

# *The Value Line Tax Exempt Fund, Inc.*

*(Ticker Symbol: VLHYX)*

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**PROSPECTUS**  
**JULY 1, 2011**

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**ValueLine***fund*s  
A FAMILY OF NO-LOAD MUTUAL FUNDS

*The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus, and any representation to the contrary is a criminal offense.*

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## *Financial Highlights*

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*Investment objectives*

The primary investment objective of The Value Line Tax Exempt Fund, Inc. (the “Fund”) is to provide investors with the maximum income exempt from federal income taxes while avoiding undue risk to principal. Capital appreciation is a secondary objective.

*Fees and expenses*

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund. There are no shareholder fees (fees paid directly from your investment).

*Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)*

<b>Management Fees</b>	<b>0.50%</b>
<b>Distribution and Service (12b-1) Fees</b>	<b>0.25%</b>
<b>Other Expenses</b>	<b>0.26%</b>
<b>Total Annual Fund Operating Expenses</b>	<b>1.01%</b>
<b>Less: 12b-1 Fee Waiver*</b>	<b>-0.25%</b>
<b>Net Expenses</b>	<b>0.76%</b>

\* Effective July 1, 2011 through June 30, 2012, EULAV Securities LLC (the “Distributor”) contractually agreed to waive the Fund’s 12b-1 fee in an amount equal to 0.25% of the Fund’s average daily net assets. The waiver cannot be terminated before June 30, 2012 without the approval of the Board of Directors.

### *Example*

This example is intended to help you compare the cost of investing in the Fund to the cost of investing in other mutual funds. The example assumes that you invest \$10,000 in the Fund for the time periods indicated whether or not you redeem all of your shares at the end of those periods. The example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same except in year one. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
<b>Value Line Tax Exempt Fund</b>	<b>\$78</b>	<b>\$297</b>	<b>\$534</b>	<b>\$1,214</b>

### **Portfolio turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year the Fund's portfolio turnover rate was 36% of the average value of its portfolio.

### *Principal investment strategy of the Fund*

To achieve the Fund's investment objectives, under normal conditions EULAV Asset Management (the “Adviser”) invests at least 80% of the Fund's assets in securities the income of which is exempt from regular federal income taxation and will not subject non-corporate shareholders to the alternative minimum tax. The Fund invests primarily in investment grade municipal bonds and expects to maintain an average maturity of between 7 and 20 years.

The Fund buys and sells municipal bonds with a view towards seeking a high level of current income exempt from federal income taxes. In selecting municipal bonds for purchase, the Adviser considers the bond's credit quality and yield potential.

## *Principal risks of investing in the Fund*

Investing in any mutual fund, including the Fund, involves risk, including the risk that you may receive little or no return on your investment, and the risk that you may lose part or all of your investment. When you invest in the Fund, you assume a number of risks. Among them is **interest rate risk**, the risk that as interest rates rise, the value of some fixed income securities such as municipal securities may decrease; **market risk**, the risk that securities in a certain market will decline in value because of factors such as economic conditions or government actions; **credit risk**, the risk that any of the holdings in the Fund will have its credit downgraded or will default; **income risk**, the risk that the Fund's income may decline because of falling interest rates and other market conditions; **liquidity risk**, the risk that at times it may be difficult to value a security or sell it at a fair price and **risks associated with credit ratings**.

New federal or state legislation may adversely affect the tax-exempt status of securities held by the Fund or the financial ability of municipalities to repay these obligations. In addition, the Fund is subject to the risk that the issuer of a security held by the Fund may not be able to make timely payments due to a general economic downturn, specific conditions affecting the issuer or a particular industry or market sector, or as a result of increased governmental costs. Although distributions of interest income from tax-exempt securities are generally exempt from regular federal income tax, distributions from other sources, including capital gain distributions and any gains on the sale of your shares, are not. You should consult a tax adviser about whether an alternative minimum tax applies to you and about state local taxes on your fund distributions.

The price of the Fund's shares will increase and decrease according to changes in the value of the Fund's investments. The market values of municipal securities will vary inversely in relation to their yields.

