

Part 2A of Form ADV: *Firm Brochure*

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This brochure provides information about the qualifications and business practices of Walthausen & Co, LLC. If you have any questions about the contents of this brochure, please contact us at 518-348-7217 or mhodge@walthausenco.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Walthausen & Co, LLC also is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 144996.

Item 2 Material Changes

This item is used to provide our clients with a summary of new and/or updated information. We will inform you of any material revision(s) based on the nature of the updated information.

Consistent with the new rules introduced in July 2010, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

In terms of this brochure, dated March 26, 2012, there are no material changes to our previously published brochure, dated March 21, 2011.

Item 3	Table of Contents	Page
Item 1	Cover Page	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4
Item 5	Fees and Compensation	5
Item 6	Performance-Based Fees and Side-By-Side Management	7
Item 7	Types of Clients	7
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	7
Item 9	Disciplinary Information	10
Item 10	Other Financial Industry Activities and Affiliations	10
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	10
Item 12	Brokerage Practices	11
Item 13	Review of Accounts	14
Item 14	Client Referrals and Other Compensation	15
Item 15	Custody	15
Item 16	Investment Discretion	16
Item 17	Voting Client Securities	16
Item 18	Financial Information	17

Item 4 Advisory Business

Introduction

Walthausen & Co, LLC ("Walthausen & Co.") is a SEC-registered investment adviser with its principal place of business located in Clifton Park, NY. Walthausen & Co. began conducting business in 2007.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company):

John Butler Walthausen

Investment Advisory Services – Separate Accounts

Walthausen & Co. provides discretionary investment advisory services to:

- Pension and profits sharing plans
- Corporations
- Foundations, endowments and other charitable organizations
- Trusts and high net worth individuals

Accounts are managed as separate accounts. Services may be provided on either a direct advisory basis or on a sub-advisory basis.

The firm specializes in providing investment advisory services using a value strategy in the small and small to mid capitalization segment of the US domestic equities market. This value strategy involves investing in companies that appear under-priced according to certain financial measurements of their worth or business prospects.

Advisory accounts are managed on a discretionary basis. Some institutional clients may impose restrictions based on the stated investment policies of the institution. This may include restrictions on investing in certain securities, types of securities, or industry sectors, amongst other things.

Investment vehicles used in managing client portfolios may include:

- Exchange-listed securities
- Securities traded over-the-counter
- Warrants
- Convertible securities

Cash and cash equivalents are also utilized in managing portfolios. However, given that client portfolios are structured with the goal of being fully invested in small cap and small to mid cap securities, cash is generally used as a vehicle for opportunistic purchases rather as a defensive vehicle. In addition, Walthausen & Co. does not manage the cash portion of client portfolios.

Two strategies are offered; Small Cap Value and Select Value. Clients can select which management approach they would like for their account/s.

Small Cap Value:

This strategy focuses on capturing value at the lower end of the market capitalization range investing in securities with market caps of between \$75 million and \$1.5 billion on initial purchase. We believe that a focus on smaller stocks, many of which fall below the range that many investment managers search, allows for identifying and capturing unusual inefficiencies. Stock selection is focused on identifying unique situations that tend to be more numerous in the small cap universe. Portfolio returns can be less consistent than those in the

small/mid-cap strategy because shares of these smaller companies tend to be more volatile. Typically, client portfolios are constructed using 75 and 100 securities. We select securities based on a two to three year investment horizon.

The benchmark for this strategy is the Russell 2000 Value Index which measures the performance of the small cap value segment of the U.S. equity universe. It includes companies with lower price-to-book ratios and lower forecasted growth values.

Select Value

This strategy focuses on capturing value at the higher end of the small cap value market capitalization range, investing in companies with market caps of between \$500 million and \$4 billion on initial purchase. The strategy focuses on companies where management has a proven record of generating above average returns on invested capital. We believe that the value of many companies in this category is underestimated as there is often no specific corporate developments that have generated investor interest. This can lead to lower valuations and lower volatility. The balance of the portfolio consists of companies that are classified as special situations, which may include spinoffs, turnarounds, and companies working to reduce high debt levels. Typically, client portfolios are constructed using 40 to 50 securities. We select securities based on a two to three year investment horizon.

