

STATEMENT OF ADDITIONAL INFORMATION
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Dated February 28, 2011

PERRITT MICROCAP OPPORTUNITIES FUND
(Ticker Symbol: PRCGX)

PERRITT MICROCAP OPPORTUNITIES FUND, INC.

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This Statement of Additional Information (“SAI”) is not a prospectus and should be read in conjunction with the Prospectus of Perritt MicroCap Opportunities Fund dated February 28, 2011 and any supplement thereto. A copy of the Prospectus may be obtained without charge from Perritt MicroCap Opportunities Fund, Inc. at the address and telephone number set forth above.

The following financial statements are incorporated by reference to the Annual Report, dated October 31, 2010, of Perritt MicroCap Opportunities Fund, Inc. (File No. 811-05308) as filed with the Securities and Exchange Commission (“SEC”) on Form N-CSR on December 30, 2010:

Schedule of Investments;
Statement of Assets and Liabilities;
Statements of Changes in Net Assets;
Financial Highlights;
Statement of Operations;
Notes to Financial Statements; and
Report of Independent Registered Public Accounting Firm.

PERRITT MICROCAP OPPORTUNITIES FUND, INC.

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No person has been authorized to give any information or to make any representations other than those contained in this SAI and the Prospectus dated February 28, 2011 and, if given or made, such information or representations may not be relied upon as having been authorized by Perritt MicroCap Opportunities Fund, Inc.

This SAI does not constitute an offer to sell securities.

FUND HISTORY AND CLASSIFICATION

Perritt MicroCap Opportunities Fund, Inc. (the “Company”) is an open-end, management investment company registered under the Investment Company Act of 1940 (the “1940 Act”). The Company was organized as a Maryland corporation on August 24, 1987. The Perritt MicroCap Opportunities Fund (the “Fund”) is the diversified portfolio of the Company.

INVESTMENT OBJECTIVE

The Fund’s investment objective is long-term capital appreciation which it seeks by investing primarily in a diversified portfolio of common stocks of small, rapidly growing companies. The Fund will, under normal circumstances, invest at least 80% of its net assets, plus borrowings for investment purposes, in common stocks of United States companies with market capitalizations that are below \$500 million at the time of initial purchase. From time to time, the Fund may invest in other equity-type securities such as convertible bonds, preferred stocks and warrants to purchase common stock. The Fund may invest in securities not listed on national or regional securities exchanges, but such securities typically will have an established over-the-counter market. The Fund does not currently intend to invest in any security that, at the time of purchase, is not readily marketable. The Fund may, for temporary defensive purposes, invest more than 20% of its assets in money market securities, including U.S. government obligations, certificates of deposit, bankers’ acceptances, commercial paper or cash and cash equivalents. Except for temporary defensive purposes, the Fund will retain cash and cash equivalents only in amounts deemed adequate for current needs and to permit the Fund to take advantage of investment opportunities.

INVESTMENT CONSIDERATIONS

Considerations Respecting the Fund’s Principal Investment Strategy

Because the Fund intends to invest to a substantial degree in common stocks of smaller companies which are, in the opinion of Perritt Capital Management, Inc., the Fund’s investment adviser (the “Adviser”), rapidly growing, an investment in the Fund is subject to greater risks than those of funds that invest in larger companies.

Investments in relatively small companies tend to be speculative and volatile. Relatively small companies may lack depth in management on which to rely should loss of key personnel occur. Relatively small companies also may be involved in the development or marketing of new products or services, the market for which may not have been established. Such companies could sustain significant losses when projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Moreover, such companies may be insignificant factors in their industries and may become subject to intense competition from larger companies.

Equity securities of relatively small companies frequently will be traded only in the over-the-counter market or on regional stock exchanges and often will be closely held with only a small proportion of the outstanding securities held by the general public. In view of such factors,

the Fund may assume positions in securities with limited trading markets that are subject to wide price fluctuations. Therefore, the current net asset value (“NAV”) of the Fund may fluctuate significantly. Accordingly, the Fund should not be considered suitable for investors who are unable or unwilling to assume the risks of loss inherent in such a program, nor should an investment in the Fund, by itself, be considered a balanced or complete investment program.

Considerations Respecting the Fund’s Non-Principal Investment Strategies

Borrowing

The Fund is authorized to borrow money from banks as a temporary measure for extraordinary or emergency purposes (but not for the purpose of purchase of investments) and then only in an amount not to exceed 5% of the value of the Fund’s net assets at the time the borrowing is incurred. For example, the Fund may borrow money to facilitate management of the Fund’s portfolio by enabling the Fund to meet redemption requests when the liquidation of portfolio investments would be inconvenient or disadvantageous. As required by the 1940 Act, the Fund may only borrow from a bank and must maintain continuous asset coverage (total assets, including assets acquired with borrowed funds, less liabilities exclusive of borrowings) of 300% of all amounts borrowed. If, at any time, the value of the Fund’s assets should fail to meet this 300% coverage test, the Fund will reduce the amount of the Fund’s borrowings to the extent necessary to meet this 300% coverage within three (3) days (not including Saturdays, Sundays and holidays). Maintenance of this percentage limitation may result in the sale of portfolio securities at a time when investment considerations otherwise indicate that it would be disadvantageous to do so.

Warrants

The Fund may purchase warrants to purchase equity securities, but may invest no more than 5% of its total assets in warrants, whether or not the warrants are listed on the New York Stock Exchange or on the NYSE Amex, formerly the American Stock Exchange, or more than 2% of the value of the assets of the Fund in warrants which are not listed on those exchanges. Warrants acquired in units or attached to securities are not subject to these limitations. Investments in warrants are pure speculation in that they have no voting rights, pay no dividends and have no rights with respect to the assets of the corporation issuing them. Warrants basically are options to purchase equity securities at a specific price valid for a specific period of time. They do not represent ownership of the securities, but only the right to buy them. Warrants differ from call options in that warrants are issued by the issuer of the security which may be purchased on their exercise, whereas call options may be written or issued by anyone. The prices of warrants do not necessarily move parallel to the prices of the underlying securities. Warrants involve the risk that the Fund could lose the purchase value of the warrant if the warrant is not exercised prior to its expiration. They also involve the risk that the effective price paid for the warrant added to the subscription price of the related security may be greater than the value of the subscribed security’s market price.

Money Market Instruments

The Fund may invest in cash and money market securities. The Fund may do so to “cover” investment techniques, when taking a temporary defensive position or to have assets available to pay expenses, satisfy redemption requests or take advantage of investment opportunities. The money market securities in which the Fund invests include U.S. Treasury Bills, commercial paper and commercial paper master notes.

The Fund may invest in commercial paper or commercial paper master notes rated, at the time of purchase, A-1 or A-2 by Standard & Poor’s[®] Corporation or Prime-1 or Prime-2 by Moody’s Investors Services[®], Inc. Commercial paper master notes are demand instruments without a fixed maturity bearing interest at rates that are fixed to known lending rates and automatically adjusted when such lending rates change.

INVESTMENT RESTRICTIONS

In seeking to achieve its investment objectives, the Fund has adopted the following restrictions which are matters of fundamental policy and cannot be changed without approval by the holders of the lesser of:

- 67% of the Fund’s shares present or represented at a meeting of shareholders at which the holders of more than 50% of such shares are present or represented; or
- More than 50% of the outstanding shares of the Fund.

If a percentage restriction is adhered to at the time of investment, a later increase or decrease in percentage resulting from a change in values of assets will not constitute a violation of that restriction other than with respect to the Fund’s borrowing of money.

The Fund may not:

1. Purchase the securities of any issuer if such purchase would cause more than 5% of the value of the Fund’s total assets to be invested in securities of any one issuer (except securities of the United States government or any agency or instrumentality thereof), or purchase more than 10% of the outstanding securities of any class or more than 10% of the outstanding voting securities of any one issuer.
2. Purchase or retain the securities of any issuer if those officers or directors of the Fund or its investment adviser owning individually more than 1/2 of 1% of the securities of such issuer together own more than 5% of the securities of such issuer.
3. Borrow money except from banks for temporary or emergency purposes (but not for the purpose of purchase of investments) and then only in an amount not to exceed 5% of the value of the Fund’s net assets at the time the borrowing is incurred.

