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FILER

PRICE T ROWE SMALL CAP VALUE FUND INC

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SMALL-CAP VALUE FUND

Prospectus
May 1, 1993
Revised to
December 31, 1993
T. Rowe Price
Small-Cap Value Fund, Inc.

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INVESTMENT SUMMARY
The Fund's objective is long-term capital growth through investment primarily in the stock of small companies which are believed to be undervalued and have potential for capital appreciation. Such companies generally have a market value of less than $500 million.

T. ROWE PRICE
100% No Load. This Fund has no sales charges, no redemption fees, and no 12b-1 fees. 100% of your investment is credited to your account.

Services. The Fund provides easy access to your money through bank wires or telephone redemptions and offers easy exchange to other T. Rowe Price Funds.

T. Rowe Price Associates, Inc. (T. Rowe Price) was founded in 1937 by the late Thomas Rowe Price, Jr. As of December 31, 1992, the firm and its affiliates managed approximately $41.4 billion for approximately two and one-half million individual and institutional investors.

This prospectus contains information you should know about the Fund before you invest. PLEASE KEEP IT FOR FUTURE REFERENCE. A Statement of Additional Information for the Fund (dated May 1, 1993, revised to December 31, 1993) has been filed with the Securities and Exchange Commission and is incorporated by reference in this prospectus. It is available at no charge by calling: 1-800-638-5660.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION, OR ANY STATE SECURITIES COMMISSION, PASSED UPON THE

ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

INVESTMENT OBJECTIVE

The Fund's investment objective is long-term capital growth. The Fund will invest primarily in the common stock of companies with relatively small market capitalizations (small-cap) which are believed to be undervalued and have good prospects for capital appreciation.

The Fund's share price will fluctuate with changing market conditions, and your investment may be worth more or less when redeemed than when purchased. The Fund should not be relied upon as a complete investment program, nor used to play short-term swings in the stock market. In addition, stocks of small companies may be subject to more abrupt or erratic price movements than larger company securities. The Fund cannot guarantee it will achieve its investment objective.

INVESTMENT PROGRAM

The Fund will invest primarily in small companies using a value approach. This approach entails finding companies whose current stock price is believed not to adequately reflect their underlying value as measured by assets, earnings, cash flow or business franchises.

Investing in small companies using a value approach.

Small companies--those with a capitalization (market value) of $500 million or less--May offer greater potential for capital appreciation since they are often overlooked or undervalued by investors. Because of their size, small-cap stocks are less actively followed by stock analysts and less information is available on which to base stock price evaluations. As a result, greater variations often exist between the current stock price and its estimated underlying value which may present greater opportunity for long-term capital growth.

The Fund's manager, T. Rowe Price Associates, Inc. (T. Rowe Price) will rely on its proprietary research to identify undervalued, small-cap stocks before their value is recognized by the investment community. Stocks will be selected when T. Rowe Price believes: (1) the current stock price is undervalued based on a low price to earnings ratio, cash flow or estimated asset value per share and (2) the potential for a catalyst exists (such as increased investor attention, asset sales or a change in management) which will cause the stock's price to increase to reflect the company's underlying value.

Higher risks are often associated with small companies. These companies may have limited product lines, markets and financial resources, or they may be dependent on a small or inexperienced management group. In addition, their securities may trade less frequently and in limited volume and move more abruptly than securities of larger companies. However, as noted, securities of smaller companies may offer greater potential for capital appreciation since they are often overlooked or undervalued by investors.

The Fund's holdings will generally be traded in established over-the-counter markets, but assets may also be invested in securities listed on a national or regional securities exchange. The Fund may also invest a portion of its assets in publicly traded stocks with limited marketability and up to 10% of its assets in restricted securities.

Please see INVESTMENT POLICIES for a more complete description of the Fund's investments.

Effective as of 4:00 p.m. (ET) on March 4, 1993 (``Closing Date''), and until otherwise determined by the Fund's Board of Directors, the offering of shares of the Fund is limited to

(i) persons who are shareholders of the Fund, or whose orders to purchase shares of the Fund were mailed or received, as of the Closing Date; (ii) participants of employer-sponsored retirement plans administered by T. Rowe Price Retirement Plan Services, Inc.; and (iii) defined contribution plans with assets of $50,000,000 or more not administered by T. Rowe Price Retirement Plan Services, Inc. In addition, as of the Closing Date, the Fund ceased taking any further orders for the purchase of its shares from omnibus-brokerage accounts. The Fund reserves the right in appropriate cases to extend the offering to other classes of persons, to restrict sales further, or to withdraw the offering altogether, all without notice.

SUMMARY OF
FUND FEES
AND EXPENSES

THE FUND IS 100% NO-LOAD . . . you pay no fees to purchase, exchange or redeem shares, nor any ongoing marketing (12b-1) expenses. Lower expenses benefit you by increasing your investment return from the Fund.

Shown below are all expenses and fees the Fund incurred during its fiscal year. Where applicable, expenses were restated to reflect current fees. Expenses are expressed as a percent of average Fund net assets. More information about these expenses may be found below and under EXPENSES and MANAGEMENT FEE and in the Statement of Additional Information under MANAGEMENT FEE and LIMITATION ON FUND EXPENSES.

<TABLE>

<S>	<C>	<C>	<C>
SHAREHOLDER TRANSACTION EXPENSES		ANNUAL FUND EXPENSES	
Sales load ``charge'' on purchases	NONE	Management fee	0.78%(d)
Sales load ``charge'' on reinvested dividends	NONE	Total other (Shareholder servicing, cutodial, auditing etc.)(dd)	0.47%
Redemption fees	NONE	Ditribution fees (12b-1)	NONE

		Total Fund Expenses	1.25%(d)

(d) The management fee presented includes 0.08% of management fees repaid from prior years pursuant to the expense limitation. The Fund's management fee and its total expense ratio would have been 0.70% and 1.17%, respectively, without this repayment.

(dd) The Fund charges a $5.00 fee for wire redemptions under $5,000, subject to change without notice.

</TABLE>

Example of
Fund expenses.

The following example illustrates the expenses you would incur on a $1,000 investment, assuming a 5% annual rate of return and redemption at the end of each period shown. For example, expenses for the first year in the Fund would be $13. THIS IS AN ILLUSTRATION ONLY. Actual expenses and performance may be more or less than shown.

1 Year--$13   3 Years--$40   5 Years--$69   10 Years--$151

MANAGEMENT FEE. The Fund pays T. Rowe Price an investment management fee consisting of a flat Individual Fund Fee of 0.35% of the Fund's net assets and a Group Fee, defined on page 10 under EXPENSES AND MANAGEMENT FEE, of 0.35% as of December 31, 1992. Thus, the total combined management fee for the Fund would be 0.70% of net assets.

Effective January 1, 1990, T. Rowe Price agreed to bear any expenses through December 31, 1991, which would cause the Fund's ratio of expenses to average net assets to exceed 1.25%. Effective January 1, 1992, T. Rowe Price agreed to extend the Fund's 1.25% expense limitation for a period of two years through December 31, 1993. Expenses paid or assumed under each agreement are subject to reimbursement to T. Rowe Price by the Fund whenever the Fund's expense ratio is below 1.25%; however, no reimbursement will be made after December 31, 1993 (for the first agreement) or December 31, 1995 (for the second agreement), or if it would result in the expense ratio exceeding 1.25%.

TRANSFER AGENT, SHAREHOLDER SERVICING, AND ADMINISTRATIVE COSTS. The Fund paid fees to: (i) T. Rowe Price Services, Inc. (TRP Services) for transfer and dividend disbursing agent functions and shareholder services for all accounts; (ii) T.

Rowe Price Retirement Plan Services, Inc. for subaccounting and recordkeeping services for certain retirement accounts; and (iii) T. Rowe Price for calculating the daily share price and maintaining the portfolio and general accounting records of the Fund. These fees totaled approximately $309,000, $11,000, and $60,000, respectively.

PER-SHARE DATA AND OTHER ANNUALIZED RATIOS

The following table provides information about the Fund's financial history. It is based on a single share outstanding throughout each fiscal year (which ends on the last day of December). The table is part of the Fund's financial statements which are included in the Fund's annual report and incorporated by reference into the Statement of Additional Information, which is available to shareholders. The per-share and other information for periods subsequent to June 30, 1988, presented below, was included in financial statements audited by the Fund's independent accountants, Coopers & Lybrand, whose reports thereon were unqualified. The per-share and other information for the years ended June 30, 1988 and prior were derived from financial statements which were audited by other independent accountants, whose reports expressed unqualified opinions on those statements.

<TABLE>

<S> <C> <C> <C> <C> <C> <C> <C> <C> <C> <C> <C> <C>

		Investment Activities					Distributions					
Year Ended, June 30(d)	Net Asset Value, Beginning of Period	Income	Expenses	Net Investment Income	Net Realized and Unrealized Gain (Loss) on Investments	Total from Investment Activities	Net Investment Income	Net Realized Gain	Total Distributions	Net Asset Value, End of Period	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets
1983	$4.59	$.09	$(.06)	$ .03	$ 4.68	$ 4.71	--	--	--	$9.30	1.10%	.50%
1984	9.30	.14	(.08)	.06	(2.28)	(2.22)	--	--	--	7.08	.90%	.70%
1985	7.08	.11	(.10)	.01	1.96	1.97	--	--	--	9.05	.90%	.10%
1986	9.05	.09	(.10)	(.01)	1.79	1.78	--	--	--	10.83	.90%	(.10)%
1987	10.83	.08	(.09)	(.01)	.69	.68	--	--	--	11.51	.90%	(.03)%
1988	11.51	.11	(.10)	.01	(1.52)	(1.51)	--	--	--	10.00	1.20%	.10%
Year Ended, December 31												
1988(dd)	$10.00	$.14	$(.06)(ddd)	$.08	$(.47)	$(.39)	$(.08)	$(.55)	$(.63)	$8.98	1.25%(ddd)	1.81%
1989	8.98	.27	(.13)(ddd)	.14	1.45	1.59	(.14)	(.90)	(1.04)	9.53	1.25%(ddd)	1.42%
1990	9.53	.35	(.12)(ddd)	.23	(1.31)	(1.08)	(.24)	(.12)	(.36)	8.09	1.25%(ddd)	2.57%
1991	8.09	.24	(.11)(ddd)	.13	2.61	2.74	(.12)	(.34)	(.46)	10.37	1.25%(ddd)	1.31%
1992	10.37	.25	(.14)	.11	2.05	2.16	(.10)	(.15)	(.25)	12.28	1.25%	0.98%

Year Ended, June 30(d)	Portfolio Turnover Rate	Shares Outstanding at End of Period (in thousands)
1983	42.0%	6,022
1984	30.0%	2,962
1985	22.0%	2,887
1986	52.0%	2,826
1987	70.0%	2,804
1988	50.0%	2,550
Year Ended, December 31		
1988(dd)	54.2%	2,846
1989	43.3%	3,445
1990	33.1%	3,267
1991	30.5%	5,132
1992	12.1%	21,498

(d) Information for each of the six years in the period ended June 30, 1988, represents the activities of the Fund's predecessor, PEMCO.

(dd) For the period June 30, 1988 (commencement of Fund operations) to December 31, 1988.

(ddd) Excludes expenses in excess of a 1.25% voluntary expense limitation in effect through December 31, 1993.

</TABLE>

INVESTMENT POLICIES

The Fund's investment program and policies are subject to further restrictions and risks which are described in the Statement of Additional Information. The Fund will not make a material change in its investment objective or a change in its fundamental policies without obtaining shareholder approval. The Fund's investment program, unless otherwise specified, is not a fundamental policy and may be changed without shareholder approval. Shareholders will be notified of any material change in the investment program. In addition to the investments described under Investment Program, the Fund's investments may include, but are not limited to, those described below.

CASH RESERVES. While the Fund will remain primarily invested in common stocks, it may, for temporary defensive purposes, invest in reserves without limitation. The Fund may also establish and maintain reserves as T. Rowe Price believes is advisable to facilitate the Fund's cash flow needs (e.g., redemptions, expenses, and purchases of portfolio securities). The Fund's reserves will be invested in domestic and foreign money market instruments rated within the top two credit categories by a national rating organization or, if unrated, the T. Rowe Price equivalent.

CONVERTIBLE SECURITIES, PREFERRED STOCKS, AND WARRANTS. The Fund may invest in debt or preferred equity securities convertible into or exchangeable for equity securities. Preferred stocks are securities that represent an ownership interest in a corporation providing the owner with claims on the company's earnings and assets before common stock owners, but after bond owners. Warrants are options to buy a stated number of shares of common stock at a specified price any time during the life of the warrants (generally, two or more years).

CORPORATE DEBT SECURITIES. The Fund may invest up to 5% (measured at the time of purchase) of its total assets in corporate debt securities without regard to quality or rating.

FOREIGN CURRENCY TRANSACTIONS. Foreign securities of the Fund are subject to currency risk, that is, the risk that the U.S. dollar value of these securities may be affected favorably or unfavorably by changes in foreign currency exchange rates and exchange control regulations. To manage this risk and facilitate the purchase and sale of foreign securities, the Fund will engage in foreign currency transactions involving the purchase and sale of forward foreign currency exchange contracts. Although foreign currency transactions will be used primarily to protect the Fund from adverse currency movements, they also involve the risk that anticipated currency movements will not be accurately predicted and the Fund's total return could be adversely affected as a result.

FOREIGN SECURITIES. The Fund may invest up to 20% of its total assets in securities principally traded in markets outside the United States. While investments in foreign securities are intended to reduce risk by providing further diversification, such investments involve sovereign risk in addition to credit and market risks. Sovereign risk includes local political or economic developments, potential nationalization, withholding taxes on dividend or interest payments, and currency blockage (which would prevent cash from being brought back to the United States). Foreign investments may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. Foreign companies may have less public or less reliable information available about them and may be subject to less governmental regulation than U.S. companies. Securities of foreign companies may be less liquid or more volatile than securities of U.S. companies.

ILLIQUID SECURITIES. The Fund may acquire illiquid securities (no more than 10% of net assets). Because an active trading market does not exist for such securities, the sale of such securities may be subject to delay and additional costs. The Fund will not invest more than 5% of its total assets in restricted securities (other than securities eligible for resale under Rule 144A of the Securities Act of 1933).

LENDING OF PORTFOLIO SECURITIES. As a fundamental policy, for the purpose of realizing additional income, the Fund may lend securities with a value of up to 30% of its total assets to broker-dealers or institutional investors. Any such loan will be continuously secured by collateral at least equal to the value of the security loaned. Such lending could result in delays in receiving additional collateral or in the recovery of the securities or possible loss of rights in the collateral should the borrower fail financially.

REPURCHASE AGREEMENTS. The Fund may enter into repurchase agreements with a well-established securities dealer or a bank which is a member of the Federal Reserve System. In the event of a bankruptcy or default of certain sellers of repurchase agreements, the Fund could experience costs and delays in liquidating the underlying security, which is held as collateral, and the Fund might incur a loss if the value of the collateral held declines during this period.

STOCK INDEX FUTURES CONTRACTS AND OPTIONS. The Fund may enter into stock index futures contracts (or options thereon) to hedge all or a portion of its portfolio, or as an efficient means of regulating its exposure to the equity markets. The Fund will not use futures contracts for speculation. The Fund will limit its use of futures contracts so that no more than 5% of the Fund's total assets would be committed to initial margin deposits or premiums on such contracts. The Fund may also write covered call and put options and purchase call and put options on securities and financial indices. The aggregate market value of the Fund's portfolio securities covering call and put options will not exceed 25% of the Fund's net assets. Futures contracts and options can be highly volatile and could result in reduction of the Fund's total return, and the Fund's attempt to use such investments for hedging purposes may not be successful. Successful futures strategies require the ability to predict future movements in securities prices, interest rates and other economic factors. The Fund's potential losses from the use of futures extends beyond its initial investment in such contracts. Also, losses from options and futures could be significant if the Fund is unable to close out its position due to disruptions in the market or lack of liquidity.

PORTFOLIO TURNOVER. The Fund will not generally trade in securities for short-term profits but, when circumstances warrant, securities may be purchased and sold without regard to the length of time held. For the years ended 1992, 1991, and 1990, the Fund's portfolio turnover rate was 12%, 31%, and 33%, respectively.

