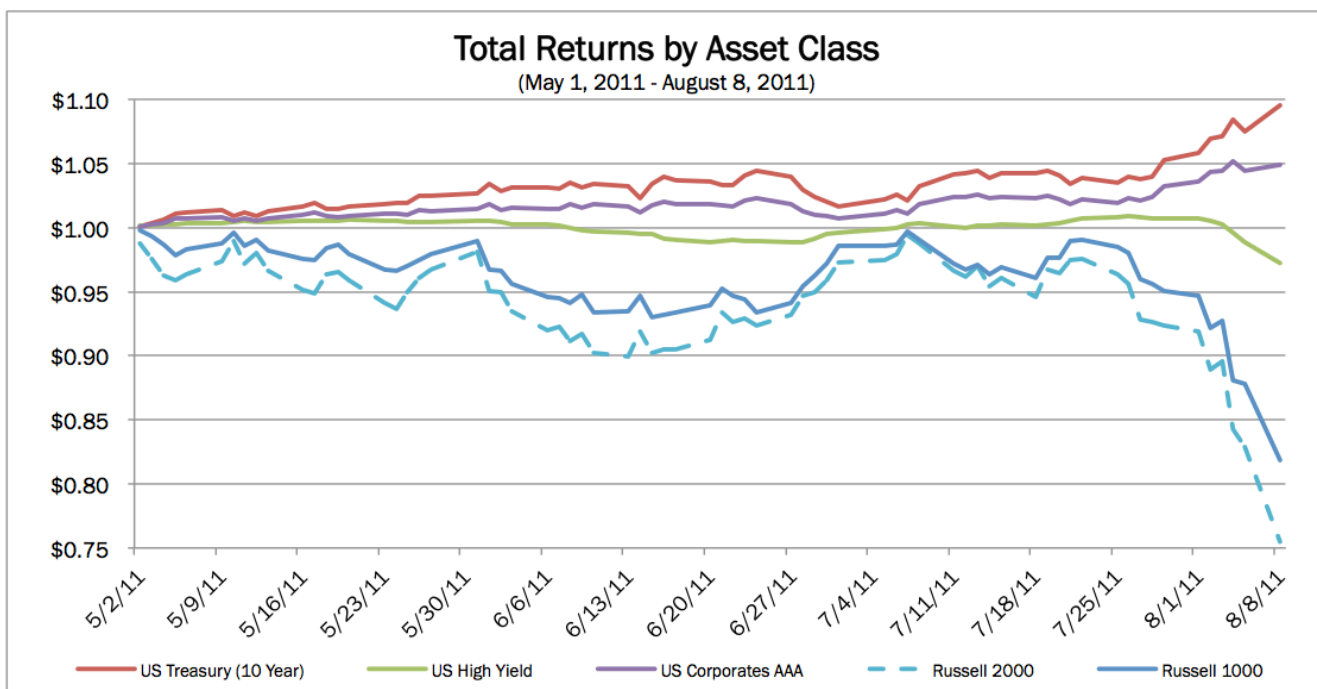


Market Outlook

We had purposely determined to wait for our second quarter commentary until after the debt debate in Washington had come to a final vote. As many of you know, we have been taking this opportunity to remind investors of our philosophy and investment style. In this market, then, it is timely that we discuss “oversold” stocks.

As we write this note, the Russell 2000® Value Index has suffered its second largest three-day loss, in percentage terms, since late 2008. The index is down 15.2% during this period. Since the end of April, the Russell 2000® Value is down 23.8%. These movements, precipitated by a weak PMI reading and weak GDP revisions, have caused the market to reprice assets up and down the capital structure. The result is now termed “risk-off” on Wall Street, but really, it’s the same old thing – fear and uncertainty. When that happens, investors move up the priority ladder of the capital structure in choosing where to deploy. The most senior debt to be found is US Government treasuries, which were downgraded by S&P. Upon news of the downgrade, treasury prices went up – way up.

The real damage has been done to the equity markets in the US, where a cascading effect of slower growth, overall pessimism, and the languishing job markets have crowded out any risk-taking enthusiasm. There will be considerable analysis done of this market correction, but suffice it to say that the last three months have introduced enough uncertainty that investors have shortened their horizons. Below is a chart that you will no doubt see presented in various forms in the coming months. It is the total return of the broad debt and equity markets in the United States since the end of April. This is what risk retrenchment looks like.



What are we doing in the current circumstances? What we always do. At Pacific Ridge, one of the attributes that we often run across in market cycles like this is the “oversold” condition. Stocks in this category are characterized by a rapid price decline that puts the valuation of otherwise healthy companies in the bottom half of market averages. They are the proverbial babies thrown out in the bath water.

In most cases, there is some event that triggers the sell-off, and therein is the focus of our work. Currently, two important things have caused the current sell-off, in our view: (1) GDP growth expectations have been reduced by more than half,

and (2) the psychology of the market has been hurt. This has resulted in a major shift from equities to cash, or their perceived equivalents. In this flight to perceived certainty, invariably, some very good companies will see their valuations compressed. Our job is to sort through the data and determine which companies now merit further review. We are spending the majority of our time looking at companies within our portfolio that have suffered, as well as those companies on our research list that have now fallen to pricing levels that look attractive to us.