4. Invest in real estate (although the Fund may purchase securities secured by real estate or interests therein, or securities issued by companies that invest in real estate or interests therein), commodities, commodities contracts or interests in oil, gas and/or mineral exploration or development programs.
5. Act as an underwriter of securities or participate on a joint or joint and several basis in any trading account in any securities.
6. Invest in companies for the primary purpose of acquiring control or management thereof.
7. Purchase securities on margin, except such short-term credits as are necessary for the clearance of transactions and make short sales of securities (except short sales against the box).
8. Pledge, mortgage, hypothecate or otherwise encumber any of its assets, except as a temporary measure for extraordinary or emergency purposes, and then not in excess of 15% of its assets taken as cost.
9. Concentrate more than 25% of the value of its total assets (taken at market value at the time of each investment) in securities of non-governmental issuers whose principal business activities are in the same industry.
10. Invest in restricted securities or illiquid or other securities without readily available market quotations, including repurchase agreements.
11. Make loans, except that this restriction shall not prohibit the purchase and holding of a portion of an issue of publicly distributed debt securities.
12. Purchase securities of any company having less than three years of continuous operation (including operations of any predecessors) if such purchase would cause the value of the Fund's investments in all such companies to exceed 5% of the value of its assets.
13. Invest more than 5% of its total assets in warrants, whether or not the warrants are listed on the New York Stock Exchange or the NYSE Amex, or more than 2% of the value of the assets of the Fund in warrants which are not listed on those exchanges. Warrants acquired in units or attached to securities are not included in this restriction.

The Fund has adopted the following investment restriction, which is not a fundamental policy and which may be changed by the Company's Board of Directors without shareholder approval. If a percentage restriction is adhered to at the time of investment, a later increase or decrease in percentage resulting from a change in values of assets will not constitute a violation of the restriction. Any changes in this non-fundamental investment restriction made by the Board of Directors will be communicated to shareholders prior to their implementation.

The Fund will not purchase the securities of other investment companies except: (a) as part of a plan of merger, consolidation or reorganization approved by the shareholders of the Fund; (b) securities of registered open-end investment companies; or (c) securities of registered closed-end investment companies on the open market where no commission results, other than the usual and customary broker's commission. No purchases described in (b) and (c) (except for purchases of money market funds) will be made if as a result of such purchases (i) the Fund and its affiliated persons would hold more than 3% of any class of securities, including voting securities, of any registered investment company; (ii) more than 5% of the Fund's net assets would be invested in shares of any one registered investment company; and (iii) more than 10% of the Fund's net assets would be invested in shares of registered investment companies.

PORTFOLIO TURNOVER

Under normal circumstances the Fund seeks to keep its annual portfolio turnover ratio under 50%. The annual portfolio turnover ratio indicates changes in the Fund's portfolio. For instance, a rate of 100% would result if all the securities in the portfolio at the beginning of an annual period had been replaced by the end of the period. The Fund's average security holding period can be approximated by taking the reciprocal of its turnover ratio. For example, a portfolio turnover ratio of 50% would indicate an approximate security holding period of two years. During the last five years, the Fund's annual portfolio turnover rate has averaged 29.6%. A turnover rate of 100% or more would result in correspondingly greater brokerage commission expenses or other transaction expenses, which must be borne, directly or indirectly, by the Fund and ultimately by the Fund's shareholders. Payment of these transaction costs could reduce the Fund's total return. High portfolio turnover could also result in the payment by the Fund's shareholders of increased taxes on realized gain. For the fiscal years ended October 31, 2010 and 2009, the portfolio turnover rate was 41.5% and 25.4%, respectively.

RETIREMENT PLANS

Shares of the Fund may be purchased in connection with many types of tax-deferred retirement plans. Initial purchase payments in connection with tax-deferred retirement plans must be \$250. It is advisable for an individual considering the establishment of a retirement plan to consult with an attorney and/or an accountant with respect to the terms and tax aspects of the plan. Additional details about these plans, application forms and plan documents may be obtained by contacting the Fund.

OTHER SHAREHOLDER PLANS

Automatic Investment Plan

The Fund offers an Automatic Investment Plan ("AIP"), which may be established at any time. By participating in the AIP, shareholders may automatically make purchases of shares of the Fund on a regular, convenient basis. A shareholder may elect to make automatic deposits on any day of the month. There is a \$50 minimum for each automatic transaction.

Under the AIP, shareholders' banks or other financial institutions debit pre-authorized amounts drawn on their accounts each month and apply such amounts to the purchase of shares of the Fund. The AIP can be implemented with any financial institution that is a member of the Automated Clearing House. No service fee is charged to shareholders for participating in the AIP. An application to establish the AIP may be obtained from the Fund. The Fund reserves the right to suspend, modify or terminate the AIP without notice.

Dividend Reinvestment Plan

Unless a shareholder elects otherwise by written notice to the Fund, all income dividends and all capital gains distributions payable on shares of the Fund will be reinvested in additional shares of the Fund at the NAV in effect on the dividend or distribution payment date. The Fund acts as the shareholder's agent to reinvest dividends and distributions in additional shares and hold for his/her account the additional full and fractional shares so acquired. A shareholder may at any time change his/her election as to whether to receive his/her dividends and distributions in cash or have them reinvested by giving written notice of such change of election to the Fund. Such change of election applies to dividends and distributions, the record dates of which fall on or after the date that the Fund receives the written notice.

Systematic Withdrawal Plan

A shareholder who owns Fund shares worth at least \$10,000 at the current NAV may, by completing an Application which may be obtained from the Fund's transfer agent, U.S. Bancorp Fund Services, LLC, create a Systematic Withdrawal Plan ("SWP") from which a fixed sum will be paid to the shareholder at regular intervals. To establish the SWP, the shareholder appoints the Fund as the shareholder's agent to effect redemptions of Fund shares held in the shareholder's account for the purpose of making monthly or quarterly withdrawal payments of a fixed amount from the account.

The minimum amount of a withdrawal payment is \$250. These payments will be made out of the proceeds of periodic redemption of shares in the account at NAV. Redemptions will be made on the business day of each month selected by a shareholder or, if that day is a holiday, on the next business day. Because a SWP may reduce, and eventually deplete, a shareholder's account over time, it may be advisable to reinvest all income dividends and capital gains distributions payable by the Fund (please note that income dividends and capital gains distributions are reinvested unless a shareholder elects otherwise by written notice to the Fund). The shareholder may purchase additional Fund shares in the shareholder's account at any time.

Withdrawal payments cannot be considered to be yield or income on the shareholder's investment, since portions of each payment will normally consist of a return of capital. Depending on the size or the frequency of the disbursements requested and the fluctuation in the value of the Fund's portfolio, redemptions for the purpose of making such disbursements may reduce or even exhaust the shareholder's account.

ANTI-MONEY LAUNDERING PROGRAM

The Fund has established an Anti-Money Laundering Compliance Program (the “Program”) as required by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA PATRIOT Act”). In order to ensure compliance with this law, the Fund’s Program provides for the development of internal practices, procedures and controls, designation of anti-money laundering officers, an ongoing training program and an independent audit function to determine the effectiveness of the Program.

Procedures to implement the Program include, but are not limited to, determining that the Fund’s transfer agent has established proper anti-money laundering procedures, reporting suspicious and/or fraudulent activity, checking shareholder names against designated government lists, including checking to ensure that a customer does not appear on the Treasury’s Office of Foreign Asset Control “Specifically Designated Nationals and Blocked Persons” list, and a complete and thorough review of all new applications to open an account. The Fund will not transact business with any person or entity whose identity cannot be adequately verified under the provisions of the USA PATRIOT Act.