FUNDAMENTAL INVESTMENT POLICIES. As a matter of fundamental policy, the Fund will not, among other things: (1) purchase the securities of any company if, as a result: (a) the Fund would have more than 25% of its total assets concentrated in any one industry or (b) with respect to 75% of its assets, the Fund's holdings of that issuer would amount to more than 5% of the Fund's total assets; (2) borrow money except temporarily from banks to facilitate redemption requests in amounts not exceeding 30% of its total assets valued at market; and (3) in any manner transfer as collateral any securities owned by the Fund except as may be necessary in connection with permissible borrowings, which in no event will exceed 30% of its assets valued at cost.

OTHER INVESTMENT POLICIES. As a matter of operating policy, the Fund will not, among other things: (1) purchase a security if, as a result, the Fund would own more than 10% of the outstanding voting securities of the issuer; (2) purchase additional securities when money borrowed exceeds 5% of the Fund's total assets; and (3) invest more than 5% of the value of the Fund's total assets in the securities of unseasoned issuers which at the time of purchase have been in operation for less than three years, including predecessors and unconditional guarantors.

PERFORMANCE
INFORMATION

The Fund may advertise total return figures on both a cumulative and compound average annual basis and compare them to various indices (e.g., the S&P 500), other mutual funds or other performance measures. (The total return of the Fund consists of the change in its net asset value per share and the net income it earns.) Cumulative total return compares the amount invested at the beginning of a period with the amount redeemed at the end of the period, assuming the reinvestment of all dividends and capital gain distributions. The compound average annual total return indicates a yearly compound average of the Fund's performance, derived from the cumulative total return. The annual compound rate of return for the Fund may vary from any average. Further information about the Fund's performance is contained in its annual report which is available free of charge.

CAPITAL STOCK

The Fund is a Maryland corporation organized in 1988 and registered with the Securities and Exchange Commission under the Investment Company Act of 1940 as a diversified, open-end investment company, commonly known as a ``mutual fund.'' A mutual fund, such as the Fund, enables shareholders to: (1) obtain professional management of investments, including T. Rowe Price's proprietary research; (2) diversify their portfolio to a greater degree than would be generally possible if they were investing as individuals and thereby reduce, but not eliminate risks; and (3) simplify the recordkeeping and reduce transaction costs associated with investments. The Fund is a series fund and has the authority to issue other series in addition to the one currently in existence. Because the Fund has issued only one series, however, the term `Fund' as used in this prospectus refers to that series only.

SHAREHOLDER RIGHTS. The Fund issues one class of capital stock, all shares of which have equal rights with regard to voting, redemptions, dividends, distributions, and liquidations. Fractional shares have voting rights and participate in any distributions and dividends. Shareholders have no preemptive or conversion rights; nor do they have cumulative voting rights. When the Fund's shares are issued, they are fully paid and nonassessable. The Fund does not routinely hold annual meetings of shareholders. However, if shareholders representing at least 10% of all votes of the Fund entitled to be cast so desire, they may call a special meeting of shareholders of the Fund for the purpose of voting on the question of the removal of any director(s). The total authorized capital stock of the Fund consists of 1,000,000,000 shares, each having a par value of $.01. As of December 31, 1992, there were approximately 20,374 shareholders in the Fund and 2,476,327 shareholders in the other 43 T. Rowe Price Funds.

The Fund is the successor to a New York limited partnership, PEMCO, which was registered with the SEC as a mutual fund and managed by T. Rowe Price. On June 30, 1988, following approval of its partners, the partnership was reorganized as a Maryland corporation.

FUND OPERATIONS
AND SERVICES

The following sections apply to this Fund and all T. Rowe Price Equity Funds.

NAV,
PRICING, AND
EFFECTIVE
DATE

NET ASSET VALUE PER SHARE (NAV). The NAV per share, or share price, for the Fund is normally determined as of 4:00 pm Eastern Time (ET) each day the New York Stock Exchange is open. The Fund's share price is calculated by subtracting its liabilities from its total assets and dividing the result by the total number of shares outstanding. Among other things, the Fund's liabilities include accrued expenses and dividends payable, and its total assets include portfolio securities valued at market as well as income accrued but not yet received.

If your order is received in good order before 4:00 pm ET, you will receive that day'S NAV.

PURCHASED SHARES are priced at that day's NAV if your request is received before 4:00 pm ET in good order. (See Completing the New Account Form and Opening a New Account.) If received later than 4:00 pm ET, shares will be priced at the next business day's NAV.

REDEMPTIONS are priced at that day's NAV if your request is received before 4:00 pm ET in good order at the transfer agent's offices at T. Rowe Price Account Services, P.O. Box 89000, Baltimore, MD 21289-0220. If received after 4:00 pm ET, shares will be priced at the next business day's NAV.

Also, we cannot accept requests which specify a particular date for purchase or redemption or which specify any special conditions. If your redemption request cannot be accepted, you will be notified and given further instructions.

EXCHANGES are normally priced in the same manner as purchases and redemptions. However, if you are exchanging into a bond or money fund and the release of your exchange proceeds is delayed for the allowable five business days (see Receiving Your Proceeds), you will not begin to earn dividends until the sixth business day after the exchange.

The Fund reserves the right to change the time at which purchases, redemptions, and exchanges are priced if the New York Stock Exchange closes at a time other than 4:00 pm ET or an emergency exists.

RECEIVING
YOUR
PROCEEDS

Redemption proceeds are mailed to the address or sent by wire or ACH transfer to the bank account designated on your New Account Form. They are generally sent the next business day after your redemption request is received in good order. Proceeds sent by bank wire will be credited to your bank account the next business day and proceeds sent by ACH transfer will be credited the second day after the sale.

In addition, under unusual conditions, or when deemed to be in the best interests of the Fund, redemption proceeds may not be sent for up to five business days after your request is received to allow for the orderly liquidation of securities.

Requests by mail for wire redemptions (unless previously authorized) must have a signature guarantee.

DIVIDENDS AND
DISTRIBUTIONS

The Fund distributes all net investment income and capital gains to shareholders. Dividends from net investment income and distributions from capital gains, if any, are normally declared in December and paid in January. However, dividends from net investment income for the Balanced, Growth & Income, Equity Income, and Dividend Growth Funds will be declared and paid quarterly. Dividends and distributions declared by the Fund will be reinvested unless you choose an alternative payment option on the New Account Form. Dividends not reinvested are paid by check or transmitted to your bank account via ACH. If the U.S. Postal Service cannot deliver your check, or if your check remains uncashed for six months, the Fund reserves the right to reinvest your distribution check in your account at the then current NAV and to reinvest all subsequent distributions in shares of the Fund.

TAXES

Form 1099-DIV
will be mailed
to you in January.

DIVIDENDS AND DISTRIBUTIONS. In January, the Fund will mail you Form 1099-DIV indicating the federal tax status of your dividends and capital gain distributions. Generally, dividends and distributions are taxable in the year they are paid. However, any dividends and distributions paid in January but declared during the prior three months are taxable in the year they are declared. Dividends and distributions are taxable to you regardless of whether they are taken in cash or reinvested. Dividends and short-term capital gain distributions are taxable as ordinary income; long-term capital gain distributions are taxable as long-term capital gains. The capital gain holding period is determined by the length of time the Fund has held the securities, not the length of time you have owned Fund shares.

SHARES SOLD. A redemption or exchange of Fund shares is treated as a sale for tax purposes which will result in a short or long-term capital gain or loss, depending on how long you have owned the shares. In January, the Fund will mail you Form 1099-B indicating the trade date and proceeds from all sales and exchanges.

UNDISTRIBUTED INCOME AND GAINS. At the time of purchase, the share price of the Fund may reflect undistributed income, capital gains or unrealized appreciation of securities. Any income or capital gains from these amounts which are later distributed to you are fully taxable.

FOREIGN TRANSACTIONS (ALL FUNDS OTHER THAN NEW AMERICA GROWTH FUND). Distributions resulting from the sale of certain foreign currencies and debt securities, to the extent of foreign exchange gains, are taxed as ordinary income or loss. If the Fund pays nonrefundable taxes to foreign governments during the year, the taxes will reduce the Fund's dividends.

CORPORATIONS. All or part of the Fund's dividends will be eligible for the 70% deduction for dividends received by corporations.

TAX-QUALIFIED RETIREMENT PLANS. Tax-qualified retirement plans generally will not be subject to federal tax liability on either distributions from the Fund or redemption of shares of the Fund. Rather, participants in such plans will be taxed when they begin taking distributions from the plans.

MANAGEMENT
OF THE FUND

INVESTMENT MANAGER. T. Rowe Price is responsible for selection and management of the Fund's portfolio investments. T. Rowe Price serves as investment manager to a variety of individual and institutional investors, including limited and real estate partnerships and other mutual funds.

BOARD OF DIRECTORS/TRUSTEES. The management of the Fund's business and affairs is the responsibility of the Fund's Board of Directors/Trustees.

PORTFOLIO TRANSACTIONS. Decisions with respect to the purchase and sale of the Fund's portfolio securities are made by T. Rowe Price. The Fund's Board of Directors/Trustees has authorized T. Rowe Price to utilize certain brokers indirectly related to T. Rowe Price in the capacity of broker in connection with the execution of the Fund's portfolio transactions.

INVESTMENT SERVICES. T. Rowe Price Investment Services, Inc., a wholly-owned subsidiary of T. Rowe Price, is the distributor for this Fund as well as all other T. Rowe Price Funds.

TRANSFER AND DIVIDEND DISBURSING AGENT, SHAREHOLDER SERVICING AND ADMINISTRATIVE. TRP Services, a wholly-owned subsidiary of T. Rowe Price, serves the Fund as transfer and dividend disbursing agent. T. Rowe Price Retirement Plan Services, Inc., a wholly-owned subsidiary of T. Rowe Price, performs subaccounting and recordkeeping services for shareholder accounts in certain retirement plans investing in the Price Funds. T. Rowe Price calculates the daily share price and maintains the portfolio and general accounting records of the Fund. The address for TRP Services and T. Rowe Price Retirement Plan Services, Inc. is 100 East Pratt Street, Baltimore, Maryland 21202.

EXPENSES AND
MANAGEMENT
FEE

The Fund bears all expenses of its operations other than those incurred by T. Rowe Price under its Investment Management Agreement with T. Rowe Price. Fund expenses include: the management fee; shareholder servicing fees and expenses; custodian and accounting fees and expenses; legal and auditing fees; expenses of preparing and printing prospectuses and shareholder reports; registration fees and expenses; proxy and annual meeting expenses, if any; and directors'/trustees' fees and expenses.

MANAGEMENT FEE. The Fund pays T. Rowe Price an investment management fee consisting of an Individual Fund Fee and a Group Fee. See Summary of Fund Fees and Expenses for the Individual Fund Fee. The Group Fee varies and is based on the combined net assets of all mutual funds sponsored and managed by T. Rowe Price and Rowe Price-Fleming International, Inc., excluding T.

Rowe Price Spectrum Fund, Inc., and any institutional or private label mutual funds, and distributed by T. Rowe Price Investment Services, Inc.

The Fund pays, as its portion of the Group Fee, an amount equal to the ratio of its daily net assets to the daily net assets of all the Price Funds. The table below shows the annual Group Fee rate at various asset levels of the combined Price Funds:

0.480% First $1 billion	0.350% Next $2 billion
0.450% Next $1 billion	0.340% Next $5 billion
0.420% Next $1 billion	0.330% Next $10 billion
0.390% Next $1 billion	0.320% Next $10 billion
0.370% Next $1 billion	0.310% Thereafter
0.360% Next $2 billion	

Based on combined Price Funds' assets of approximately $26.2 billion at December 31, 1992, the Group Fee was 0.35%.

SHAREHOLDER
SERVICES

The following is a brief summary of services available to shareholders in the T. Rowe Price Funds, some of which may be restricted or unavailable to retirement plan accounts. You must authorize most of these services on an Account Form. Services may be modified or withdrawn at any time without notice. Please verify all transactions on your confirmation statements promptly after receiving them. Any discrepancies must be reported to Shareholder Services immediately.

AUTOMATIC ASSET BUILDER. You can have us move $50 or more on the same day each month from your bank account or invest $50 or more from your paycheck into any T. Rowe Price Fund.

Investor Services
1-800-638-5660
1-410-547-2308

DISCOUNT BROKERAGE SERVICE. You can trade stocks, bonds, options, CDs, Treasury Bills, and precious metals at substantial savings through our Discount Brokerage Service. Call Investor Services for more information.

EXCHANGE SERVICE. You can move money from one account to an existing identically registered account or open a new identically registered account. Remember that, for tax purposes, an exchange is treated as a redemption and a new purchase. Exchanges into a state tax-free fund are limited to investors residing in states where those funds are qualified for sale. Some of the T. Rowe Price Funds may impose a redemption fee of 1-2%, payable to such Funds, on shares held for less than one year.

RETIREMENT PLANS. For details on IRAs, please call Investor Services. For details on all other retirement plans, please call our Trust Company at 1-800-492-7670.

Shareholder Services
1-800-225-5132
1-410-625-6500

TELEPHONE SERVICES. The following services are explained fully in the Services Guide, which is mailed to new T. Rowe Price investors. If you don't have a copy, please call Shareholder Services. (All telephone calls to Shareholder Services and Investor Services are recorded in order to protect you, the Fund, and its agents.)

24-HOUR SERVICE. Tele*Access(R) provides information on yields, prices, latest dividends, account balances, and last transaction as well as the ability to initiate purchase, redemption and exchange orders (if you have established Telephone Services). Just call 1-800-638-2587 and press the appropriate codes into your touch-tone phone. PC*Access(R) provides the same information as Tele*Access, but on a personal computer.

ELECTRONIC TRANSFERS. We offer three free methods for purchasing or redeeming Fund shares in amounts of $100 to $100,000 through ACH transfers between your bank checking and Fund accounts:

- --By calling Shareholder Services during business hours (TELE-CONNECT(R));
- --By touch-tone phone any day, any time (TELE*ACCESS).
- --By personal computer any day, any time (PC*ACCESS).

If your bank checking and fund account are not identically registered, you will need a signature guarantee to establish this service.

WIRE TRANSFERS. Wire transfers can be processed through bank wires (a $5 charge applies to redemption amounts under $5,000 and your bank may charge you for receiving wires). While this is usually the quickest transfer method, the Fund reserves the right to temporarily suspend wires under unusual circumstances.

CONDITIONS
OF YOUR
PURCHASE

ACCOUNT BALANCE (All Funds other than New Era Fund). If your account drops below $1,000 for three months or more, the Fund has the right to close your account, after giving 60 days' notice, unless you make additional investments to bring your account value to $1,000 or more.

BROKER DEALERS. Purchases or redemptions through broker-dealers, banks, and other institutions may be subject to service fees imposed by those entities. No such fees are charged by T. Rowe Price Investment Services or the Fund if shares are purchased or redeemed directly from the Fund.

EXCESSIVE TRADING AND EXCHANGE LIMITATIONS. To protect Fund shareholders against disruptions in portfolio management which might occur as a result of too frequent buy and sell activity and to minimize Fund expenses associated with such transaction activity, the Fund prohibits excessive trading in any account (or group of accounts managed by the same person). Within any 120 consecutive-day period, investors may not exchange between Price Funds more than twice or buy and sell the Price Funds more than once, if the transactions involve substantial assets or a substantial portion of the assets in the account or accounts. This policy is applied on a multi-fund basis. Any transactions above and beyond these guidelines will be considered to be excessive trading, and the investor may be prohibited from making additional purchases or exercising the exchange privilege.
This policy does not apply to exchanges solely between, or purchases and sales solely of, the Price Money Funds, nor does it apply to simple redemptions from any Fund.

NONPAYMENT. If your check, wire or ACH transfer does not clear, or if payment is not received for any telephone purchase, the transaction will be cancelled and you will be responsible for any loss the Fund or Investment Services incurs. If you are already a shareholder, the Fund can redeem shares from any identically registered account in this Fund or any other T. Rowe Price Fund as reimbursement for any loss incurred. You may be prohibited or restricted from making future purchases in any of the T. Rowe Price Funds.

U.S. DOLLARS. All purchases must be paid for in U.S. dollars, and checks must be drawn on U.S. banks.

REDEMPTIONS IN EXCESS OF $250,000. Redemption proceeds are normally paid in cash. However, if you redeem more than $250,000, or 1% of the Fund's net assets, in any 90-day period, the Fund may in its discretion: (1) pay the difference between the redemption amount and the lesser of these two figures with securities of the Fund or (2) delay the transmission of your proceeds for up to five business days after your request is received.

