components, 30% to 40% of the total portfolio ("core") will be invested in broad, index based holdings with low turnover. The core equity exposure will be comprised of either long or short positions in passive indexes, ETF's and mutual funds with relatively low turnover.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

ASSET ALLOCATION PORTFOLIOS (cont'd)

TACTICAL ASSET ALLOCATION STRATEGY cont'd

The second component to this strategy will be the tactical segment. Investments in this portion of the portfolio will be made once they have been determined to be undervalued relative to the rest of the market. Certain segments of the market, i.e. sector, country, market cap, etc., may, from time to time, be poised to outperform the rest of the market. Investment in securities from those segments will make up the tactical

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. While investment portfolios are tailored to meet individual needs and objectives, long-term growth and avoidance of undue risk have usually been the primary considerations. There is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results and different periods and market conditions may result in significantly different outcomes.

For those accounts that own equities, fixed income and other investment securities, the risks presented are in proportion to the allocation to different asset class within the portfolio. For all portfolios, a portfolio's performance depends on the active management by us in selecting and maintaining securities that will achieve the stated investment objective. A portfolio could underperform compared to other portfolios having similar investment objectives.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

Risk of Loss cont'd

For those portfolio strategies that invest in mutual funds and ETFs, such vehicles incur management and other fees and expenses related to their investment programs, as described in the offering documents of such vehicles. As a result, clients invested in these portfolio strategies pay two levels of fees - our direct fees and the indirect fees of the mutual funds and ETFs in which the strategies invest. The indirect fees and expenses may ultimately reduce the returns achieved by such portfolios.

Market Conditions:

Portfolios are subject to the general risk of adverse market conditions for equity securities. The market prices of equity securities are generally subject to greater risk than prices of fixed income securities, such as bonds and preferred stock. Although equity securities have historically demonstrated long-term increases in value, their prices may fluctuate markedly over the short-term due to changing market conditions, interest rate fluctuations and various economic and political factors.

Small Companies:

Smaller companies often have limited product lines. Markets and financial resources, may be dependent for management on one or a few key persons, and can be more susceptible to losses, stock price volatility, reduced stock trading volume and liquidity. Historically, small companies tend to perform poorly during times of economic stress. Emerging companies tend to be more volatile and somewhat more speculative than investments in more established companies.

Company and Sector Risk:

Companies in the same industry or sector may be similarly affected by economic or market events, making some portfolios more vulnerable to unfavorable developments in an industry or sector. Certain investments in individual companies or sectors may underperform in the short-term. At times, the long-term potential of a company may not be reflected in the current stock price.

Item 8

Methods of Analysis, Investment Strategies and Risk of Loss (continued)

Risk of Loss cont'd

Foreign Issuers and American Depositary Receipts (ADRs):

Investments in foreign issuers and ADRs are subject to the risks normally associated with securities of the same type, and are also subject to additional risks not associated with investments in U.S. securities. These risks may include political, social or economic instability in the country of the issuer, the difficulty of predicting international trade patterns, and the possibility of the implementation of exchange controls, nationalization of assets or foreign taxation. In addition, there may be less publicly available information about a foreign company.

Equities:

Equity investments in the form of common stock represent an ownership interest in a company. These companies may or may not pay dividends. Common stock represents the junior position in a company's capital structure. Although common stocks have a history of long-term growth in value, their prices fluctuate based on changes in a company's financial condition and on overall market and economic conditions. Therefore, the price of a common stock may decline for a number of reasons. The price declines may be steep, sudden and/ or prolonged. There may be additional risks for small and micro-cap equities, international equities, particularly those in emerging markets, as well as stocks in particular sectors.

Item 8

Methods of Analysis, Investment Strategies

and Risk of Loss (continued)

Risk of Loss cont'd

Fixed Income:

Fixed income investments are subject to certain risks such as credit, interest rate and liquidity. When interest rates rise, the price of fixed income securities generally decline. Securities with longer maturities and lower credit ratings are generally more sensitive to interest rate changes than shorter-term, higher-grade securities. There is no guarantee that all interest payments will be received as scheduled, if ever, and there is no guarantee that principal investment will be returned in full.

Commodities:

Investments in commodities may be in the form of stocks, mutual funds or ETF's of precious metals, such as gold. Commodities markets are not as liquid as most equity and fixed income markets and are subject to more price volatility.