DISCLOSURE OF PORTFOLIO HOLDINGS

The Fund maintains written policies and procedures regarding the disclosure of its portfolio holdings to ensure that disclosure of information about portfolio securities is in the best interests of the Fund’s shareholders.

Portfolio Holdings Disclosure Policies

The Fund is required by the SEC to file its complete portfolio holdings schedule with the SEC on a quarterly basis. This schedule is filed with the Fund’s annual and semi-annual reports on Form N-CSR for the second and fourth fiscal quarters and on Form N-Q for the first and third quarters. The portfolio holdings information provided in these reports is as of the end of the quarter in question. Form N-CSR must be filed with the SEC no later than ten (10) calendar days after the Fund transmits its annual or semi-annual report to its shareholders. Form N-Q must be filed with the SEC no later than sixty (60) calendar days after the end of the applicable quarter. Additionally, the Fund will post its portfolio holdings on its website no later than thirty (30) calendar days after each calendar quarter end.

The Fund’s service providers which have contracted to provide services to the Fund including, for example, the Fund’s custodian, the Fund’s accountant and the Fund’s administrator, and which require portfolio holdings information in order to perform those services may receive the Fund’s holdings information prior to and more frequently than the public disclosure of such information (“non-standard disclosure”). Non-standard disclosure of portfolio holdings information may also be provided to legal counsel, regulators such as the SEC or the Financial Industry Regulatory Authority (as requested), entities that provide a service to the Fund’s investment adviser (provided that the service is related to the investment advisory services that such investment adviser provides to the Fund), and to other third-parties when the

Fund has a legitimate business purpose for doing so. Specifically, the Fund's disclosure of its portfolio holdings may include disclosure:

- to the Fund's auditors for use in providing audit opinions;
- to financial printers for the purpose of preparing the Fund's regulatory filings;
- for the purpose of due diligence regarding a merger or acquisition;
- to a new adviser or sub-adviser prior to the commencement of its management of the Fund;
- to rating agencies for use in developing a rating for the Fund;
- to service providers, such as proxy voting services providers and portfolio-management database providers in connection with their providing services benefiting the Fund; and
- for purposes of effecting in-kind redemptions of securities to facilitate orderly redemption of portfolio assets and minimal impact on remaining Fund shareholders.

As permitted by the Fund's written policies and procedures, the Fund's Vice President and Treasurer, has determined that the Fund may provide its portfolio holdings to the rating and ranking organizations listed below on a quarterly basis:

Morningstar®, Inc.
Lipper, Inc.
Standard & Poor's® Ratings Group
Bloomberg™, L.P.

In all instances of such non-standard disclosure, unless such party is a regulatory or other governmental entity, the receiving party will either be subject to a confidentiality agreement that restricts the use of such information to purposes specified in such agreement, or, by reason of the federal securities laws, will be (1) prohibited as an "insider" from trading on the information and (2) have a duty of trust and confidence to the Fund because the receiving party has a history and practice of sharing confidences such that the receiving party knows or reasonably should know that the Fund expects that the receiving party will maintain its confidentiality.

Other than the non-standard disclosure discussed above, if a third-party requests specific, current information regarding the Fund's portfolio holdings, the Fund will refer the third-party to the latest regulatory filing or the website.

It is the Fund's policy that neither the Fund, its investment adviser, nor any other party shall accept any compensation or other consideration in connection with the disclosure of information about portfolio securities.

Portfolio Holdings Disclosure Procedures

There may be instances where the interests of the Fund's shareholders respecting the disclosure of information about portfolio securities may conflict or appear to conflict with the interests of the Fund's investment adviser, any principal underwriter for the Fund or an affiliated person of the Fund (including such affiliated person's investment adviser or principal underwriter). In such situations, the conflict must be disclosed to the Board of Directors of the Fund, and the Board must be afforded the opportunity to determine whether or not to allow such disclosure.

The Board of Directors of the Fund will regularly review a list of recipients of non-standard disclosure of portfolio holdings information.

Only the Board of Directors of the Fund may waive these portfolio holdings disclosure policies and procedures. Although the Fund cannot presently visualize that any proposed waivers would be given, the Fund does recognize that waivers may be granted in the event of unusual or unforeseen circumstances so long as the Fund's Board of Directors makes a specific determination that the waiver is in the best interests of the Fund and its shareholders. Only the Board of Directors may amend the Fund's portfolio holdings disclosure policies and procedures.

Review of Portfolio Holdings Disclosure Policies and Procedures

The Board of Directors of the Fund will periodically review the Fund's portfolio holdings disclosure policies and procedures and recommend such changes as the Board determines to be appropriate.

DIRECTORS AND OFFICERS

The Board of Directors is responsible for the overall management of the Fund. This includes establishing the Fund's policies, approval of all significant agreements between the Fund and persons or companies providing services to the Fund, and the general supervision and review of the Fund's investment activities. As a Maryland corporation, the day-to-day operations of the Fund are delegated to the officers of the Fund, subject to the investment objectives and policies of the Fund and to general supervision by the Board.

Management Information

The name, age, address, principal occupations during the past five years, and other information with respect to each of the directors are set forth below, along with information for the officers of the Fund. The information is provided as of the date of this SAI. The Fund and the Perritt Emerging Opportunities Fund (the "Emerging Fund"), the sole series of the Perritt Funds, Inc., form a "Fund Complex," as defined in the 1940 Act.

Name, Address, and Age	Position(s) Held with Fund and Number of Portfolios in Fund Complex Overseen by Director	Term of Office and Length of Time Served	Principal Occupation(s) during Past 5 Years	Other Directorships Held by Director during the Past 5 Years
“Disinterested” Directors of the Fund				
Dianne C. Click Age: 48 300 South Wacker Drive, Suite 2880 Chicago, IL 60606	Director Portfolios in Fund Complex Overseen: 2	Indefinite, until successor elected 15 years Perritt MicroCap Opportunities Fund 6 years Perritt Emerging Opportunities Fund	Ms. Click is a licensed Real Estate Broker in the State of Montana. She has been a partner and a principal owner of a real estate sales company, Bozeman Broker Group, since April 2004. She has been licensed in the state of Montana since 1995.	None
David S. Maglich Age: 53 300 South Wacker Drive, Suite 2880 Chicago, IL 60606	Director Portfolios in Fund Complex Overseen: 2	Indefinite, until successor elected 22 years Perritt MicroCap Opportunities Fund 6 years Perritt Emerging Opportunities Fund	Mr. Maglich is a Shareholder with the law firm of Fergeson, Skipper et. al. in Sarasota, Florida and has been employed with such firm since April 1989.	None

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund and Number of Portfolios in Fund Complex Overseen by Director</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) during Past 5 Years</u>	<u>Other Directorships Held by Director during the Past 5 Years</u>
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“Interested” Director of the Fund

Michael J. Corbett ⁽¹⁾ Age: 45 300 South Wacker Drive, Suite 2880 Chicago, IL 60606	President Portfolios in Fund Complex Overseen: 2	One-year term as President As director, indefinite, until successor elected Director since October 5, 2010 11 years as President of Perritt MicroCap Opportunities Fund 6 years as President of Perritt Emerging Opportunities Fund	Mr. Corbett has been President of the Perritt MicroCap Opportunities Fund since November 1999 and President of the Perritt Emerging Opportunities Fund since August 2004. He has served as President of the Adviser since October 5, 2010, and previously served as Vice President of the Adviser from February 1997 until October 5, 2010.	None
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⁽¹⁾ Mr. Corbett is an interested person of the Funds based upon his position with the Adviser

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund and Number of Portfolios in Fund Complex Overseen by Director</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) during Past 5 Years</u>	<u>Other Directorships Held by Director during the Past 5 Years</u>
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Officers of the Fund Other Than Mr. Corbett