SIGNATURE GUARANTEES. A signature guarantee is designed to protect you and the Fund by verifying your signature. You will need one to:

(1) Establish certain services after the account is opened.
(2) Redeem over $50,000 by written request (unless you have authorized telephone services).
(3) Redeem or exchange shares when proceeds are: (i) being mailed to an address other than the address of record, (ii) made payable to other than the registered owner(s), or (iii) being sent to a bank account other than the bank account listed on your fund account.
(4) Transfer shares to another owner.
(5) Send us written instructions asking us to wire redemption proceeds (unless previously authorized).
(6) Establish Electronic Transfers when your bank checking and fund account are not identically registered.

These requirements may be waived or modified in certain instances.

Acceptable guarantors are all eligible guarantor institutions as defined by the Securities Exchange Act of 1934 such as: commercial banks which are FDIC members, trust companies, firms which are members of a domestic stock exchange, and foreign branches of any of the above. We cannot accept guarantees from institutions or individuals who do not provide reimbursement in the case of fraud, such as notaries public.

TELEPHONE EXCHANGE AND REDEMPTION. Telephone exchange and redemption are established automatically when you sign the New Account Form unless you check the box which states that you do not want these services. The Fund uses reasonable procedures (including shareholder identity verification) to confirm that instructions given by telephone are genuine. If these procedures are not followed, it is the opinion of certain regulatory agencies that the Fund may be liable for any losses that may result from acting on the instructions given. All conversations are recorded, and a confirmation is sent within five business days after the telephone transaction.

TEN-DAY HOLD. The mailing of proceeds for redemption requests involving any shares purchased by personal, corporate or government check, or ACH transfer is generally subject to a 10-day delay to allow the check or transfer to clear. The 10-day clearing period does not affect the trade date on which your purchase or redemption order is priced, or any dividends and capital gain distributions to which you may be entitled through the date of redemption. If your redemption request was sent by mail or mailgram, proceeds will be mailed no later than the seventh calendar day following receipt unless the check or ACH transfer has not cleared. The 10-day hold does not apply to purchases made by wire, Automatic Asset Builder-Paycheck, or cashier's, treasurer's, or certified checks.

THE FUND AND ITS AGENTS RESERVE THE RIGHT TO: (1) reject any purchase or exchange, cancel any purchase due to nonpayment, or reject any exchange or redemption where the Fund has not received payment; (2) waive or lower the investment minimums; (3) accept initial purchases by telephone or mailgram; (4) waive the limit on subsequent purchases by telephone; (5) reject any purchase or exchange prior to receipt of the confirmation statement; (6) redeem your account (see Tax Identification Number); (7) modify the conditions of purchase at any time; and (8) reject any check not made directly payable to the Fund or T. Rowe Price (call Shareholder Services for more information).

COMPLETING
THE NEW
ACCOUNT FORM

You must provide your
tax ID number and sign
the New Account Form.

TAX IDENTIFICATION NUMBER. We must have your correct social security or corporate tax identification number and a signed New Account Form or W-9 Form. Otherwise, federal law requires the Fund to withhold a percentage (currently 31%) of your dividends, capital gain distributions, and redemptions, and may subject you to a fine. You also will be prohibited from opening another account by exchange. If this information is not received within 60 days after your account is established, your account may be redeemed, priced at the NAV on the date of redemption.

Unless you otherwise request, one shareholder report will be mailed to multiple account owners with the same tax identification number and same zip code and to those shareholders who have requested that their accounts be combined with someone else's for financial reporting.

ACCOUNT REGISTRATION. If you own other T. Rowe Price Funds, make certain the registration (name and account type) is identical to your other funds for easy exchange. REMEMBER TO SIGN THE FORM EXACTLY AS THE NAME APPEARS IN THE REGISTRATION SECTION.

SERVICES. By signing up for services on the New Account Form, rather than after the account is opened, you will avoid having to complete a separate form and obtain a signature guarantee (see Conditions of Your Purchase).

OPENING A NEW ACCOUNT

Checks payable to T. Rowe Price Funds.

Minimum initial investment: $2,500 ($1,000 for retirement plans and UGMA/UTMA accounts; $50 per month for Automatic Asset Builder accounts--see Shareholder Services)

By Mail Send your New Account Form and check to:

REGULAR MAIL	MAILGRAM, EXPRESS, REGISTERED, OR CERTIFIED MAIL

T. Rowe Price Account Services   T. Rowe Price Account Services
P.O. Box 17300   10090 Red Run Boulevard
Baltimore, MD 21298-9353   Owings Mills, MD 21117

Investor Services
1-800-638-5660
1-410-547-2308

By Wire Call Investor Services for an account number and use Wire Address below. Then, complete the New Account Form and mail it to one of the addresses above. (Not applicable to retirement plans.)

Wire Address (to give to your bank):	Morgan Guaranty Trust Company of New York ABA #021000238 T. Rowe Price (fund name)/AC-00153938 Account name(s) and account number

Shareholder Services
1-800-225-5132
1-410-625-6500

By Exchange Call Shareholder Services. The new account will have the same registration as the account from which you are exchanging. Services for the new account may be carried over by telephone request if preauthorized on the existing account. See Excessive Trading and Exchange Limitations under Conditions of Your Purchase.

In Person Drop off your New Account Form and obtain a receipt at a T. Rowe Price Investor Center:

101 East Lombard First Floor Baltimore, MD	T. Rowe Price Financial Center First Floor 10090 Red Run Boulevard Owings Mills, MD
Farragut Square First Floor 900 17th Street, NW Washington, DC	ARCO Tower 31st Floor 515 South Flower Street Los Angeles, CA

PURCHASING ADDITIONAL SHARES
Minimum: $100 ($50 for retirement plans)
By Wire Call Shareholder Services or use the Wire Address in Opening a New Account.

Shareholder Services
1-800-225-5132
1-410-625-6500

By Mail Indicate your account number and the Fund name on your check. Mail it to us at the address below with the stub from a statement confirming a prior transaction or a note stating that you want to purchase shares in that Fund and giving us the account number.

T. Rowe Price Funds
Account Services
P.O. Box 89000
Baltimore, MD 21289-1500

By ACH Transfer Use Tele*Access, PC*Access or call Shareholder Services (if you have established Telephone Services) for ACH transfers.

By Automatic Asset Builder Fill out the Automatic Asset Builder section on the New Account or Shareholder Services Form.

Minimum: $5,000
By Phone Call Shareholder Services.

EXCHANGING AND
REDEEMING SHARES

By Phone Call Shareholder Services. If you find our phones busy during unusually volatile markets, please consider placing your order by express mail, mailgram, Tele*Access or PC*Access if you have authorized telephone services. For exchange policy, see Excessive Trading and Exchange Limitations under Conditions of

Your Purchase.

Redemption proceeds can be mailed, sent by Electronic Transfer, or wired to your bank. The Fund charges a $5.00 fee for wire redemptions under $5,000, subject to change without notice. Your bank may also charge you for receiving wires.

Shareholder Services
1-800-225-5132
1-410-625-6500

T. Rowe Price Trust Company
1-800-492-7670
1-410-625-6585

By Mail Indicate account name(s) and numbers, fund name(s), and exchange or redemption amount. For exchanges, indicate the accounts you are exchanging from and to along with the amount. We require the signature of all owners exactly as registered, and possibly a signature guarantee (see Signature Guarantees under Conditions of Your Purchase).

NOTE: Distributions from retirement accounts, including IRAs, must be in writing. Please call Shareholder Services to obtain an IRA Distribution Request Form. For employer-sponsored retirement accounts, call T. Rowe Price Trust Company or your plan administrator for instructions. Shareholders holding previously issued certificates must conduct transactions by mail. If you lose a stock certificate, you may incur an expense to replace it. Call Shareholder Services for further information.

MAILING ADDRESSES:

REGULAR MAIL	MAILGRAM, EXPRESS, REGISTERED, OR CERTIFIED MAIL
Non-Retirement and IRA Accounts T. Rowe Price Account Services P.O. Box 89000 Baltimore, MD 21289-0220	All Accounts T. Rowe Price Account Services 10090 Red Run Boulevard Owings Mills, MD 21117

Employer-Sponsored
Retirement Accounts
T. Rowe Price Trust Company
P.O. Box 89000
Baltimore, MD 21289-0300

TO OPEN AN ACCOUNT:
Investor Services
1-800-638-5660
547-2308 in Baltimore

YIELDS & PRICES:
Tele*Access(R)
24 hours, 7 days a week
1-800-638-2587
625-7676 in Baltimore

EXISTING ACCOUNT:
Shareholder Services
1-800-225-5132
625-6500 in Baltimore

INVESTOR CENTERS:
101 East Lombard Street
First Floor
Baltimore, Maryland

Farragut Square
900 17th Street, NW
First Floor
Washington, DC

T. Rowe Price Financial Center
First Floor
10090 Red Run Boulevard
Owings Mills, Maryland
ARCO Tower
31st Floor

515 South Flower Street
Los Angeles, California

May 1, 1993
Revised to
December 31, 1993

To Open an Account:
Investor Services
1-800-638-5660
547-2308 in Baltimore

Yields & Prices:
Tele*AccessR
24 hours, 7 days a week
1-800-638-2587
625-7676 in Baltimore

Existing Account:
Shareholder Services
1-800-225-5132
625-6500 in Baltimore

Investor Centers:

101 East Lombard Street
First Floor
Baltimore, Maryland

Farragut Square
First Floor
Washington, DC

T. Rowe Price Financial Center
First Floor
10090 Red Run Boulevard
Owings Mills, Maryland

ARCO Tower
31st Floor
515 South Flower Street
Los Angeles, California

May 1, 1993
Revised to
December 31, 1993

STATEMENT OF ADDITIONAL INFORMATION

T. Rowe Small-Cap Value Fund, Inc.

(the "Fund")

This Statement of Additional Information is not a prospectus but should be read in conjunction with the Fund's prospectus dated May 1, 1993, revised to December 31, 1993, which may be obtained from T. Rowe Price Investment Services, Inc., 100 East Pratt Street, Baltimore, Maryland 21202.

The date of this Statement of Additional Information is May 1, 1993, revised to December 31, 1993.

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INVESTMENT OBJECTIVE AND POLICIES

The following information supplements the discussion of the Fund's investment objective and policies discussed on pages 2 and 5 through 7 of the prospectus. Unless otherwise specified, the investment program and restrictions of the Fund are not fundamental policies. The operating policies of the Fund are subject to change by its Board of Directors without shareholder approval. However, shareholders will be notified of a material change in an operating policy. The fundamental policies of the Fund may not be changed without the approval of at least a majority of the outstanding shares of the Fund or, if it is less, 67% of the shares represented at a meeting of shareholders at which the holders of 50% or more of the shares are represented.

INVESTMENT OBJECTIVE

The Fund's investment objective is long-term capital growth. The Fund will invest primarily in the common stock of companies with relatively small market capitalizations ("small cap") which are believed to be undervalued and have good prospects for capital appreciation.

The Fund's share price will fluctuate with changing market conditions, and your investment may be worth more or less when redeemed than when purchased. The Fund should not be relied upon as a complete investment program, nor used to play short-term swings in the stock market. In addition, stocks of small companies may be subject to more abrupt or erratic price movements than larger company securities. The Fund cannot guarantee it will achieve its investment objective.

INVESTMENT PROGRAM

In addition to the investments described in the Fund's prospectus, the Fund may invest in the following:

Writing Covered Call Options

The Fund may write (sell) "covered" call options and purchase options to close out options previously written by the Fund. In writing covered call options, the Fund expects to generate additional premium income which should serve to enhance the Fund's total return and reduce the effect of any price decline of the security involved in the option. Covered call options will generally be written on securities which, in the opinion of the Fund's investment manager, T. Rowe Price Associates, Inc. ("T. Rowe Price"), are not expected to make any major price increases in the near future but which, over the long term, are deemed to be attractive investments for the Fund.

A call option gives the holder (buyer) the "right to purchase" a security at a specified price (the exercise price), at expiration of the option (European style) or at any time until a certain date (the expiration date) (American style). So long as the obligation of the writer of a call option continues, he may be assigned an exercise notice by the broker-dealer through whom such option was sold, requiring him to deliver the underlying security against payment of the exercise price. This obligation terminates upon the expiration of the call option, or such earlier time at which the writer effects a closing purchase transaction by repurchasing an option identical to that previously sold. To secure his obligation to deliver the underlying security in the case of a call option, a writer is required to deposit in escrow the underlying security or other assets in accordance with the rules of a clearing corporation. The Fund will write only covered call options. This means that the Fund will own the security subject to the option or an option to purchase the same underlying security, having an exercise price equal to or less than the exercise price of the "covered" option, or will establish and maintain with its custodian for the term of the option, an account consisting of cash, U.S. government securities or other liquid high-grade debt obligations having a value equal to the fluctuating market value of the optioned securities. In order to comply with the requirements of several states, the Fund will not write a covered call option if, as a result, the aggregate market value of all portfolio securities covering call or put options exceeds 25% of the market value of the Fund's net assets. Should these state laws change or should the Fund obtain a waiver of their application, the Fund reserves the right to increase this percentage. In calculating the 25% limit, the Fund will offset, against the value of assets covering written calls and puts, the value of purchased calls and puts on identical securities with identical maturity dates.

Portfolio securities on which call options may be written will be purchased solely on the basis of investment considerations consistent with the Fund's investment objective. The writing of covered call options is a conservative investment technique believed to involve relatively little risk (in contrast to the writing of naked or uncovered options, which the Fund will not do), but capable of enhancing the Fund's total return. When writing a covered call option, the Fund, in return for the premium, gives up the opportunity for profit from a price increase in the underlying security above the exercise price, but conversely retains the risk of loss should the price of the security decline. Unlike one who owns securities not subject to an option, the Fund has no control over when it may be required to sell the underlying securities, since it may be assigned an exercise notice at any time prior to the expiration of its obligation as a writer. If a call option which the Fund has written expires, the Fund will realize a gain in the amount of the premium; however, such gain may be offset by a decline in the market value of the underlying security during the option period. If the call option is exercised, the Fund will realize a gain or loss from the sale of the underlying security. The Fund does not consider a security covered by a call to be "pledged" as that term is used in the Fund's policy which limits the pledging or mortgaging of its assets.

The premium received is the market value of an option. The premium the Fund will receive from writing a call option will reflect, among other things,

the current market price of the underlying security, the relationship of the exercise price to such market price, the historical price volatility of the underlying security, and the length of the option period. Once the decision to write a call option has been made, T. Rowe Price, in determining whether a particular call option should be written on a particular security, will consider the reasonableness of the anticipated premium and the likelihood that a liquid secondary market will exist for those options. The premium received by the Fund for writing covered call options will be recorded as a liability of the Fund. This liability will be adjusted daily to the option's current market value, which will be the latest sale price at the time at which the net asset value per share of the Fund is computed (close of the New York Stock Exchange), or, in the absence of such sale, the latest asked price. The option will be terminated upon expiration of the option, the purchase of an identical option in a closing transaction, or delivery of the underlying security upon the exercise of the option.

Closing transactions will be effected in order to realize a profit on an outstanding call option, to prevent an underlying security from being called, or, to permit the sale of the underlying security. Furthermore, effecting a closing transaction will permit the Fund to write another call option on the underlying security with either a different exercise price or expiration date or both. If the Fund desires to sell a particular security from its portfolio on which it has written a call option, or purchased a put option, it will seek to effect a closing transaction prior to, or concurrently with, the sale of the security. There is, of course, no assurance that the Fund will be able to effect such closing transactions at a favorable price. If the Fund cannot enter into such a transaction, it may be required to hold a security that it might otherwise have sold. When the Fund writes a covered call option, it runs the risk of not being able to participate in the appreciation of the underlying security above the exercise price, as well as the risk of being required to hold onto securities that are depreciating in value. This could result in higher transaction costs. The Fund will pay transaction costs in connection with the writing of options to close out previously written options. Such transaction costs are normally higher than those applicable to purchases and sales of portfolio securities.

Call options written by the Fund will normally have expiration dates of less than nine months from the date written. The exercise price of the options may be below, equal to, or above the current market values of the underlying securities at the time the options are written. From time to time, the Fund may purchase an underlying security for delivery in accordance with an exercise notice of a call option assigned to it, rather than delivering such security from its portfolio. In such cases, additional costs may be incurred.

The Fund will realize a profit or loss from a closing purchase transaction if the cost of the transaction is less or more than the premium received from the writing of the option. Because increases in the market price of a call option will generally reflect increases in the market price of

the underlying security, any loss resulting from the repurchase of a call option is likely to be offset in whole or in part by appreciation of the underlying security owned by the Fund.