The Fund's annual portfolio turnover rate has exceeded 100% in four of the last five years. A rate of portfolio turnover of 100% would occur if all of the Fund's portfolio were replaced in a period of one year. To the extent the Fund engages in short - term trading in attempting to achieve its investment objective, it will increase the Fund's portfolio turnover rate and the Fund will incur higher brokerage commissions and other expenses.

Because the Fund is actively managed, its investment return depends on the ability of the Adviser to manage its portfolio successfully. The Adviser will apply investment techniques in making decisions for the Fund, but there can be no guarantee that these will produce the desired results.

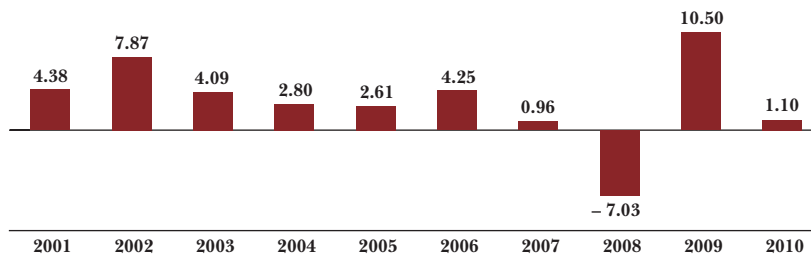
An investment in the Fund is not a complete investment program and you should consider it just one part of your total investment program. The Fund is not appropriate for Individual Retirement Accounts (“IRAs”) or other tax-advantaged retirement plans.

**An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.**

### *Fund performance*

This bar chart and table can help you evaluate the potential risks of investing in the Fund. The bar chart below shows how returns for the Fund’s shares have varied over the past ten calendar years, and the table below shows the average annual total returns (before and after taxes) of these shares for one, five, and ten years compared to the performance of the Barclays Capital Municipal Bond Index, which is a broad based market index. The Fund’s past performance (before and after taxes) is not necessarily an indication of how it will perform in the future. Updated performance information is available at: [www.vlfunds.com](http://www.vlfunds.com).

*Total Returns (before taxes) as of 12/31 each year (%)*



**Best Quarter: Q3 2009 +8.00%**

**Worst Quarter: Q3 2008 -5.15%**

The Fund’s year-to-date return for the three months ended March 31, 2011, was 0.62%.

After-tax returns in the table below are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor’s tax situation and may differ from those shown, and after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or IRAs.

*Average annual total returns for periods ended December 31, 2010*

	1 year	5 years	10 years
<b>Value Line Tax Exempt Fund</b>			
<i>Return before taxes</i>	1.10%	1.80%	3.06%
<i>Return after taxes on distributions</i>	1.10%	1.74%	2.98%
<i>Return after taxes on distributions and sale of Fund shares</i>	1.97%	5.08%	3.15%
<b>Barclays Capital Municipal Bond Index</b> (reflects no deduction for fees, expenses or taxes)	2.38%	4.09%	4.83%

**Management**

**Investment Adviser:** The Fund's investment adviser is EULAV Asset Management.

**Portfolio Manager:** Liane Rosenberg is primarily responsible for the day-to-day management of the Fund's portfolio. Ms. Rosenberg has been a portfolio manager with the Adviser since November 2009 and has been the Fund's portfolio manager since February 2010.

**Purchase and sale of Fund shares**

Minimum initial investment in the Fund: \$1,000.

Minimum additional investment in the Fund: \$250.

The Fund's shares are redeemable and you may redeem your shares (sell them back to the Fund) through your broker-dealer, financial advisor or financial intermediary by telephone or by mail by writing to: Value Line Funds, c/o Boston Financial Data Services, Inc., P.O. Box 219729, Kansas City, MO 64121-9729. See "How to sell shares" on page 16.

### *Tax information*

The Fund seeks to earn income and pay dividends exempt from federal income tax. A portion of the dividends you receive may be subject to regular federal income tax or to the federal alternative minimum tax. You may also receive taxable distributions attributable to the Fund's sale of municipal bonds. In addition, all dividends and distributions may be subject to state and local taxes.

