

## **1. ORGANIZATION**

Perritt Funds, Inc. (the “Corporation”) was organized on March 19, 2004 as a Maryland corporation and is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end investment company, with each the series below being a diversified fund. The Corporation currently consists of the Perritt MicroCap Opportunities Fund (“MicroCap Fund” or the “Fund”). Perritt MicroCap Opportunities Fund, Inc., the predecessor to the MicroCap Fund, commenced operations on April 11, 1988. As part of a plan of reorganization, on February 28, 2013, Perritt MicroCap Opportunities Fund, Inc. merged into the MicroCap Fund, a series within the Corporation. The MicroCap Fund’s investment objective is to invest in mainly common stocks of companies with market capitalizations that are below \$500 million at the time of the initial purchase. The Fund is an investment company and accordingly follow the investment company accounting and reporting guidance of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 946 “Financial Services – Investment Companies.”

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Cash and cash equivalents include cash and overnight investments in interest-bearing demand deposits with a financial institution with maturities of three months or less. The Fund maintains deposits with a high quality financial institution in an amount that is in excess of federally insured limits.
- B. Exchange-listed securities are generally valued at the last sales price reported by the principal security exchange on which the security is traded, or if no sale is reported, the mean between the latest bid and ask price unless the Fund’s investment advisor believes that the mean does not represent a fair value, in which case the securities are fair valued as set forth below. Securities listed on NASDAQ are valued at the NASDAQ Official Closing Price. Demand notes, commercial paper, U.S. Treasury Bills and warrants are stated at fair value using market prices if available, or a pricing service when such prices are believed to reflect fair value. The money market deposit account is valued at amortized cost. Securities for which market quotations are not readily available are valued at their fair value as determined in good faith by the Fund’s investment advisor. The Fund’s fair value procedures allow for the use of certain methods performed by the Fund’s investment advisor to value those securities for which market quotations are not readily available, at a price that a Fund might reasonably expect to receive upon a sale of such securities. For example, these methods may be based on a multiple of earnings, or a discount from market of a similar freely traded security, or a yield to maturity with respect to debt issues, or a combination of these and other methods
- C. Net realized gains and losses on securities are computed using the first-in, first-out method.
- D. Dividend income is recognized on the ex-dividend date, and interest income is recognized on the accrual basis. Withholding taxes on foreign dividends and capital gains, which are included as a component of net investment income and realized gain (loss) on investments, respectively, have been provided for in accordance with the Fund’s understanding of the applicable country’s tax rules and rates. Discounts and premiums on securities purchased are amortized over the life of the respective securities using the interest method. Distributions received from real estate investment trusts (“REITs”) are classified as investment income or realized gains based on the U.S. income tax characteristics of the distribution. Return of capital distributions received from REIT securities and partnerships are recorded as an adjustment to the cost of the security and thus may impact unrealized or realized gains or losses on the security. Investment and shareholder transactions are recorded on the trade date.
- E. Provision has not been made for federal income tax since the Fund has elected to be taxed as a “regulated investment company” and intend to distribute substantially all income to their shareholders and otherwise comply with the provisions of the Internal Revenue Code applicable to regulated investment companies.
- F. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

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In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

- G. Dividends from net investment income and net realized capital gains, if any, are declared and paid annually. Distributions to shareholders are recorded on the ex-dividend date. The Fund may utilize earnings and profit distributed to shareholders on redemption of shares as part of the dividends paid deduction. The Fund may periodically make reclassifications among certain of their capital accounts as a result of the timing and characterization of certain income and realized gain distributions, including reclassifying net operating loss, as determined annually in accordance with federal tax regulations which may differ from GAAP. The MicroCap Fund has reclassified the components of its capital accounts for the year ended October 31, 2025 by increasing paid-in capital by \$132,934 and decreasing distributable earnings/(losses) by \$132,934. These adjustments were primarily due to the utilization of earnings and profits distributed to shareholders on redemptions of shares and the write off of net operating losses.
- H. As of and during the year ended October 31, 2025, the Fund did not have a liability for any unrecognized tax benefits. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense on the Statements of Operations. During the year ended October 31, 2025, the Fund did not incur any interest or penalties. The Fund is not subject to examination by U.S. federal tax years before 2022.
- I. The Fund operates as a single segment entity. The Fund's income, expenses, assets, and performance are regularly monitored and assessed by [INSERT INDIVIDUAL/OFFICER OR COMMITTEE/GROUP OF OFFICERS THAT OVERSEES THE PERFORMANCE AND RESOURCE ALLOCATIONS TO THE FUND], who serves as the chief operating decision maker, using the information presented in the financial statements and financial highlights

