

Market Outlook

When we released our last quarterly commentary in early August, the US credit markets were signaling recession. We spent August and September reviewing each one of our holdings and speaking to as many management teams in those companies as we could. Chief among the questions we asked was, “Is business getting worse?”

The answer was “not really.” While many companies told us that things were not moving as fast as they were in the first quarter, inventory levels and new order activity seemed to be doing okay. However, several management teams expressed concern about the overall negativity that greeted the opening of any financial news website. One company executive said that the only thing he reads these days are his order reports.

When asked about expansion opportunities, a common theme was echoed in our conference calls: wait and see how the budget impasse and election results would pan out before making any serious deployment of capital. In the interim, companies were happy to repurchase their own stock.

These conversations clearly point to a lack of consistent leadership in the markets. One need only look at how the latest report out of Europe or Washington can swing the market value by 4% on any given day. The market appears to be “groping for a bottom.”

It is precisely in these times that investors overestimate the downside to certain companies. This creates fantastic buying opportunities that may not be readily apparent to the investment mood of the day. If you are willing to do the work to uncover them, however, they are there. We have been doing this work.

During the last three months, companies that were either too big or too rich have now been added to our universe of opportunities. Our team has uncovered a number of hidden gems in the market and we are selectively adding them to our portfolio. We will continue this process of looking for the best companies we can find at reasonable prices.

It seems that private buyers are also starting to notice the attractive valuations. In the past few weeks, we have had several buyouts in our portfolio that have come at good premiums. We expect that this trend, while still in its infancy, is reflective of pent up demand and will likely continue.

The stock of smaller companies are typically the first to sell off in times of panic. Likewise, when market stability returns, the stocks of these smaller companies are typically the first to be purchased. We’ve seen this cycle play out before and are taking advantage of the value opportunities that our contrarian investment process uncovers. We believe that when headline risk dissipates, and investment timelines lengthen, our portfolios should be amply rewarded.

We thank you for your continued interest.

Sincerely,

Pacific Ridge Capital Partners

**Small Cap Value
Portfolio Statistics
(as of Sep'11)**

	PRCP Small Cap Value	Russell 2000® Value
Number of Holdings	121	1,345
Average Market Cap (\$M)	251.1	512.8
Weighted Average Market Cap (\$M)	274.2	917.6
Median Market Cap (\$M)	210.1	342.1
Price/Earnings (FY1)	10.9	11.5
Price/Earnings (FY2)	9.0	10.1
Price/Book	1.0	1.0
Dividend Yield	1.4%	2.6%
Beta (vs Russell 3000)	1.4	1.2
L.T. Growth Forecast Median	13.3%	12.0%

**Micro Cap Value
Portfolio Statistics
(as of Sep'11)**

	PRCP Micro Cap Value	Russell Microcap® Value
Number of Holdings	65	1,106
Average Market Cap (\$M)	160.0	153.0
Weighted Average Market Cap (\$M)	167.7	233.1
Median Market Cap (\$M)	130.9	126.3
Price/Earnings (FY1)	10.6	11.0
Price/Earnings (FY2)	9.3	9.8
Price/Book	0.9	0.9
Dividend Yield	0.7%	2.3%
Beta (vs Russell 3000)	1.4	1.2
L.T. Growth Forecast Median	14.0%	12.5%

Composite Performance Tables

Small Cap Value

	Q3'11	YTD	1 Year	Since Inception
PRCP Small Cap Value, Gross (%)	(25.3)	(23.7)	(11.3)	(6.6)
PRCP Small Cap Value, Net	(25.6)	(24.3)	(12.2)	(7.6)
Russell 2000® Value	(21.5)	(18.5)	(6.0)	(3.2)

Micro Cap Value

	Q3'11	YTD	1 Year	3 Year	Since Inception
PRCP Micro Cap Value, Gross (%)	(24.4)	(20.5)	(3.0)	5.2	(3.2)
PRCP Micro Cap Value, Net	(24.8)	(21.4)	(4.4)	3.7	(4.7)
Russell Microcap® Value	(21.9)	(21.5)	(7.5)	(4.8)	(8.8)

The Firm maintains composites on both its strategies. The Small Cap Value Composite inceptioned on August 1, 2010. The Micro Cap Value Composite inceptioned on April 1, 2007. All returns greater than one year are annualized. The performance results of the Micro Cap Value strategy includes accounts managed at another advisor. 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@PacificRidgeCapital.com. The portfolio statistics are shown as supplemental information only and complements the full disclosure presentation (fully compliant GIPS presentation).

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.

The Russell 2000® Value Index measures the performance of the Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The return for the index does not include any transaction costs, management fees or other costs.

The Russell Microcap® Value Index measures the performance of the microcap segment of the U.S. equity market. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The return for the index does not include any transaction costs, management fees or other costs.

Returns and asset values are stated in US dollars.