### *Payments to broker-dealers and other financial intermediaries*

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

### *Investment objectives*

The primary investment objective of the Fund is to provide investors with the maximum income exempt from federal income taxes while avoiding undue risk to principal. Capital appreciation is a secondary objective. Although the Fund will strive to achieve its investment objectives, there is no assurance that it will succeed.

### *Principal investment strategy*

Under normal conditions, at least 80% of the Fund's assets are invested in securities the income of which is exempt from regular federal income taxation and will not subject non-corporate shareholders to the alternative minimum tax. This is a fundamental policy of the Fund which will not be changed without shareholder approval.

### *Non-principal investment strategies*

**Temporary defensive position.** From time to time in response to adverse market, economic, political or other conditions, the Fund may invest a portion of its assets in cash, cash equivalents or U.S. government securities for temporary defensive purposes that are inconsistent with the Fund's principal investment strategies. This could help the Fund avoid losses, but it may result in lost opportunities and lower yields. If this occurs, the Fund's assets may not be invested in accordance with its strategy and the Fund may not achieve its investment objectives.

There are other non-principal investment strategies and associated risks discussed in the Statement of Additional Information.

### *The type of securities in which the Fund invests*

The Fund primarily invests in municipal bonds that are rated at the time of purchase within the four highest categories of a nationally recognized statistical rating organization, or if not rated, deemed by the Adviser to be of comparable quality. These bonds include both secured and unsecured debt obligations. If a bond's rating drops, the Adviser will review the desirability of continuing to hold the bond. The Fund expects to maintain an average maturity of between 7 and 20 years.

Municipal bonds are debt securities issued by or on behalf of states, territories and possessions of the United States and their political subdivisions, agencies

and instrumentalities which provide income free from federal, state or local personal income taxes. Municipal bonds are generally one of the following: general obligation bonds, which are secured by the full faith and credit of the issuer and its taxing power, or revenue bonds, which are payable from revenue derived from a particular facility or service.

The Fund may also invest in variable rate demand instruments, industrial development bonds and other securities which pay interest from revenues of projects with similar characteristics.

Yields of municipal securities depend upon a number of factors, including the financial condition of the issuer, general and local economic conditions, capital market conditions, the volume of municipal securities available, conditions within the municipal securities market, the slope of the yield curve, changes in tax laws, regulations and rules, and the maturity, rating and size of individual offerings.

**Portfolio turnover.** The Fund has engaged and may continue to engage in active and frequent trading of portfolio securities in order to take advantage of better investment opportunities to achieve its investment objectives. This strategy has resulted in higher brokerage commissions and other expenses and may negatively affect the Fund's performance. Portfolio turnover may also result in capital gain distributions that could increase your income tax liability. See "Financial Highlights" for the Fund's most current portfolio turnover rates.

### *The principal risks of investing in the Fund*

- Because of the nature of the Fund, you should consider an investment in it to be a long-term investment that will best meet its objectives when held for a number of years. Lower rated securities have certain speculative characteristics and involve greater investment risk, including the possibility of default or bankruptcy, than is the case with higher rated securities.
- When investing in the Fund you will also assume an **interest rate risk**, the possibility that as interest rates rise the value of some fixed income securities may decrease. Other risks that you assume when investing in the Fund are **market risk, credit risk, income risk, liquidity risk** and **risks associated with credit ratings**. Market risk is the risk that the securities in a certain market will decline in value because of factors such as economic conditions or government actions. **Credit risk** is the risk that any of the holdings in the Fund will have its credit rating downgraded or will default, thereby reducing the Fund's income level and share price. **Income risk** is the risk that the Fund's income may decline because of

falling interest rates and other market conditions. **Liquidity risk** is the risk that at times it may be difficult to value a security or sell it at a fair price. **Risks associated with credit ratings** refers to ratings by a nationally recognized statistical rating organization that represent the organization's opinion as to credit quality of a security but is not an absolute standard of quality or guarantee as to the creditworthiness of an issuer. Ratings of nationally recognized statistical rating organizations present an inherent conflict of interest because such organizations are paid by the entities whose securities they rate. The credit rating of a security does not necessarily address its market risk (that is, the risk that the value of a security will be adversely affected due to movements in the overall financial markets or changes in the level of interest rates). In addition, ratings may not be revised promptly to reflect developments in the issuer's financial condition.