Gerald W. Perritt Age: 68 300 South Wacker Drive, Suite 2880 Chicago, IL 60606	Vice President	One-year term as Vice President 11 years as Vice President of Perritt MicroCap Opportunities Fund	Dr. Perritt was a director of the Perritt MicroCap Opportunities Fund and the Perritt Emerging Opportunities Fund from their	N/A
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Name, Address, and Age	Position(s) Held with Fund and Number of Portfolios in Fund Complex Overseen by Director	Term of Office and Length of Time Served	Principal Occupation(s) during Past 5 Years	Other Directorships Held by Director during the Past 5 Years
Officers of the Fund Other Than Mr. Corbett				
Samuel J. Schulz Age: 68 300 South Wacker Drive, Suite 2880 Chicago, IL 60606	Vice President and Treasurer	One-year term 5 years	<p data-bbox="1040 533 1273 1163">inception until October 5, 2010. He has been Vice President of the Perritt MicroCap Opportunities Fund since November 1999 and Vice President of the Perritt Emerging Opportunities Fund since August 2004. He served as President of the Adviser from its inception in 1987 until October 5, 2010.</p> <p data-bbox="1040 1199 1273 1730">Mr. Schulz has been the Vice President and Treasurer of the Funds since March 2006. He has served as Chief Financial Officer of the Adviser since January 2005. From January 2004 to January 2005, Mr. Schulz was a securities analyst for the Adviser.</p>	N/A

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund and Number of Portfolios in Fund Complex Overseen by Director</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) during Past 5 Years</u>	<u>Other Directorships Held by Director during the Past 5 Years</u>
Officers of the Fund Other Than Mr. Corbett				
Allison B. Hearst Age: 47 300 South Wacker Drive, Suite 2880 Chicago, IL 60606	Secretary	One-year term Since 2010	Mrs. Hearst has 13 years of experience in the mutual fund industry, including a previous tenure at the Adviser beginning in 1990. Mrs. Hearst returned to the Adviser in 2007.	N/A
Lynn E. Burmeister Age: 51 300 South Wacker Drive, Suite 2880 Chicago, IL 60606	Vice President and Chief Compliance Officer	One-year term Since 2010	Mrs. Burmeister has worked in the financial industry since 1980. Her previous experience includes work at Harris Associates, Gofen & Glossberg and Optimum Investments.	N/A

Qualification of Directors

Michael J. Corbett has been the president and a portfolio manager of the Fund for over ten years and the president and a portfolio manager of the Emerging Fund since its inception. His experience and skills as a portfolio manager, as well as his familiarity with the investment strategies utilized by the Adviser and with the Fund's portfolio, led to the conclusion that he should serve as a director. Dianne C. Click's experience as a partner and principal owner of a real estate sales company has provided her with a firm understanding of financial statements and the issues that confront businesses, enabling her to provide the Board of Directors valuable input and oversight. As a partner in a law firm, David S. Maglich has extensive experience working with regulated industries, and a deep understanding of financial statements, making him a valuable source of information and insight. Each of Ms. Click and Mr. Maglich takes a conservative and thoughtful approach to addressing issues facing the Fund. These combinations of skills and attributes led to the conclusion that each of Ms. Click and Mr. Maglich should serve as a director.

Board Committees

The Fund's Board of Directors has no committees.

Board Leadership Structure

The Board has general oversight responsibility with respect to the operation of the Fund. The Board has engaged the Adviser to manage the Fund and is responsible for overseeing the Adviser and other service providers to the Fund in accordance with the provisions of the 1940 Act and other applicable laws.

The Board does not have a Chairman of the Board. As President of the Fund, Mr. Corbett is the presiding officer at all meetings of the Board. The Board does not have a lead independent director. The Fund has determined that its leadership structure is appropriate because it has been in place for many years and during that time the Fund has delivered positive returns for its investors.

Board Oversight of Risk

Through the Board's direct oversight role and the officers and service providers of the Fund, the Board performs a risk oversight function for the Fund. To effectively perform its risk oversight function, the Board, among other things, performs the following activities: receives and reviews reports related to the performance and operations of the Fund; reviews and approves, as applicable, the compliance policies and procedures of the Fund; approves the Fund's principal investment policies; adopts policies and procedures designed to deter market timing; meets with representatives of various service providers, including the Adviser and the independent registered public accounting firm of the Fund, to review and discuss the activities of the Fund and to provide direction with respect thereto; and appoints a chief compliance officer of the Fund who oversees the implementation and testing of the Fund's compliance program and reports to the Board regarding compliance matters for the Fund and its service providers.

Not all risks that may affect the Fund can be identified nor can controls be developed to eliminate or mitigate their occurrence or effects. It may not be practical or cost effective to eliminate or mitigate certain risks, the processes and controls employed to address certain risks may be limited in their effectiveness, and some risks are simply beyond the reasonable control of the Fund, the Adviser or other service providers. Moreover, it is necessary to bear certain risks (such as investment-related risks) to achieve the Fund's goals. As a result of the foregoing and other factors, the Fund's ability to manage risk is subject to substantial limitations.

Compensation

The Fund's standard method of compensating the non-interested Directors for the 2011 fiscal year is to pay each such Director an annual retainer of \$12,000, plus \$3,000 for each face-to-face meeting of the Board of Directors that the Director attends, \$1,000 for each telephonic meeting of the Board of Directors that the Director attends and \$500 for each meeting with the Chief Compliance Officer that the Director attends. Under normal circumstances, the

compensation for each of the non-interested Directors will amount to \$22,000 from the Fund annually based on two face-to-face meetings, two telephonic meetings, and four meetings with the Chief Compliance Officer. The Fund also reimburses such Directors for their reasonable travel expenses incurred in attending meetings of the Board of Directors. The Fund does not provide pension or retirement benefits to its Directors. The table below sets forth the compensation paid by the Fund to each of the directors of the Fund during the fiscal year ended October 31, 2010:

COMPENSATION TABLE

Name of Person	Aggregate Compensation from Fund	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation from Fund Complex ⁽¹⁾ Paid to Directors
Disinterested Persons of the Fund				
Dianne C. Click	\$22,000	\$0	\$0	\$44,000
David S. Maglich	\$22,000	\$0	\$0	\$44,000
Interested Person of the Funds				
Michael J. Corbett ⁽²⁾	\$0	\$0	\$0	\$0
Gerald W. Perritt ⁽³⁾	\$0	\$0	\$0	\$0

⁽¹⁾ The term “Fund Complex” applies to the Fund and the Emerging Fund.

⁽²⁾ Mr. Corbett was elected by shareholders to the Board of Directors effective October 5, 2010.

⁽³⁾ Dr. Perritt resigned from the Board of Directors on October 5, 2010.

Code of Ethics

The Fund and the Adviser have each adopted a Code of Ethics. Each Code of Ethics permits personnel subject to the Code to invest in securities, including securities held by the Fund, subject to certain restrictions. Each Code generally prohibits, among other things, persons subject thereto from purchasing or selling securities if they know at the time of such purchase or sale that the security is being considered for purchase or sale by the Fund or is being purchased or sold by the Fund.

Proxy Voting Policy

The Fund has adopted a Proxy Voting Policy (the “Proxy Voting Policy”) that sets forth its proxy voting policies and related procedures. When the Fund votes proxies relating to securities that it owns, the Fund generally follows the so-called “Wall Street Rule” (*i.e.*, it votes as management recommends or instructs the Adviser to sell the stock prior to the meeting). The Fund believes that following the “Wall Street Rule” is consistent with the economic best interests of its shareholders.

There may be instances where the interests of the Adviser, employees of which are officers of the Fund and vote proxies for the Fund, may conflict or appear to conflict with the

interests of the Fund. In such situations the Fund officers will, consistent with their duty of loyalty, vote the securities in accordance with the Fund’s pre-determined voting policy, the “Wall Street Rule,” but only after disclosing any such conflict to the Corporation’s Board of Directors prior to voting and affording the Board of Directors the opportunity to direct the officers in the voting of such securities.

Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling 1-800-332-3133 and on the SEC’s website at <http://www.sec.gov>.

OWNERSHIP OF MANAGEMENT AND PRINCIPAL SHAREHOLDERS

Set forth below are the names and addresses of all holders of the shares of the Fund who as of January 31, 2011 owned more than 5% of the Fund’s then outstanding shares. These holders are referred to as principal shareholders. As of January 31, 2011, all officers and directors of the Fund as a group owned less than 1% of the Fund’s then outstanding shares.

Name of Shareholder	% Ownership	Record or Beneficial Holder
National Financial Services, LLC For the benefit of its customers 82 Devonshire St #R6A Boston, MA 02109-3605	41.18%	Record
Charles Schwab & Co., Inc. For the benefit of its customers 101 Montgomery Street San Francisco, CA 94104-4151	37.81%	Record

No person is deemed to “control” the Fund, as that term is defined in the 1940 Act, because the Fund does not know of any person who owns beneficially or through controlled companies more than 25% of the Fund’s shares or who acknowledges the existence of control. The Fund does not control any person.

The following table sets forth the dollar range of shares of the Fund and the Emerging Fund beneficially owned by each director of the Fund as of December 31, 2010:

Name of Director	Dollar Range of Shares of the Fund	Dollar Range of Shares of the Emerging Fund	Aggregate Dollar Range of Shares in All Funds Overseen by Director in Family of Investment Companies ⁽¹⁾
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Disinterested Persons

Dianne C. Click	\$10,001 - \$50,000	\$10,001 - \$50,000	\$10,001 - \$50,000
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Name of Director	Dollar Range of Shares of the Fund	Dollar Range of Shares of the Emerging Fund	Aggregate Dollar Range of Shares in All Funds Overseen by Director in Family of Investment Companies ⁽¹⁾
David S. Maglich	\$10,001 - \$50,000	\$0	\$10,001 - \$50,000

Interested Persons

Michael J. Corbett Over \$100,000 Over \$100,000 Over \$100,000

(1) The “Family of Investment Companies” includes the Fund and the Emerging Fund.

INVESTMENT ADVISER

Perritt Capital Management, Inc., 300 South Wacker Drive, Suite 2880, Chicago, Illinois, currently serves as investment adviser to the Fund pursuant to an investment advisory agreement dated October 5, 2010 (the “Advisory Agreement”). The Adviser is a wholly owned subsidiary of IIS. Michael J. Corbett, President of the Adviser, owns a majority of the outstanding common stock of IIS and controls both IIS and the Adviser.

After the initial two year term, the Advisory Agreement is required to be approved annually by the Board of Directors of the Fund or by vote of a majority of the Fund’s outstanding voting securities. In addition, in either case, each annual renewal must be approved by the vote of a majority of the Fund’s directors who are not parties to the Advisory Agreement or interested persons of any such party, cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement is terminable without penalty, on a sixty (60) day written notice, by the Board of Directors of the Fund, by vote of a majority of the Fund’s outstanding voting securities, or by the Adviser, and will terminate automatically in the event of its assignment. None of the directors who are Disinterested Persons, or any members of their immediate family, own shares of the Adviser or companies controlled by or under common control with the Adviser.

Under the terms of the Advisory Agreement, the Adviser manages the Fund’s investments subject to the supervision of the Fund’s Board of Directors. The Adviser is responsible for investment decisions and supplies investment research and portfolio management. At its expense, the Adviser provides office space and all necessary office facilities, equipment and personnel for servicing the investments of the Fund. The Adviser, at its expense, places all orders for the purchase and sale of the Fund’s portfolio securities.

Except for expenses assumed by the Adviser as set forth above, the Fund is responsible for all its other expenses including, without limitation, interest charges, taxes, brokerage commissions and similar expenses, expenses of issue, sale, repurchase or redemption of shares, expenses of registering or qualifying shares for sale, the expenses for printing and distribution costs of prospectuses and quarterly financial statements mailed to existing shareholders, charges of custodians, transfer agent fees (including the printing and mailing of reports and notices to shareholders), fees of registrars, fees for auditing and legal services, fees for clerical services

related to recordkeeping and shareholder relations (including determination of NAV), the cost of stock certificates and fees for directors who are not “interested persons” of the Adviser.

As compensation for its services, the Fund pays to the Adviser a monthly advisory fee at the annual rate of 1.0% of its daily net assets. For fiscal years 2010, 2009, 2008, the Adviser received \$3,487,652, \$2,402,142, and \$4,137,698, respectively.

The Advisory Agreement requires the Adviser to reimburse the Fund in the event that the expenses and charges payable by the Fund in any fiscal year, including the advisory fee but excluding taxes, interest, brokerage commissions and similar fees, exceed that percentage of the average NAV of the Fund for such year, as determined by valuations made as of the close of each business day of the year, which is the most restrictive percentage provided by the state laws of the various states in which the Fund’s common stock is qualified for sale. If the states in which the Fund’s common stock is qualified for sale impose no restrictions, the Adviser will waive its advisory fee to the extent that the Fund’s total operating expenses exceed 1.75% of the Fund’s average net assets. As of the date of this SAI, no such state law provision was applicable to the Fund. Reimbursement of expenses in excess of the applicable limitation will be made on a monthly basis and will be paid to the Fund by reduction of the Adviser’s fee, subject to later adjustment month by month for the remainder of the Fund’s fiscal year. The Adviser may from time to time, at its sole discretion, reimburse the Fund for expenses incurred in addition to the reimbursement of expenses in excess of applicable limitations. During the fiscal year ended October 31, 2010, there were no reimbursable amounts due to the Fund by the Adviser.

PORTFOLIO MANAGER

The adviser to the Fund is Perritt Capital Management, Inc. Michael Corbett serves as portfolio manager of the Fund. In addition to the Fund, Mr. Corbett, together with his team of investment professionals, is responsible for the day-to-day management of accounts other than the Fund. Information regarding the other accounts managed by the Fund’s portfolio manager, including the number of accounts, the total assets in those accounts and the categorization of the accounts as of October 31, 2010 is set forth below.

<u>Other Accounts</u>	<u>Total Number of Accounts</u>	<u>Total Assets</u>	<u>Total Number of Accounts with Performance Based Fees</u>	<u>Total Assets of Accounts with Performance Based Fees</u>
Registered Investment Companies	1	\$97 million	0	\$0
Other Pooled Investment Vehicles	0	\$0	0	\$0
Other Accounts	195	\$85 million	0	\$0

Perritt Capital Management has not identified any material conflicts between the Fund and other accounts managed by Michael Corbett. However, actual or apparent conflicts of interest may arise in connection with the day-to-day management of the Fund and other accounts. The management of the Fund and other accounts may result in unequal time and attention being devoted to the Fund and other accounts. Perritt Capital Management’s fees for the services it provides to other accounts vary and may be higher or lower than the advisory fees it receives from the Fund. This could create potential conflicts of interest in which the portfolio

manager may appear to favor one investment vehicle over another resulting in an account paying higher fees or one investment vehicle out performing another.

The portfolio manager's compensation consists of a fixed salary and bonus. The fixed salary is reviewed periodically by Mr. Corbett as the sole member of the Board of Directors of the Adviser, and may be increased based on the consideration of various factors including, but not limited to, the portfolio manager's experience, overall performance (including how well the Fund and the other accounts perform generally under the management of the portfolio manager), and management responsibilities with the Adviser. The portfolio manager's fixed salary is not based on the Fund or the other accounts achieving certain performance targets or certain asset values in their portfolios. When the Adviser's Board of Directors considers the overall performance of the portfolio manager in managing the Fund and the other accounts, it uses the same methods for determining their performance with respect to the Fund and the other accounts. Along with all other employees of the Adviser, the portfolio manager is eligible to receive a discretionary contribution from the Adviser to his IRA account. These contributions range from 0% to 20% of their salary based on the Adviser's profitability. The portfolio manager is also eligible to receive a bonus based on the pre-tax investment performance of the Fund measured against the performance of the Russell 2000[®] Index over rolling one, three and five calendar year periods. For each such period that the performance of the Fund outperforms the index, the portfolio manager receives a bonus equal to a percentage of the portfolio manager's fixed salary. The percentage is determined by the Adviser in its discretion.

