Perritt Funds

MicroCap Opportunities Fund, Inc.
Emerging Opportunities Fund, Inc.

An Interview With Michael Corbett,

President and Portfolio Manager of the Perritt Funds

Michael Corbett
CIO & Portfolio Manager

Q.

Did you see any signs from small cap stocks in the first quarter '09 that lead you to believe that the market could be recovering?

A.

Over the last quarter it appeared to us that small cap stocks began trading based on fundamentals as opposed to the demand for liquidity. The types of forced selling that we saw in the 4th quarter of 2008 that was tied to hedge funds in the small cap space was much less frequent. During the market's deterioration at the end of last year, investor demands for redemptions from hedge funds led to a forced liquidation out of small and microcap positions on a large scale. The selling for liquidity that we saw in the first quarter of 2009, when it did exist, was much less drastic. We continue to believe that we are near the end of forced selling by hedge funds in the small cap space. This is an encouraging sign to us because we believe it means that markets are starting to trade on a more normal basis. In other words, we feel stocks are beginning to trade on a fundamental basis, which should bode well for small cap stock prices.

Portfolio Characteristics as of 3/31/09

	PRCGX	PREOX
Median Market Cap	$101 Mil.	$22 Mil.
Price / Tangible Book	0.8	0.7
Price / Earnings	8.1	7.2
Price / Sales	0.3	0.3
Price / Cash Flow	2.5	2.5

Q.

Are you concerned about the debt levels of small companies in the face of this credit crunch?

A.

We are always concerned about a company's level of debt. However, we believe that there is a misconception about debt in regards to smaller companies. Conventional wisdom seems to be that most small companies are loaded with debt and that they need the debt and equity markets to survive and grow their businesses. In fact, that idea couldn't be farther from the truth. The table on the following page outlines the level of debt between companies in the S&P 500 Index, the Russell 2000 Index, and our own portfolios. This data illustrates that larger companies are more leveraged than small companies. Because the first part of our investment process is finding small companies with strong balance sheets, our team spends a great deal of time seeking companies with zero leverage or only a manageable amount of debt. Because so many of our companies are currently holding large cash positions, and in many cases zero debt, we have an expectation they may avoid the types of financial difficulties associated with excess leverage.

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Debt Levels: Large Cap vs. Small Cap as of 3/31/09:

	S&P 500 Index	Russell 2000 Index	MicroCap Opportunities Fund (PRCGX)	Emerging Opportunities Fund (PREOX)
Zero Debt: # of companies with zero debt on balance sheet	41 of 500 (8.2%)	517 of 1913 (27.0%)	65 of 128 (50.8%)	57 of 137 (41.5%)
Cash Position: # of companies holding 10% or more of market cap. in cash	41 of 500 (8.2%)	1173 of 1913 (61.3%)	58 of 128 (45.3%)	67 of 137 (48.9%)
Median Debt to Assets Ratio	20%	11%	3%	4%

Q.

To what degree have you seen smaller companies engaging in cost-cutting or restructuring due to the recession?

A.

Each bear market is different, but all bear markets give us a chance to closely examine the behavior of management teams of the companies in our portfolio. While there have certainly been some disappointments, many of the management teams of companies that we currently own or are on our watch list have been quite impressive to us because of their actions in this bear market. Small companies can be exciting in this environment because of their agility and flexibility. An analogy that we often use is that a large company is like a super-tanker and a small company is like a speedboat. What this means is that we believe that smaller companies can be much more agile when maneuvering in a stormy economy. As we enter into a new economic environment, it is essential for companies to be able to adjust their businesses models in an effort to boost performance in the face of poor economic conditions. We have several companies that we feel have done a great job of changing their cost structures in this new environment. One example of this is Universal Power Group (UPG), a company which is in the battery business. UPG has actually been able to reduce their cost structure in excess of 25 to 30 percent without experiencing a deterioration of their business near those levels. This shows you how a small company can move quickly in the face of new challenges in a way that can improve their bottom line. One of the advantages of investing in smaller companies is that we have a portfolio packed with companies whose management teams are able to make similar types of changes as new challenges arise.

Q.

We have discussed the portfolio's historically low levels of valuations in the past, what does this mean for investors?

A.

The assessment of valuations is a large part of our investment process. If done properly, valuations can tell you how far a stock may rise or fall, without necessarily giving a time horizon. In our opinion the opportunities today are unbelievable. I have not seen this degree of opportunities in both their range and depth over my twenty year career. Our portfolios continue to trade well below tangible book value – most companies that we own are holding low levels of debt and large cash positions. Because of the damage to the confidence in our markets and in our economy, we believe that the recovery could last for many years and the rewards could be very impressive. These rewards could be magnified in the small cap sector. This is not only because the valuations of small company stocks are the most severely depressed, but also because, as we discussed previously, smaller companies are like speedboats that can quickly adjust to take advantage of new opportunities as they present themselves during an economic rebound.

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Q.

What is your greatest fear in the near term?

A.

As we have said many times before, you never know the catalyst that moves a market until after it has occurred. Instead of trying to speculate which particular event will be the one to move the markets, we believe that it is more important to focus on the fundamentals of the businesses that we own or seek to acquire. That being said, in the last several months we have had an above-average level of calls from private equity firms and other shareholder activists looking to unlock some of the value in the small cap space that has resulted due to forced selling. We do not know if the level of buyout activity increases to the point that serves as a catalyst to move the markets. However, should that occur our greatest fear is that companies we currently own will accept a buy-out offer below what we believe the company is ultimately worth. In the past several weeks about a half dozen of our companies have received buy-out offers; in some cases these offers were in excess of 100 percent of the then existing share price. For example, ICT Group (ICTG), which is in the call center business, was trading around $4 a share when it received a buy-out offer from Aegis, a business process outsourcing company, for $8 a share. Because they believed the value of the business to be greater than the offered price, management of ICT Group turned this proposal down within 24 hours of receiving the offer. We tend to agree with management of ICT and other companies in our portfolio for turning down buy-out offers because we believe that based on the value of the businesses the upside during the next two to three years could be well in excess of the offers currently being proffered.

