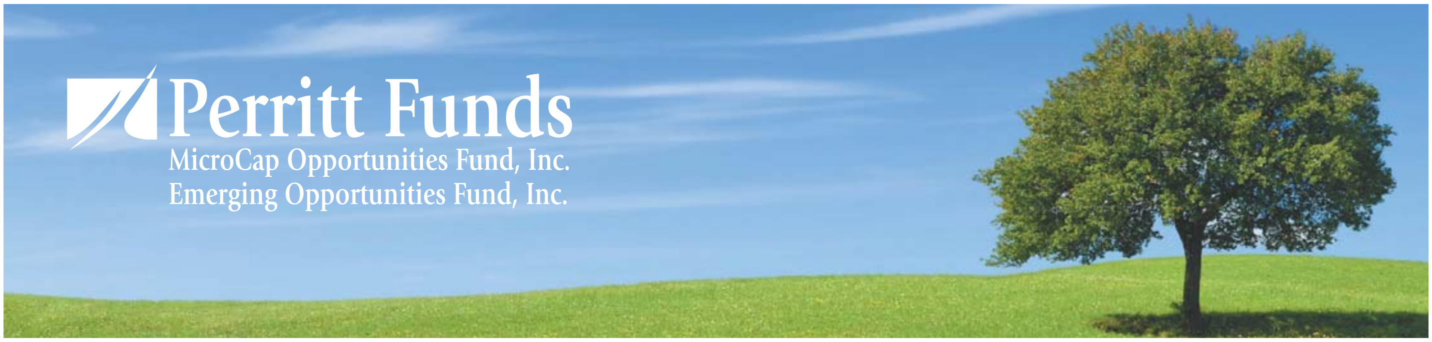


3Q2011 Manager Commentary

Michael Corbett CIO and Portfolio Manager

Perritt MicroCap Opportunities
Perritt Emerging Opportunities

Numbers Don't Lie:

A Disappointing Quarter, Compelling Opportunity?

If we believe that numbers don't lie, then our words shouldn't either: we are disappointed with our recent performance. Yet cold, hard numbers can teach us a lot, especially in an environment being dominated by emotion. In this commentary we will keep the words short and focus on the data. What can it tell us about the recent downturn? And where is the opportunity?

The extreme volatility in the micro-cap space was caused by a rush to liquidity by investors of all kinds. Fearful investors shunned the stocks that were less likely to be able to provide them with short term cash and they placed a premium valuation on more liquid, defensive names. The result was that poor performance has been most pronounced in the lower market-cap stocks, as seen in the adjacent table. Because we invest primarily in the sub-$500 million market cap range, the companies that we invest in were adversely affected.

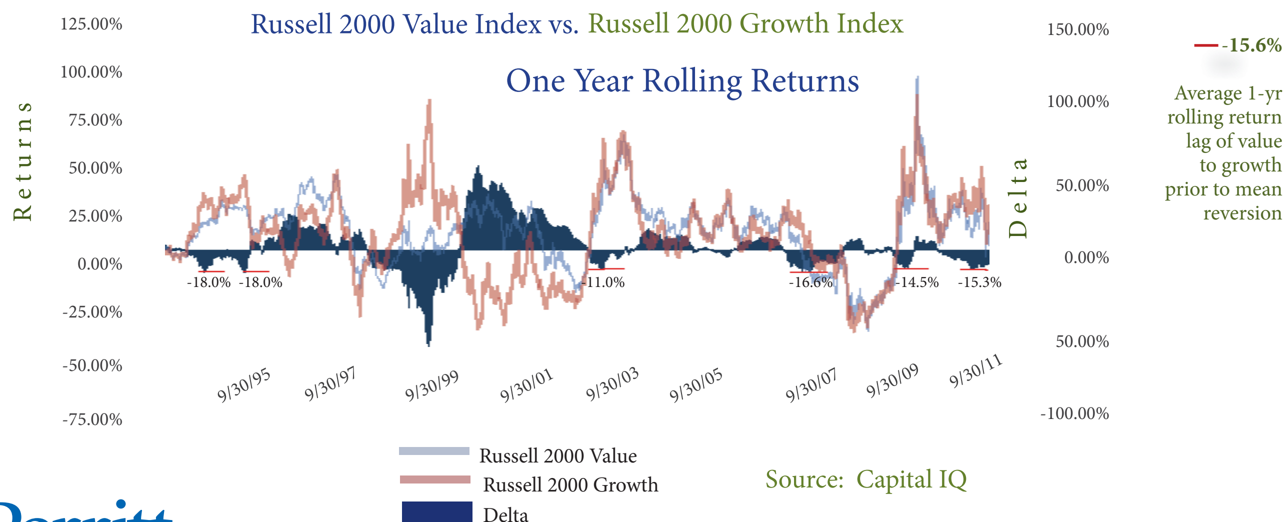
In Rush to Liquidity, Larger Market Caps Outperform

December 31, 2010 to September 30,2011	Russell 2000 Index* Median Return	Number Of Stocks
$150MM	-23.87%	149
$150MM-$500MM	-26.24%	799
$500MM-$2Bil.+	-19.72%	924
$2Bil.+	-14.47%	102

