

Part 2A of Form ADV: Firm Brochure

March 20, 2015

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Prescott Group Capital Management, L.L.C. is an investment adviser registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Prescott Group Capital Management, L.L.C. If you have any questions about the contents of this brochure, please contact us at (918) 747-3412. 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 Prescott Group Capital Management, L.L.C. also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

Since our previous annual update to our Part 2A of Form ADV, we have had no material changes. We recommend that you read this Part 2A of Form ADV in its entirety.

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1. Advisory Business

Prescott Group Capital Management, L.L.C. ("Prescott") founded in January, 1999, is an investment services firm that provides investment management services to investors through its four clients, which are pooled investment vehicles, or more specifically, hedge funds. Phil Frohlich owns 100% of our firm.

Prescott is the general partner and serves as the investment adviser to its four clients which are Prescott Group Aggressive Small Cap, L.P. and Prescott Group Aggressive Small Cap II., L.P. (Small Cap Funds), Prescott Group Tradition Fund, L.P. (Large Cap Fund), and Prescott Group Aggressive Mid Cap, L.P. (Aggressive Mid Cap Fund). The Small Cap Funds are fully invested in Prescott Group Aggressive Small Cap Master Fund, G.P., an Oklahoma general partnership ("Prescott Master Fund"), of which the Small Cap Funds serve as general partners, through a master-feeder structure.

Specifically, we focus on researching, evaluating and trading stocks, bonds, and options on our clients' behalf.

Only our portfolio managers (Phil Frohlich and Jeff Watkins) can make investment decisions for our clients. Phil Frohlich is the manager of the Small

Cap Funds and Aggressive Mid Cap Fund and co-manager of the Large Cap Fund. Mr. Frohlich was born July 24, 1954, and has a BBA in Economics from the University of Oklahoma, an MBA from the University of Texas at Austin, and a law degree from the University of Tulsa. Mr. Frohlich has been manager of the Small Cap Funds since inception (December, 1992, and October, 2003), the Large Cap Fund since inception (January, 1999) and the Aggressive Mid Cap Fund since inception (January, 2005). Mr. Frohlich has also been employed by the Siegfried Companies, Inc., a family office investment company, since 1987, and served as President until March, 2004.

Jeff Watkins is the co-manager of the Large Cap Fund. Mr. Watkins was born April 23, 1961, and has a Bachelor of Science in Business Administration from the University of Tulsa. Prior to joining Prescott in July, 2001, Mr. Watkins served 18 years as a portfolio manager for Capital Advisors, Inc., a registered investment advisor, located in Tulsa, Oklahoma.

We attempt to always act in the best interest of our clients. Our firm strictly adheres to the investment strategy set forth in each of our client's Private Placement Memorandum. We do not modify our securities recommendations to our clients according to the particular interests of our clients' underlying investors, nor do we allow investors to place restrictions on the trading we conduct for our clients. We believe that this is the only fair and just way to manage a pooled investment vehicle, as it minimizes the potential for favoritism and factionalism on behalf of any underlying investors.

We do not do any of the following:

- Participate in any wrap free programs.
- Compensate any third party entities for fund raising purposes.
- Participate in any fee sharing arrangements.
- Pay any compensation for investor referrals.
- Participate in any "Fund of Funds" arrangements.

As of December 31, 2014, Prescott Group Capital Management, L.L.C. manages \$661,879,840 in client assets on a discretionary basis. We do not manage any client assets on a non-discretionary basis.

2. Fees and Compensation

Our firm receives compensation from our clients based both on the percentage of assets we manage and on performance achieved for our clients' accounts. We generally charge each of our clients an annual asset-based administrative service allocation equal to 1% of each of their investor's capital accounts. In any fiscal year where net profits (taxable income for the Aggressive Mid Cap Fund) before performance allocation (described below) do not exist, the administrative service allocation is accrued but not deducted from the each investor's capital accounts until net profits (taxable income for the Aggressive Mid Cap Fund) after the administrative service allocation but before performance allocation do exist. Any investor who retires from a client will have its capital account reduced by its proportionate share of any deferred administrative service allocation unless we required the retirement of the investor in our discretion.