Writing Covered Put Options

The Fund may write American or European style covered put options and purchase options to close out options previously written by the Fund. A put option gives the purchaser of the option the right to sell, and the writer (seller) has the obligation to buy, the underlying security at the exercise price during the option period (American style) or at the expiration of the option (European style). So long as the obligation of the writer continues, he may be assigned an exercise notice by the broker-dealer through whom such option was sold, requiring him to make payment of the exercise price against delivery of the underlying security. The operation of put options in other respects, including their related risks and rewards, is substantially identical to that of call options.

The Fund would write put options only on a covered basis, which means that the Fund would maintain in a segregated account cash, U.S. government securities or other liquid high-grade debt obligations in an amount not less than the exercise price or the Fund will own an option to sell the underlying security subject to the option having an exercise price equal to or greater than the exercise price of the "covered" option at all times while the put option is outstanding. (The rules of a clearing corporation currently require that such assets be deposited in escrow to secure payment of the exercise price.) The Fund would generally write covered put options in circumstances where T. Rowe Price wishes to purchase the underlying security for the Fund's portfolio at a price lower than the current market price of the security. In such event the Fund would write a put option at an exercise price which, reduced by the premium received on the option, reflects the lower price it is willing to pay. Since the Fund would also receive interest on debt securities maintained to cover the exercise price of the option, this technique could be used to enhance current return during periods of market uncertainty. The risk in such a transaction would be that the market price of the underlying security would decline below the exercise price less the premiums received. Such a decline could be substantial and result in a significant loss to the Fund. In addition, the Fund, because it does not own the specific securities which it may be required to purchase in the exercise of the put, cannot benefit from appreciation, if any, with respect to such specific securities. In order to comply with the requirements of several states, the Fund will not write a covered put option if, as a result, the aggregate market value of all portfolio securities covering put or call options exceeds 25% of the market value of the Fund's net assets. Should these state laws change or should the Fund obtain a waiver of their application, the Fund reserves the right to increase this percentage. In calculating the 25% limit, the Fund will offset, against the value of assets covering written puts and calls, the value of purchased puts and calls on identical securities with identical maturity dates.

Purchasing Put Options

The Fund may purchase American or European style put options. As the holder of a put option, the Fund has the right to sell the underlying security at the exercise price at any time during the option period (American style) or at the expiration of the option (European style). The Fund may enter into closing sale transactions with respect to such options, exercise them or permit them to expire. The Fund may purchase put options for defensive purposes in order to protect against

an anticipated decline in the value of its securities. An example of such use of put options is provided below.

The Fund may purchase a put option on an underlying security (a "protective put") owned by the Fund as a defensive technique in order to protect against an anticipated decline in the value of the security. Such hedge protection is provided only during the life of the put option when the Fund, as the holder of the put option, is able to sell the underlying security at the put exercise price regardless of any decline in the underlying security's market price. For example, a put option may be purchased in order to protect unrealized appreciation of a security where T. Rowe Price deems it desirable to continue to hold the security because of tax considerations. The premium paid for the put option and any transaction costs would reduce any capital gain otherwise available for distribution when the security is eventually sold.

Although the Fund has no current intention, in the foreseeable future, of purchasing put options at a time when the Fund does not own the underlying security, it reserves the right to do so. By purchasing put options on a security it does not own, the Fund seeks to benefit from a decline in the market price of the underlying security. If the put option is not sold when it has remaining value, and if the market price of the underlying security remains equal to or greater than the exercise price during the life of the put option, the Fund will lose its entire investment in the put option. In order for the purchase of a put option to be profitable, the market price of the underlying security must decline sufficiently below the exercise price to cover the premium and transaction costs, unless the put option is sold in a closing sale transaction.

To the extent required by the laws of certain states, the Fund may not be permitted to commit more than 5% of its assets to premiums when purchasing call and put options. Should these state laws change or should the Fund obtain a waiver of their application, the Fund may commit more than 5% of its assets to premiums when purchasing call and put options. The premium paid by the Fund when purchasing a put option will be recorded as an asset of the Fund. This asset will be adjusted daily to the option's current market value, which will be the latest sale price at the time at which the net asset value per share of the Fund is computed (close of New York Stock Exchange), or, in the absence of such sale, the latest bid price. This asset will be terminated upon expiration of the option, the selling (writing) of an identical option in a closing transaction, or the delivery of the underlying security upon the exercise of the option.

Purchasing Call Options

The Fund may purchase American or European style call options. As the holder of a call option, the Fund has the right to purchase the underlying security at the exercise price at any time during the option period (American style) or at the expiration of the option (European style). The Fund may enter into closing sale transactions with respect to such options, exercise them or permit them to expire. The Fund may purchase call options for the purpose of increasing its current return or avoiding tax consequences which could reduce its current return. The Fund may also purchase call options in order to acquire the underlying securities. Examples of such uses of call options are provided below.

Call options may be purchased by the Fund for the purpose of acquiring the underlying securities for its portfolio. Utilized in this fashion, the purchase of call options enables the Fund to acquire the securities at the exercise price of the call option plus the premium paid. At times the net cost of acquiring securities in this manner may be less than the cost of acquiring the securities directly. This technique may also be useful to the Fund in purchasing a large block of securities that would be more difficult to

acquire by direct market purchases. So long as it holds such a call option rather than the underlying security itself, the Fund is partially protected from any unexpected decline in the market price of the underlying security and in such event could allow the call option to expire, incurring a loss only to the extent of the premium paid for the option.

To the extent required by the laws of certain states, the Fund may not be permitted to commit more than 5% of its assets to premiums when purchasing call and put options. Should these state laws change or should the Fund obtain a waiver of their application, the Fund may commit more than 5% of its assets to premiums when purchasing call and put options. The Fund may also purchase call options on underlying securities it owns in order to protect unrealized gains on call options previously written by it. A call option would be purchased for this purpose where tax considerations make it inadvisable to realize such gains through a closing purchase transaction. Call options may also be purchased at times to avoid realizing losses.

Dealer Options

The Fund may engage in transactions involving dealer options. Certain risks are specific to dealer options. While the Fund would look to a clearing corporation to exercise exchange-traded options, if the Fund were to purchase a dealer option, it would rely on the dealer from whom it purchased the option to perform if the option were exercised. Failure by the dealer to do so would result in the loss of the premium paid by the Fund as well as loss of the expected benefit of the transaction.

Exchange-traded options generally have a continuous liquid market while dealer options have none. Consequently, the Fund will generally be able to realize the value of a dealer option it has purchased only by exercising it or reselling it to the dealer who issued it. Similarly, when the Fund writes a dealer option, it generally will be able to close out the option prior to its expiration only by entering into a closing purchase transaction with the dealer to which the Fund originally wrote the option. While the Fund will seek to enter into dealer options only with dealers who will agree to and which are expected to be capable of entering into closing transactions with the Fund, there can be no assurance that the Fund will be able to liquidate a dealer option at a favorable price at any time prior to expiration. Until the Fund, as a covered dealer call option writer, is able to effect a closing purchase transaction, it will not be able to liquidate securities (or other assets) used as cover until the option expires or is exercised. In the event of insolvency of the contra party, the Fund may be unable to liquidate a dealer option. With respect to options written by the Fund, the inability to enter into a closing transaction may result in material losses to the Fund. For example, since the Fund must maintain a secured position with respect to any call option on a security it writes, the Fund may not sell the assets which it has segregated to secure the position while it is obligated under the option. This requirement may impair the Fund's ability to sell portfolio securities at a time when such sale might be advantageous.

The Staff of the SEC has taken the position that purchased dealer options and the assets used to secure the written dealer options are illiquid securities. The Fund may treat the cover used for written OTC options as liquid if the dealer agrees that the Fund may repurchase the OTC option it has written for a maximum price to be calculated by a predetermined formula. In such cases, the OTC option would be considered illiquid only to the extent the maximum repurchase price under the formula exceeds the intrinsic value of the option. Accordingly, the Fund will treat dealer options as subject to the Fund's limitation on illiquid securities. If the SEC changes its position on the liquidity of dealer options, the Fund will change its treatment of such instruments accordingly.

Futures Contracts

Transactions in Futures

The Fund may enter into stock index futures contracts ("futures or futures contracts").

Stock index futures contracts may be used to provide a hedge for a portion of the Fund's portfolio, as a cash management tool, or as an efficient way for T. Rowe Price to implement either an increase or decrease in portfolio market exposure in response to changing market conditions. Stock index futures contracts are currently traded with respect to the S&P 500 Index and other broad stock market indices, such as the New York Stock Exchange Composite Stock Index and the Value Line Composite Stock Index. The Fund may, however, purchase or sell futures contracts with respect to any stock index. Nevertheless, to hedge the Fund's portfolio successfully, the Fund must sell futures contacts with respect to indices or subindices whose movements will have a significant correlation with movements in the prices of the Fund's portfolio securities.

The Fund will enter into futures contracts which are traded on national futures exchanges and are standardized as to maturity date and underlying financial instrument. The principal financial futures exchanges in the United States are the Board of Trade of the City of Chicago, the Chicago Mercantile Exchange, the New York Futures Exchange, and the Kansas City Board of Trade. Futures exchanges and trading in the United States are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission ("CFTC"). Although techniques other than the sale and purchase of futures contracts could be used for the above-referenced purposes, futures contracts offer an effective and relatively low cost means of implementing the Fund's objectives in these areas.

Regulatory Limitations

The Fund will engage in transactions in futures contracts and options thereon only for bona fide hedging purposes, in accordance with the rules and regulations of the CFTC, and not for speculation.

The Fund may not enter into futures contracts or options thereon if immediately thereafter the sum of the amounts of initial margin deposits on the Fund's existing futures and premiums paid for options on futures would exceed 5% of the market value of the Fund's total assets; provided, however, that in the case of an option that is in-the-money at the time of purchase, the in-the-money amount may be excluded in calculating the 5% limitation.

In instances involving the purchase of futures contracts or call options thereon or the writing of put options thereon by the Fund, an amount of cash, U.S. government securities or other liquid, high-grade debt obligations, equal to the market value of the futures contracts and options thereon (less any related margin deposits), will be deposited in a segregated account with the Fund's custodian to cover the position, or alternative cover will be employed thereby insuring that the use of such futures contracts and options is unleveraged.

In addition, CFTC regulations may impose limitations on the Fund's ability to engage in certain risk management strategies. If the CFTC or other regulatory authorities adopt different (including less stringent) or additional restrictions, the Fund would comply with such new restrictions.

Trading in Futures

A futures contract provides for the future sale by one party and purchase by another party of a specified amount of a specific financial

instrument (e.g., units of a stock index) for a specified price, date, time and place designated at the time the contract is made. Brokerage fees are incurred when a futures contract is bought or sold and margin deposits must be maintained. Entering into a contract to buy is commonly referred to as buying or purchasing a contract or holding a long position. Entering into a contract to sell is commonly referred to as selling a contract or holding a short position.

Unlike when the Fund purchases or sells a security, no price would be paid or received by the Fund upon the purchase or sale of a futures contract. Upon entering into a futures contract, and to maintain the Fund's open positions in futures contracts, the Fund would be required to deposit with its custodian in a segregated account in the name of the futures broker an amount of cash, U.S. government securities, suitable money market instruments, or liquid, high-grade debt securities, known as "initial margin." The margin required for a particular futures contract is set by the exchange on which the contract is traded, and may be significantly modified from time to time by the exchange during the term of the contract. Futures contracts are customarily purchased and sold on margins that may range upward from less than 5% of the value of the contract being traded.

If the price of an open futures contract changes (by increase in the case of a sale or by decrease in the case of a purchase) so that the loss on the futures contract reaches a point at which the margin on deposit does not satisfy margin requirements, the broker will require an increase in the margin. However, if the value of a position increases because of favorable price changes in the futures contract so that the margin deposit exceeds the required margin, the broker will pay the excess to the Fund.

These subsequent payments, called "variation margin," to and from the futures broker, are made on a daily basis as the price of the underlying assets fluctuate making the long and short positions in the futures contract more or less valuable, a process known as "marking to the market." The Fund expects to earn interest income on its margin deposits.

Although certain futures contracts, by their terms, require actual future delivery of and payment for the underlying instruments, in practice most futures contracts are usually closed out before the delivery date. Closing out an open futures contract purchase or sale is effected by entering into an offsetting futures contract purchase or sale, respectively, for the same aggregate amount of the identical securities and the same delivery date. If the offsetting purchase price is less than the original sale price, the Fund realizes a gain; if it is more, the Fund realizes a loss. Conversely, if the offsetting sale price is more than the original purchase price, the Fund realizes a gain; if it is less, the Fund realizes a loss. The transaction costs must also be included in these calculations. There can be no assurance, however, that the Fund will be able to enter into an offsetting transaction with respect to a particular futures contract at a particular time. If the Fund is not able to enter into an offsetting transaction, the Fund will continue to be required to maintain the margin deposits on the futures contract.

For example, the Standard & Poor's 500 Stock Index is composed of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The S&P 500 Index assigns relative weightings to the common stocks included in the Index, and the Index fluctuates with changes in the market values of those common stocks. In the case of the S&P 500 Index, contracts are to buy or sell 500 units. Thus, if the value of the S&P 500 Index were $150, one contract would be worth $75,000 (500 units x $150). The stock index futures contract specifies that no delivery of the actual stock making up the index will take place. Instead, settlement in cash occurs. Over the life of the contract, the gain or loss realized by the Fund will equal the difference between the purchase (or sale) price of the contract and the price at which

the contract is terminated. For example, if the Fund enters into a futures contract to buy 500 units of the S&P 500 Index at a specified future date at a contract price of $150 and the S&P 500 Index is at $154 on that future date, the Fund will gain $2,000 (500 units x gain of $4). If the Fund enters into a futures contract to sell 500 units of the stock index at a specified future date at a contract price of $150 and the S&P 500 Index is at $152 on that future date, the Fund will lose $1,000 (500 units x loss of $2).

Special Risks of Transactions in Futures Contracts

Volatility and Leverage. The prices of futures contracts are volatile and are influenced, among other things, by actual and anticipated changes in the market and interest rates, which in turn are affected by fiscal and monetary policies and national and international policies and economic events.

Most United States futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of futures contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

Because of the low margin deposits required, futures trading involves an extremely high degree of leverage. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss, as well as gain, to the investor. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a subsequent 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out. A 15% decrease would result in a loss equal to 150% of the original margin deposit, if the contract were closed out. Thus, a purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. However, the Fund would presumably have sustained comparable losses if, instead of the futures contract, it had invested in the underlying instrument and sold it after the decline. Furthermore, in the case of a futures contract purchase, in order to be certain that the Fund has sufficient assets to satisfy its obligations under a futures contract, the Fund earmarks to the futures contract money market instruments equal in value to the current value of the underlying instrument less the margin deposit.

Liquidity. The Fund may elect to close some or all of its futures positions at any time prior to their expiration. The Fund would do so to reduce exposure represented by long futures positions or increase exposure represented by short futures positions. The Fund may close its positions by taking opposite positions which would operate to terminate the Fund's position in the futures contracts. Final determinations of variation margin would then be made, additional cash would be required to be paid by or released to the Fund, and the Fund would realize a loss or a gain.

Futures contracts may be closed out only on the exchange or board of trade where the contracts were initially traded. Although the Fund intends to purchase or sell futures contracts only on exchanges or boards of trade where there appears to be an active market, there is no assurance that a liquid market on an exchange or board of trade will exist for any particular contract at any particular time. In such event, it might not be possible to close a futures contract, and in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. However, in the event futures contracts have been used to hedge the underlying instruments, the Fund would continue to hold the underlying instruments subject to the hedge until the futures contracts could be terminated. In such circumstances, an increase in the price of the underlying instruments, if any, might partially or completely offset losses on the futures contract. However, as described below, there is no guarantee that the price of the underlying instruments will, in fact, correlate with the price movements in the futures contract and thus provide an offset to losses on a futures contract.

Hedging Risk. A decision of whether, when, and how to hedge involves skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of unexpected market behavior, market or interest rate trends. There are several risks in connection with the use by the Fund of futures contracts as a hedging device. One risk arises because of the imperfect correlation between movements in the prices of the futures contracts and movements in the prices of the underlying instruments which are the subject of the hedge. T. Rowe Price will, however, attempt to reduce this risk by entering into futures contracts whose movements, in its judgment, will have a significant correlation with movements in the prices of the Fund's underlying instruments sought to be hedged.