### 3. SECURITY VALUATION

GAAP establishes an authoritative definition of fair value and sets out a hierarchy for measuring fair value. GAAP also requires additional disclosures about the various inputs used to develop the measurements of fair value. These inputs are summarized in the three broad levels listed below:

Level 1 – Quoted prices in active markets for identical securities that the Fund has the ability to access.

Level 2 – Other significant observable inputs (including quoted prices for similar securities or the identical security on an inactive market, interest rates, prepayment speeds, credit risk, etc.).

Level 3 – Significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value the Fund's net assets as of October 31, 2025:

#### Perritt MicroCap Opportunities Fund

Description	Level 1	Level 2	Level 3	Total
<b>Investments in Securities</b>				
<b>Common Stocks</b>				
Communication Services . . . . .	\$ 1,370,300	\$ —	\$ —	\$ 1,370,300
Consumer Discretionary . . . . .	6,486,653	—	—	6,486,653
Consumer Staples . . . . .	983,510	—	—	983,510
Energy . . . . .	1,979,780	—	—	1,979,780
Financial . . . . .	5,728,110	—	—	5,728,110
Health Care . . . . .	3,130,672	—	—	3,130,672
Industrials . . . . .	17,090,877	—	—	17,090,877
Information Technology . . . . .	9,637,684	—	—	9,637,684

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Description	Level 1	Level 2	Level 3	Total
Materials . . . . .	\$ 8,263,558	\$ —	\$ —	\$ 8,263,558
Real Estate . . . . .	311,660	—	—	311,660
Utilities . . . . .	732,550	—	—	732,550
<b>Total Common Stocks . . . . .</b>	<b>55,735,354</b>	<b>—</b>	<b>—</b>	<b>55,735,354</b>
<b>Total Investments in Securities . . . . .</b>	<b>\$55,735,354</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$55,735,354</b>

Please refer to the Schedule of Investments for additional information regarding the composition of the amounts listed above.

Rule 2a-5 under the 1940 Act permits fund boards to designate a fund’s investment advisor to perform fair value determinations, subject to board oversight and certain other conditions. The rule also defines when market quotations are “readily available” for purposes of the 1940 Act and requires a fund to fair value a portfolio investment when a market quotation is not readily available. The Board of Directors has designated the Funds’ investment advisor as its valuation designee to perform fair value determinations.

#### **4. INVESTMENT ADVISORY AGREEMENT**

For the Fund, the Corporation entered into an investment advisory agreement (collectively, the “Agreements”) with Perritt Capital Management, Inc. (the “Advisor”), with whom certain officers and directors of the Corporation are affiliated, to furnish investment advisory services to the Fund. Under the terms of the Agreements, the MicroCap Fund pays the Advisor a monthly fee at the annual rate of 1.00% of the Fund’s daily average net assets. At October 31, 2025, the MicroCap Fund had fees due to the Advisor of \$51,690. For the year ended October 31, 2025, the MicroCap Fund had incurred advisory fees of \$584,613.

The Advisor manages the Fund’s investments subject to the supervision of the Fund’s Board of Directors. The Advisor is responsible for investment decisions and supplies investment research and portfolio management. Under the Agreements, the Advisor, at its own expense and without reimbursement from the Fund, will furnish office space and all necessary office facilities, equipment and personnel for making the investment decisions necessary for managing the Fund and maintaining their organization, will pay the salaries and fees of all officers and directors of the Fund (except the Chief Compliance Officer’s salary and the fees paid to disinterested directors) and will bear all sales and promotional expenses of the Fund.