The dollar range of Fund shares beneficially owned by the portfolio manager as of October 31, 2010 is \$100,001-\$500,000.

ALLOCATION OF PORTFOLIO BROKERAGE

Decisions to buy and sell securities for the Fund are made by the Adviser subject to review by the Fund's Board of Directors. In placing purchase and sale orders for portfolio securities for the Fund, it is the policy of the Adviser to seek the best execution of orders at the most favorable price in light of the overall quality of custodial, brokerage, soft dollar and research services provided, as described in this and the following paragraph. In selecting brokers to effect portfolio transactions, the determination of what is expected to result in best execution at the most favorable price involves a number of largely judgmental considerations. Among these are the Adviser's evaluation of the broker's efficiency in executing and clearing transactions, block trading capability (including the broker's willingness to position securities) and the broker's financial strength and stability. Over-the-counter securities are generally purchased and sold directly with principal market makers who retain the difference in their cost in the security and its selling price. In some instances, better prices may be available from non-principal market makers who are paid commissions directly. While some brokers with whom the Fund effects portfolio transactions may recommend the purchase of the Fund's shares, the Fund may not allocate portfolio brokerage on the basis of recommendations to purchase shares of the Fund.

In allocating brokerage business for the Fund, the Adviser may take into consideration the research, analytical, statistical and other information and services provided by the broker,

such as general economic reports and information, reports or analyses of particular companies or industry groups, market timing and technical information, and the availability of the brokerage firm's analysts for consultation. While the Adviser believes these services have substantial value, they are considered supplemental to the Adviser's own efforts in the performance of its duties under the Advisory Agreement. Other clients of the Adviser may indirectly benefit from the availability of these services to the Adviser, and the Fund may indirectly benefit from services available to the Adviser as a result of transactions for other clients.

Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)") permits an investment adviser, under certain circumstances, to cause an account to pay a broker or dealer who supplies brokerage and research services a commission for effecting a transaction in excess of the amount of commission another broker or dealer would have charged for effecting the transaction. Brokerage and research services include (a) furnishing advice as to the value of securities, the advisability of investing, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities, (b) furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts and (c) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement and custody).

The Advisory Agreement provides that the Adviser may cause the Fund to pay a broker that provides brokerage and research services to the Adviser a commission for effecting a securities transaction in excess of the amount another broker would have charged for effecting the transaction, if (a) the Adviser determines in good faith that such amount of commission is reasonable in relation to the value of brokerage and research services provided by the executing broker viewed in terms of either the particular transaction or the Adviser's overall responsibilities with respect to the Fund and the other accounts as to which it exercises investment discretion, (b) such payment is made in compliance with the provisions of Section 28(e), other applicable state and federal laws, and the Advisory Agreement and (c) in the opinion of the Adviser, the total commissions paid by the Fund will be reasonable in relation to the benefits to the Fund over the long term. The investment advisory fee paid by the Fund under the Advisory Agreement is not reduced as a result of the Adviser's receipt of research services.

The Adviser places portfolio transactions for other advisory accounts. Research services furnished by firms through which the Fund effects its securities transactions may be used by the Adviser in servicing all of its accounts; not all of such services may be used by the Adviser in connection with the Fund. In the opinion of the Adviser, it is not possible to measure separately the benefits from research services to each of the accounts (including the Fund) managed by the Adviser. Because the volume and nature of the trading activities of the accounts are not uniform, the amount of commissions in excess of those charged by another broker paid by each account for brokerage and research services will vary. However, in the opinion of the Adviser, such costs to the Fund will not be disproportionate to the benefits received by the Fund on a continuing basis.

The Adviser seeks to allocate portfolio transactions equitably whenever concurrent decisions are made to purchase or sell securities by the Fund and another advisory account. In some cases, this procedure could have an adverse effect on the price or the amount of securities

available to the Fund. In making such allocations between the Fund and other advisory accounts, the main factors considered by the Adviser are the respective investment objectives, the relative size of portfolio holdings of the same or comparable securities, the availability of cash for investment, the size of investment commitments generally held, and opinions of the persons responsible for recommending the investment.

For the fiscal years ended October 31, 2010, 2009, and 2008, the Fund paid brokerage commissions in the amounts of \$1,044,849, \$578,091, and \$965,265, respectively. Of the brokerage commissions paid by the Fund in the fiscal year ended October 31, 2010, all of the brokerage commissions were paid to the brokers who provided research services to the Adviser other than brokerage commissions of \$240,315 on transactions having a total value of \$62,059,696.

During the fiscal year ended October 31, 2010, the Fund acquired securities of certain of its regular brokers or dealers (as defined in Rule 10b-1 under the 1940 Act) or their parents, as described below.

Security of "Regular Broker/Dealer" of the Portfolio	Value of Portfolio's Aggregate Holding of Securities as of 10/31/10
Sanders Morris Harris Group	\$3,403,000

ALLOCATION OF INVESTMENT OPPORTUNITIES

Although the Fund and the Emerging Fund (each a "Fund" for purposes of this discussion, and, collectively, the "Funds") have differing investment objectives (the Emerging Fund generally invests in smaller capitalization companies than the Fund), there will be times when certain securities will be eligible for purchase by both Funds or will be contained in the portfolios of both Funds. Although securities of a particular company may be eligible for purchase by both Funds, the Adviser may determine at any particular time to purchase a security for one Fund, but not the other, based on each Fund's investment objective and in a manner that is consistent with the Adviser's fiduciary duties under federal and state law to act in the best interests of each Fund.

There may also be times when a given investment opportunity is appropriate for some or all of the Adviser's other client accounts. It is the policy and practice of the Adviser not to favor or disfavor consistently or consciously any client or class of clients in the allocation of investment opportunities, so that to the extent practical, such opportunities will be allocated among clients, including the Funds, over a period of time on a fair and equitable basis.

It is the Adviser's policy to aggregate the transactions of its large institutional clients ("block trades"), including the Funds, when it believes this will result in the best execution at the most favorable price. When securities are being purchased and/or sold by the Adviser's large institutional clients, including the Funds, the Adviser will attempt to allocate block trades on a pro rata basis based on the dollar amount available for investing by the client accounts and each client account's proportionate share of that amount. Each large institutional client, including the Funds, that participates in a block trade will participate at the average share price for all of the

Adviser's transactions in that security on that business day, entered into on behalf of the same group of client accounts.

It is the Adviser's general policy not to purchase a security in one Fund while simultaneously selling it in the other. However, there may be circumstances outside of the Adviser's control that require the purchase of a security in one portfolio and a sale in the other. For example, when one Fund experiences substantial cash inflows while the other experiences substantial cash outflows the Adviser may be required to buy securities to maintain a fully invested position in one Fund while selling securities in the other Fund to meet shareholder redemptions. In such circumstances, either Fund may acquire assets from the other Fund that are otherwise qualified investments for the acquiring Fund, so long as neither Fund bears any markup or spread, and no commission, fee or other remuneration is paid in connection with the acquisition, and the acquisition complies with Section 17(a) of the 1940 Act and Rule 17a-7 thereunder. If the purchase and sale are not effected pursuant to Rule 17a-7, then the purchase and/or sale of a security common to both portfolios may result in a higher price being paid by the Fund in the case of a purchase than would otherwise have been paid, or a lower price being received by the Fund in the case of a sale than would otherwise have been received, as a result of the Emerging Fund's transactions affecting the market for such security. In any event, management of the Fund believes that under normal circumstances such events will have a minimal impact on the Fund's per share NAV and its subsequent long-term investment return.