The benchmark for this strategy is the Russell 2500 Value Index which measures the performance of the small to mid cap value segment of the U.S. equity universe. It includes companies with lower price-to-book and lower forecasted growth values.

Investment Advisory Services – Mutual Funds

Walhausen & Co. serves as the sponsor and investment adviser to Walhausen Funds, an open-end management company registered under the Investment Act of 1940. Walhausen Funds is comprised of two funds; the Walhausen Small Cap Value Fund, and the Walhausen Select Value Fund. Walhausen & Co., provides investment management services to the funds in accordance with the investment objectives and policies set out in each Fund's prospectus and Statement of Additional Information filed with the U.S. Securities and Exchange Commission. We provide the investment management services to the Fund pursuant to a management agreement between Walhausen & Co., and Walhausen Funds.

Interested investors should refer to each Fund's prospectus and Statement of Additional Information for important information regarding objectives, investments, time-horizon, risks, fees, and additional disclosures. These documents are available on-line at www.walhausenfunds.com. Prior to making any investment in the fund, investors and prospective investors should carefully review these documents for a comprehensive understanding of the terms and conditions applicable for investment in the Mutual Fund.

In addition, we offer investment advisory services as a sub-advisor to mutual funds in the small cap value and small to mid cap value segments of the U.S domestic equity market.

Assets Under Management

As of 3/23/2012, we were actively managing \$648,064,863 of clients' assets on a discretionary basis.

Item 5 Fees and Compensation

Investment Advisory Services – Separate Account Fees

Our annual fee for investment advisory services for separately managed accounts is 1.00%, and is based upon a percentage of assets under management.

A minimum of \$5,000,000 of assets under management is required for this service. This account size may be negotiable under certain circumstances. Walhausen & Co, LLC may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

Although Walthausen & Co, LLC has established the aforementioned fee, we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the amount of assets to be placed under management; whether the account is managed on a direct advisory basis or on a sub-advisory basis; anticipated future additional assets; and related accounts, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Fees Billed in Advance or Arrears: Advisory fees are billed in advance at the beginning of each calendar quarter based upon the asset value (market value) of the client's account equity at the end of the previous quarter. Some advisory fees, as agreed to with the particular client, may be billed in arrears at the end of each calendar quarter based upon the asset value (market value) of the client's account at quarter-end, on an average assets managed basis over the course of the quarter.

Clients are billed on a quarterly basis in accordance with the terms set forth in the Client Management Agreement.

Investment Advisory Services – Mutual Funds

Walthausen & Co. provides the investment advisory services to the two existing Walthausen Funds mutual funds pursuant to a management agreement between Walthausen & Co., LLC and Walthausen Funds.

Walthausen Small Cap Value Fund: For its services, Walthausen & Co. receives an investment management fee equal to 1.00% of the average daily net assets of the Fund. In addition, we have a services agreement with the Fund whereby we receive an additional fee of 0.45% on the first \$100 million of assets under management and 0.25% on assets in excess of \$100 million, and are obliged to pay the operating expenses of the Fund excluding management fees, brokerage fees and commissions, taxes, borrowing costs (such as (a) interest and (b) dividend expenses on securities sold short), the cost of acquired funds and extraordinary expenses.

Walthausen Select Value Fund: For its services, Walthausen & Co. receives an investment management fee equal to 1.00% of the average daily net assets of the Fund. In addition, we have a services agreement with the Fund whereby we receive an additional fee of 0.45% of assets under management, and are obliged to pay the operating expenses of the Fund excluding management fees, brokerage fees and commissions, taxes, borrowing costs (such as (a) interest and (b) dividend expenses on securities sold short), the cost of acquired funds and extraordinary expenses.

Further details regarding fees can be found in each fund's prospectus and Statement of Additional Information, and on the Walthausen Funds web site at www.walthausenfunds.com.