Successful use of futures contracts by the Fund for hedging purposes is also subject to T. Rowe Price's ability to correctly predict movements in the direction of the market. It is possible that, when the Fund has sold futures to hedge its portfolio against a decline in the market, the index, indices, or underlying instruments on which the futures are written might advance and the value of the underlying instruments held in the Fund's portfolio might decline. If this were to occur, the Fund would lose money on the futures and also would experience a decline in value in its underlying instruments. However, while this might occur to a certain degree, T. Rowe Price believes that over time the value of the Fund's portfolio will tend to move in the same direction as the market indices which are intended to correlate to the price movements of the underlying instruments sought to be hedged. It is also possible that if the Fund were to hedge against the possibility of a decline in the market (adversely affecting the underlying instruments held in its portfolio) and prices instead increased, the Fund would lose part or all of the benefit of increased value of those underlying instruments that it has hedged, because it would have offsetting losses in its futures positions. In addition, in such situations, if the Fund had insufficient cash, it might have to sell underlying instruments to meet daily variation margin requirements. Such sales of underlying instruments might be, but would not necessarily be, at increased prices (which would reflect the rising market). The Fund might have to sell underlying instruments at a time when it would be disadvantageous to do so.

In addition to the possibility that there might be an imperfect correlation, or no correlation at all, between price movements in the futures contracts and the portion of the portfolio being hedged, the price movements of futures contracts might not correlate perfectly with price movements in the underlying instruments due to certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors might close futures contracts through offsetting transactions which could distort the normal relationship between the underlying instruments and futures markets. Second, the margin requirements in the futures market are less onerous than margin requirements in the securities markets, and as a result the futures market might attract more speculators than the securities markets do. Increased participation by speculators in the futures market might also cause temporary price distortions. Due to the possibility of price distortion in the futures market and also because of the imperfect correlation between price movements in the

underlying instruments and movements in the prices of futures contracts, even a correct forecast of general market trends by T. Rowe Price might not result in a successful hedging transaction over a very short time period.

Options on Futures Contracts

Options on futures are similar to options on underlying instruments except that options on futures give the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), rather than to purchase or sell the futures contract, at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by the delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the futures contract. Alternatively, settlement may be made totally in cash. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

As an alternative to writing or purchasing call and put options on stock index futures, the Fund may write or purchase call and put options on stock indices. Such options would be used in a manner similar to the use of options on futures contracts. From time to time, a single order to purchase or sell futures contracts (or options thereon) may be made on behalf of the Fund and other T. Rowe Price Funds. Such aggregated orders would be allocated among the Fund and the other T. Rowe Price Funds in a fair and non-discriminatory manner.

Special Risks of Transactions in Options on Futures Contracts

The Fund may seek to close out an option position by writing or buying an offsetting option covering the same index, underlying instruments, or contract and having the same exercise price and expiration date. The ability to establish and close out positions on such options will be subject to the maintenance of a liquid secondary market. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options, or underlying instruments; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in the class or series of options) would cease to exist, although outstanding options on the exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms. There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain of the facilities of any of the clearing corporations inadequate, and thereby result in the institution by an exchange of special procedures which may interfere with the timely execution of customers' orders.

Repurchase Agreements

The Fund may enter into repurchase agreements through which an investor (such as the Fund) purchases a security (known as the "underlying security") from a well-established securities dealer or a bank which is a member of the Federal Reserve System. Any such dealer or bank will be on T. Rowe Price's

approved list and have a credit rating with respect to its short-term debt of at least A1 by Standard & Poor's Corporation, P1 by Moody's Investors Service, Inc. or the equivalent rating by T. Rowe Price. At that time, the bank or securities dealer agrees to repurchase the underlying security at the same price, plus specified interest. Repurchase agreements are generally for a short period of time, often less than a week. The Fund will not enter into a repurchase agreement which does not provide for payment within seven days if, as a result, more than 10% of the value of its net assets would then be invested in such repurchase agreements. The Fund will only enter into a repurchase agreement where (i) the underlying securities are of the type (excluding maturity limitations) which the Fund's investment guidelines would allow it to purchase directly, (ii) the market value of the underlying security, including interest accrued, will be at all times equal to or exceed the value of the repurchase agreement, and (iii) payment for the underlying security is made only upon physical delivery or evidence of book-entry transfer to the account of the custodian or a bank acting as agent. In the event of a bankruptcy or other default of a seller of a repurchase agreement, the Fund could experience both delays in liquidating the underlying securities and losses, including: (a) possible decline in the value of the underlying security during the period while the Fund seeks to enforce its rights thereto; (b) possible subnormal levels of income and lack of access to income during this period; and (c) expenses of enforcing its rights.

Illiquid Securities

The Fund may invest in illiquid securities including repurchase agreements which do not provide for payment within seven days, but will not acquire such securities if, as a result, they would comprise more than 10% of the value of the Fund's net assets, provided further that the Fund will not invest more than 5% of its net assets in restricted securities.

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act of 1933 (the "1933 Act"). Where registration is required, the Fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than prevailed when it decided to sell. Restricted securities will be priced at fair value as determined in accordance with procedures prescribed by the Board of Directors. If through the appreciation of illiquid securities or the depreciation of liquid securities, the Fund should be in a position where more than 10% of the value of its net assets are invested in illiquid assets, including restricted securities, the Fund will take appropriate steps to protect liquidity.

Notwithstanding the above, the Fund may purchase securities which while privately placed, are eligible for purchase and sale under Rule 144A under the 1933 Act. This rule permits certain qualified institutional buyers, such as the Fund, to trade in privately placed securities even though such securities are not registered under the 1933 Act. T. Rowe Price, under the supervision of the Fund's Board of Directors, will consider whether securities purchased under Rule 144A are illiquid and thus subject to the Fund's restriction of investing no more than 10% of its assets in illiquid securities. A determination of whether a Rule 144A security is liquid or not is a question of fact. In making this determination, T. Rowe Price will consider the trading markets for the specific security taking into account the unregistered nature of a Rule 144A security. In addition, T. Rowe Price could consider the (1) frequency of trades and quotes, (2) number of dealers and potential purchasers, (3) dealer undertakings to make a market, and (4) nature of the security and of marketplace trades (e.g., the time needed to dispose of the security, the method of soliciting offers and the mechanics of transfer). The

liquidity of Rule 144A securities would be monitored and, if as a result of changed conditions, it is determined that a Rule 144A security is no longer liquid, the Fund's holdings of illiquid securities would be reviewed to determine what, if any, steps are required to assure that the Fund does not invest more than 10% of its assets in illiquid securities. Investing in Rule 144A securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase such securities.

Warrants

The Fund may invest in warrants; however, in order to comply with the securities law of a certain state, not more than 5% of its assets (at the time of purchase) will be invested in warrants other than warrants acquired in units or attached to other securities. Of such 5% not more than 2% of assets at the time of purchase may be invested in warrants that are not listed on the New York or American Stock Exchanges. Should the law of this state change or should the Fund obtain a waiver of its application, the Fund may invest in warrants to a greater extent than 5% of its assets. 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.

Foreign Securities

The Fund may invest in the securities of foreign issuers. The Fund currently intends to limit any such investment to not more than 20% of its assets. Because the Fund may invest in foreign securities, investment in the Fund involves risks that are different in some respects from an investment in a fund which invests only in securities of U.S. domestic issuers. Foreign investments may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. There may be less publicly available information about a foreign company than about a U.S. company, and foreign companies may not be subject to accounting, auditing, and financial reporting standards and requirements comparable to those applicable to U.S. companies.

There may be less governmental supervision of securities markets, brokers and issuers of securities. Securities of some foreign companies are less liquid or more volatile than securities of U.S. companies, and foreign brokerage commissions and custodian fees are generally higher than in the United States. Settlement practices may include delays and may differ from those customary in United States markets. Investments in foreign securities may also be subject to other risks different from those affecting U.S. investments, including local political or economic developments, expropriation or nationalization of assets, restrictions on foreign investment and repatriation of capital, imposition of withholding taxes on dividend or interest payments, currency blockage (which would prevent cash from being brought back to the United States), and difficulty in enforcing legal rights outside the U.S.

Foreign Currency Transactions

A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are principally traded in the interbank market conducted directly between currency traders (usually large, commercial banks) and their customers. A forward contract generally

has no deposit requirement, and no commissions are charged at any stage for trades.

The Fund may enter into forward foreign currency exchange contracts under two circumstances. First, when the Fund enters into a contract for the purchase or sale of a security denominated in a foreign currency, it may desire to "lock in" the U.S. dollar price of the security. By entering into a forward contract for the purchase or sale, for a fixed amount of dollars, of the amount of foreign currency involved in the underlying security transactions, the Fund will be able to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the subject foreign currency during the period between the date the security is purchased or sold and the date on which payment is made or received.

Second, when T. Rowe Price believes that the currency of a particular foreign country may suffer or enjoy a substantial movement against another currency, including the U.S. dollar, it may enter into a forward contract to sell or buy the amount of the former foreign currency, approximating the value of some or all of the Fund's portfolio securities denominated in such foreign currency. Alternatively, where appropriate, the Fund may hedge all or part of its foreign currency exposure through the use of a basket of currencies or a proxy currency where such currency or currencies act as an effective proxy for other currencies. In such a case, the Fund may enter into a forward contract where the amount of the foreign currency to be sold exceeds the value of the securities denominated in such currency. The use of this basket hedging technique may be more efficient and economical than entering into separate forward contracts for each currency held in the Fund. The precise matching of the forward contract amounts and the value of the securities involved will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward contract is entered into and the date it matures. The projection of short-term currency market movement is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. T. Rowe Price does not intend to enter into such forward contracts under this second circumstance on a regular or continuous basis, and will not do so if, as a result, the Fund will have more than 20% of the value of its total assets committed to the consummation of such contracts. Other than as set forth above, and immediately below, the Fund will also not enter into such forward contracts or maintain a net exposure to such contracts where the consummation of the contracts would obligate the Fund to deliver an amount of foreign currency in excess of the value of the Fund's portfolio securities or other assets denominated in that currency. The Fund, however, in order to avoid excess transactions and transaction costs, may maintain a net exposure to forward contracts in excess of the value of the Fund's portfolio securities or other assets to which the forward contracts relate (including accrued interest to the maturity of the forward on such securities) provided the excess amount is "covered" by liquid, high-grade debt securities, denominated in any currency, at least equal at all times to the amount of such excess. For these purposes, "the securities or other assets to which the forward contracts relate" may be securities or assets denominated in a single currency, or where proxy forwards are used, securities denominated in more than one currency. Under normal circumstances, consideration of the prospect for currency parities will be incorporated into the longer term investment decisions made with regard to overall diversification strategies. However, T. Rowe Price believes that it is important to have the flexibility to enter into such forward contracts when it determines that the best interests of the Fund will be served.

At the maturity of a forward contract, the Fund may either sell the portfolio security and make delivery of the foreign currency, or it may retain the security and terminate its contractual obligation to deliver the foreign currency by purchasing an "offsetting" contract obligating it to purchase, on

the same maturity date, the same amount of the foreign currency.

As indicated above, it is impossible to forecast with absolute precision the market value of portfolio securities at the expiration of the forward contract. Accordingly, it may be necessary for the Fund to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security is less than the amount of foreign currency the Fund is obligated to deliver and if a decision is made to sell the security and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security if its market value exceeds the amount of foreign currency the Fund is obligated to deliver. However, as noted, in order to avoid excessive transactions and transaction costs, the Fund may use liquid, high-grade debt securities denominated in any currency, to cover the amount by which the value of a forward contract exceeds the value of the securities to which it relates.

If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund will incur a gain or a loss (as described below) to the extent that there has been movement in forward contract prices. If the Fund engages in an offsetting transaction, it may subsequently enter into a new forward contract to sell the foreign currency. Should forward prices decline during the period between the Fund's entering into a forward contract for the sale of a foreign currency and the date it enters into an offsetting contract for the purchase of the foreign currency, the Fund will realize a gain to the extent the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to purchase. Should forward prices increase, the Fund will suffer a loss to the extent of the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell.

The Fund's dealing in forward foreign currency exchange contracts will be limited to the transactions described above. However, the Fund reserves the right to enter into forward foreign currency contracts for different purposes and under different circumstances. Of course, the Fund is not required to enter into forward contracts with regard to its foreign currency-denominated securities and will not do so unless deemed appropriate by T. Rowe Price. It also should be realized that this method of hedging against a decline in the value of a currency does not eliminate fluctuations in the underlying prices of the securities. It simply establishes a rate of exchange at a future date. Additionally, although such contracts tend to minimize the risk of loss due to a decline in the value of the hedged currency, at the same time, they tend to limit any potential gain which might result from an increase in the value of that currency.

Although the Fund values its assets daily in terms of U.S. dollars, it does not intend to convert its holdings of foreign currencies into U.S. dollars on a daily basis. It will do so from time to time, and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference (the "spread") between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

Federal Tax Treatment of Options, Futures Contracts and Forward Foreign Exchange Contracts

The discussion herein may refer to transactions in which the Fund does not engage. The Fund's prospectus sets forth the types of transactions permissible for the Fund.

The Fund may enter into certain option, futures, and forward foreign exchange contracts, including options and futures on currencies, which will be treated as Section 1256 contracts or straddles.

Transactions which are considered Section 1256 contracts will be considered to have been closed at the end of the Fund's fiscal year and any gains or losses will be recognized for tax purposes at that time. Such gains or losses from the normal closing or settlement of such transactions will be characterized as 60% long-term capital gain or loss and 40% short-term capital gain or loss regardless of the holding period of the instrument. The Fund will be required to distribute net gains on such transactions to shareholders even though it may not have closed the transaction and received cash to pay such distributions.

Options, futures and forward foreign exchange contracts, including options and futures on currencies, which offset a foreign dollar denominated bond or currency position may be considered straddles for tax purposes in which case a loss on any position in a straddle will be subject to deferral to the extent of unrealized gain in an offsetting position. The holding period of the securities or currencies comprising the straddle will be deemed not to begin until the straddle is terminated. For securities offsetting a purchased put, this adjustment of the holding period may increase the gain from sales of securities held less than three months. The holding period of the security offsetting an "in-the-money qualified covered call" option on an equity security will not include the period of time the option is outstanding.

Losses on written covered calls and purchased puts on securities, excluding certain "qualified covered call" options on equity securities, may be long-term capital loss, if the security covering the option was held for more than twelve months prior to the writing of the option.

In order for the Fund to continue to qualify for federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income; i.e., dividends, interest, income derived from loans of securities, and gains from the sale of securities or currencies. Pending tax regulations could limit the extent that net gain realized from option, futures or foreign forward exchange contracts on currencies is qualifying income for purposes of the 90% requirement. In addition, gains realized on the sale or other disposition of securities, including option, futures or foreign forward exchange contracts on securities or securities indexes and, in some cases, currencies, held for less than three months, must be limited to less than 30% of the Fund's annual gross income. In order to avoid realizing excessive gains on securities or currencies held less than three months, the Fund may be required to defer the closing out of option, futures or foreign forward exchange contracts beyond the time when it would otherwise be advantageous to do so. It is anticipated that unrealized gains on Section 1256 option, futures and foreign forward exchange contracts, which have been open for less than three months as of the end of the Fund's fiscal year and which are recognized for tax purposes, will not be considered gains on securities or currencies held less than three months for purposes of the 30% test.

Lending of Portfolio Securities

For the purpose of realizing additional income, the Fund may make secured loans of portfolio securities amounting to not more than 30% of its total assets. This policy is a fundamental policy. Securities loans are made to broker-dealers, institutional investors, or other persons pursuant to agreements requiring that the loans be continuously secured by collateral at least equal at all times to the value of the securities lent marked to market on a daily basis. The collateral received will consist of cash, U.S.

government securities, letters of credit or such other collateral as may be permitted under its investment program. While the securities are being lent, the Fund will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The Fund has a right to call each loan and obtain the securities on five business days' notice or, in connection with securities trading on foreign markets, within such longer period of time which coincides with the normal settlement period for purchases and sales of such securities in such foreign markets. The Fund will not have the right to vote securities while they are being lent, but it will call a loan in anticipation of any important vote. The risks in lending portfolio securities, as with other extensions of secured credit, consist of possible delay in receiving additional collateral or in the recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. Loans will only be made to persons deemed by T. Rowe Price to be of good standing and will not be made unless, in the judgment of T. Rowe Price, the consideration to be earned from such loans would justify the risk.