REDEMPTION FEE

The Fund imposes a 2% redemption fee on the value of shares redeemed ninety (90) days or less after the date of purchase. The redemption fee does not apply to shares redeemed through the SWP, nor does it apply to shares acquired through the reinvestment of dividends and capital gains. The Fund reserves the right to waive the redemption fee, subject to its sole discretion, in instances deemed by the Adviser not to be disadvantageous to the Fund or its shareholders and which do not indicate market timing strategies. The redemption fee is part of the Fund's market timing policy and is designed to deter market timers and excessive trading. Any proceeds of the fee will be paid to the Fund.

In calculating whether a redemption of Fund shares is subject to a redemption fee, a shareholder's holdings will be viewed on a "first in/first out" basis. This means that, in determining whether any fee is due, the shareholder will be deemed to have redeemed the shares he or she acquired earliest. The fee will be calculated based on the current price of the shares as of the redemption date.

Pursuant to Rule 22c-2 under the 1940 Act and shareholder information agreements with financial intermediaries, the Fund has the ability to request information from financial intermediaries concerning trades placed in an omnibus or other multi-investor account ("Omnibus Account"), in order to attempt to monitor trades that are placed by the underlying shareholders of the Omnibus Account. The ability of the Fund to apply its market timing policy to investors investing through financial intermediaries is dependent on the receipt of information necessary to identify transactions by the underlying investors and the financial intermediary's cooperation in implementing the policy. Investors seeking to engage in excessive short-term

trading practices may deploy a variety of strategies to avoid detection, and despite the efforts of the Fund to prevent excessive short-term trading, there is no assurance that the Fund or its agents will be able to identify those shareholders or curtail their trading practices. The ability of the Fund and its agents to detect and limit excessive short-term trading also may be restricted by operational systems and technological limitations.

If suspicious trading patterns are detected in an Omnibus Account, the Fund will request information from the financial intermediary concerning trades placed in the Omnibus Account. The Fund will use this information to monitor trading in the Fund and to attempt to identify shareholders in the Omnibus Account engaged in trading that is inconsistent with the market timing policy or otherwise not in the best interests of the Fund. If the Fund detects such activity then the Fund may request that the financial intermediary take action to prevent the particular investor or investors from engaging in frequent or short-term trading. The Fund generally will communicate with the financial intermediary and request that the financial intermediary take action to cause the inappropriate trading by that participant or participants to cease. If inappropriate trading recurs, the Fund may refuse all future purchases from the Omnibus Account, including those of plan participants not involved in the inappropriate activity.

THE ADMINISTRATOR, FUND ACCOUNTANT AND TRANSFER AGENT

U.S. Bancorp Fund Services, LLC (“USBFS”), 615 East Michigan Street, Milwaukee, Wisconsin 53202, an affiliate of U.S. Bank, N.A., serves as administrator and fund accountant to the Fund, subject to the overall supervision of the Fund’s Board of Directors. Pursuant to a Fund Administration Servicing Agreement (the “Administration Agreement”) entered into in fiscal 2004, USBFS provides certain administrative services to the Fund. USBFS services include, but are not limited to, the following: acting as a liaison among the Fund’s service providers; coordinating the Fund’s Board of Directors communications; maintaining and managing a regulatory compliance calendar; preparing and filing appropriate state securities law filings; maintaining state registrations; preparing and filing annual and semiannual reports on Forms N-CSR, N-Q and N-SAR; preparing financial reports for officers, shareholders, tax authorities and independent auditors; monitoring expense accruals; and preparing monthly financial statements.

For its services as administrator during the fiscal years ended October 31, 2010, 2009, and 2008, the Fund paid USBFS \$143,731, \$106,829, and \$124,287, respectively, pursuant to the Administration Agreement.

The Administration Agreement provides that USBFS shall not be liable to the Fund or its shareholders for anything other than bad faith, negligence or willful misconduct of its obligations or duties. The Administration Agreement does not prohibit USBFS from engaging in other businesses whether of a similar or dissimilar nature or rendering services to others.

USBFS also acts as the Fund’s transfer agent and dividend disbursing agent pursuant to a transfer agent servicing agreement entered into in fiscal 2004. As transfer agent, USBFS keeps records of shareholder accounts and transactions.

CUSTODIAN

U.S. Bank, N.A., 1555 North RiverCenter Drive, Suite 302, Milwaukee, WI 53212, an affiliate of USBFS, acts as custodian for the Fund pursuant to a custody agreement. As such, U.S. Bank, N.A. holds all securities and cash of the Fund, delivers and receives payment for securities sold, receives and pays for securities purchased, collects income from investments and performs other duties, all as directed by officers of the Fund. U.S. Bank, N.A. does not exercise any supervisory function over the management of the Fund, the purchase and sale of securities or the payment of distributions to shareholders.

DISTRIBUTOR

In November 2005, the Fund and the Adviser entered into a Distribution Agreement with Quasar Distributors, LLC (“Quasar”), an affiliate of USBFS, pursuant to which Quasar serves as principal underwriter for the Fund. Its principal business address is 615 East Michigan Street, Milwaukee, WI 53202. Quasar sells the Fund’s shares on a best efforts basis. Shares of the Fund are offered continuously. Pursuant to the terms of the Distribution Agreement, the Adviser compensates Quasar for the services that Quasar provides to the Fund under the Agreement. The Fund did not pay any underwriting commissions to Quasar during the fiscal year ended October 31, 2010.

DETERMINATION OF NET ASSET VALUE

The NAV of the Fund is determined as of the close of trading on each day the New York Stock Exchange (“NYSE”) is open for trading. The Fund does not determine NAV on days the NYSE is closed and at other times described in the Prospectus. The NYSE is closed on New Year’s Day, Dr. Martin Luther King, Jr. Day, President’s Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Additionally, if any of the aforementioned holidays falls on a Sunday, the NYSE will not be open for trading on the succeeding Monday, unless unusual business conditions exist, such as the ending of a monthly or the yearly accounting period. If any of the aforementioned holidays falls on a Saturday, the NYSE will not be open for trading on the preceding Friday. The NYSE also may be closed on national days of mourning.

The NAV per share is calculated by adding the value of all securities, cash or other assets, subtracting liabilities, and dividing the remainder by the number of shares outstanding. Each security traded on a national stock exchange (other than on The NASDAQ OMX Group, Inc. (NASDAQ[®])) is valued at its last sale price on that exchange on the day of valuation. Each security traded on NASDAQ[®] is valued at the NASDAQ[®] Official Closing Price. If there are no sales on the applicable stock exchange on the day in question, then a security is valued at the mean between the then current closing bid and asked prices, unless the spread between the bid and ask is so large that the Adviser believes using the mean would overstate the value of the security, in which case the security will be “fair valued” as described below. Over-the-counter (“OTC”) Bulletin Board securities are valued at the mean of the latest bid and ask prices unless the spread between the bid and ask is so large that the Adviser believes using the mean would

overstate the value of the security, in which case the security will be “fair valued” as described below.

When market quotations are not readily available or are deemed unreliable, the Adviser values securities and other assets by appraisal at their fair value as determined in good faith by the Adviser under procedures established by and under the general supervision and responsibility of the Fund’s Board of Directors. Demand notes, commercial paper, U.S. Treasury Bills and warrants are valued at amortized cost, which approximates fair value. The Fund values money market instruments that it holds with remaining maturities of less than sixty (60) days at their amortized cost. Other types of securities that the Fund may hold for which fair value pricing might be required include, but are not limited to: (a) securities of an issuer that has entered into a restructuring; and (b) securities whose trading has been halted or suspended. Further, if events occur that materially affect the value of a security between the time trading ends on that particular security and the close of the normal trading session of the NYSE, the Fund may value the security at its fair value. Valuing securities at fair value involves greater reliance on judgment than securities that have readily available market quotations. There can be no assurance that the Fund could obtain the fair value assigned to a security if it were to sell the security at approximately the time at which the Fund determines its NAV per share.