Currency:

Currency investments are subject to the risks associated with inflation and currency devaluation, economic weakness of the issuer and political risk.

Item 9

Disciplinary Information

We have had no disciplinary actions taken against us or any of our employees within the last ten years by any domestic, foreign or military court; the SEC, or any other federal regulatory agency; any state regulatory agency or any foreign financial regulatory authority; or any self-regulatory organization (SRO).

Item 10

Other Financial Industry Activities & Affiliations

We receive a material portion of our revenues from investment management fees from the Perritt Funds. See Item 5 – “Fees and Compensation” for a description of the advisory fees paid by the Perritt Funds.

Certain of our principals and officers also serve as officers and directors of the Perritt Funds, and may receive compensation from the Perritt Funds for those services. As disclosed above, to the extent that a client’s assets are invested in the Perritt Funds, we do not charge clients a separate advisory fee on those assets. In no case will we compensate an employee directly in connection with any purchase of shares of the Perritt Funds for our client accounts.

Several of our employees are registered representatives of Quasar Distributors, LLC and may from time to time, in their capacity as registered representatives, sell shares of the Perritt Funds. These individuals will not be compensated by Quasar Distributors, LLC for sales of the Perritt Funds shares to our clients.

We may recommend to our clients the purchase of shares of the Perritt Funds, and our aggregate compensation may increase as a result of the purchase of shares of one of the Funds by our clients. However, the value of such Fund shares is excluded from the value of a client’s account for purposes of computing our management fee with respect to that account. This is done in order to prevent us from receiving a fee from both the client and the Perritt Funds with respect to the same assets under management.

Item 11

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have adopted a Code of Ethics. On occasion, our principals or we may invest in securities owned by a client, but the interests of the client always take precedence. We may also recommend to clients that they buy or sell securities in one of the Perritt Funds. See Item 5 - “Fees and Compensation” and Item 10 – “Other Financial Industry Activities and Affiliations” for a discussion on investments by clients in one of the Perritt Funds and the fees we receive.

All of our employees are required to pre-clear personal trades with the Chief Compliance Officer (CCO), who also reviews all employee trades on a regular basis. The CCO will not pre-clear an employee trade if, at the time of such purchase or sale, there is an open order for the purchase or sale of such security by one of the Funds or a managed account or we have an immediate present intention to enter an order for the purchase or sale of such security by one of the Funds or a managed account.

In order to ensure that each of our principals and employees strictly adhere to the highest standards of conduct and integrity in handling business on behalf of our clients, each principal and employee signs an annual attestation that they have read and understand our Code of Ethics. Clients and prospective clients may request a complete copy of our Code of Ethics by writing to our CCO at the address listed on the cover page of this brochure.

We may not act as a principal for our own account and knowingly sell any security to or purchase any security from a client without disclosing to such client in writing before the completion of such transaction the capacity in which we are acting and obtaining the consent of the client to such transaction. Under no circumstances do we effect cross transactions for ERISA clients. When engaging in a cross transaction, neither we nor any of our affiliates receives any compensation for acting as broker-dealer, and we follow any applicable SEC rules or guidance for cross transactions.

Item 12

Brokerage Practices

In placing purchase and sale orders for portfolio securities for our clients who have not directed us to use certain brokers, we seek the best execution of orders at the most favorable price in light of the overall quality of brokerage and research services provided, as described below.

Many of the transactions that we effect for our clients involve payment of a brokerage commission by the client. In some cases, transactions are with firms who act as principals of their own accounts. In selecting brokers to effect portfolio transactions, the determination of what is expected to result in best execution at the most favorable price involves a number of largely judgmental considerations. Specifically, when we allocate trades to brokers, we review and consider the following criteria:

- Our past experience with the broker or the proven ability of the broker to perform the trades.
- The difficulty of executing the trade in question (whether due to liquidity, volatility, speed of the broker or communication feedback).
- The ability of the broker to allocate “block trades” for multiple accounts at average pricing.
- Whether the broker makes available soft dollar or other research incentives. The ability of the broker to handle/provide size execution.
- The ability of the broker to report trades via the Depository Trust Company.
- The ability of the broker to service special needs (for example, certification/ transfers/handle restrictions, etc.)
- The price of the broker’s commissions alone.