Corporate Debt Securities

The Fund may invest up to 5% of its total assets in corporate debt securities without regard to quality or rating. This may include securities in default, rated Ca by Moody's Investors Service, Inc. or CC by Standard & Poor's Corporation, or, if not rated, of comparable quality. Such bonds are regarded, on balance, as predominantly speculative with respect to an issuer's capacity to pay interest and repay principal in accordance with terms of the obligation.

INVESTMENT RESTRICTIONS

Fundamental policies of the Fund may not be changed without the approval of the lesser of (1) 67% of the Fund's shares present at a meeting of shareholders if the holders of more than 50% of the outstanding shares are present in person or by proxy or (2) more than 50% of the Fund's outstanding shares. Other restrictions, in the form of operating policies, are subject to change by the Fund's Board of Directors without shareholder approval. Any investment restriction which involves a maximum percentage of securities or assets shall not be considered to be violated unless an excess over the percentage occurs immediately after, and is caused by, an acquisition of securities or assets of, or borrowings by, the Fund.

Fundamental Policies

As a matter of fundamental policy, the Fund may not:

(1) Borrowing. Borrow money, except the Fund may borrow from banks as a temporary measure for extraordinary or emergency purposes, and then only in amounts not exceeding 30% of its total assets valued at market. The Fund will not borrow in order to increase income (leveraging), but only to facilitate redemption requests which might otherwise require untimely disposition of portfolio securities (see page 6 of the prospectus). Interest paid on any such borrowings will reduce net investment income. The Fund may enter into futures contracts as set forth in (3) below;

(2) Commodities. Purchase or sell commodities or commodity contracts; except that it may (i) enter into futures contracts and options on futures contracts, subject to (3) below; and (ii) enter into forward foreign currency exchange contracts (although the Fund does not consider such contracts to be commodities);

(3) Futures Contracts. Enter into a futures contract or an option thereon, although the Fund may enter into a futures contract or an option on a futures contract if, as a result, no more than 5% of the Fund's total assets (taken at market value at the time of entering into the contract) would be committed to initial margin or premiums on options on such futures contracts; provided however, that in the case of an option which is in-the-money at the time of purchase, the in-the-money amount as defined under certain CFTC regulations may be excluded in computing such 5%;

(4) Industry Concentration. Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry (other than obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities);

(5) Investment Companies. Purchase securities of open-end investment companies except in compliance with the Investment Company Act of 1940 and applicable state law. Duplicate fees may result from such purchases;

(6) Loans. Make loans, although the Fund may (i) purchase money market securities and enter into repurchase agreements, and (ii)

lend portfolio securities provided that no such loan may be made if, as a result, the aggregate of such loans would exceed 30% of the value of the Fund's total assets; provided, however, that the Fund may acquire publicly-distributed bonds, debentures, notes and other debt securities and purchase debt securities at private placement within the limits imposed on the acquisition of restricted securities;

(7) Mortgaging. Mortgage, pledge, hypothecate or, in any manner, transfer as security for indebtedness any security owned by the Fund, except (i) as may be necessary in connection with permissible borrowings, in which event such mortgaging, pledging, or hypothecating may not exceed 30% of the Fund's assets, valued at cost; and (ii) it may enter into futures contracts and options thereon;

(8) Percent Limit on Assets Invested in Any One Issuer. Purchase the securities of any issuer (other than obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities) if, as a result, with respect to 75% of the Fund's assets, more than 5% of the value of the Fund's total assets would be invested in the securities of a single issuer (including repurchase agreements with any one issuer);

(9) Real Estate. Purchase or sell real estate limited partnerships (although it may purchase money market securities secured by real estate or interests therein, or issued by companies which invest in real estate or interests therein);

(10) Senior Securities. Issue senior securities except in compliance with the Investment Company Act of 1940;

(11) Short Sales and Purchase on Margin. Effect short sales of securities or purchase securities on margin, except (i) for use of short-term credit necessary for clearance of purchases of portfolio securities and (ii) it may make margin deposits in connection with futures contracts, subject to (3) above; or

(12) Underwriting. Underwrite securities issued by other persons, except: (i) to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act of 1933 in connection with the purchase of government securities directly from the issuer in accordance with the Fund's investment objective, program, and restrictions; and (ii) the later disposition of restricted securities acquired within the limits imposed on the acquisition of restricted securities.

Operating Policies

As a matter of operating policy, the Fund may not:

(1) Control of Portfolio Companies. Invest in companies for the purpose of exercising management or control;

(2) Illiquid Securities. Purchase a security if, as a result, more than 10% of its net assets would be invested in illiquid securities, including repurchase agreements which do not provide for payment within seven days, provided that the Fund will not invest more than 5% of its total assets in restricted securities (other than securities eligible for resale under Rule 144A of the Securities Act of 1933);

(3) Oil and Gas Programs. Purchase participations or other direct interests or enter into leases with respect to oil, gas, other mineral exploration or development programs;

(4) Options, Etc. Invest in puts, calls, straddles, spreads, or any combination thereof, except that the Fund may invest in or commit its assets to writing call and put options and purchasing put and call options;

(5) Ownership of Portfolio Securities by Officers and Directors. Purchase or retain the securities of any issuer if, to the knowledge of the Fund's management, those officers and directors of the Fund, and of its investment manager, who each owns

beneficially more than .5% of the outstanding securities of such issuer, together own beneficially more than 5% of such securities;

(6) Percent Limit on Share Ownership of Any One Issuer. Purchase the securities of any issuer (other than obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities) if, as a result, more than 10% of the outstanding voting securities of any issuer would be held by the Fund; or

(7) Unseasoned Issuers. Purchase a security (other than obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities) if, as a result, more than 5% of the value of the Fund's total assets would be invested in the securities of issuers which at the time of purchase had been in operation for less than three years (for this purpose, the period of operation of any issuer shall include the period of operation of any predecessor or unconditional guarantor of such issuer).

Under the 1940 Act, the Fund may not invest in any securities of any issuer which, in its most recent fiscal year, derived more than 15% of its gross revenues from "securities related activities," as defined by rules of the 1940 Act, unless certain conditions are met. As a result of these restrictions, the Fund may not invest in the securities of certain banks, broker-dealers and other companies in foreign countries. If the Fund finds that this restriction prevents it from pursuing its investment objective, it may apply to the Securities and Exchange Commission for an order which would permit it to acquire such securities, but no assurance can be given that any such order will be granted. It is also possible the law in this area will change, in which case the Fund could have greater flexibility in the purchase of the securities of foreign banks, broker-dealers, and other companies.

INVESTMENT PERFORMANCE

Total Return Performance

The Fund's calculation of total return performance includes the reinvestment of all capital gain distributions and income dividends for the period or periods indicated, without regard to tax consequences to a shareholder in the Fund. Total return is calculated as the percentage change between the beginning value of a static account in the Fund and the ending value of that account measured by the then current net asset value, including all shares acquired through reinvestment of income and capital gains dividends. The results shown are historical and should not be considered indicative of the future performance of the Fund. Each average annual compound rate of return is derived from the cumulative performance of the Fund over the time period specified. The annual compound rate of return for the Fund may vary from any average.

Cumulative Performance Percentage Change

	1 Year Ended 12/31/91+	3 Years Ended 12/31/92	Since Inception 6/30/88 to 12/31/92++
Small-Cap Value Fund	20.87%	43.90%	63.43%
S&P 500	7.61	36.43	85.44
NASDAQ Composite	15.45	48.84	71.53
Lipper Small Company Growth Average	12.54	52.88	83.90
CPI	2.90	12.85	20.59

Total Return

	Capital Change	Dividend Income	Total Return
12/31/91 - 12/31/92	19.89%	0.98%	20.87%
12/31/89 - 12/31/92	37.00	6.90	43.90
6/30/88 - 12/31/92	52.08	11.35	63.43

Average Annual Compound Rates of Return

	1 Year Ended 12/31/92+	3 Years Ended 12/31/92	Since Inception 6/30/88 to 12/31/92++
Small-Cap Value Fund	20.87%	12.89%	11.53%
S&P 500	7.61	10.90	14.69
NASDAQ Composite	15.45	14.16	12.72
Lipper Small Company Growth Average	12.54	15.18	14.11
CPI	2.90	4.11	4.24

+ If you invested $1,000 at the beginning of 1992, the total return on 12/31/92 would be $1,208.70 [($1,000 x 1.2087)].
++Assumes purchase of one share of the Small-Cap Value Fund at the inception price of $10.00 on 6/30/88. Over this time, stock prices in general have risen.

From time to time, in reports and promotional literature: (1) the Fund's total return performance or P/E ratio may be compared with any one or combination of the following: (i) the Standard & Poor's 500 Stock Index and Dow Jones Industrial Average so that you may compare the Fund's results with those of a group of unmanaged securities widely regarded by investors as representative of the stock market in general; (ii) other groups of mutual funds, including T. Rowe Price Funds, tracked by: (A) Lipper Analytical Services, a widely used independent research firm which ranks mutual funds by overall performance, investment objectives, and assets; (B) Morningstar, Inc., another widely used independent research firm which ranks mutual funds; or (C) other financial or business publications, such as Business Week, Money Magazine, Forbes and Barron's, which provide similar information; (iii) indices of stocks comparable to those in which the Fund invests; (2) the Consumer Price Index (measure for inflation) may be used to assess the real rate of return from an investment in the Fund; (3) other government statistics such as GNP, and net import and export figures derived from governmental publications, e.g. The Survey of Current Business, may be used to illustrate investment attributes of the Fund or the general economic, business, investment, or financial environment in which the Fund operates; (4) the effect of tax-deferred compounding on the Fund's investment returns, or on returns in general, may be illustrated by graphs, charts, etc. where such graphs or charts would compare, at various points in time, the return from an investment in the Fund (or returns in general) on a tax-deferred basis (assuming reinvestment of capital gains and dividends and assuming one or more tax rates) with the return on a taxable basis; and (5) the sectors or industries in which the Fund invests may be compared with relevant indices or surveys (e.g. S&P Industry Surveys) in order to evaluate the

Fund's historical performance or current or potential value with respect to the particular industry or sector. In connection with (4) above, information derived from the following chart may be used:

IRA Versus Taxable Returns

Assuming 9% annual rate of return, $2,000 annual contribution, and 28% tax bracket.

Year	Taxable	Tax Deferred
10	$ 28,700	$ 33,100
15	51,400	64,000
20	82,500	111,500
25	125,100	184,600
30	183,300	297,200

IRAs

An IRA is a long-term investment whose objective is to accumulate personal savings for retirement. Due to the long-term nature of the investment, even slight differences in performance will result in significantly different assets at retirement. Mutual funds, with their diversity of choice, can be used for IRA investments. Generally, individuals may need to adjust their underlying IRA investments as their time to retirement and tolerance for risk changes.

Other Features and Benefits

The Fund is a member of the T. Rowe Price Family of Funds and may help investors achieve various long-term investment goals, such as investing money for retirement, saving for a down payment on a home, or paying college costs. To explain how the Fund could be used to assist investors in planning for these goals and to illustrate basic principles of investing, various worksheets and guides prepared by T. Rowe Price Associates, Inc. and/or T. Rowe Price Investment Services, Inc. may be made available. These currently include: the Asset Mix Worksheet which is designed to show shareholders how to reduce their investment risk by developing a diversified investment plan; the College Planning Guide which discusses various aspects of financial planning to meet college expenses and assists parents in projecting the costs of a college education for their children; the Retirement Planning Kit (also available in a PC version) which includes a detailed workbook to determine how much money you may need for retirement and suggests how you might invest to reach your goal; and the Retirees Financial Guide which includes a detailed workbook to determine how much money you can afford to spend and still preserve your purchasing power and suggests how you might invest to reach your goal. From time to time, other worksheets and guides may be made available as well. Of course, an investment in the Fund cannot guarantee that such goals will be met.

To assist investors in understanding the different returns and risk characteristics of various investments, the aforementioned guides will include presentation of historical returns of various investments using published indices. An example of this is shown below.

Performance

Small company stocks achieved higher total annualized returns than large-cap stocks and long-term bonds for the 25 and 50-year periods ending December 31, 1992, as shown in the following table. The table shows the reversal of these trends during the past ten years.

Historical Returns for Different Investments

Annualized returns for periods ended 12/31/92

	50 years	25 years	10 years	5 years
Small-Company Stocks	16.3%	12.4%	11.6%	13.6%
Large-Company Stocks	12.6	10.6	16.2	15.9
Foreign Stocks	N/A	N/A	17.1	1.6
Long-Term Corporate Bonds	5.4	8.8	13.1	12.5
Intermediate-Term U.S. Gov't. Bonds	5.6	9.0	11.0	10.3
Treasury Bills	4.6	7.2	6.9	6.3
U.S. Inflation	4.3	5.9	3.8	4.2

Sources: Ibbotson Associates. Foreign stocks reflect performance of The Morgan Stanley Capital International EAFE Index, which includes some 1,000 companies representing the stock markets of Europe, Australia, New Zealand, and the Far East. This chart is for illustrative purposes only and should not be considered as performance for any T. Rowe Price Fund. Past performance does not guarantee future results.

Also included will be various portfolios demonstrating how these historical indices would have performed in various combinations over a specified time period in terms of return. An example of this is shown below.

Performance of Retirement Portfolios*

Asset Mix	Annualized Returns 20 Years Ending 12/31/92	Number of Years with Negative	Value of $10,000 Investment

							Returns	After Period
Portfolio	Growth	Income	Safety	Average	Best Year	Worst Year		
I. Low Risk	15%	35%	50%	+9.0%	+19.0%	-0.2%	1	$ 56,451
II. Moderate Risk	55%	30%	15%	+10.4%	+25.7%	- 7.5%	2	$ 72,918
III. High Risk	85%	15%	0%	+11.2%	+34.5%	-16.2%	5	$ 83,382

Source: T. Rowe Price Associates; data supplied by Ibbotson Associates.

* Based on actual performance of stocks (Wilshire 5000), Lehman Brothers Government/Corporate Bond Index, and Treasury bills from January 1973 through December 1992. Past performance does not guarantee future results. Figures include changes in principal value and reinvested dividends. This Exhibit is for illustrative purposes only and is not representative of the performance of any T. Rowe Price Fund.

The average price-earnings (p/e) ratio of the T. Rowe Price New Horizons Fund is a valuation measure widely used by the investment community with respect to small company stocks, and, in the opinion of T. Rowe Price, has been a good indicator of future small-cap stock performance. The following chart is intended to show the history of the average (unweighted) p/e ratio of the New Horizons Fund's portfolio companies compared with the p/e ratio of the Standard & Poor's 500 Index. Of course, the portfolio of the Small-Cap Value Fund will differ from the portfolio of the New Horizons Fund. Earnings per share are estimated by Price Associates for each quarter end.

T. ROWE PRICE NEW HORIZONS FUND, INC.
P/E Ratio of Fund's Portfolio Securities
Relative to the S&P "500" P/E Ratio
(12 Months Forward) January 31, 1993

SEE APPENDIX

Redemptions in Kind

In the unlikely event a shareholder were to receive an in kind redemption of portfolio securities of the Fund, brokerage fees could be incurred by the shareholder in a subsequent sale of such securities.

Issuance of Fund Shares for Securities

Transactions involving issuance of a fund's shares for securities or assets other than cash will be limited to (1) bona fide reorganizations; (2) statutory mergers; or (3) other acquisitions of portfolio securities that: (a) meet the investment objectives and policies of the Fund; (b) are acquired for investment and not for resale except in accordance with applicable law; (c) have a value that is readily ascertainable via listing on or trading in a recognized United States or international exchange or market; and (d) are not illiquid.

MANAGEMENT OF FUND

The officers and directors of the Fund are listed below. Unless otherwise noted, the address of each is 100 East Pratt Street, Baltimore, Maryland 21202. Except as indicated, each has been an employee of T. Rowe Price for more than five years. In the list below, the Fund's directors who are considered "interested persons" of T. Rowe Price or the Fund as defined under Section 2(a)(19) of the Investment Company Act of 1940 are noted with an asterisk (*). These directors are referred to as inside directors by virtue of their officership, directorship and/or employment with T. Rowe Price.