TAXES

The Fund annually will endeavor to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code, as amended. The Fund has so qualified in each of its prior fiscal years. If the Fund fails to qualify as a regulated investment company under Subchapter M in any fiscal year, it will be treated as a corporation for federal income tax purposes. As such the Fund would be required to pay income taxes on its net investment income and net realized capital gains, if any, at the rates generally applicable to corporations. Shareholders of the Fund would not be liable for income tax on the Fund’s net investment income or net realized capital gains in their individual capacities. Distributions to shareholders, whether from the Fund’s net investment income or net realized capital gains, would be treated as taxable dividends to the extent of current or accumulated earnings and profits of the Fund.

Dividends from the Fund’s net investment income and distributions from the Fund’s net realized short-term capital gains are taxable to shareholders as ordinary income (although a portion of such dividends may be taxable to investors at the lower rate applicable to qualified dividend income), whether received in cash or in additional Fund shares. The 70% dividends-received deduction for corporations will apply to dividends from the Fund’s net investment income, subject to proportionate reductions if the aggregate dividends received by the Fund from domestic corporations in any year are less than 100% of the Fund’s net investment company taxable distributions.

Any dividend or capital gains distribution paid shortly after a purchase of Fund shares will have the effect of reducing the per share NAV of such shares by the amount of the dividend or distribution. Furthermore, if the NAV of the Fund shares immediately after a dividend or distribution is less than the cost of such shares to the shareholder, the dividend or distribution will be taxable to the shareholder even though it results in a return of capital to the shareholder.

The Fund may be required to withhold Federal income tax at a rate of 28% (“backup withholding”) from dividend payments and redemption proceeds if a shareholder fails to furnish the Fund with the shareholder’s social security or other tax identification number and certify under penalty of perjury that such number is correct and that the shareholder is not subject to backup withholding due to the underreporting of income. The certification form is included as part of the share purchase application and should be completed when the account is opened.

At October 31, 2010, the Fund had capital losses which may be carried forward to offset future capital gains as shown below:

<u>Date of Expiration</u>	<u>Amount</u>
October 31, 2016	\$244,940
October 31, 2017	\$13,533,867

This section is not intended to be a full discussion of present or proposed federal income tax laws and the effects of such laws on an investor. Investors are urged to consult their own tax advisers for a complete review of the tax ramifications of an investment in the Fund.

SHAREHOLDER MEETINGS

The Maryland General Corporation Law permits registered investment companies, such as the Fund, to operate without an annual meeting of shareholders under specified circumstances if an annual meeting is not required by the 1940 Act. The Fund has adopted the appropriate provisions in its Bylaws and may, at its discretion, not hold an annual meeting in any year in which the election of directors is not required to be acted on by shareholders under the 1940 Act.

The Fund’s Bylaws also contain procedures for the removal of directors by its shareholders. At any meeting of shareholders, duly called and at which a quorum is present, the shareholders may, by the affirmative vote of the holders of a majority of the votes entitled to be cast thereon, remove any director or directors from office and may elect a successor or successors to fill any resulting vacancies for the unexpired terms of removed directors.

Upon the written request of the holders of shares entitled to not less than ten percent (10%) of all the votes entitled to be cast at such meeting, the Secretary of the Fund shall promptly call a special meeting of shareholders for the purpose of voting upon the question of removal of any director. Whenever ten or more shareholders of record who have been such for at least six months preceding the date of application, and who hold in the aggregate either shares having a NAV of at least Twenty-Five Thousand Dollars (\$25,000) or at least one percent (1%) of the total outstanding shares, whichever is less, shall apply to the corporation’s Secretary in writing, stating that they wish to communicate with other shareholders with a view to obtaining signatures to a request for a meeting as described above and accompanied by a form of communication and request which they wish to transmit, the Secretary shall within five (5) business days after such application either: (1) afford to such applicants access to a list of the names and addresses of all shareholders as recorded on the books of the Fund; or (2) inform such

applicants as to the approximate number of shareholders of record and the approximate cost of mailing to them the proposed communication and form of request.

If the Secretary elects to follow the course specified in clause (2) of the last sentence of the preceding paragraph, the Secretary, upon the written request of such applicants, accompanied by a tender of the material to be mailed and of the reasonable expenses of mailing, shall, with reasonable promptness, mail such material to all shareholders of record at their addresses as recorded on the books unless within five (5) business days after such tender the Secretary shall mail to such applicants and file with the SEC, together with a copy of the material to be mailed, a written statement signed by at least a majority of the Board of Directors to the effect that in their opinion either such material contains untrue statements of fact or omits to state facts necessary to make the statements contained therein not misleading, or would be in violation of applicable law, and specifying the basis of such opinion.

After opportunity for hearing upon the objections specified in the written statement so filed, the SEC may, and if demanded by the Board of Directors or by such applicants shall, enter an order either sustaining one or more of such objections or refusing to sustain any of them. If the SEC shall enter an order refusing to sustain any of such objections, or if, after the entry of an order sustaining one or more of such objections, the SEC shall find, after notice and opportunity for hearing, that all objections so sustained have been met, and shall enter an order so declaring, the Secretary shall mail copies of such material to all shareholders with reasonable promptness after the entry of such order and the renewal of such tender.

CAPITAL STOCK

The Fund is a corporation organized under the laws of the State of Maryland and was incorporated on August 24, 1987. The Fund has 40,000,000 shares of authorized capital stock, \$.01 par value per share. Each share has one vote and all shares participate equally in dividends and other distributions by the Fund and in the residual assets of the Fund in the event of liquidation. Fractional shares have the same rights proportionately as do full shares. There are no conversion or sinking fund provisions applicable to the shares, and the holders have no preemptive rights and may not cumulate their votes in the election of directors. Consequently the holders of more than fifty percent (50%) of the shares of the Fund voting for the election of directors can elect the entire Board of Directors and in such event the holders of the remaining shares voting for the election of directors will not be able to elect any person or persons to the Board of Directors.

The shares are redeemable and are transferable. All shares issued and sold by the Fund will be fully paid and nonassessable. The Fund will not issue certificates evidencing shares. Instead the shareholder's account will be credited with the number of shares purchased, relieving shareholders of responsibility for safekeeping of certificates and the need to deliver them upon redemption. Written confirmations are issued for all purchases of shares.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Cohen Fund Audit Services, Ltd., audited the Fund's financial statements for the fiscal year ended October 31, 2010.

DESCRIPTION OF SECURITIES RATINGS

The Fund may invest in commercial paper and commercial paper master notes assigned ratings of A-1 or A-2 by Standard & Poor's Corporation ("Standard & Poor's") or Prime-1 or Prime-2 by Moody's Investors Service, Inc. ("Moody's"). A brief description of the ratings symbols and their meanings follows:

Standard & Poor's Commercial Paper Ratings. A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt considered short-term in the relevant market. Ratings are graded into several categories, ranging from A-1 for the highest quality obligations to D for the lowest. The categories rated A-3 or higher are as follows:

A-1. This highest category indicates that the degree of safety regarding timely payment is strong. Those issuers determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation.

A-2. Capacity for timely payment on issues with this designation is satisfactory. However the relative degree of safety is not as high as for issuers designed "A-1."

A-3. Issues carrying this designation have adequate capacity for timely payment. They are, however, more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designation.

Moody's Short-Term Debt Ratings. Moody's short-term debt ratings are opinions of the ability of issuers to repay punctually senior debt obligations which have an original maturity not exceeding one year. Obligations relying upon support mechanisms such as letters-of-credit and bonds of indemnity are excluded unless explicitly rated.

Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment ability of rated issuers:

Prime-1. Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

- Leading market positions in well-established industries.
- High rates of return on funds employed.
- Conservative capitalization structure with moderate reliance on debt and ample asset protection.

- Broad margins in earnings coverage of fixed financial charges and high internal cash generation.
- Well-established access to a range of financial markets and assured sources of alternate liquidity.

Prime-2. Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Prime-3. Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.