The information provided herein represents the opinion of Perritt Capital Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Past performance does not guarantee future results. Index performance is not illustrative of fund performance. You cannot invest directly in an index. For fund performance please visit www.perrittmutualfunds.com.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-331-8936 or by visiting www.perrittmutualfunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The Funds invest in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Funds invest in micro cap companies which tend to perform poorly during times of economic stress. The Emerging Opportunities Fund may invest in early stage companies which tend to be more volatile and somewhat more speculative than investments in more established companies.

Price to Sales ratio is a tool for calculating a stock's valuation relative to other companies, calculated by dividing a stock's current price by its revenue per share. Price to Earnings ratio is calculated by dividing current price of the stock by the company's trailing 12 months' earnings per share. Price to Book Value Ratio is calculated by dividing the current price of the stock by the company's book value per share. Price to Cash Flow is calculated by dividing the current price of the stock by the company's cash flow per share. The S&P 500 is an unmanaged broad based universe of 500 stocks which is widely recognized as the US equity market. The Russell 2000 Index consists of the smallest 2000 companies in a group of 3000 companies in the Russell 3000 as ranked by market cap. It is not possible to invest directly in an index.

As of 3/31/09, The Perritt Funds held Universal Power Group (0.89%) and ICT Group (1.04%). The funds did not hold any positions in Aegis. Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

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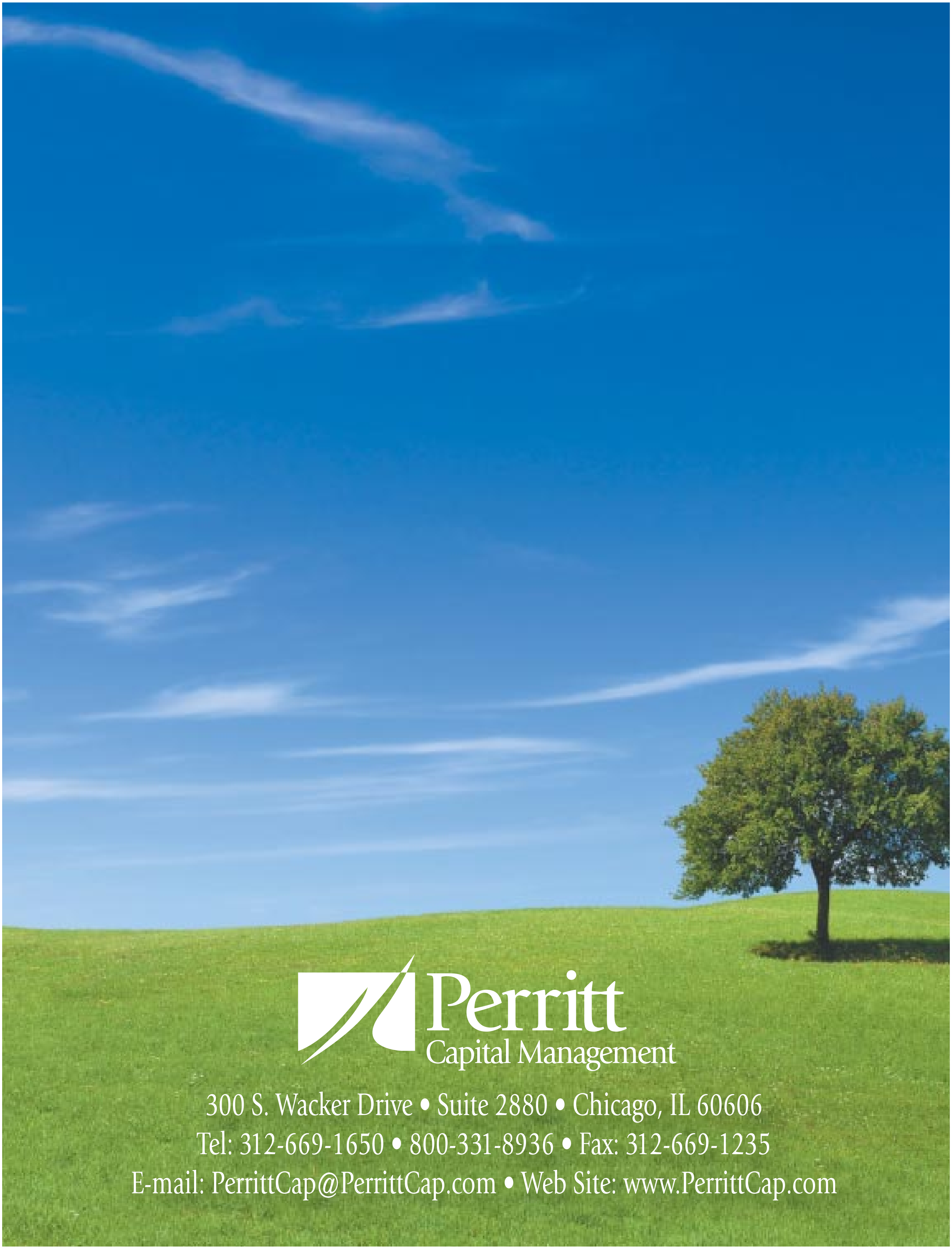

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