Additional Information relating to Fees and Expenses

Termination of the Advisory Relationship: A client agreement may be canceled at any time, by either party, for any reason upon receipt of thirty (30) days written notice. Upon termination of any advisory account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

Additional Fees and Expenses: In addition to our advisory fees, clients are also responsible for brokerage and other transaction costs imposed by broker dealers which effect transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

Advisory Fees in General: Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

Limited Prepayment of Fees: Under no circumstances do we require or solicit payment of fees in excess of \$1200 more than six months in advance of services rendered

Item 6 Performance-Based Fees and Side-By-Side Management

Walthausen & Co, LLC does not charge performance-based fees.

Item 7 Types of Clients

Walthausen & Co, LLC provides advisory services to the following types of clients, as disclosed in Item 4:

- Pension and profit sharing plans
- Corporations
- Foundations, endowments and other charitable organizations
- Trusts and high net worth individuals
- Registered investment companies (mutual funds)

As previously disclosed in Item 5, our firm has established certain initial minimum account requirements, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Method of Analysis

We use the following method of analysis in managing client assets:

Fundamental Analysis.

We believe that successful investors buy companies after a detailed analysis of a company's fundamental characteristics. The analysis we perform involves a process that concentrates on understanding the components, quality and sustainability of a company's cash flow, and the ability of management to employ that cash flow to enhance the company's value.

We look at specific financial factors using this bottom up approach. We focus on individual stocks and their financial condition and management of the company, rather than focusing on economic and market cycles. We try to understand the company we research as if looking to buy the company, not just a tradable security. Industry conditions are also taken into account after initial company analysis when considering a company for purchase.

As fundamental analysis does not attempt to anticipate market movements, this presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Investment Process – Small Cap and Small to Mid Cap Companies

Overview

We believe that the process we employ to identify small and small to mid cap stocks to add to client portfolios, addresses the major issues unique to that universe:

- A wealth of choices given the number of companies that make up that universe
- The lack of liquidity that may impact our ability to buy and sell the stock

- Checkered operating histories in smaller companies
- Businesses with narrowly focused businesses

Given these, and other factors, we believe that a consistent methodology is required to efficiently identify the most promising portfolio candidates. This forces us to focus on the most promising of the thousands of small and small to mid cap stocks in the market.

Narrowing the focus – scoring the universe

We have developed a proprietary scoring system that can be applied to the entire population of companies within the universe of small to mid cap companies. We have learned that simple screening does not provide the best results because it tends to eliminate stocks from consideration which have just one obvious flaw, even if it has many other favorable characteristics. Companies are scored based on twelve specific criteria across five broad categories:

- Valuation
- Wall Street sentiment – how broadly a company is followed by Wall Street analysts
- Insider sentiment – have management been buying stock for themselves, and/or buying stock of the company in the open market
- Financial strength – how much debt does the company have on its balance sheet
- Confirmation of improving company fundamentals – the focus is on revenue and margin growth

Each stock is ranked by deciles for each criterion and weighted. The scores for different characteristics are then averaged to arrive at a ranking. This is only a starting point in our process. The factors we test for reflect our observations of factors which characterize promising stocks.

Detailed analysis – Refining the financial statements

We then do a detailed analysis on companies which score well in our ranking. We start with publically available company filings and build historical financial models using formats that are consistent. This allows us to more easily find the information that we need to do our analysis. In constructing the models, the two critical areas for us are the cash flow statement and balance sheet because we believe that they, in combination, allow us to evaluate a company's sustainable free cash flow. Our definition of free cash flow is cash flow from operations less capital expenditure. To do this, we tie in the income statement with the balance sheet and cash flow statements.

Once we complete the historical analysis and review of SEC filings including 10Ks, 10Qs and proxy statements, we look to the future. We examine press releases, conference calls, presentations, information from competitors and economic data and begin to project future sales, earnings, cash flow and potential uses of cash. Again, we consider cash flow to be critical. A strong sustainable free cash flow gives management choices. They can use the cash flow to invest and expand, acquire other companies, reduce debt, buy in stock or pay dividends. We then review our expectations against company guidance and investment analysts published estimates.

At that point, after having completed our research and identifying important business issues, we may meet with or speak with company management. The basis of this step is to determine if our understanding of the company's business is correct, as well as to ascertain where management sees potential to build shareholder value, what the specific initiatives are, what the time line is and what the risks are.