Source: Capital IQ

Value stocks have lagged growth stocks in the small-cap space this year, although this trend has been slightly reversing. In the past twenty years, The Russell 2000 Value Index has lagged the Russell 2000 Growth Index in seven distinct periods outside of the Technology Boom of the late 90's, which can be viewed as somewhat of an anomaly. In each of the seven periods, the Value Index lagged the Growth Index by an average of 15.6% on a one-year basis before a predicable reversion to the mean occurred. In April of this year, the one-year return of the Value index lagged the Growth Index by 15.8%. As expected, since that time small-cap value stocks have outperformed. We tend to invest with an emphasis on solid fundamentals and clean balance sheets and we prefer to not pay for a price-to-earnings growth (PEG) ratio of over 1.0 for a growing company. Because of this, the relative out performance of growth stocks has hurt our portfolio on a year-to-date and one-year basis, although it is encouraging that this trend is slightly reversing as might be expected.

Value Lagging Growth… Reversion to the Mean Looms?



Source: Capital IQ

Perritt Capital Management

* Data represents companies listed in the Index on 12/31/10 and does not reflect rebalance of Index on 9/30/11

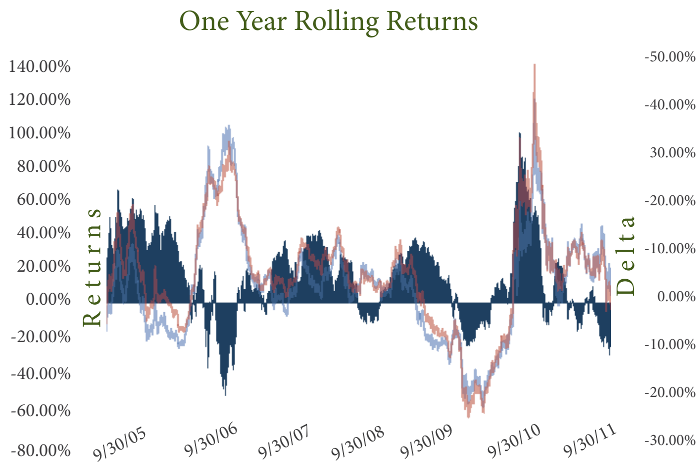
3Q11 2011 Manager Commentary

Perritt Capital Management

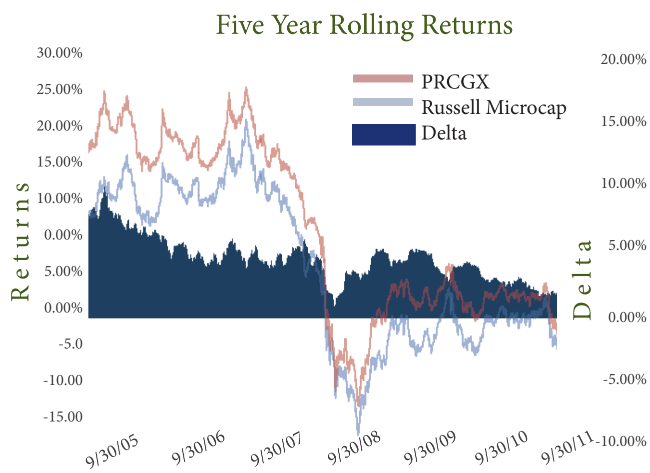
Short Term Volatility… Long Term Track Record

We know that the best way to measure performance is over a full market cycle. Despite being disappointed with our recent short-term performance, we do remember that we have been here before. We are confident about the future because our five-year rolling returns (shown below) confirm that our shareholders have profited relative to the Index despite short term volatility.

Perritt Micro Cap Fund vs. Russell MicroCap Index



Perritt Micro Cap Fund vs. Russell MicroCap Index



Source: Capital IQ

Our twenty years of experience investing over multiple market cycles has taught us that it is difficult – if not impossible – to predict the moment when a short-term trend in under-performance of a market segment or a skilled manager reverses itself. However, portfolio valuations have often provided a good forecast. Many of the stocks in our portfolio have been a victim of indiscriminate selling regardless of balance sheet fundamentals or business performance. We hope that the valuation data and examples that follow will give you an insight into the earnings power and upside opportunity in our portfolios that are currently being ignored by Wall Street.

Opportunity Now: Compelling Valuations

	PRCGX* #	PRCGX* % of Portfolio	PREOX* #	PREOX* % of Portfolio
Holdings	125	-	126	-
Companies Below TBV	44	35.2%	43	34.1%
Companies Below 1x Revenue	86	68.8%	92	73.0%
Companies Below 7x OCF	35	28.0%	36	28.8%
No Debt	35	28.0%	37	29.4%

	Mkt. Cap	Price to Tangible Book	Price To Sales	Price To Earnings (Trailing 12 Months)	Price To Operating Cash Flow
PRCGX	151.0	1.0	0.6	14.8	8.6
PREOX	49.5	1.0	0.6	12.9	6.3
RMC Index	123.1	1.2	1.3	9.9	5.0
R2000 Index.	401.5	1.6	1.3	16.5	7.4

