

See Our Recent Press

New York Times Sunday Business – Finding Success on Roads Less Traveled

<http://www.nytimes.com/2010/04/11/business/mutfund/11top.html>

Morningstar Advisor Magazine – Undiscovered Managers

<http://advisor.morningstar.com/articles/article.asp?docId=19162>

Michael Corbett's 1Q '10 Commentary

Portfolio Manager of the Perritt Funds

Q.

How has acquisition activity in the micro-cap space changed this year?

A.

Acquisition activity within the micro-cap space has become extremely robust over the past quarter. Through the first 16 weeks of 2010, we had 8 stocks acquired in the Perritt Emerging Opportunities Fund and 5 stocks acquired in the Perritt MicroCap Opportunities Fund (see detail

in table on page 3). The number of companies that were bought out represents 5.4% and 4.7% of the entire portfolios, respectively. That level of merger and acquisition activity in one quarter is impressive: historically, buy-out activity has averaged about 5% of portfolio assets during a calendar year.



Michael Corbett
CIO &
Portfolio
Manager

One trend that we have witnessed in the recent

Performance as of 3/31/10

	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	15 Yr.	Since Inception
Perritt MicroCap Opportunities Fund (PRCGX)	8.12%	80.72%	-4.61%	3.29%	9.47%	11.27%	9.32% (4/11/88)
Perritt Emerging Opportunities Fund (PREOX)	13.73	93.39%	-9.83%	1.04%	NA	NA	3.29% (8/27/04)

Perritt MicroCap Opportunities Fund Expense Ratio: 1.42%

Perritt Emerging Opportunities Fund Expense Ratio: 2.12%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than their original cost. Performance data current to the most recent month end may be obtained by calling 1-800-331-8936. The funds impose a 2% redemption fee for shares held less than 90 days. Performance data quoted does not reflect the redemption fee. If reflected, total return would be reduced.

.....
Commentary continued on page 2

 **Perritt Funds**
MicroCap Opportunities Fund, Inc.
Emerging Opportunities Fund, Inc.

www.PerrittCap.com

.....
Commentary continued from page 1

acquisition activity is that smaller companies are being purchased by public companies as opposed to private equity. Faced with low interest rates, management teams of acquiring companies are potentially receiving pressure from boards and shareholders to find better opportunities to utilize their cash. The result has often been the purchasing of profitable, small companies. On the other side of the equation, we have seen in most instances the companies being acquired have a considerable amount of insider ownership. This is significant because insider owners with a large voting stake can push a decision through if needed, and due to the likelihood that taxes may be higher next year, business owners have a motivation to sell their companies now. Added together, we believe that the conditions facing the management teams of acquiring companies and those of companies targeted for purchase have created an environment for acquisition activity in the microcap universe where “the stars are aligned.” This can certainly be a boon to microcap investors: buy-out premiums can be significant; two examples of companies bought out of our portfolios last quarter, Zareba and Global Med, were purchased for premiums of 100% and 80%, respectively.

Q.

In conversations with small company managers, are you hearing a different tone over the past few quarters?

A.

For businesses related to consumer spending (a sector that we remain underweight in), the general discussion continues to be that although sales have been decent, it feels to businesses that they are just restocking shelves. An area where we are beginning to see more concrete growth however is in companies related to business services. A major focus for managers of all companies seems to be related to finding ways to increase productivity. This is not surprising given that many businesses cut their workforce significantly and now need to find ways to do the same amount of work with less people.

Our conversations with small company management relate to valuations because the big question that all investors are asking is, “when will the revenue growth start to kick in?” While we are not sure about

Acquisition Activity, Jan 1 – Apr 15, 2010

Perritt Emerging Opportunities Fund PREOX	Perritt MicroCap Opportunities Fund PRCGX
Boots & Coots (WEL)	Boots & Coots (WEL)
Global Med (GLOB)	Home Diagnostics (HDIX)
Health Fitness (FIT)	North American Galvanizing (NGA)
International Absorbents	Sports Supply Group (RBI)
North American Galvanizing (NGA)	Techwell (TWLL)
Sports Supply Group (RBI)	Zygo (ZIGO)*
White Electronic Designs	
Zareba (ZRBA)	*deal canceled after our position was sold

.....
Commentary continued on page 3

Investing In Smaller Companies Since 1988



.....
 Commentary continued from page 2

business related to consumer spending, we do have higher confidence in industries related to business services in terms of revenue growth, as mentioned previously. What we have seen and heard from management of these types of companies tells us that they should see growth of revenue, earnings, and lower P/E ratio's if prices remain stable. A final note on valuations is that although P/E ratios have certainly climbed, they were doing so from severely depressed levels. In our opinion, the P/E ratios of 15 to 16 where the Funds stand now, while well higher than we experienced during the March 2009 lows, are not egregious relative to any metrics.

Q.
 Discuss attribution analysis – What happened?

A.
 Our attribution analysis shows that in the first quarter of 2010 stock selection added significant value to the performance of The MicroCap Opportunities Fund.

Our selection within the Health Care and Information Technology industries were particularly strong, and our relative overweight to those industries contributed to our returns. However, our underweighting in other industries versus the Russell 2000 Index, primarily in financials, caused the Fund to underperform the benchmark. Although the individual financial companies that we invested in did perform as well as the financial holdings of the benchmark, our large underweight to the sector led to a smaller return overall.

Our attribution analysis shows that in the first quarter of 2010 an underweight in financials hurt performance of the Emerging Opportunities Fund in a similar manner as described for the MicroCap Opportunities Fund.

However, stock selection in the Emerging Opportunities Fund contributed more than 7% to our overall performance during the quarter. Much of this contribution was related to the acquisition activity discussed earlier.

Acquisition Activity as a Percentage of Portfolio*

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Perritt MicroCap Opportunities Fund (PRCGX)	9 of 122 (7.4%)	8 of 135 (5.9%)	14 of 165 (8.5%)	7 of 168 (4.2%)	5 of 164 (3.1%)
Perritt Emerging Opportunities Fund (PREOX)	2 of 151 (1.3%)	8 of 143 (1.3%)	8 of 181 (4.4%)	4 of 150 (2.7%)	3 of 117 (2.6%)

* Based on average # of companies held in portfolio over calendar year

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.

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 than larger companies. 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 Earnings (P/E) ratio is calculated by dividing current price of the stock by the company's trailing 12 months' earnings per share. 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. The Russell MicroCap Index consists of the smallest 1000 securities in the Russell 2000 Index plus the next 1000 smallest stocks. It is not possible to invest directly in an index.

As of 3/31/10, The MicroCap Opportunities held a 0.16% position in Boots & Coots, and a 0.77% position in North American Galvanizing. The Emerging Opportunities Fund held a 1.02% position in Boots & Coots and a 0.81% position in North American Galvanizing. Neither Fund held a position in Global Med, Health Fitness, International Absorbents, Sports Supply Group, White Electronic Designs, Zareba, Home Diagnostics, Techwell, or Zygo. Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

The Perritt Funds are distributed by Quasar Distributors, LLC



300 S. Wacker Drive • Suite 2880 • Chicago, IL 60606

Tel: 312-669-1650 • 800-331-8936 • Fax: 312-669-1235

E-mail: PerrittCap@PerrittCap.com • Web Site: www.PerrittCap.com