We also charge a performance-based profit allocation equal to 20% of the investors' returns (realized and unrealized) in excess of the hypothetical return which would have been realized by investors in an investment based on the percentage change in the price level of the comparable index (Russell 2000 for Small Cap Funds, S&P 500 for Large Cap Fund, and S&P MidCap 400 for Aggressive Mid Cap Fund) subject to a "loss carryforward" limitation. This means that we only receive a performance profit allocation when an investor's account value for the year has recovered any under performance from the previous year.

Certain employees and immediate family members do not pay the above allocations, but the allocations are not negotiable by non-related parties.

We deduct the asset-based fee described above from each investor's capital account at the beginning of each month. We deduct the performance-based compensation referenced above from each investor's capital account at the end of each calendar year, and/or on the amount of any withdrawal prior to year end. Since investors in our clients are only allowed to withdraw capital at the end of a quarter (or monthly in our discretion) there are never prepaid fees to refund.

In connection with our advisory services, our clients, and consequently the investors in our clients, do not bear organizational and operational expenses, but do bear all of their directly related investment expenses such as those listed below. The list details some of these expenses, but does not include every possible expense our clients may incur.

- interest and commitment fees on loans and debit balances,
- brokerage commissions,

- custodial fees, trade processing fees, including clearing and settlement charges, and
- proxy expenses, cost of any outside appraisers, accountants, attorneys or other experts or consultants engaged in connection with specific transactions.

For more information on brokerage transactions and costs, please see Section 9: Brokerage Practices.

Neither our firm nor any of our employees receives any transaction-based compensation for the sale of securities or other investment products, including charges or fees from the sale of mutual funds.

3. Performance-Based Fees and Side-By-Side Management

Prescott receives a performance-based profit allocation from the investors in our clients. As explained above in Section 2, the performance-based profit allocation our investors incur equals 20% of each investor's annual profits in excess of the hypothetical return based on the percentage change in the price level of the comparable index, subject to a "loss carryforward" limitation.

The same fee structure applies to all four of our clients, so we have no incentive to focus our efforts on accounts from which we receive performance-based compensation to the detriment of management fee only accounts.

4. Types of Clients

Prescott provides investment advice to four clients which are pooled investment vehicles (See Section 1). Our clients rely on certain exclusions from the definition of "investment company" in the Investment Company Act of 1940, as amended. Accordingly, none of our clients are registered as investment companies with the United States Securities and Exchange Commission. The underlying investors in our clients typically consist of:

- Individuals,
- Trusts, estates and foundations, and
- Corporations, partnerships or other business entities.

Investment Requirements

We require a minimum initial investment of \$400,000 in the Small Cap Funds and Aggressive Mid Cap Fund and a minimum additional investment of \$25,000, although we may in our discretion accept investments in lesser amounts. We no

longer accept new or additional investments for the Large Cap Fund. Our clients only accept high-net-worth investors, defined generally for this purpose as investors with at least \$2 million of net worth, inclusive of personal residence (\$5 million in investments for Prescott Group Aggressive Small Cap II, L.P.).

This firm brochure is not an offer to invest in our clients.

5. Methods of Analysis, Investment Strategies and Risk of Loss

We may employ any and all types of investment analysis and strategies. Stock selection is primarily done on a "bottoms-up" basis whereby the individual company opportunities will be examined with less emphasis on market timing. We are not constrained by any particular investment style. At any given time we may tend to buy "growth" stocks or "value" stocks, or a combination of both types. In buying and selling securities for our clients, we will rely on the fundamental analysis of each company and its potential for success in light of its current financial condition, its industry position, as well as economic and market conditions. Special emphasis is paid to revenue growth, return on equity, and management. We attempt to maintain a current understanding of the fundamentals of a large universe of companies. This allows for the potential of opportunistic profits as market inefficiencies occur in real time. Having knowledge of a company's fundamental story in real time helps to distinguish buying opportunities from true deterioration in a company's fundamentals.

Investment in securities involves significant risk of loss that our clients and any of the investors in our clients should be prepared to bear. While we believe our investment strategies will be successful over the long term, no assurance can be given that our clients will achieve their investment objectives, nor can any assurance be given that an investment in one of our clients will not result in losses.

Certain risks associated with an investment in our clients include:

- *Investment Judgment and Market Risk:* The success of our investment program depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment program will be successful.
- *Investment and Trading Risk:* Investments in securities and other financial instruments involve a degree of risk that the entire investment may be lost. The use of short sales and options can, in certain circumstances, substantially exacerbate the impact of unfavorable price movements on our clients' investments. Also, changes in the general level of interest rates may negatively affect our clients' results.