Sincerely,

Pacific Ridge Capital Partners

Composite Performance Tables

Small Cap Value

	Q2'11	YTD	Since Inception*
PRCP Small Cap Value, Gross (%)	(5.4)	2.3	23.6
PRCP Small Cap Value, Net	(5.6)	1.7	22.6
Russell 2000® Value	(2.7)	3.8	22.6

* Composite inception date was August 1, 2010; returns from August 1, 2010

Micro Cap Value

	Q2'11	YTD	1 Year	3 Year	Since Inception*
PRCP Micro Cap Value, Gross (%)	(6.4)	5.3	34.5	15.1	3.2
PRCP Micro Cap Value, Net	(6.8)	4.5	32.6	13.5	1.7
Russell Microcap® Value	(5.0)	0.5	26.6	4.9	(3.8)

* Composite inception date is April 1, 2007; returns from April 1, 2007

The Firm maintains composites on both its strategies. The Small Cap Value Composite was created on August 1, 2010. The Micro Cap Value Composite was created on April 1, 2007. The performance results of the Micro Cap Value strategy includes accounts managed at another advisor. The portfolio characteristics for each strategy are based on a representative account within that strategy. The Firm maintains a complete list and description of composites and a presentation that complies with the requirements of GIPS standards, which is available upon request by contacting Peter Trumbo, Chief Compliance Officer at (503) 886-8972 or Peter.Trumbo@PacRidgeCap.com. This information is shown as supplemental information only and complements the full disclosure presentation (fully compliant GIPS presentation).

Small Cap Value Portfolio Statistics (as of Q2'11)

	PRCP Small Cap Value	Russell 2000® Value
Number of Holdings	124	1,364
Average Market Cap (\$M)	334.7	655.9
Weighted Average Market Cap (\$M)	360.2	1,089.6
Median Market Cap (\$M)	261.9	454.6
Price/Earnings (FY1)	17.4	17.9
Price/Earnings (FY2)	13.1	15.8
Price/Book	1.81	1.50
Dividend Yield	1.0%	1.9%
Beta (vs Russell 3000)	1.39	1.29
L.T. Growth Forecast Median	14.0%	12.0%

Micro Cap Value Portfolio Statistics (as of Q2'11)

	PRCP Micro Cap Value	Russell Microcap® Value
Number of Holdings	68	1,121
Average Market Cap (\$M)	225.0	196.6
Weighted Average Market Cap (\$M)	235.7	290.0
Median Market Cap (\$M)	191.3	167.6
Price/Earnings (FY1)	18.1	19.4
Price/Earnings (FY2)	13.1	15.2
Price/Book	1.56	1.31
Dividend Yield	0.5%	1.7%
Beta (vs Russell 3000)	1.38	1.26
L.T. Growth Forecast Median	15.0%	13.3%

About Pacific Ridge Capital Partners, LLC

Pacific Ridge Capital Partners is an employee-owned firm. We generate our own investment ideas using fundamental analysis and bottom-up stock picking. The investment team applies a consistent, patient and disciplined process that results in low turnover and stability. Our proven philosophy has performed well over many investment cycles and it is the consistent application of this strategy that makes Pacific Ridge unique.

The principals of Pacific Ridge Capital Partners are invested along with our clients in each of our strategies.

PRCP Small Cap Value – Our Small Cap Value strategy generally purchases stocks in the bottom three-quarters of the Russell 2000® Index. This smaller capitalization segment has a large number of underfollowed companies, providing us the greatest opportunity to exploit market inefficiencies. The typical range of holdings is between 120 and 160.

PRCP Micro Cap Value – Our Micro Cap Value strategy generally purchases stocks in the Russell Microcap® Index. This segment is widely underfollowed, providing us the greatest opportunity to exploit market inefficiencies. The typical range of holdings is between 50 and 80.

For further information about Pacific Ridge Capital Partners and our investment strategies, we invite you to contact Peter Trumbo at (503) 886-8972 or via email at Peter.Trumbo@PacificRidgeCapital.com.

Disclosures

Pacific Ridge Capital Partners, LLC (“Pacific Ridge”, “PRCP”, or “the Firm”) is an employee-owned investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. The Firm was established in June 2010, and has one office located in Lake Oswego, Oregon. Pacific Ridge claims compliance with the Global Investment Performance Standards (GIPS®).

Sources: Pacific Ridge; FactSet Research Systems (“FactSet”); and Russell Investment Group (“Russell”) who is the source and owner of the Russell Index data.

The current annual investment advisory fees for the portfolios managed in the Firm’s Small and Micro Cap Value strategies are 1.00% and 1.50% of assets, respectively. Returns for the composites are presented gross and net of management fees and other expenses and includes realized and unrealized gains and losses, cash and cash equivalents and related interest income, and accrued based dividends. The Firm calculates time weighted rates of return by geometrically linking portfolio simple rates of return at least monthly, with adjustments made for significant external cash flows. The composite returns are calculated by asset weighting the individual portfolio returns using beginning of the period values. All returns are calculated after the deduction of the actual trading expenses incurred during the period.

The information provided should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in our strategy at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any of the holdings discussed herein were or will be profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. Past performance is no guarantee of future results.

Although the statements of fact and data in this report have been obtained from, and are based upon, sources that the Firm believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the Firm’s judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.