*EDWARD J. MATHIAS, Chairman of the Board--Managing Director, T. Rowe Price

ADDISON LANIER, Director--Financial management; President and Director, Thomas Emery's Sons, Inc. and Emery Group, Inc.; Director, Scinet Development and Holdings, Inc.; Address: 441 Vine Street, #2310, Cincinnati, Ohio 45202-2913

*JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc., T. Rowe Price Retirement Plan Services, Inc. and T. Rowe Price Trust Company; President and Director, T. Rowe Price Investment Services, Inc.; Director, Rhone-Paulenc Rorer, Inc.

HUBERT D. VOS, Director--President, Stonington Capital Corporation, a private investment company; Address: 1231 State Street, Suite 210, Santa Barbara, California 93190-0409

PAUL M. WYTHES, Director--Founding General Partner, Sutter Hill Ventures, a venture capital limited partnership providing equity capital to young high technology companies throughout the United States; Director, Teltone Corporation, Interventional Technologies, Inc., and Stuart Medical, Inc.; Address: 755 Page Mill Road, Suite A200, Palo Alto, California 94304

PRESTON G. ATHEY, President--Vice President, T. Rowe Price

MARCY L. FISHER, Vice President--Assistant Vice President, T. Rowe Price

HENRY H. HOPKINS, Vice President--Managing Director, T. Rowe Price; Vice President and Director, T. Rowe Price Investment Services, Inc., T. Rowe Price Services, Inc., and T. Rowe Price Trust Company; Vice President, Rowe Price-Fleming International, Inc. and T. Rowe Price Retirement Plan Services, Inc.

GREGORY A. MCCRICKARD, Vice President--Vice President, T. Rowe Price

RICHARD T. WHITNEY, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company; Chartered Financial Analyst

LENORA V. HORNUNG, Secretary--Vice President, T. Rowe Price

CARMEN F. DEYESU, Treasurer--Vice President, T. Rowe Price, T. Rowe Price Services, Inc., and T. Rowe Price Trust Company

DAVID S. MIDDLETON, Controller--Vice President, T. Rowe Price, T. Rowe Price Services, Inc., and T. Rowe Price Trust Company

ROGER L. FIERY, Assistant Vice President--Vice President, Rowe Price-Fleming International, Inc.

FRANCIES W. HAWKS, Assistant Vice President--Assistant Vice President, T. Rowe Price

EDWARD T. SCHNEIDER, Assistant Vice President--Vice President, T. Rowe Price Services, Inc.

INGRID I. VORDEMBERGE, Assistant Vice President--Employee, T. Rowe Price

The Fund's Executive Committee, comprised of Messrs. Mathias and Riepe, has been authorized by the Board of Directors to exercise all powers of the Board to manage the Fund in the intervals between meetings of the Board, except the powers prohibited by statute from being delegated.

PRINCIPAL HOLDERS OF SECURITIES

As of the date of the prospectus, the officers and directors of the Fund, as a group, owned less than 1% of the outstanding shares of the Fund.

As of December 31, 1992, the following shareholder beneficially owned more than 5% of the outstanding shares of the Fund: Charles Schwab & Co., Inc., Reinvest Account, Attn: Mutual Fund Department, 101 West Montgomery street, San Francisco, CA 94104-4122.

INVESTMENT MANAGEMENT SERVICES

Services

Under the Management Agreement, T. Rowe Price provides the Fund with discretionary investment services. Specifically, T. Rowe Price is responsible for supervising and directing the investments of the Fund in accordance with the Fund's investment objective, program, and restrictions as provided in its prospectus and this Statement of Additional Information. T. Rowe Price is also responsible for effecting all security transactions on behalf of the Fund, including the negotiation of commissions and the allocation of principal business and portfolio brokerage. In addition to these services, T. Rowe Price provides the Fund with certain corporate administrative services, including: maintaining the Fund's corporate existence and corporate records; registering and qualifying Fund shares under federal and state laws; monitoring the financial, accounting, and administrative functions of the Fund; maintaining liaison with the agents employed by the Fund such as the Fund's custodian and transfer agent; assisting the Fund in the coordination of such agents' activities; and permitting T. Rowe Price's employees to serve as officers, directors, and committee members of the Fund without cost to the Fund.

The Management Agreement also provides that T. Rowe Price, its directors, officers, employees, and certain other persons performing specific functions for the Fund will only be liable to the Fund for losses resulting from willful misfeasance, bad faith, gross negligence, or reckless disregard of duty.

Management Fee

The Fund pays T. Rowe Price a fee ("Fee") which consists of two components: a Group Management Fee ("Group Fee") and an Individual Fund Fee ("Fund Fee"). The Fee is paid monthly to T. Rowe Price on the first business day of the next succeeding calendar month and is calculated as described below.

The monthly Group Fee ("Monthly Group Fee") is the sum of the daily Group Fee accruals ("Daily Group Fee Accruals") for each month. The Daily Group Fee Accrual for any particular day is computed by multiplying the Price Funds' group fee accrual as determined below ("Daily Price Funds' Group Fee Accrual") by the ratio of the Fund's net assets for that day to the sum of the aggregate net assets of the Price Funds for that day. The Daily Price Funds' Group Fee Accrual for any particular day is calculated by multiplying the fraction of one (1) over the number of calendar days in the year by the annualized Daily Price Funds' Group Fee Accrual for that day as determined in

accordance with the following schedule:

Price Funds' Annual Group Base Fee Rate for Each Level of Assets	
0.480%	First $1 billion
0.450%	Next $1 billion
0.420%	Next $1 billion
0.390%	Next $1 billion
0.370%	Next $1 billion
0.360%	Next $2 billion
0.350%	Next $2 billion
0.340%	Next $5 billion
0.330%	Next $10 billion
0.320%	Next $10 billion
0.310%	Thereafter

For the purpose of calculating the Group Fee, the Price Funds include all the mutual funds distributed by T. Rowe Price Investment Services, Inc. (excluding T. Rowe Price Spectrum Fund, Inc. and any institutional or private label mutual funds). For the purpose of calculating the Daily Price Funds' Group Fee Accrual for any particular day, the net assets of each Price Fund are determined in accordance with the Fund's prospectus as of the close of business on the previous business day on which the Fund was open for business.

The monthly Fund Fee ("Monthly Fund Fee") is the sum of the daily Fund Fee accruals ("Daily Fund Fee Accruals") for each month. The Daily Fund Fee Accrual for any particular day is computed by multiplying the fraction of one

(1) over the number of calendar days in the year by the Individual Fund Fee Rate of 0.35% and multiplying this product by the net assets of the Fund for that day, as determined in accordance with the Fund's prospectus as of the close of business on the previous business day on which the Fund was open for business.

The management fees paid by the Fund for 1992, 1991 and 1990, were $1,165,000, $119,000, and $60,000, respectively.

Limitation on Fund Expenses

The Management Agreement between the Fund and T. Rowe Price provides that the Fund will bear all expenses of its operations not specifically assumed by T. Rowe Price. However, in compliance with certain state regulations, T. Rowe Price will reimburse the Fund for certain expenses which in any year exceed the limits prescribed by any state in which the Fund's shares are qualified for sale. Presently, the most restrictive expense ratio limitation imposed by any state is 2.5% of the first $30 million of the Fund's average daily net assets, 2% of the next $70 million of the Fund's assets, and 1.5% of net assets in excess of $100 million. For the purpose of determining whether the Fund is entitled to reimbursement, the expenses of the Fund are calculated on a monthly basis. If the Fund is entitled to reimbursement, that month's management fee will be reduced or postponed, with any adjustment made after the end of the year. Under certain circumstances, the Fund may authorize T. Rowe Price to obtain a full or partial variance from state expense ratio limitations. The Management Agreement provides that T. Rowe Price may voluntarily agree to limit the expenses of the Fund. In accordance with the Agreement, effective January 1, 1990, T. Rowe Price agreed to bear any expenses through December 31, 1991, which would cause the Fund's ratio of expenses to average net assets to exceed 1.25%. Effective January 1, 1992, T. Rowe Price agreed to extend the Fund's expense limitation for a period of two years through December 31, 1993. Expenses paid or assumed under each agreement are subject to reimbursement to T. Rowe Price by the Fund whenever the Fund's expense ratio is below 1.25%; however, no reimbursement will be

made after December 31, 1993 (for the first agreement) or December 31, 1995 (for the second agreement), or if it would result in the expense ratio exceeding 1.25%.

Pursuant to these agreements, $112,000 of unaccrued 1990-91 fees were repaid during the year ended December 31, 1992 and $180,000 remains subject to reimbursement through December 31, 1993.

DISTRIBUTOR FOR FUND

T. Rowe Price Investment Services, Inc. ("Investment Services"), a Maryland corporation formed in 1980 as a wholly-owned subsidiary of T. Rowe Price, serves as the Fund's distributor. Investment Services is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The offering of the Fund's shares is continuous.

Investment Services is located at the same address as the Fund and T. Rowe Price -- 100 East Pratt Street, Baltimore, Maryland 21202.

Investment Services serves as distributor to the Fund pursuant to an Underwriting Agreement ("Underwriting Agreement"), which provides that the Fund will pay all fees and expenses in connection with: registering and qualifying its shares under the various state "blue sky" laws; preparing, setting in type, printing, and mailing its prospectuses and reports to shareholders; and issuing its shares, including expenses of confirming purchase orders.

The Underwriting Agreement provides that Investment Services will pay all fees and expenses in connection with: printing and distributing prospectuses and reports for use in offering and selling Fund shares; preparing, setting in type, printing, and mailing all sales literature and advertising; Investment Services' federal and state registrations as a broker-dealer; and offering and selling Fund shares, except for those fees and expenses specifically assumed by the Fund. Investment Services' expenses are paid by T. Rowe Price.

Investment Services acts as the agent of the Fund in connection with the sale of its shares in all states in which the shares are qualified and in which Investment Services is qualified as a broker-dealer. Under the Underwriting Agreement, Investment Services accepts orders for Fund shares at net asset value. No sales charges are paid by investors or the Fund.

CUSTODIAN

State Street Bank and Trust Company (the "Bank") is the custodian for the Fund's securities and cash, but it does not participate in the Fund's investment decisions. Portfolio securities purchased in the U.S. are maintained in the custody of the Bank and may be entered into the Federal Reserve Book Entry System, or the security depository system of the Depository Trust Corporation. The Bank and Fund have entered into a Sub-Custodian Agreement with The Chase Manhattan Bank, N.A., London, pursuant to which portfolio securities which are purchased outside the United States are maintained in the custody of various foreign branches and affiliates of The Chase Manhattan Bank and such other custodians, including foreign banks and foreign securities depositories, in accordance with regulations under the Investment Company Act of 1940. The Bank's main office is at 225 Franklin Street, Boston, Massachusetts 02110. The address for The Chase Manhattan Bank, N.A., London is Woolgate House, Coleman Street, London, EC2P 2HD, England.

PORTFOLIO TRANSACTIONS

Investment or Brokerage Discretion

Decisions with respect to the purchase and sale of portfolio securities on behalf of the Fund are made by T. Rowe Price. T. Rowe Price is also responsible for implementing these decisions, including the negotiation of commissions and the allocation of portfolio brokerage and principal business.

How Brokers and Dealers are Selected

Equity Securities

In purchasing and selling the Fund's portfolio securities, it is T. Rowe Price's policy to obtain quality execution at the most favorable prices through responsible brokers and dealers and, in the case of agency transactions, at competitive commission rates. However, under certain conditions, the Fund may pay higher brokerage commissions in return for brokerage and research services. As a general practice, over-the-counter orders are executed with market-makers. In selecting among market-makers, T. Rowe Price generally seeks to select those it believes to be actively and effectively trading the security being purchased or sold. In selecting broker-dealers to execute the Fund's portfolio transactions, consideration is given to such factors as the price of the security, the rate of the commission, the size and difficulty of the order, the reliability, integrity, financial condition, general execution and operational capabilities of competing brokers and dealers, and brokerage and research services provided by them. It is not the policy of T. Rowe Price to seek the lowest available commission rate where it is believed that a broker or dealer charging a higher commission rate would offer greater reliability or provide better price or execution.

Fixed Income Securities

Fixed income securities are generally purchased from the issuer or a primary market-maker acting as principal for the securities on a net basis, with no brokerage commission being paid by the client. Transactions placed through dealers serving as primary market-makers reflect the spread between the bid and asked prices. Securities may also be purchased from underwriters at prices which include underwriting fees.

With respect to equity and fixed income securities, T. Rowe Price may effect principal transactions on behalf of the Fund with a broker or dealer who furnishes brokerage and/or research services, designate any such broker or dealer to receive selling concessions, discounts or other allowances, or otherwise deal with any such broker or dealer in connection with the acquisition of securities in underwritings.

How Evaluations are Made of the Overall Reasonableness of Brokerage Commissions Paid

On a continuing basis, T. Rowe Price seeks to determine what levels of commission rates are reasonable in the marketplace for transactions executed on behalf of the Fund. In evaluating the reasonableness of commission rates, T. Rowe Price considers: (a) historical commission rates, both before and since rates have been fully negotiable; (b) rates which other institutional investors are paying, based on available public information; (c) rates quoted by brokers and dealers; (d) the size of a particular transaction, in terms of the number of shares, dollar amount, and number of clients involved; (e) the complexity of a particular transaction in terms of both execution and settlement; (f) the level and type of business done with a particular firm over a period of time; and (g) the extent to which the broker or dealer has capital at risk in the transaction.

Description of Research Services Received from Brokers and Dealers

T. Rowe Price receives a wide range of research services from brokers and dealers. These services include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. These services provide both domestic and international perspective. Research services are received primarily in the form of written reports, computer generated services, telephone contacts and personal meetings with security analysts. In addition, such services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academicians and government representatives. In some cases, research services are generated by third parties but are provided to T. Rowe Price by or through broker-dealers.

Research services received from brokers and dealers are supplemental to T. Rowe Price's own research effort and, when utilized, are subject to internal analysis before being incorporated by T. Rowe Price into its investment process. As a practical matter, it would not be possible for T. Rowe Price's Equity Research Division to generate all of the information presently provided by brokers and dealers. T. Rowe Price pays cash for certain research services received from external sources. T. Rowe Price also allocates brokerage for research services which are available for cash. While receipt of research services from brokerage firms has not reduced T. Rowe Price's normal research activities, the expenses of T. Rowe Price could be materially increased if it attempted to generate such additional information through its own staff. To the extent that research services of value are provided by brokers or dealers, T. Rowe Price may be relieved of expenses

which it might otherwise bear.

T. Rowe Price has a policy of not allocating brokerage business in return for products or services other than brokerage or research services. In accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934, T. Rowe Price may from time to time receive services and products which serve both research and non-research functions. In such event, T. Rowe Price makes a good faith determination of the anticipated research and non-research use of the product or service and allocates brokerage only with respect to the research component.

Commissions to Brokers who Furnish Research Services

Certain brokers who provide quality execution services also furnish research services to T. Rowe Price. In order to be assured of continuing to receive research services considered of value to its clients, T. Rowe Price has adopted a brokerage allocation policy embodying the concepts of Section 28(e) of the Securities Exchange Act of 1934, which permits an investment adviser to cause an account to pay commission rates in excess of those another broker or dealer would have charged for effecting the same transaction, if the adviser determines in good faith that the commission paid is reasonable in relation to the value of the brokerage and research services provided. The determination may be viewed in terms of either the particular transaction involved or the overall responsibilities of the adviser with respect to the accounts over which it exercises investment discretion. Accordingly, while T. Rowe Price cannot readily determine the extent to which commission rates or net prices charged by broker-dealers reflect the value of their research services, T. Rowe Price would expect to assess the reasonableness of commissions in light of the total brokerage and research services provided by each particular broker.

Internal Allocation Procedures

T. Rowe Price has a policy of not precommitting a specific amount of business to any broker or dealer over any specific time period. Historically, the majority of brokerage placement has been determined by the needs of a specific transaction such as market-making, availability of a buyer or seller of a particular security, or specialized execution skills. However, T. Rowe Price does have an internal brokerage allocation procedure for that portion of its discretionary client brokerage business where special needs do not exist, or where the business may be allocated among several brokers which are able to meet the needs of the transaction.

Each year, T. Rowe Price assesses the contribution of the brokerage and research services provided by brokers, and attempts to allocate a portion of its brokerage business in response to these assessments. Research analysts, counselors, various investment committees, and the Trading Department each seek to evaluate the brokerage and research services they receive from brokers and make judgments as to the level of business which would recognize such services. In addition, brokers sometimes suggest a level of business they would like to receive in return for the various brokerage and research services they provide. Actual brokerage received by any firm may be less than the suggested allocations but can, and often does, exceed the suggestions, because the total brokerage business is allocated on the basis of all the considerations described above. In no case is a broker excluded from receiving business from T. Rowe Price because it has not been identified as providing research services.