- There is also the risk that government actions could have an adverse effect on municipal bond prices. New federal or state legislation may adversely affect the tax-exempt status of securities held by the Fund or the financial ability of municipalities to repay these obligations. In addition, the Fund is subject to the risk that the issuer of a security held by the Fund may not be able to make timely payments due to a general economic downturn, specific conditions affecting the issuer or a particular industry or market sector, or as a result of increased governmental costs. Although distributions of interest income from the Fund's tax-exempt securities are generally exempt from regular federal income tax, distributions from other sources, including capital gain distributions and any gains on the sale of your shares, are not. You should consult a tax adviser about whether an alternative minimum tax applies to you and about state and local taxes on your Fund distributions.
- Because the Fund is actively managed, its investment return depends on the ability of the Adviser to manage its portfolio successfully. The Adviser will apply investment techniques in making decisions for the Fund, but there can be no guarantee that these will produce the desired results.
- An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.
- Please see the Statement of Additional Information for a further discussion of risks. Information on the Fund's recent portfolio holdings can be found in the Fund's current annual, semi-annual or quarterly reports. A description of the Fund's policies and procedures with respect to the disclosure of the Fund's portfolio securities is also available in the Statement of Additional Information.

The business and affairs of the Fund are managed by the Fund's officers under the oversight of the Fund's Board of Directors.

### *Investment Adviser*

The Fund's investment adviser is EULAV Asset Management (the "Adviser"), a Delaware statutory trust, located at 7 Times Square, New York, NY 10036-6524. The Adviser also acts as investment adviser to the other Value Line mutual funds with combined assets of approximately \$2.2 billion as of April 30, 2011.

On December 23, 2010, the Adviser was restructured so that it is no longer a wholly-owned subsidiary of Value Line, Inc. ("Value Line"). Value Line has stated that as a result of the restructuring, it no longer "controls" (as that term is defined in the Investment Company Act of 1940) the Adviser or the Distributor. As a result of the restructuring, the Fund's prior investment advisory agreement terminated by operation of law, and the Adviser entered into a new investment advisory agreement with the Fund effective upon the closing of the restructuring. The services provided by the Adviser and the rate at which the advisory fee is paid by the Fund under the current investment advisory agreement are the same as under the prior investment advisory agreement. In addition, the other terms of the current investment advisory agreement are the same as the prior investment advisory agreement, except for the date of execution, the two-year initial term, immaterial updating changes and immaterial changes in form.

### *Management fees*

For managing the Fund and its investments, the Adviser is paid a fee at an annual rate of 0.50% of the Fund's average daily net assets.

A discussion regarding the basis for the Fund's Board of Directors' approval of the investment advisory agreement is available in the Fund's most recent annual report to shareholders for the 12 month period ended February 28.

### *Portfolio management*

Liane Rosenberg is primarily responsible for the day-to-day management of the Fund's portfolio. Ms. Rosenberg has been a portfolio manager with the Adviser since 2009 and has been the Fund's portfolio manager since 2010. From May 2008 until December 2008 she was a client portfolio manager with MEAG New

York, formerly Munich Re Capital Management. From August 2004 until April 2008, she was Director of Portfolio Management at XL Capital Ltd. There is additional information in the Statement of Additional Information about Ms. Rosenberg's compensation, other accounts she manages and her ownership of Fund shares.

*How to buy shares***■ By telephone**

Once you have opened an account, you can buy additional shares in the Fund by calling 800-243-2729 (the Fund's transfer agent) between 9:00 a.m. and 4:00 p.m. New York time. You must pay for these shares within three business days of placing your order.

**■ By wire**

If you are making an initial purchase by wire, you must call the Fund's transfer agent at 800-243-2729 so you can be assigned an account number. Request your U.S. bank with whom you have an account to wire the amount you want to invest to State Street Bank and Trust Company, ABA #011000028, attention DDA # 99049868. Include your name, account number, tax identification number and the name of the fund in which you want to invest.

**■ Through a broker-dealer**

You can open an account and buy shares through a broker-dealer, who may charge a fee for this service.