Portfolio Construction and Risk Control

After our analysis has been completed, we will look to purchase a stock for client portfolios if:

- the company is trading in the market at a discount valuation
- the company is capable of sustaining ample free cash flow as defined above
- management has, in our opinion, an achievable plan for building shareholder value; and
- management's historic record suggests that they are capable of implementing their strategy

We look to minimize stock's specific risks by building diversified portfolios for clients. We begin by analyzing and understanding the risks as well as the potential rewards in each stock. We then build the portfolio one stock at a time with a goal of being well diversified across a broad range of industries. We maintain the balance of the portfolios by constant trimming and rebalancing.

Sell Discipline

Constantly monitoring developments for each company in a client's portfolio is just as critical to us as the initial research performed before purchase. A sell decision can be triggered by several changes - some good and some bad. Our tracking helps us to identify which stocks to sell. The primary reasons we will elect to sell or reduce a position are:

- management is no longer doing a good job of implemented their stated strategy
- a shift of stated strategy signaling that management or the Board has lost confidence in the original strategy we supported
- demand, pricing and cost factors for the company's product and services changes
- we think that we can make a reasoned judgment that is not reflected in the stock price
- price appreciation and valuation hit targets - we set price targets and begin selling a portion of the position. We then go back and do a new analysis asking the question: "Would we buy this stock at this price at this time?" If not, then we sell the position. If the answer is yes, then we have done a constructive rebalancing.

Risks for all forms of analysis. Our securities analysis methods rely on the assumption that the publicly-available sources of information about the companies whose securities we purchase and sell, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Risks of small and small to mid capitalization companies. The earnings and prospects of these companies are generally more volatile than larger companies. They may have:

- higher failure rates
- lower trading volumes which may increase the volatility of price movements
- limited markets, product lines or financial resources

Risks of investing in common stocks. Client portfolios are primarily invested in common stocks. Some of the risks associated with common stock investing include:

- financial risk of selecting individual companies that do not perform as anticipated either in terms of revenues or earnings
- the risk the either domestic and/or international stock markets may experience turbulence and instability which may impact a company's, and consequently, a portfolio's market value

Risks of value investing. Value investing attempts to identify companies selling at a discount to their intrinsic value. However, a company's intrinsic value may never be fully realized by the market, or a company we judged to be undervalued may actually be appropriately priced. This is a case where our strategy may fail to produce the intended results from the investment.

Sector risk. Although we build client portfolios on an individual stock basis, there is the possibility that stocks within the same group of industries, or sectors of industry, will decline in price due to sector-specific market or economic developments.

Risk of Loss. Securities investments are not guaranteed and clients may lose money on the investments that we make on their behalf.

Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

Mutual Fund:

We previously disclosed in "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) of this brochure that our firm is the investment adviser to the Walthausen Small Cap Value Fund and the Walthausen Select Value Fund, investment companies registered under the Investment Company Act of 1940. We are related to the mutual funds through common control. Please refer to these items for a detailed explanation of this relationship.

In terms of potential conflicts of interest related to the mutual funds with respect to allocation of client portfolio purchases and sales, refer to Item 12, "Brokerage Practices".

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our partners and employees, including compliance with applicable federal securities laws.

Walthausen & Co. and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons.

In addition, our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our partners and employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals related to our firm may buy or sell for their personal accounts securities identical to or different from those purchased or sold for our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be purchased or sold for a client. To avoid actual or potential conflicts of interest with our clients, access persons are required to obtain written approval before purchasing and selling any security for their own or a related account, as defined in our Code.

It is the expressed policy of our firm that no partner or employees of the firm may purchase or sell any

security(ies) on the same day a similar transaction(s) is being implemented for an advisory account, thereby preventing such employee(s) from having a conflict of interest with transactions placed on behalf of advisory accounts.

Walhausen & Co.'s Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

The Code of Ethics also includes policies and procedures covering the following subjects:

- Gifts and entertainment
- Directorships of public companies
- Duty of confidentiality

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to mhodge@walhausenco.com, or by calling us at 518-348-7217.