- *Financial Market and Regulatory Change:* The instability pervading global financial markets has heightened the risks associated with the investment activities and operations of hedge funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to hedge funds and other alternative investment vehicles have led to increased scrutiny and regulation over the hedge fund and asset management industry. In addition, the laws and regulations affecting business continues to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to our clients' interests.

The following is a description of the various strategies that we utilize in advising our clients and some important risks associated with each strategy. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in our investment strategies.

- *Equity Securities:* We buy, on our clients' behalf, undervalued equity securities, seeking to profit from both security selection and thematic sector or market timing decisions. The value of these investments will generally vary with their issuer's performance and movements in the equity markets. Also, a company's board of directors may not always act in the best interest of the company's shareholders. Consequently, our clients may suffer losses if they invest in equity instruments of issuers whose performance and activity diverges from our expectations.
- *Short Selling:* Short selling of securities occurs when we borrow securities for our clients, promising to buy them at a later date. If the price drops, we can buy the securities for our clients at the lower price and make a profit on the difference. If the price of the securities rises, we have to buy them back at a higher price, and our clients' investment loses money. Buying the securities can itself cause the price of the security to rise further which would exacerbate the potential for loss.
- *Fixed-Income Securities:* At times, our clients may invest in bonds or other fixed-income securities. Fixed-income securities provide periodic returns and the eventual return of the principal at the end of the term. The value of fixed-income securities changes in response to interest rate fluctuations and market perception of the issuer's ability to pay off its obligations. Fixed-income securities are also subject to the risk that their issuer may be unable to make interest or principal payments on its obligations.
- *Options:* Primarily as a hedging strategy, we may occasionally trade options on behalf of our clients. There are risks associated with the sale and purchase of options. Our clients may invest in the purchase and sale of call and/or

put options. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. A buyer of either type of option assumes the risk of losing its entire investment in the option. A buyer of a call option risks losing its investment if the particular security never reaches the designated price within the set time period. A buyer of a put option risks losing its investment if the particular security does not decline enough to reach the designated price within the set time period. A seller of a covered call option risks the opportunity cost if the price of the underlying stock appreciates above the strike price plus the premium received for the call option within the defined time period. A seller of a put option risks having to purchase shares at a price in excess of the market price if the price of the put option within the defined time period.

- *Short Trades:* Short-term trading involves a certain degree of risk. Short-term trading denies a client the strategy of minimizing risk by holding a position over a longer period of time. In addition, frequent trading results in high turnover and brokerage commission expenses, which can adversely affect a client's performance if its trading is not sufficiently profitable.

- *Leverage/Borrowing:* We may borrow against our clients' assets when we believe that the proceeds from doing so will exceed the interest paid on the borrowing. Borrowing involves risk to our clients because the interest on the borrowed amount may be greater than the income from or increase in the value of the securities purchased with the borrowed amount. Also, the value of the securities purchased with the borrowed amount can decline below the amount borrowed.

Any investment profits made with the proceeds from borrowings in excess of interest paid on the borrowings will cause the income and value of a client to be greater than would otherwise be the case. On the other hand, if the value of the additional securities purchased with the borrowed money does not increase enough to cover the interest paid on the borrowings, then the income and value of a client will be less than would otherwise be the case. Generally, borrowing-type techniques used to increase potential returns are all forms of leverage.

- *Illiquid Investments:* On our clients' behalf, we sometimes make very illiquid investments. Illiquid investments are (1) investments that are not heavily traded and cannot easily be converted to cash or (2) investments that we believe our clients must hold for several years to reach their potential value. If our clients require cash and we must sell illiquid investments at an inopportune time, we might not be able to sell illiquid investments at prices that reflect our assessment of their value or the amount paid for them.

- *Investing in Small Capitalization Companies:* Market capitalization is a measurement of a company's size equal to the share price times the number of shares outstanding (shares that have been authorized, issued and purchased by

investors). We believe that some of the most attractive investment opportunities stem from investment in small capitalization companies. Historically, these securities have been more volatile in price than those of large capitalization companies. Small capitalization securities pose greater investment risks because the companies may have limited product lines, distribution channels and financial and managerial resources. Further, typically less publicly available information concerning these companies exists than for larger, more established businesses. In addition, the small capitalization companies' securities may not be traded in the volumes typical for larger companies, and thus it may take longer to sell these securities or we may have to accept potentially less favorable purchase prices.