**■ By mail**

Complete the account application and mail it with your check payable to BFDS, Agent, to Value Line Funds, c/o Boston Financial Data Services, Inc., P.O. Box 219729, Kansas City, MO 64121-9729. If you are making an initial purchase by mail, you must include a completed account application with your check. Cash, money orders, traveler's checks, cashier's checks, bank drafts or third-party checks will not be accepted for either the initial or any subsequent purchase. All purchases must be made in U.S. dollars and checks must be drawn on U.S. banks.

**■ Minimum/additional investments**

Once you have completed an account application, you can open an account with an initial investment of \$1,000, and make additional investments at any time for as little as \$250. The price you pay for shares will depend on when your purchase order is received. The Fund reserves the right to reject any purchase order within 24 hours of its receipt and to reduce or waive the minimum purchase requirements at any time.

**■ Time of purchase**

Your price for Fund shares is the Fund's net asset value per share ("NAV") which is generally calculated as of the close of regular trading on the New York Stock Exchange (the "Exchange") (generally 4:00 p.m., Eastern time) every day the Exchange is open for business. The Exchange is currently closed on weekends, New Year's Day, Martin Luther King, Jr. Day, Presidents'

Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day and on the preceding Friday or subsequent Monday if any of those days falls on a Saturday or Sunday, respectively. Your order will be priced at the next NAV computed after your order is received in proper form as determined by Boston Financial Data Services, Inc. (“BFDS”) as agent for the Fund. The Fund reserves the right to reject any purchase order and to waive the initial and subsequent investment minimums at any time.

Fund shares may be purchased through various third-party intermediaries authorized by the Fund including banks, brokers, financial advisers and financial supermarkets who may charge a fee. When the intermediary is authorized by the Fund, orders will be priced at the NAV next computed after receipt of the order by the intermediary. Orders received by BFDS or the intermediary by the close of regular trading on the Exchange (generally 4:00 p.m., Eastern time) will be based on the NAV determined as of the close of trading on that day.

#### ■ **Distribution plan**

The Fund has adopted a plan of distribution under rule 12b-1 under the Investment Company Act of 1940. Under the plan, the Fund is charged a fee at the annual rate of 0.25% of the Fund’s average daily net assets with the proceeds used to finance the activities of the Distributor. The plan provides that the Distributor may make payments to securities dealers, banks, financial institutions and other organizations which provide distribution, marketing and administrative services with respect to the distribution of the Fund’s shares. Such services may include, among other things, answering investor inquiries regarding the Fund, processing new shareholder account applications and redemption transactions, responding to shareholder inquiries, and such other services as the Fund may request to the extent permitted by applicable statute, rule or regulation. The plan also provides that the Adviser may make such payments out of its advisory fee, its past profits or any other source available to it. The fees payable to the Distributor under the plan are payable without regard to actual expenses incurred which means that the distributor may earn a profit under the plan. The Distributor has contractually agreed to waive the Fund’s rule 12b-1 fee through June 30, 2012. There is no assurance that the Distributor will extend the contractual fee waiver beyond such date. Because rule 12b-1 fees are paid out of the Fund’s assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than if you paid other types of sales charges.

### ■ Additional dealer compensation

The Adviser, the Distributor and/or their affiliates may pay additional compensation out of their assets (which generally comes directly or indirectly from the Fund and other Value Line mutual funds) to certain brokerage firms and other intermediaries or their affiliates, based on Fund assets held by that firm, or such other criteria agreed to by the Adviser, the Distributor or their affiliates. The Adviser, the Distributor or their affiliates determine the firms to which payments may be made, which payments may be significant.

Brokerage firms and other intermediaries that sell Fund shares may make decisions about which investment options they will service and make available to their clients based on the payments these entities may be eligible to receive for their services. Therefore, payments to a brokerage firm or other intermediary may create potential conflicts of interest between that entity and its clients where that entity determines which investment options it will make available to those clients.