Item 12 Brokerage Practices

Walhausen & Co. provides investment management services on a discretionary basis. The firm requires clients to provide us, as part of our advisory agreement, authority to determine the broker dealer to use and the commission costs that will be charged to these clients for these transactions.

Walhausen & Co. endeavors to select those brokers or dealers which will provide the best services at the lowest commission rates possible. We attempt to seek the best execution of clients' transactions under the circumstances of any particular transaction. Accordingly, the firm will execute securities transactions for clients in such a manner that the clients' total cost or proceeds in each transaction is the most favorable under the circumstances.

We take a number of factors into account in determining the use of any broker-dealer including, amongst other things:

- Business reputation and financial position
- Their ability to consistently execute orders on a cost-effective basis
- Provision of prompt and accurate execution reports
- Preparation of timely and accurate confirmations
- Prompt delivery of securities and cash proceeds
- Provision of meaningful research services that can be used by our firm in making investment decisions
- Provision of other desired and appropriate services.

In making its determination on a transaction by transaction basis, the firm will consider the full range and quality of a broker's services in placing its orders including, among other things, the execution capability, commission rate, financial responsibility, value of research, availability of hard-to-borrow securities and general responsiveness to the firm. We may, therefore, use a broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. We view costs as important in trading, but we believe they are secondary to the ultimate value added to an investment strategy.

There may be an additional number of both qualitative and quantitative factors that add value to the trading process. These factors used to assess execution quality may include:

- Opportunity for price improvement from the national best bid and offer

- Character of the market (e.g. price, volatility, relative liquidity, and pressure on available communications).
- Number of primary markets checked.
- Occasion and accessibility of the broker/dealer to primary markets.
- Size and type of transaction.
- Client's investment objectives and constraints.

Execution of client transactions varies according to the security traded and prevailing market circumstances while also meeting the portfolio manager's objectives. These may include everything from market liquidity, the manager's risk tolerance, the investment time frame, and benchmark considerations as well as overall market sentiment. We believe that balancing these considerations will potentially lead to more efficient trading and lower trading costs, which should help overall portfolio performance. These sorts of judgment calls highlight the continued importance of trader skill and the kind of knowledge that cannot be reproduced by an electronic system.

Use of Soft Dollars

Consistent with obtaining best execution for clients, the firm may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to Walthausen & Co. and, indirectly, to Walthausen & Co.'s clients. Section 28(e) of the Securities Exchange Act of 1934 establishes a safe harbor that allows Walthausen & Co. to use client funds to purchase research and execution services for their managed accounts under certain circumstances. This is in recognition of the value of research in managing client accounts, protecting managers from liability for a breach of fiduciary duty solely on the basis that they paid more than the lowest commission rate in order to receive these services provided by a broker-dealer, if the manager determined in good faith that the amount of the commission was reasonable in relation to the value of the services received. Essentially, soft dollar payments made directly to qualified research or other soft dollar providers, payments for only research related expenses, and payments not made to reimburse an Adviser for previously paid expenses would likely fall within the safe harbor of Section 28(e). There is no safe harbor for expenses that do not fall into these categories, and are designed to supplement our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at our discretion).

Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third-parties which are compensated by the broker. Walthausen & Co. does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients.

Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and Walthausen & Co. makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage of such products or services are paid by our firm to the broker-dealer in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

When Walthausen & Co. uses client brokerage commissions to obtain research or brokerage services, we receive a benefit to the extent that Walthausen & Co, LLC does not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, because we have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients.