The officers of the Fund are affiliated with the Advisor. Such officers, with the exception of the Chief Compliance Officer, receive no compensation from the Fund or the Advisor for serving their respective roles. The Fund pay the salary associated with the office of the Chief Compliance Officer. Such fees are included on the Statements of Operations within officer & directors’ fees & expenses.

The Fund reimbursed the Advisor for fees paid to financial intermediaries such as banks, broker-dealers, financial advisors or other financial institutions for sub-transfer agency, sub-administration and other services that the financial intermediaries provided to their clients, who are beneficial owners of shares of the Fund. The financial intermediaries are the record owners of the Fund on the Fund’s records through omnibus accounts, other group accounts, retirement plans or accounts traded through registered securities clearing agents. These fees are fees that the Fund are obligated to pay to such intermediaries, and the fees may vary based on, for example, the nature of services provided. The fees paid to such intermediaries by the Fund are only a portion of the full fee that is paid to the intermediaries, and the Advisor is obligated to pay the remaining amount. In determining the portion of the fees paid to the intermediaries that the Fund are obligated to pay, the Fund has used the “avoided cost” method, which is one of several permissible methods to determine the fees are reasonable. Based on this method, the Fund’s Board of Directors determines a fee per sub-account that it believes approximates the transfer agency fee that would otherwise have been payable by the Fund if such intermediaries did not maintain the sub-account. These amounts are included within shareholder servicing fees on the Statements of Operations.

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**5. INVESTMENT TRANSACTIONS**

Purchases and sales of securities, excluding short-term investments, for the year ended October 31, 2025, were as follows:

	Purchases		Sales	
	U.S. Government	Other	U.S. Government	Other
MicroCap Fund .....	\$ —	\$9,344,415	\$ —	\$20,850,571

**6. FEDERAL INCOME TAX MATTERS**

As of October 31, 2025, the components of distributable earnings on a tax basis were as follows:

	MicroCap Fund
Cost of investments for tax purposes .....	<u>\$ 32,437,074</u>
Gross tax unrealized appreciation .....	25,231,621
Gross tax unrealized depreciation .....	<u>(1,933,341)</u>
Net unrealized appreciation on investments .....	<u>23,298,280</u>
Distributable ordinary income .....	356,958
Distributable long-term capital gains .....	4,423,796
Other accumulated losses .....	<u>(103,362)</u>
Total Distributable Earnings/(Losses) .....	<u>\$ 27,975,672</u>

The difference between book and tax basis distributable earnings is primarily related to the deferral of losses on wash sales.

A regulated investment company may elect for any taxable year to treat any portion of any qualified late year loss as arising on the first day of the next taxable year. Qualified late year losses are ordinary losses which occur during the portion of the Fund's taxable year subsequent to December 31.

At October 31, 2025, the MicroCap Fund deferred, on a tax basis, late year ordinary losses of \$103,362. During the year ended October 31, 2025, the MicroCap Fund did not utilize capital loss carryforwards. The Fund had no capital loss carryforward for the year ended October 31, 2025.

The tax composition of distributions paid during the years ended October 31, 2025 and 2024 were as follows:

	Ordinary Income		Long-term Capital Gains	
	2025	2024	2025	2024
MicroCap Fund .....	\$ —	\$ 539,629	\$ —	\$7,519,670

On November 21, 2025, the Fund paid the following Long-Term capital gains distributions:

Fund	Long-Term
Perritt MicroCap Opportunities Fund .....	\$1.97924

The Fund designated as long-term capital gain dividend, pursuant to Internal Revenue Code Section 852(b)(3), the amount necessary to reduce the earnings and profits of the Fund related to net capital gain to zero for the tax year ended October 31, 2025.

**7. RESTRICTED SECURITIES**

The Fund may own investment securities which are unregistered and thus restricted as to resale. These securities are valued by the Fund after giving due consideration to pertinent factors including recent private sales, market conditions and the issuer's financial performance. Where future disposition of these securities requires registration

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under the Securities Act of 1933, the Fund has the right to include these securities in such registration, generally without cost to the Fund. The Fund has no right to require registration of the unregistered securities they hold. As of October 31, 2025, the Fund did not hold any restricted securities.