### ■ Net asset value

The Fund's NAV is determined as of the close of regular trading on the Exchange each day the Exchange is open for business. NAV is calculated by adding the value of all the securities and assets in the Fund's portfolio, deducting all liabilities, and dividing the resulting number by the number of shares outstanding. The result is the NAV per share. Bonds and other fixed-income municipal securities are valued on the basis of prices provided by an independent pricing service that reflect such security's market value. Securities for which market valuations are not readily available are priced at their fair value as determined by the Adviser pursuant to policies and procedures adopted by the Board of Directors and under the Board's general supervision. The use of fair value pricing by the Fund may cause the NAV to differ from the NAV that would be calculated using closing market prices. There can be no assurance that the Fund could obtain the fair value assigned to a security if it sold the security at approximately the time at which the Fund determined its NAV. Investments which have a maturity of less than 60 days are priced at amortized cost, which represents a security's fair value. The amortized cost method of valuation involves valuing a security at its cost and accruing any discount or premium over the period until maturity, regardless of the impact of fluctuating interest rates on the market value of the security.

### ■ Important information about opening a new account with the Value Line Funds

In furtherance of the national effort to stop the funding of terrorism and to curtail money laundering, the USA Patriot Act and other Federal regulations require financial institutions, including mutual funds, to adopt certain policies and programs to prevent money laundering activities, including procedures to verify the identity of all investors opening new accounts. Accordingly, when completing the Fund's account application, you will be required to supply the Fund with certain information for all persons owning or permitted to act on an account. This information includes name, date of birth, taxpayer identification number and street address. Also, as required by law, the Fund employs various procedures, such as comparing the information you provide against fraud databases or requesting additional information or documentation from you, to ensure that the information supplied by you is correct. Until such verification is made, the Fund may temporarily limit any share purchases or close your account if it is unable to verify your identity.

### *How to sell shares*

#### ■ General

You can redeem your shares (sell them back to the Fund) at NAV by telephone and by mail by writing to: Value Line Funds, c/o Boston Financial Data Services, Inc., P.O. Box 219729, Kansas City, MO 64121-9729. Certain redemption requests must be signed by all owners of the account, and you must include a signature guarantee using the medallion imprint for each owner if the redemption is for \$25,000 or more. Signature guarantees are also required when redemption proceeds are going to anyone other than the account holder(s) of record. If you hold your shares in certificates, you must submit the certificates properly endorsed with signature guaranteed with your request to sell the shares. A signature guarantee can be obtained from most banks or securities dealers, but not from a notary public. A signature guarantee helps protect against fraud.

The Fund will pay you promptly, normally the next business day, but no later than seven days after your request to sell your shares is received. If you purchased your shares by check, the Fund will wait until your check has cleared, which can take up to 15 days from the day of purchase, before the proceeds are sent to you.

If your account is held in the name of a corporation, as a fiduciary or agent, or as surviving joint owner, you may be required to provide additional documents with your redemption request.

■ **By telephone or wire**

You can sell \$1,000 or more of your shares up to \$25,000 by telephone or wire, with the proceeds sent to your U.S. bank the next business day after the Fund receives your request.

■ **Through a broker-dealer**

Fund shares may be sold through various third party intermediaries including banks, brokers, financial advisers and financial supermarkets, who may charge a fee for this service. When the intermediary is authorized by the Fund, the shares that you buy or sell through the intermediary are priced at the next NAV that is computed after receipt of your order by the intermediary. Orders received by the intermediary by the close of regular trading on the Exchange (generally 4:00 p.m., Eastern time) will be based on the NAV determined as of the close of trading on that day.

Among the brokers that have been authorized by the Fund are Charles Schwab & Co., Inc., TD Ameritrade Inc., Pershing LLC and Fidelity Brokerage Services LLC, (National Financial Services LLC). You should consult with your broker to determine if it has been so authorized.

■ **By exchange**

You can exchange all or part of your investment in the Fund for shares in other Value Line mutual funds. When you exchange shares, you are purchasing shares in another fund so you should be sure to get a copy of that fund's prospectus and read it carefully before buying shares through an exchange.

To execute an exchange, call 800-243-2729. The Fund reserves the right to reject any purchase order within 24 hours of its receipt.

When you send the Fund's transfer agent a properly completed request to sell or exchange shares, you will receive the NAV that is next determined after your request is received by the transfer agent. For each account involved, you should provide the account name, number, name of fund and exchange or redemption amount. Call 800-243-2729 for information on additional documentation that may be required. You may have to pay taxes on the gain from your sale or exchange of shares.