Within our last fiscal year, we have obtained the following products and services on a soft-dollar basis:

- Traditional proprietary research reports analyzing the performance of a particular company or industry sector
- Discussions with research analysts

- Meetings with corporate executive to obtain oral reports on performance of their company
- Attendance at seminars/conferences as they relate to research of companies
- Software that provides analysis of client portfolios
- Research relating to the market for securities, such as market data, trade analytics, and advice on market color and execution strategies
- Post-trade services incidental in executing transactions for client portfolios
- Communication services relating to execution of transactions, clearing and settlement of transactions, and other functions incidental to effecting securities transactions

Effecting Transactions and Provision of Research

In order for the safe harbor to be available to Walthausen & Co., broker-dealers that are parties to arrangements under Section 28(e) are involved in "effecting" a trade if they execute, clear, or settle the trade, or perform one of four of the following specified functions and/or allocate the other functions to other broker-dealers:

- Take financial responsibility for all customer trades
- Make and maintain records relating to customer trades
- Monitor and respond to customer comments concerning the trading process
- Generally monitor trades and settlements

In terms of research provision, a broker-dealer executing a transaction on behalf of Walthausen & Co. (but not providing research directly) provides research if it is either legally obligated to pay, or pays the research preparer directly, and takes steps to see that the services to be paid for with client commissions are eligible under the rule. These steps include: (a) reviewing the description of the services to be paid for with client commissions for red flags that indicate the services are not eligible services, and agreeing with Walthausen & Co. to use client commissions only to pay for those items that reasonably fall within the safe harbor, and (b) developing and maintaining procedures to reasonably assure that research payments are documented and paid for promptly.

Client Directed Brokerage

A client may direct its account transactions through a specific broker-dealer. In this situation, Walthausen & Co. will:

- Disclose to the client the firm's duty to continue to seek best execution for their account
- Disclose to the client that arrangements that require the firm to direct a certain percentage of brokerage, may affect the firm's ability to seek to obtain best execution

Any client that requests us to direct brokerage must provide Walthausen & Co. with a letter documenting that arrangement. In directing brokerage, clients may forgo potential benefits from savings on commissions and execution costs that may be obtained through volume discounts on aggregated orders. Walthausen & Co. does however, wherever possible, aggregate transactions with other clients and then use "step-outs trading" to satisfy the clients request to direct of brokerage. Step-out trading is a practice where one broker-dealer executing an order on behalf of a Walthausen & Co. client, gives credit of the commissions to another broker-dealer.

Aggregation of Clients Transactions

Walthausen & Co, LLC will aggregate client trades where possible and when advantageous to clients, in line with the firm's commitment to seek best execution for client accounts. This aggregating of trades permits all client accounts to receive the same average price for all transactions in a particular security on a particular day, with all other transactions costs shared on a prorated basis so that no client will be favored over any other client as a result of trade allocations. This aggregation of client transactions may allow us to execute equity trades in a timelier, more equitable manner, and assist in meeting our duty to seek the best quality execution, as well as the best net price.

Walhausen & Co.'s aggregation trading policy and procedures are as follows:

- 1) Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with Walhausen & Co, LLC, or our firm's order allocation policy.
- 2) The trading desk in concert with the portfolio manager must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.
- 3) Prior to entry of an aggregated order, a pre-allocation must be completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- 4) If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial pre-allocation of order. However, adjustments to this pro rata allocation may be made to participating client accounts in accordance with pre-allocation statement. Furthermore, adjustments to this pro rata allocation may be made to avoid excessive trading charges in smaller accounts.
- 5) Generally, each client that participates in the aggregated order does so at the average price for all transactions made to fill the order, and share in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of shares traded for each client.
- 6) The firm's Chief Compliance Officer periodically tests to see that trades and allocations have been made in a manner that satisfies the firm's duty to seek best execution for clients. Comparison of the performance of like accounts is also a tool utilized to determine if trades and allocations have been made in an equitable fashion.
- 7) Walhausen & Co. client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- 8) No client or account will be favored over another.

Item 13 Review of Accounts

Client Portfolio Reviews

While the underlying securities within client portfolios are continually monitored by the firm's portfolio manager, accounts are reviewed by the compliance department on at least a monthly. Accounts are reviewed in the context of keeping broadly in line with each client's stated investment objectives and guidelines. This includes the firm's mutual funds where the funds' holdings are reviewed in accordance with the investment objectives and guidelines detailed in funds' prospectus and Statement of Additional Information. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by:

John Walhausen – CIO and Portfolio Manager

Mark Hodge – Chief Compliance Officer

Client Reports

In addition to the monthly statements and confirmations of transactions that clients receive from their custodians, we provide quarterly reports summarizing account performance, beginning and ending account value, top ten holdings, sector weightings, and portfolio characteristics. The report also contains commentary from the portfolio managers on the factors impacting performance in that quarter, how the portfolio is currently positioned and our outlook for the foreseeable future

In the case of the Walthausen Funds mutual funds, a quarterly fund fact sheet is prepared and filed with the SEC. The fact sheet is also posted to the Walthausen Funds web site (referenced earlier). A commentary in the form of a shareholder letter prepared by the Funds' portfolio manager, is incorporated into both the Funds' Semi Annual and Annual Reports.