- *Foreign Securities:* While we generally invest in domestic securities, we occasionally buy foreign securities for our clients. Foreign securities will be purchased only if they are listed on U.S. based exchanges or are traded through ADRs on U.S. based exchanges. Investing in foreign securities involves certain risks factors not typically associated with investing in U.S. securities, such as fluctuation between exchange rates and the costs of converting from one currency to another. In addition, there may not be much information available regarding foreign securities, because foreign companies and governments may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of the U.S. There also might be a greater risk of political, social or economic instability and the possibility that foreign taxes may be imposed on our clients' income. Finally, when investing in foreign bonds, there is always a risk that their issuer will default and be unable to pay the interest and/or principal payments due on the bonds, as the financial stability of foreign issuers may be more precarious than that of U.S. issuers.

We encourage our investors to consider all of the risk factors we have explained. Any investors in our clients risk the loss of their entire investment.

6. Disciplinary Information

Neither our firm, nor any of our directors, officers or principals has been involved in any criminal actions in a domestic, foreign or military court.

Neither our firm, nor any of our directors, officers or principals has been involved in any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency or any foreign financial regulatory authority.

Neither our firm, nor any of our directors, officers or principals has been involved in any self-regulatory organization proceedings.

7. Other Financial Industry Activities and Affiliations

Neither our firm, nor any of our directors, officers or principals is registered as a broker-dealer or a representative of a broker-dealer or has an application pending to register as a broker-dealer or a registered representative or a broker-dealer.

Neither our firm, nor any of our directors, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

We manage the following clients, which are our related persons:

- Prescott Group Aggressive Small Cap, L.P.,
- Prescott Group Aggressive Small Cap II., L.P.,
- Prescott Group Tradition Fund, L.P., and
- Prescott Group Aggressive Mid Cap, L.P.

We do not recommend or select unaffiliated investment advisers for our clients, receive compensation directly or indirectly from unaffiliated advisers that create a material conflict of interest, or have other business relationships with them that create a material conflict of interest.

8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

We have a code of ethics to provide policies and procedures consistent with applicable laws and to minimize conflicts of interest between our firm, our officers and employees, and the clients that we manage. A copy of the code of ethics is available upon request.

Employees may buy or sell the same securities as the Small Cap Funds, the Large Cap Fund, and Aggressive Mid Cap Fund. This could create a conflict of interest if our employees receive more favorable execution prices than do our clients because our employees' trades might have driven up the market prices of target securities. However, we eliminate this conflict by mandating that employees cannot buy or sell these securities until we have first had the opportunity to buy or sell them for our clients' accounts.

9. Brokerage Practices

We have complete investment and brokerage discretion over our clients' accounts. We select broker-dealers for our clients' securities transactions and determine the reasonableness of their compensation based on a number of factors, including the following:

- the financial strength, integrity and stability of the broker-dealer;
- the ability to effect prompt and reliable executions at favorable prices (including the applicable broker-dealer spread or commission, if any);
- the operational efficiency with which transactions are effected, taking into account the size of the order and difficulty of execution;
- the broker-dealer's risk in positioning a block of securities; and
- the competitiveness of commission rates in comparison with other broker-dealers satisfying our other selection criteria.

We have no formal commission commitments. The vast majority of investment ideas result from in-house generated research for which we direct commissions on a "best execution" basis. To the extent investment ideas used by us originate from traditional brokerage research that we find of benefit, we may on occasion direct trades to that brokerage firm which may result in a higher commission rate than may be available from another firm.

We do not have any formal arrangements, oral or written, with any brokers regarding specific or implied compensation for research and/or services. We may receive an economic benefit in the sense that we have access to research that we may deem to be of value from certain brokers. This may result in us executing trades through a broker at a rate that may not be the lowest available commission, but is consistent with our "best execution" standard (see above). In addition, we may be deemed to receive an economic benefit from certain custodial brokerage relationships that provide and maintain account transaction history and records for the specific assets held by the custodian in that account, which is typical of a standard brokerage/custodian relationship.

