

# Micro Cap Equity

(Period Ending December 31, 2011)

## Strategy:

- Well-diversified portfolio of small companies
- Conducting in-depth fundamental bottom up research
- Seeking value metrics with growth catalysts
- Credit markets provide early identification

## Investment Culture:

- Complete capital structure analysis®
- Fully integrated credit & equity research process
- Independent, intensive research & proprietary database
- Over 1,000 company management meetings a year
- Compensation tied to performance

## Portfolio Facts:

- Inception date: 8/31/2006
- Index: Russell Microcap Index
- Style assets: \$247.83 million

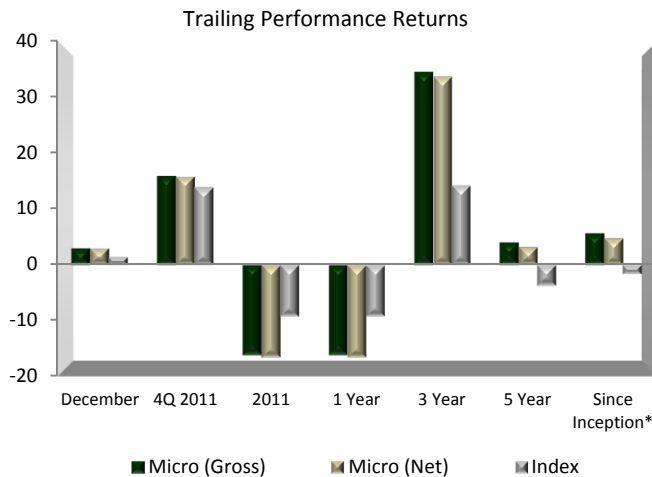
Market Cap Purchase Range: Up to \$1 billion or the maximum market capitalization of the Russell Microcap Index, whichever is greater

## Characteristics:

Characteristics (As of 12/31)	Micro Cap	Index
Number of Companies	93	1,566
Weighted Avg. Market Cap (\$m)	\$490	\$310
Weighted Median Market Cap (\$m)	\$441	\$278
Average Credit Quality	B-	B-
Debt/Equity	0.73	0.63
Debt/Capital	37.96	32.47
Debt Coverage	4.19	6.45
Top 10 Holdings (%)	20.45	-

Index Characteristics Source: The Bank of New York Mellon Corporation

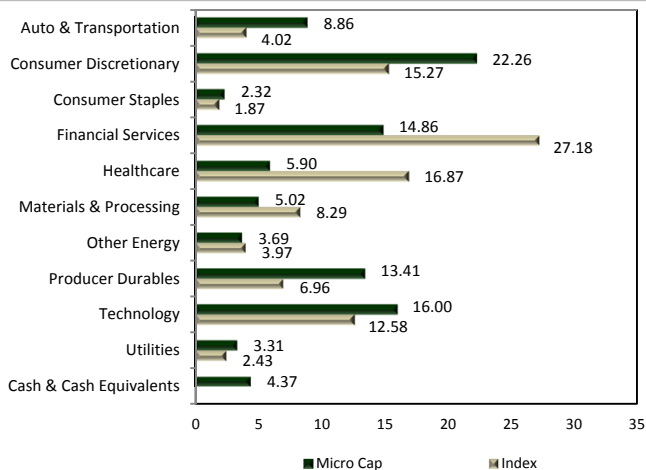
## Performance:



	Micro (Gross)	Micro (Net)	Index
December	3.00	2.94	1.39
4Q 2011	15.92	15.77	13.83
2011	-16.16	-16.60	-9.27
1 Year	-16.16	-16.60	-9.27
3 Year	34.51	33.70	14.23
5 Year	4.10	3.20	-3.75
Since Inception*	5.66	4.76	-1.67

	Micro (Gross)	Micro (Net)	Index
2007	-8.63	-10.03	-8.00
2008	-45.02	-45.57	-39.78
2009	112.70	111.26	27.48
2010	36.47	35.66	28.89
2011	-16.16	-16.60	-9.27

## Sector Weights:



Micro (Gross): Composite Gross & Micro (Net): Composite Net

Micro Cap: Strategy Model Account

Index: Russell Microcap Index

\*Since Composite Inception: 8/31/06

Performance is annualized for multi-year periods

**Top 10 Holdings:**

Great Wolf Resorts Inc.
Carmike Cinemas Inc.
Pacer Int'l. Inc.
AAR Corp.
Ceyond, Inc.
Oclaro Inc.
Aviat Networks Inc.
WSFS Financial Corp.
LodgeNet Interactive Corp.
Monster Worldwide Inc.