Item 14 Client Referrals and Other Compensation

Our firm may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require, under the provisions of Section 206-4(3) of the Advisors Act, the Solicitor to provide the prospective client with a copy of this document (our *Firm Brochure*) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

It is Walthausen & Co.'s policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

Current Solicitor Arrangements

Endeavour Investment Partners, LLC - Walthausen & Co. has an agreement with Endeavour Investment Partners to assist in the marketing of our services to prospective institutional investors. In consideration for Endeavour providing that service, Walthausen & Co. has agreed to pay Endeavour a monthly consulting fee. In addition, for each prospective investor introduced to us by Endeavor that becomes a separate account client of our firm, we will pay Endeavor a solicitors fee based on a percentage of the advisory fee received by Walthausen & Co. Endeavour has agreed to disclose in writing prior to a prospective investor becoming a client that they will receive a fee and that this will not result in any charges to the client over and above the agreed to advisory fees charged by Walthausen & Co., as described above.

Klitzberg Fund Solutions, Inc. - Walthausen & Co. has an agreement with Klitzberg Fund Solutions, to assist in the marketing of our services to prospective registered investment companies, with respect to providing sub-advisory portfolio management services. In consideration for providing that service, Walthausen has agreed to pay Klitzberg a fee if Walthausen & Co. is selected to provide such services. The fee is based on a percentage of the sub-advisory fees received by Walthausen & Co. for their services. Klitzberg has agreed to disclose in writing prior to a prospective investor becoming a client that they will receive a fee and that this will not result in any charges to the client over and above the agreed to advisory fees charged by Walthausen & Co., as described above.

Item 15 Custody

Our firm does not have actual or constructive custody of client accounts.

Item 16 Investment Discretion

Walhausen & Co. accepts and manages accounts on a discretionary basis. Accordingly, we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell
- determine which broker/dealer will be utilized to effect transactions
- determine the commission rate to be charged for each transaction

Clients give us discretionary authority when they sign a client management advisory agreement with our firm. In some cases, at a client's request, we may accept restrictions placed by the client on the purchase of certain securities for their accounts, or direct transactions to a particular broker/dealer at the client's request. This is also discussed in Item 4 "Advisory Business" and Item 12 "Brokerage Practices".

Item 17 Voting Client Securities

Walhausen & Co. acts as discretionary investment advisor for clients. The conditions that govern the firm's authority to vote proxies on behalf of clients are contained in our investment advisory agreement. The advisory contract states that Walhausen & Co. will vote proxies on behalf of its clients unless specifically requested not to do so by the client. If clients request to vote proxies on their on behalf, they will receive proxy related information directly from their custodian.

We will vote proxies in the best interests of its clients and in accordance with our established policies and procedures. It is our policy to vote client shares primarily in conformity with Glass- Lewis & Co. recommendations. Glass-Lewis & Co. is a neutral third party that issues recommendations based on its own internal guidelines. Using Glass-Lewis recommendations assists in limiting conflict of interest issues between Walhausen & Co. and its clients. Our third party proxy voting service provider, Broadridge Financial Solutions, and Walhausen & Co. retain a record of all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created that was material to making a decision how to vote proxies, and a copy of each written client request for information on how we voted proxies.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Mark Hodge at Walhausen & Co. by telephone, email, or in writing. Clients may request, in writing, information on how their proxies shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for their account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies.

Item 18 Financial Information

Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations.

Walhausen & Co, LLC has no additional financial circumstances to report.

Walhausen & Co, LLC has not been the subject of a bankruptcy petition at any time during the past ten years.