Under the Fund's organizational documents, their officers and directors are indemnified by the Fund against certain liabilities arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

#### **8. LINE OF CREDIT ARRANGEMENT**

The MicroCap Fund is a party to uncommitted line of credit arrangement with U.S. Bank, N.A. with an expiration date of December 1, 2025, under which the MicroCap Fund may borrow up to \$2,500,000, subject to certain restrictions and covenants. Interest is charged on borrowings at the prevailing Prime Rate which was 7.00% as of October 31, 2025. The Fund has borrowed under these arrangements from time to time to increase the efficiency of cash flow management. For the year ended October 31, 2025, the MicroCap Fund did not borrow on the line of credit. As of October 31, 2025, the MicroCap Fund had no outstanding borrowings on the line of credit. Interest charged on the borrowings is recorded as other expense in the Statement of Operations.

#### **9. REDEMPTION FEE**

The Fund charges a 2.00% redemption fee to those who buy and sell shares within 90 calendar days or less. The redemption fee is retained for the benefit of long-term   shareholders, and recorded as additional capital in the Statements of Changes in Net Assets.

#### **10. TRANSACTIONS WITH AFFILIATES**

During the year ended October 31, 2025, MicroCap Fund did not hold any securities that were considered affiliated.

The Fund is permitted to purchase or sell securities to another Fund under specified conditions outlined in procedures adopted by the Board of Directors. The procedures have been designed to ensure that any purchase or sale of securities by the Fund from or to another Fund complies with Rule 17a-7 of the 1940 Act. For the year ended October 31, 2025, the MicroCap Fund did not engage in securities transactions pursuant to Rule 17a-7 of the 1940 Act.

#### **11. LIQUIDITY RISK MANAGEMENT (UNAUDITED)**

On June 30, 2025 the Directors of the Perritt MicroCap Opportunities Fund, the series of Perritt Funds, Inc., reviewed and considered a written report prepared by the program administrator of the Fund's Liquidity Risk Management Program (the "Program"), the Fund's Liquidity Risk Management Committee (the "Program Administrator"), which addressed the operation of the Program and assessed the Program's adequacy and effectiveness of implementation. In considering the report, the Directors noted that the Program Administrator has determined that the Fund primarily holds assets that are highly liquid investments, and thus relies on the exclusion from the requirements to determine and review a highly liquid investment minimum and to adopt shortfall policies and procedures. They then confirmed with the Program Administrator that no material changes were made to the Program, and reviewed all of the material features of the Program to ensure that they understand how the Program is designed to assess and manage the risk that the Fund could not meet requests to redeem shares issued by the Fund without significant dilution of remaining investors in the Fund. Following this review and discussion, the Directors determined that they believe the disclosures in the report, taken as a whole, provide the information necessary for the Directors to effectively assess the Program and its implementation, and that they are comfortable with the report's conclusion that the Program is reasonably designed to assess and manage the Fund's liquidity risk, and that the Program has operated as intended during the past year.

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**12. QUALIFIED DIVIDEND INCOME/DIVIDENDS RECEIVED DEDUCTIONS (UNAUDITED)**

For the fiscal year ended October 31, 2025, certain dividends paid by the Fund may be subject to a maximum tax rate of 23.8%, as provided for by the Jobs and Growth Tax Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified dividend income was as follows:

<u>Fund Name</u>	<u>Qualified Dividend Income</u>
Perritt MicroCap Opportunities Fund. . . . .	100.00%

For corporate shareholders, the percent of ordinary income distributions qualifying for the corporate dividends received deduction for the fiscal year ended October 31, 2025 was as follows:

<u>Fund Name</u>	<u>Dividends Received Deductions</u>
Perritt MicroCap Opportunities Fund . . . . .	100.00%

The percentage of taxable ordinary income distributions that are designated as short-term capital gain distributions under Internal Revenue Section 871(k)(2)(C) for the Fund were as follows:

<u>Fund Name</u>	<u>Short-Term Capital Gains</u>
Perritt MicroCap Opportunities Fund. . . . .	100.00%