Exchanges among Value Line mutual funds are a shareholder privilege and not a right. The Fund may temporarily or permanently terminate the exchange privileges of any investor that, in the opinion of the Fund, uses market timing strategies or who makes more than four exchanges out of the Fund during a calendar year.

This exchange limitation does not apply to systematic purchases and redemptions, including certain automated or pre-established exchange, asset allocation or dollar cost averaging programs. These exchange limits are subject to the Fund's ability to monitor exchange activity. Shareholders seeking to engage in excessive trading practices may deploy a variety of strategies to avoid detection, and, despite the best efforts of the Fund to prevent excessive trading, there is no guarantee that the Fund or its agents will be able to identify such shareholders or curtail their trading practices. The Fund receives purchase and redemption orders through financial intermediaries and cannot always know or reasonably detect excessive trading which may be facilitated by these intermediaries or by the use of omnibus account arrangements offered by these intermediaries to investors.

**Account minimum**

If as a result of redemptions your account balance falls below \$500, the Fund may ask you to increase your balance within 30 days. If your account is not at the minimum by the required time, the Fund may redeem your account, after first notifying you in writing.

## *Frequent purchases and redemptions of Fund shares*

Frequent purchases and redemptions of the Fund's shares entail risks, including the dilution in value of the Fund shares held by long-term shareholders, interference with the efficient management of the Fund's portfolio, and increased brokerage and administrative costs. Because the Fund does not accommodate frequent purchases and redemption of Fund shares, the Fund's Board of Directors has adopted policies and procedures to prohibit investors from engaging in late trading and to discourage excessive and short-term trading practices that may disrupt portfolio management strategies and harm Fund performance.

Although there is no generally applied standard in the marketplace as to what level of trading activity is excessive, the Fund considers trading in its shares to be excessive if an investor:

- sells shares within 30 days after the shares were purchased;
- makes more than four exchanges out of the Fund during a calendar year (other than systematic purchases and redemptions); or
- enters into a series of transactions that is indicative of a timing pattern strategy.

In order to seek to detect frequent purchases and redemptions of Fund shares, the Distributor monitors selected trades that have been identified by the Fund's transfer agent. If the Distributor determines that an investor or a client of a broker has engaged in excessive short-term trading that may be harmful to the Fund, the Distributor will ask the investor or broker to cease such activity and may refuse to process purchase orders (including purchases by exchange) of such investor, broker or accounts that the Distributor believes are under their control.

While the Distributor uses its reasonable efforts to detect excessive trading activity, there can be no assurance that its efforts will be successful or that market timers will not employ tactics designed to evade detection. Neither the Adviser, the Distributor, the Fund nor any of the Fund's service providers may enter into arrangements intended to facilitate frequent purchases and redemptions of Fund shares. Frequently, shares are held through omnibus accounts maintained by financial intermediaries such as brokers and retirement plan administrators, where the holdings of multiple shareholders, such as all the clients of a particular broker, are aggregated. The ability to monitor trading practices by investors purchasing shares through omnibus accounts is

dependent upon the cooperation of the financial intermediary in observing the Fund's policies. Consequently, it may be more difficult for the Fund to detect market timing activity through such accounts. However, the Fund, through its agent, has entered into an information sharing agreement with each financial intermediary, which provides, among other things, that the financial intermediary shall provide, promptly upon the Fund's request, certain identifying and transaction information regarding its underlying shareholders. Should the Fund detect market timing activity, it may terminate the account or prohibit future purchases or exchanges by an underlying shareholder. Because omnibus accounts may apply their own market timing policies with respect to their accounts and because the Distributor retains discretion in applying market timing policies, there is a risk that different shareholders may be treated differently and some level of market timing activity could occur.

### *Special services*

To help make investing with the Fund as easy as possible, and to help you manage your investments, the following special services are available. You can get further information about these programs by calling Shareholder Services at 800-243-2729.