*PRCGX - Perritt Microcap Opportunities Fund
*PREOX - Perritt Emerging Opportunities Fund

As of 9/30/11 (Annualized %)	PRCGX	PREOX
YTD	-24.02%	-14.90%
1-YR	-11.05%	-1.15%
3-YR	-0.62%	5.97%
5-YR	-2.66%	-2.52%
10-YR	9.49%	N/A
15-YR	8.12%	N/A
Inception	8.16% (4/11/1988)	3.16% (8/30/2004)
	Expense Ratio 1.27%	*Expense Ratio 1.72%*

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 1-800-331-8936. The funds impose a 2% redemption fee for shares held less than 90 days. Performance data quoted does not reflect the redemption fee. If reflected, total return would be reduced.

Perritt Capital Management

More Strength In Numbers: A Few Examples Typical of Portfolio

Michael Baker (BKR)
Over-reaction to Lowered Guidance

Market Capitalization..190MM
Revenue ....$475 MM
Cash..$90 MM
P/B...1.4
P/E 2011..12.4
P/E net cash..6.0

- **Provides engineering design** and program management for the construction industry
- **Management recently lowered** business projections by 10% due to project delays, market reaction brought stock down over 30%
- **Despite this, business backlog** of more than $1.5 billion & financially strong balance sheet including more than $10.00/share in cash and no debt.
- **Removing $10.00/share in cash,** trading at 6x 2011 earnings

John B. Sanfilippo and Sons (JBSS)
03x Sales; 0.5x Book

Market Capitalization......................................$85 MM
Revenue...$674 Bil.
P/B...0.5

- **Processes and markets tree nuts and peanuts** under private labels including Fisher nuts.
- **Stock sold off 36% YTD as earnings** have lagged due to volatile raw nut prices
- **Top line has grown each year since 2007;** management has implemented price increases and indicates that margins are likely at a trough
- **Stock trading is 0.3x sales and 0.5x book.** Management actions to increase prices and trim operations to single facility lead us to project eps at $1.95, equaling a P/E of 4.6.

Medical Action (MDCI)
Growing Top line Sold Off by Market

Market Capitalization..................................$97.2 MM
Revenue 12/31/10..$328 MM
Revenue 9/16/11...4.0
Price to P/EBITA(P/EBITA) 5yr. Avg.......................8.4
P/B...0.6

- **Develops disposable medical products** such as operating room sterilization products
- **Recent margin contraction due** to higher input costs
- **Growing top line;** recently implemented price increases and announced acquisition of AVID Medical
- **Trading at 4x ttm EBITA**. Over past 5 years, traded at average of 8.4x EBITA, presenting 100% up-side opportunity before consideration of long term growth prospects

Systemax (SYX)
Fundamentals & Stock Price

Market Capitalization...$468 MM
Revenue ....$3.7 Bil.
Cash...$92 MM
P/E forward est. (net cash)... 6.0
P/B..1.1

- **Direct marketer of brand name** products in both technology and industrial segments
- **Severe disconnect between fundamentals** and stock price: since 2010, stock price has declined 50% while revenues increased 10%, with stable margins
- **Systemax has grown revenue year-over-year** in all but 2 of 16 years as a public company with the same management team
- **As margins continue to improve** we believe Systemax is capable of $2.00+/share in earnings. Net of $2.70 cash per share (no debt), Systemax trades at 6x 2011 EPS and 4.6x our projected earnings power.

Perritt Capital Manageme

Attribution Analysis

During the third quarter both the sector allocation and the stock selection hurt the performance of the Microcap Opportunities Fund. Much of the under performance was due to our significant underweight in Financials relative to the benchmark. The Fund has historically been significantly underweight in Financials and we expect that trend will continue as the number of high-quality financial companies in the micro-cap space is limited. However, despite our large underweight to the sector, we have lately increased our allocation to Financials as we have seen several attractively priced and compelling opportunities in the sector lately, mainly in asset managers and some regional banks.

Year-to-date, over half of the MicroCap Opportunities Fund's relative under performance was due to our selection in the Technology sector. As explained in the beginning of this commentary, much of this had to do with a general flight to liquidity as investors abandoned micro-cap stocks. There was a large amount of selling focused on the more volatile Technology space, and on our lower market caps names in particular. We remain convinced about the long-term prospects of many micro-cap companies in the technology space because the strength of balance sheets in relation to stock prices is as attractive as we have seen in many years.

Stock selection was the reason that The Emerging Opportunities Fund outperformed its benchmark in the quarter as well as on a year-to-date basis. The Fund was driven by outperformance in stocks of nearly every sector. Selection was particularly strong in the Health Care sector, aided by the buy-out of two companies (American Medical Alert Corp. and Allied Healthcare International) at a significant return. Whether lucky or good, we are well-aware the kinds of "nano-cap" companies we invest in do march to the beat of their own drum and that making short-term comparisons to a benchmark can be something of a ridiculous exercise. As our clients know, we have good reason to believe this Fund is a truly distinctive offering which gives investors exposure to the very smallest of the small companies.