Item 12

Brokerage Practices (continued)

In effecting trades that require execution through multiple brokers, we time the entry of the trades in a manner that is designed to provide no advantage to any individual account or group of accounts over time. In making this determination, we review and consider the factors below. After considering the factors below, the priority for order entry will be set on a random or rotational basis.

- The liquidity of the issue in question and the broker's speed of response and ability to execute without negatively effecting price.
- The availability or need of cash in a given account or group of accounts.
- The relative size or position of the issue in question relative to other accounts or groups of accounts.
- The size of orders to be executed through the same broker.
-

Soft Dollars (Section 28(e))

As noted above, in allocating brokerage business for our clients, we also take into consideration the research, analytical, statistical and other information and services provided by the broker (known as soft dollar benefits). While we believe these services have substantial value, they are considered supplemental to our own efforts in the performance of our duties for our clients. Research services obtained on behalf of one client may indirectly benefit our other clients. Specifically, we may cause clients to pay commissions higher than those charged by other brokers for soft dollar benefits (known as paying-up), if we determine in good faith that such amount of commission is reasonable in relation to the value of brokerage and research services provided by the executing broker viewed in terms of either the particular transaction or our overall responsibilities with respect to our clients.

Item 12

Brokerage Practices (continued)

These research services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. Within the last fiscal year, we acquired research reports analyzing securities, industries, and market trades with client brokerage commissions (or markups or mark-downs).

With respect to selecting brokers who provide research services, we select brokers who can provide us:

- Useful reports on individual companies and industries of particular interest to us;
- Current and historical statistical information, general economic data, and information pertinent federal and state legislative developments and changes in accounting practices;
- Direct access by telephone or meeting with leading research analysts through- out the financial community, corporate management personnel, industry experts, leading economists and government officials;
- Comparative performance evaluation and technical measurement services;
- Economic advice; and
- Securities quotations.

When we use client brokerage commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services. Therefore, we may have an incentive to select or recommend a broker based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving most favorable execution.

Item 12

Brokerage Practices (continued)

We seek to allocate soft dollar benefits to our client accounts proportionately to the soft dollar credits the accounts generate; to the extent that account size has some correlation to the amount of credits generated and will have correlation to the amount of benefit received.

During the last fiscal year, the procedure used to direct client transactions to specific brokers in return for soft dollar benefits was simple and effective. We made a determination as to whether there was a need for additional soft dollar benefits. If there was such a need, then all trades for the selected broker were designated as soft dollar trades until the determination for the need of additional soft dollar benefits was terminated. During that period client trades executed at the selected broker paid soft dollar commissions.

Practices for Clients Who Direct Brokerage

We permit our clients to direct brokerage. For those individual client accounts that have directed us to use specified brokers, we generally allocate trades to their brokers on a rotating basis. If a client directs brokerage, we may be unable to achieve the most favorable execution of that client's transactions, and the client may pay higher brokerage commissions for the reasons identified below. The following conditions apply to directed brokerage:

- We cannot negotiate commissions on our client's behalf. As a result, client's directing brokerage may pay materially different commissions from those paid by our other clients. It will depend on each client's commission arrangement with their broker and other factors, such as the number of shares involved in the transaction, whether the order is a round lot or odd lot order and the market for the security being bought and sold.
- We cannot negotiate volume discounts on so-called "block trades" (namely, orders for the purchase or sale of the same security for more than one of our accounts, including the client). For those clients who do not direct us to use a particular broker, we may be able to negotiate reduced commission rates for transactions through certain brokers. Such reduced commission rates generally apply to all transactions effected through the broker, including so-called "block trades."

Item 12

Brokerage Practices (continued)

Aggregation of Trades

For the benefit of our clients, when possible, we will aggregate purchases and sales of securities, “block trades”. When we engage in block trades we allocate securities to individual client accounts in a manner that is designed so that no individual account is disadvantaged over time.

In instances where several client accounts, not including mutual fund clients, are to be traded in the same securities, client accounts are organized by the custodian that services such accounts. The order of custodians is selected on a rotating basis.

As necessary, within each custodian group, the order for the placement of trades is systematically randomized using a non-proprietary software system.

In some circumstances, it may not be possible to fill the entire aggregated trade, in those instances, we review and consider the factors below.

- The availability or need of cash in a given account.
- The relative size or position of the issue compared to the rest of the accounts.