Our firm does not recommend, request or require that our clients or any investors in our clients, direct us to execute transactions through a specified broker-dealer. We do not permit our client or any investor in our client to direct us to execute transactions through a specified broker-dealer.

10. Review of Accounts

Phil Frohlich, our firm's principal and portfolio manager, reviews our clients' accounts on a daily basis and determines whether the investments still provide value to the account or whether we should replace any positions.

We provide the investors in our clients with quarterly written reports that contain a brief review of our clients' performance for the relevant quarter. We also furnish our clients' investors with annual written audited financial statements and tax information to assist investors in completing their tax returns.

11. Client Referrals and Other Compensation

Our firm do not, nor does any principals or employees of our firm, receive any economic benefit from non-clients for providing advisory services to our clients. However, in certain circumstances, we may be offered, or may request board representation for certain of our clients' portfolio companies. In seeking or accepting a board seat, we desire to bring an outside shareholder's perspective to the board, and to assist in maximizing value to all shareholders. As a board member, our representative receives board fees consistent with those of the other board members. Our policy has been to allow our representative to retain those board fees individually. At the present time, our employees represent our firm on the board of three portfolio companies of our clients.

12. Custody

While it is our firm's practice not to accept or maintain physical possession of our clients' assets when possible, we are deemed to have custody of its assets under Rule 296(4)-2 of the Investment Advisers Act of 1940, as amended, because we have the authority to access our clients' funds and deduct fees and expenses from their accounts.

In order to comply with Rule 206(4)-2, we utilize the services of qualified custodians (as defined under Rule 206(4)-2) to hold our clients' assets. We also ensure that the qualified custodian maintains these funds in accounts that contain only our clients' funds and securities, under our clients' names. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit our clients at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in our clients within 120 days after the end of the fiscal year. Finally, we receive monthly account statements from each qualified custodian on behalf of our clients which we compare with our own records.

13. Investment Discretion

Scope of Authority

Our firm accepts discretionary authority to manage our clients' securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific consent from our clients or their investors, which securities to buy or sell and the amount of securities to buy or sell. Despite this broad authority, we adhere to the investment strategy and program set forth in each of our client's Private Placement Memorandum. Phil Frohlich, our principal and portfolio manager, and Jeff Watkins, our chief compliance officer, review our clients' accounts regularly to ensure that we are observing our clients' investment strategies and objectives.

Procedures for Assuming Authority

Before accepting their subscriptions for interests, we provide all potential investors in our clients with a Private Placement Memorandum that sets forth, in detail, our investment strategy and program for the specific client. By completing our subscription documents to acquire an interest in one of our clients, investors give us complete authority to management their investments in accordance with the Private Placement Memorandum they received.

14. Voting Client Securities

Our firm has the authority to vote proxies on behalf of our clients. It is our policy to attempt to vote all proxies and to do so in accordance with the goal of maximizing the long-term value of our clients' investments.

If any conflict of interest arises in connection with voting our clients' securities, we observe the following guidelines:

- We normally vote to maintain or create a majority of independent directors on a board of directors as a whole as well as on its audit, compensation and nominating committees.
- We normally vote to limit an auditor's engagement solely to the provision of tax and audit work.
- We vote to limit the total compensation of management to a level that is appropriate with its performance.
- We normally vote against poison pills, different classes of stock and other methods designed to insulate management from the desires of their shareholders. (A poison pill is a strategy that

corporations use to discourage hostile takeovers by making their stock appear less attractive to potential acquirers.)

- We normally vote in accordance with actions taken to maximize the company's long-term value without regard to "social responsibility" issues, except to the extent that those issues may affect the long-term value of the business.

Neither our clients, nor investors in our clients, can direct us to vote client proxies in a certain manner. Upon request, our clients' investors can obtain (1) a copy of our proxy voting policies and procedures and (2) information concerning proxy votes on our clients' behalf.

We maintain the following records relating to proxy voting in our office:

- Copies of our proxy voting policies and procedures and any amendments.
- Proxy statements received for clients securities.
- Records of proxy votes cast on behalf of our clients.

We receive all of our clients' proxies and similar solicitations and we have the authority to vote our clients' proxies.

15. Financial Information

We do not require nor do we solicit prepayment of fees more than one month in advance (see Item 2).

We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.

We have never been the subject of a bankruptcy petition.