Miscellaneous

T. Rowe Price's brokerage allocation policy is consistently applied to all its fully discretionary accounts, which represent a substantial majority of all assets under management. Research services furnished by brokers

through which T. Rowe Price effects securities transactions may be used in servicing all accounts (including non-Fund accounts) managed by T. Rowe Price. Conversely, research services received from brokers which execute transactions for the Fund are not necessarily used by T. Rowe Price exclusively in connection with the management of the Fund.

From time to time, orders for clients may be placed through a computerized transaction network.

The Fund does not allocate business to any broker-dealer on the basis of its sales of the Fund's shares. However, this does not mean that broker-dealers who purchase Fund shares for their clients will not receive business from the Fund.

Some of T. Rowe Price's other clients have investment objectives and programs similar to those of the Fund. T. Rowe Price may occasionally make recommendations to other clients which result in their purchasing or selling securities simultaneously with the Fund. As a result, the demand for securities being purchased or the supply of securities being sold may increase, and this could have an adverse effect on the price of those securities. It is T. Rowe Price's policy not to favor one client over another in making recommendations or in placing orders. T. Rowe Price frequently follows the practice of grouping orders of various clients for execution which generally results in lower commission rates being attained. In certain cases, where the aggregate order is executed in a series of transactions at various prices on a given day, each participating client's proportionate share of such order reflects the average price paid or received with respect to the total order. T. Rowe Price has established a general investment policy that it will ordinarily not make additional purchases of a common stock of a company for its clients (including the T. Rowe Price Funds) if, as a result of such purchases, 10% or more of the outstanding common stock of such company would be held by its clients in the aggregate.

To the extent possible, T. Rowe Price intends to recapture solicitation fees paid in connection with tender offers through T. Rowe Price Investment Services, Inc., the Fund's distributor. At the present time, T. Rowe Price does not recapture commissions or underwriting discounts or selling group concessions in connection with taxable securities acquired in underwritten offerings. T. Rowe Price does, however, attempt to negotiate elimination of all or a portion of the selling-group concession or underwriting discount when purchasing tax-exempt municipal securities on behalf of its clients in underwritten offerings.

Transactions with Related Brokers and Dealers

As provided in the Investment Management Agreement between the Fund and T. Rowe Price, T. Rowe Price is responsible not only for making decisions with respect to the purchase and sale of the Fund's portfolio securities, but also for implementing these decisions, including the negotiation of commissions and the allocation of portfolio brokerage and principal business. It is expected that T. Rowe Price may place orders for the Fund's portfolio transactions with broker-dealers through the same trading desks T. Rowe Price uses for portfolio transactions in domestic securities. The trading desk accesses brokers and dealers in various markets in which the Fund's foreign securities are located. These brokers and dealers may include certain affiliates of Robert Fleming Holdings Limited ("Robert Fleming Holdings") and Jardine Fleming Group Limited ("JFG"), persons indirectly related to T. Rowe Price. Robert Fleming Holdings, through Copthall Overseas Limited, a wholly-owned subsidiary, owns 25% of the common stock of Rowe Price-Fleming International, Inc. ("RPFI"), an investment adviser registered under the Investment Advisers Act of 1940. Fifty percent of the common stock of RPFI is owned by TRP Finance, Inc., a wholly-owned subsidiary of T. Rowe Price, and the remaining 25% is owned by Jardine Fleming Holdings Limited, a subsidiary of JFG. JFG is 50% owned by

Robert Fleming Holdings and 50% owned by Jardine Matheson Holdings Limited. Orders for the Fund's portfolio transactions placed with affiliates of Robert Fleming Holdings and JFG will result in commissions being received by such affiliates.

The Board of Directors of the Fund has authorized T. Rowe Price to utilize certain affiliates of Robert Fleming and JFG in the capacity of broker in connection with the execution of the Fund's portfolio transactions. These affiliates include, but are not limited to, Jardine Fleming Securities Limited ("JFS"), a wholly-owned subsidiary of JFG, Robert Fleming & Co. Limited ("RF&Co."), Jardine Fleming Australia Securities Limited, and Robert Fleming, Inc. (a New York brokerage firm). Other affiliates of Robert Fleming Holdings and JFG also may be used. Although it does not believe that the Fund's use of these brokers would be subject to Section 17(e) of the Investment Company Act of 1940, the Board of Directors of the Fund has agreed that the procedures set forth in Rule 17(e)(1) under that Act will be followed when using such brokers.

Other

For the years 1992, 1991 and 1990, the total brokerage commissions paid by the Fund, including the discounts received by securities dealers in connection with underwritings, were approximately $661,000, $117,000, and $82,000, respectively. Of these commissions, approximately 26.2%, 12.8%, and 36.5%, respectively, were paid to firms which provided research, statistical or other services to T. Rowe Price in connection with the management of the Fund, or in some cases, to the Fund.

On December 31, 1992, the Fund held 55,000 shares of common stock of Piper, Jaffray, 23,000 shares of common stock of Quick & Reilly, and 9,000 shares of common stock of Raymond James Financial, with a value of $1,471,000, $569,000, and $201,000, respectively. Piper, Jaffray, Quick & Reilly, and Raymond James Financial were among the Fund's regular brokers or dealers as defined in Rule 10b-1 under the Investment Company Act of 1940.

The portfolio turnover rate of the Fund for each of the last three years has been as follows: 1992--12%, 1991--31%, and 1990--33%.

PRICING OF SECURITIES

Equity securities listed or regularly traded on a securities exchange (including NASDAQ) are valued at the last quoted sales price on the day the valuations are made. A security which is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. Other equity securities and those listed securities that are not traded on a particular day are valued at a price within the limits of the latest bid and asked prices deemed by the Board of Directors, or by persons delegated by the Board, best to reflect fair value.

Debt securities are generally traded in the over-the-counter market and are valued at a price deemed best to reflect fair value as quoted by dealers who make markets in these securities or by an independent pricing service. Short-term debt securities are valued at their cost in local currency which, when combined with accrued interest, approximates fair value.

For purposes of determining the Fund's net asset value per share, all assets and liabilities initially expressed in foreign currencies are converted into U.S. dollars at the mean of the bid and offer prices of such currencies against U.S. dollars quoted by a major bank.

Assets and liabilities for which the above valuation procedures are inappropriate or are deemed not to reflect fair value are stated at fair value as determined in good faith by or under the supervision of the officers of the Fund, as authorized by the Board of Directors.

NET ASSET VALUE PER SHARE

The purchase and redemption price of the Fund's shares is equal to the Fund's net asset value per share or share price. The Fund determines its net asset value per share by subtracting its liabilities (including accrued expenses and dividends payable) from its total assets (the market value of the securities the Fund holds plus cash and other assets, including income accrued but not yet received) and dividing the result by the total number of shares outstanding. The net asset value per share of the Fund is calculated as of the close of trading on the New York Stock Exchange ("NYSE") every day the NYSE is open for trading. The NYSE is closed on the following days: New Year's Day, Washington's Birthday, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

Determination of net asset value (and the offering, sale, redemption and repurchase of shares) for the Fund may be suspended at times (a) during which the NYSE is closed, other than customary weekend and holiday closings, (b) during which trading on the NYSE is restricted, (c) during which an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or (d) during which a governmental body having jurisdiction over the Fund may by order permit such a suspension for the protection of the Fund's shareholders; provided that applicable rules and regulations of the Securities and Exchange Commission (or any succeeding governmental authority) shall govern as to whether the conditions prescribed in (b), (c) or (d) exist.

DIVIDENDS

Unless you elect otherwise, dividends and capital gain distributions will be reinvested on the reinvestment date using the NAV per share of that date. The reinvestment date normally precedes the payment date by about 10 days

although the exact timing is subject to change.

TAX STATUS

The Fund intends to qualify as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended ("Code").

A portion of the dividends paid by the Fund may be eligible for the dividends-received deduction for corporate shareholders. For tax purposes, it does not make any difference whether dividends and capital gain distributions are paid in cash or in additional shares. The Fund must declare dividends equal to at least 98% of ordinary income (as of December 31) and capital gains (as of October 31) in order to avoid a federal excise tax and distribute 100% of ordinary income and capital gains as of December 31 to avoid federal income tax.

At the time of your purchase, the Fund's net asset value may reflect undistributed income, capital gains or net unrealized appreciation of securities held by the Fund. A subsequent distribution to you of such amounts, although constituting a return of your investment, would be taxable as either dividends or capital gain distributions. For federal income tax purposes, the Fund is permitted to carry forward its net realized capital losses, if any, for eight years, and realize net capital gains up to the amount of such losses without being required to pay taxes on, or distribute such gains. On March 31, 1993, the books of the Fund indicated that the Fund's aggregate net assets included undistributed net income of $1,309,191, net realized capital gains of $2,408,380, and unrealized appreciation of $54,441,208.

If, in any taxable year, the Fund should not qualify as a regulated investment company under the Code: (i) the Fund would be taxed at the normal corporate rates on the entire amount of its taxable income, if any, without deduction for dividends or other distributions to shareholders and (ii) the Fund's distributions to the extent made out of the Fund's current or accumulated earnings and profits would be taxable to shareholders as ordinary dividends (regardless of whether they would otherwise have been considered capital gain dividends).

Taxation of Foreign Shareholders

The Code provides that dividends from net income will be subject to U.S. tax. For shareholders who are not engaged in a business in the U.S., this tax would be imposed at the rate of 30% upon the gross amount of the dividends in the absence of a Tax Treaty providing for a reduced rate or exemption from U.S. taxation. Distributions of net long-term capital gains realized by the Fund are not subject to tax unless the foreign shareholder is a nonresident alien individual who was physically present in the U.S. during the tax year for more than 182 days.

To the extent the Fund invests in foreign securities, the following would apply:

Foreign Currency Gains and Losses

Foreign currency gains and losses, including the portion of gain or loss on the sale of debt securities attributable to foreign exchange rate fluctuations, are taxable as ordinary income. If the net effect of these transactions is a gain, the dividend paid by the Fund will be increased; if the result is a loss, the income dividend paid by the Fund will be decreased. Adjustments to reflect these gains and losses will be made at the end of the Fund's taxable year.

Passive Foreign Investment Companies (PFICs)

The Fund may purchase the securities of certain foreign investment funds or trusts called passive foreign investment companies. Capital gains on the sale of such holdings will be deemed to be ordinary income regardless of how long the Fund holds its investment. In addition to bearing their proportionate share of the fund's expenses (management fees and operating expenses), shareholders will also indirectly bear similar expenses of such funds. In addition, the Fund may be subject to corporate income tax and an interest charge on certain dividends and capital gains earned from these investments, regardless of whether such income and gains are distributed to shareholders.

In accordance with tax regulations, the Fund intends to treat these securities as sold on the last day of the Fund's fiscal year and recognize any gains for tax purposes at that time; losses will not be recognized. Such gains will be considered ordinary income which the Fund will be required to distribute even though it has not sold the security and received cash to pay such distributions.

CAPITAL STOCK

The Fund's Charter authorizes the Board of Directors to classify and reclassify any and all shares which are then unissued, including unissued shares of capital stock, into any number of classes or series, each class or series consisting of such number of shares and having such designations, such powers, preferences, rights, qualifications, limitations, and restrictions, as shall be determined by the Board subject to the Investment Company Act and other applicable law. The shares of any such additional classes or series might therefore differ from the shares of the present class and series of capital stock and from each other as to preferences, conversions or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption, subject to applicable law, and might thus be superior or inferior to the capital stock or to other classes or series in various characteristics. The Board of Directors may increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Fund has authorized to issue without shareholder approval.

Except to the extent that the Fund's Board of Directors might provide by resolution that holders of shares of a particular class are entitled to vote as a class on specified matters presented for a vote of the holders of all shares entitled to vote on such matters, there would be no right of class vote unless and to the extent that such a right might be construed to exist under Maryland law. The Charter contains no provision entitling the holders of the present class of capital stock to a vote as a class on any matter. Accordingly, the preferences, rights, and other characteristics attaching to any class of shares, including the present class of capital stock, might be altered or eliminated, or the class might be combined with another class or classes, by action approved by the vote of the holders of a majority of all the shares of all classes entitled to be voted on the proposal, without any

additional right to vote as a class by the holders of the capital stock or of another affected class or classes.

Shareholders are entitled to one vote for each full share held (and fractional votes for fractional shares held) and will vote in the election of or removal of directors (to the extent hereinafter provided) and on other matters submitted to the vote of shareholders. There will normally be no meetings of shareholders for the purpose of electing directors unless and until such time as less than a majority of the directors holding office have been elected by shareholders, at which time the directors then in office will call a shareholders' meeting for the election of directors. Except as set forth above, the directors shall continue to hold office and may appoint successor directors. Voting rights are not cumulative, so that the holders of more than 50% of the shares voting in the election of directors can, if they choose to do so, elect all the directors of the Fund, in which event the holders of the remaining shares will be unable to elect any person as a director. As set forth in the By-Laws of the Fund, a special meeting of shareholders of the Fund shall be called by the Secretary of the Fund on the written request of shareholders entitled to cast at least 10% of all the votes of the Fund entitled to be cast at such meeting. Shareholders requesting such a meeting must pay to the Fund the reasonably estimated costs of preparing and mailing the notice of the meeting. The Fund, however, will otherwise assist the shareholders seeking to hold the special meeting in communicating to the other shareholders of the Fund to the extent required by Section 16(c) of the Investment Company Act of 1940.

The Fund is the successor to PEMCO. PEMCO was a limited partnership organized on December 23, 1969 under the laws of the state of New York and registered as an open-end management investment company under the Investment Company Act of 1940. On June 30, 1988, following approval of its partners, PEMCO was reorganized as a Maryland corporation. As a result of the reorganization, the Fund acquired all the assets and assumed all the liabilities of PEMCO in exchange for shares of the Fund equal in value to the net asset value of PEMCO immediately prior to the reorganization and PEMCO was dissolved. T. Rowe Price was the investment adviser to PEMCO.

FEDERAL AND STATE REGISTRATION OF SHARES

The Fund's shares are registered for sale under the Securities Act of 1933, and the Fund or its shares are registered under the laws of all states which require registration, as well as the District of Columbia and Puerto Rico.

LEGAL COUNSEL

Shereff, Friedman, Hoffman & Goodman, whose address is 919 Third Avenue, New York, New York 10022, is legal counsel to the Fund.

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand, 217 East Redwood Street, Baltimore, Maryland 21202, are independent accountants to the Fund. The financial statements of the Fund for the year ended December 31, 1992, and the report of independent accountants are included in the Fund's Annual Report on pages 6-15. A copy of the Annual Report accompanies this Statement of Additional Information. The following financial statements and the report of independent accountants appearing in the Annual Report for the year ended December 31, 1992, are incorporated into this Statement of Additional Information by reference:

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RATINGS OF CORPORATE DEBT SECURITIES

Moody's Investors Service, Inc.

Aaa - Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge."
Aa - Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds.
A - Bonds rated A possess many favorable investment attributes and are to be considered as upper-medium grade obligations.
Baa - Bonds rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
Ba - Bonds rated Ba are judged to have speculative elements: their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterize bonds in this class.
B - Bonds rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments of or maintenance of other terms of the contract over any long period of time may be small.
Caa - Bonds rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.
Ca - Bonds rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked short-comings.

Standard & Poor's Corporation

AAA - This is the highest rating assigned by Standard & Poor's to a debt

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obligation and indicates an extremely strong capacity to pay principal and interest.
AA - Bonds rated AA also qualify as high-quality debt obligations. Capacity to pay principal and interest is very strong.
A - Bonds rated A have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.
BBB - Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.
BB, B, CCC, CC - Bonds rated BB, B, CCC, and CC are regarded on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

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APPENDIX

This is a one-line chart that shows the p/e ratio of the New Horizons Fund relative to the p/e ratio of the S&P 500 Stock Index. The ratio between the two p/e's is depicted quarterly from 1/31/61 to 1/31/93.

The horizontal axis is divided into four year periods. The vertical axis indicates the relative p/e ratio with 0.5, 1, 1.5, 2, and 2.5 indicated by horizontal lines. The ratio at 12/31/61 is 2, is at the lowest point in the first quarter of 1977 at approximately 0.95, is at the highest point near the end of 1993 at approximately 2.2, and is at 1.22 on January 31, 1993.