As noted above, for those clients who do not direct us to use a particular broker, we may be able to negotiate reduced commission rates for transactions through certain brokers. These commission rates usually vary depending on the size of the orders comprising the transaction. Consequently, even with respect to “block trades,” clients may pay different commission rates based on the size of their order included in the “block trade.”

As trades for mutual fund clients are done directly with brokers whereas trades for other client accounts are done through their custodians) mutual fund clients trade either before or after the trades for other client accounts, on a rotational basis.

Item 13

Review of Accounts

The CIO and Investment Committee review our client accounts on a monthly basis. However, if there is unusual market activity or changes in our clients' investment circumstances, we will review the accounts on a more frequent basis.

We provide our clients with detailed, written reports regarding their accounts on a quarterly basis (or more frequently if requested by a client). These reports summarize a client's account, including a summary of the account's asset allocation, industry diversification, yield, cost basis, market values, realized and unrealized gains and losses and transaction activity.

Item 14

Client Referrals and Other Compensation

Normally, we do not compensate any person who is not one of our employees (or who is not otherwise a supervised person) for client referrals. However, from time to time, we may accept client referrals from persons referred to as “Solicitors.” All Solicitors are required to enter into a written agreement with us that requires the Solicitor to deliver our Form ADV Part 2A and a separate disclosure document relating to the Solicitor’s relationship with us to each potential client. Payments to Solicitors may be in the form of a fixed periodic amount or a percentage of the investment management fee that we receive. A client referred to us by a Solicitor will not pay a higher investment management fee as a result of the referral, unless specifically stated otherwise in the Solicitor’s separate disclosure document.

When appropriate, we do ask and encourage our clients to provide us with referrals of potential new clients. No client receives any referral fee or other economic benefit in connection with any such referral.

Item 15

Custody

To the extent that we have, or may be deemed to have, custody of client funds or securities, all such funds or securities are maintained by a qualified custodian. The qualified custodian will provide our clients with account statements on at least a quarterly basis. We urge you to carefully review such statements and compare these official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. If you have any questions about your statements or notice any discrepancies, please contact us. We also ask that you contact us if you stop receiving, at least quarterly, statements from the custodian.

Item 16

Investment Direction

We generally have discretionary authority to manage securities accounts on behalf of our clients. See Item 4 – “Advisory Business” for information on the number of accounts that are discretionary accounts versus non-discretionary accounts, and information on limitations that clients may place on our investment authority. Our authority to exercise investment discretion is agreed upon in advance by the client through the terms of our investment management agreement with the client.

Item 17

Voting Client Securities

Our clients may delegate to us authority to vote proxies on securities held in their accounts. To assist us in voting proxies on behalf of our clients, we have adopted a proxy voting policy that sets forth our proxy voting procedures and guidelines. In general, when voting proxies for our clients, we make voting decisions consistent with what we believe to be the “economic best interests” of the client and review each proxy on a case-by-case basis, with the final decision based on the merits.

To assist us in reviewing proxies, we may engage a third-party administrator to research and analyze each proxy and make a recommendation to us on how the vote should be cast on the issue. After we have reviewed the recommendation by the third-party administrator, we will instruct the third-party administrator, in writing, how to vote the proxies and the third-party administrator will cast the vote on behalf of the client.

Set forth below are the general guidelines we utilize for voting proxies on behalf of our clients:

With respect to routine matters, such as the election of directors and the ratification of auditors, we tend to vote with management, although we reserve the right to vote otherwise.

With respect to proposals related to social, environmental or political matters, we tend to vote with management, but the economic interest of the client is the foremost consideration when determining how to vote on such proposals.

With respect to proposals related to shareholder sovereignty, we tend to vote against any proposal that limits shareholder influence on management or adversely affects the potential value received by shareholders.

Item 17

Voting Client Securities

(Continued)

With respect to the approval of stock option plans, we generally vote against such plans.

There may be instances where our interests may conflict or appear to conflict with the interests of our clients. In such situations we will, consistent with our duty of care and duty of loyalty, vote the securities in accordance with our proxy voting policy, but only after disclosing any such conflict to our clients prior to voting and affording our clients the opportunity to direct us in the voting of such securities.

Item 18

Financial Information

We are not required to provide financial information pursuant to this Item.

Item 19

Requirements for State Registered Advisors

We are not registered with, nor are we required to register with, any state securities authorities as an investment adviser.