Holdings are considered supplemental information. Please refer to the fully compliant presentation which is available upon request.

**History:**

- Founded in 1987
- 100% employee owned
- Strong operational infrastructure
- All portfolio managers are owners
- 57 total employees; 16 partners

**Assets:**

<b>Firm Assets:</b>	<b>\$5.7 billion</b>
• Equity:	\$2.6 billion
• High Yield Fixed Income	\$3.0 billion
• Alternatives	\$0.1 billion

**Disclosures:**

**Firm Information:** PENN Capital Management Company, Inc. is a Pennsylvania based investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. PENN is a 100% employee owned sub-chapter-S corporation. The firm specializes in managing equity and fixed income portfolios for institutional and high net worth clients. PENN's fully integrated process allows for strong crossover of ideas between fixed income and equity, enabling PENN's investment team to become experts in analyzing a company's entire capital structure. PENN's Institutional Services is defined for GIPS® purposes to include all separately managed accounts with the exclusion of wrap relationships. This is due to wrap relationships being considered separate from public perceptions. The firm's fee schedule varies based upon the style the account is invested in. Standard fee schedule for all separate Micro Cap Equity accounts are 1.10% of assets under management.

**Composite Characteristics:** The Composite is defined to include separately managed accounts with assets over \$500,000.00. These accounts solely invest in equities of U.S. companies at initial purchase with market capitalizations less than \$1.0 billion. The Micro Cap Equity strategy seeks superior investment returns that are attainable on a consistent basis by applying a disciplined value-driven investment approach, which capitalizes on fundamental and technical opportunities in the market. Effective March 31, 2009, PENN changed the name of the composite from the Diversified Micro Cap Equity Composite to the Micro Cap Equity Composite. The Micro Cap Equity Composite was created on August 31, 2006. Effective January 1, 2010, accounts which have a significant cash flow (20% or more on the transaction date) will be removed from their respective composite immediately. The account will be reevaluated monthly and if eligible, will enter their appropriate composite the next calendar quarter's opening. To receive a complete list and description of PENN Capital Management's composites information regarding the treatment of significant cash flows and/or a presentation that adheres to the GIPS® standards, contact Christian M. Noyes, Senior Managing Partner, 215-302-1501, e-mail [cnoyes@penncapital.com](mailto:cnoyes@penncapital.com) or write PENN Capital Management, Navy Yard Corporate Center, Three Crescent Drive, Suite 400, Philadelphia, PA 19112. The Composite is comprised of all separately managed accounts that have been managed by PENN for one full calendar quarter. As of December 31, 2011, the Composite consists of 6 accounts with assets totaling \$245.93 million, which represents 5.09% of the firm's total assets and 99.51% of style assets, excluding wrap accounts.

**Calculation Methodology:** The Micro Cap Equity Composite is shown as total returns, which assumes reinvestment of dividends, capital gains, as well as no reductions for taxes, presented before the deduction of actual investment advisory fees, are calculated in U.S. dollars, and are computed on a dollar-weighted-rate-of-return-basis. Performance results have been presented both prior to the deduction of investment advisory fees ("gross of fees") and after the deduction of actual investment advisory fees ("net of fees"). (For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual advisory fee of 1.0%, this increase would be 137%). Internal dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. Performance results of PENN clients will be reduced by PENN's actual investment advisory fees. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. All returns are calculated net of transaction costs and gross of custodial fees and taxes on dividends and interest.

**Other Disclosures:** To receive a copy of PENN's proxy voting policies, please contact Christian M. Noyes, Senior Managing Partner, 215-302-1501, e-mail [cnoyes@penncapital.com](mailto:cnoyes@penncapital.com) or write PENN Capital Management, Navy Yard Corporate Center, Three Crescent Drive, Suite 400, Philadelphia, PA 19112. PENN Capital Management's investment advisory fees are described in Part 2A of its Form ADV. PENN Capital Management Company, Inc. claims compliance with the Global Investment Performance Standards (GIPS®). The Russell Microcap Index includes the smallest 1,000 securities in the small-cap Russell 2000 Index plus the next 1,000 securities. For comparison purposes, the Russell Microcap Index is a fully invested index, which includes reinvestment of income, and its performance has been linked in the same manner as the Micro Cap Equity Composite. The returns for this unmanaged index do not include any transaction costs, management fees or other costs. The information contained herein reflects historical performance; no assurances can be given and no inferences should be drawn with respect to any future results that may be achieved by clients of PENN.

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