- Valu-Matic<sup>®</sup> allows you to make regular monthly investments of \$25 or more automatically from your checking account.
- Through the Systematic Cash Withdrawal Plan you can arrange a regular monthly or quarterly payment from your account payable to you or someone you designate. If your account is \$5,000 or more, you can have monthly or quarterly withdrawals of \$25 or more. Such withdrawals will each constitute a redemption of a portion of your Fund shares which may result in income, gain or loss to you, for federal income tax purposes.

### *Dividends, distributions and taxes*

The Fund declares dividends from its net investment income daily and distributes the accrued dividends to you each month. Capital gains, if any, are distributed annually. The Fund may also make capital gain distributions at other times if necessary for the Fund to avoid U.S. federal income or excise tax. Dividends and any capital gains are automatically reinvested, unless you indicate otherwise in your application to purchase shares.

Investors should consider the tax consequences of buying shares of the Fund shortly before the record date of a capital gain distribution, because such distribution will generally be taxable even though the net asset value of shares of the Fund will be reduced by the distribution.

Tax laws are subject to change, so we urge you to consult your tax adviser about your particular tax situation and how it might be affected by current tax law. The tax status of your dividends from the Fund is not affected by whether you reinvest your dividends or receive them in cash. For U.S. federal income tax purposes, distributions from the Fund's tax-exempt interest, called "exempt-interest dividends," are exempt from regular federal income tax. Certain of these exempt-interest dividends may be treated as a preference item for purposes of the alternative minimum tax, but, for non-corporate shareholders, such distributions are expected to be less than 20% of the Fund's total distributions under normal conditions. All exempt-interest dividends, however, may result in or increase a corporate shareholder's liability for alternative minimum tax. Shareholders should consult their tax advisers to determine whether the alternative minimum tax is applicable in their particular circumstances.

Distributions from the Fund's net long-term capital gains, if any, that are reported to you by the Fund as capital gain dividends are taxable as capital gains, while dividends from short-term capital gains, if any, and net investment income from non-tax-exempt securities are taxable as ordinary income for federal income tax purposes. In addition, you may be subject to state and local taxes on dividends and distributions.

The Fund will send you a statement by February 15th each year detailing the amount and nature of all dividends and capital gains that you were paid during the prior year.

You generally will have a capital gain or loss if you dispose of your Fund shares by redemption, exchange or sale in an amount equal to the difference (if any) between the net amount of the redemption or sale proceeds (or in the case of an exchange, the fair market value of the shares) that you receive and your tax basis for the shares you redeem, sell or exchange. Certain limitations may apply to limit your ability to currently deduct capital losses.

As with all mutual funds, the Fund may be required to withhold a 28% backup withholding tax on all distributions payable to you if you fail to provide it with your correct social security number or other taxpayer identification number or make required certifications, or if you have been notified by the Internal Revenue Service (“IRS”) that you are subject to backup withholding. Backup withholding is not an additional tax; rather, it is a way in which the IRS ensures it will collect taxes otherwise due. Any amounts withheld may be credited against your U.S. federal income tax liability.

The above discussion is meant only as a summary; more information is available in the Statement of Additional Information. You should consult your tax adviser about your particular tax situation including federal, state, local, and foreign tax considerations and possible additional withholding taxes for non-U.S. shareholders.

## FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the Fund's financial performance for the past five years. Certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned or lost on an investment in the Fund assuming reinvestment of all dividends and distributions. This information has been derived from the Fund's financial statements which were audited by PricewaterhouseCoopers LLP, whose report, along with the Fund's financial statements, is included in the Fund's annual report, which is available upon request by calling 800-243-2729.

### *Financial Highlights*

#### **Selected data for a share of capital stock outstanding throughout each year:**

	Years Ended on Last Day of February				
	2011	2010	2009	2008	2007
<b>Net asset value, beginning of year</b>	\$9.60	\$9.36	\$9.29	\$10.56	\$10.56
<b>Income from investment operations:</b>					
Net investment income	0.33	0.38	0.37	0.39	0.40
Net gains or (losses) on securities (both realized and unrealized)	(0.17)	0.24	0.07	(1.21)	0.09
<b>Total from investment operations</b>	<b>0.16</b>	<b>0.62</b>	<b>0.44</b>	<b>(0.82)</b>	<b>0.49</b>
<b>Less distributions:</b>					
Dividends from net investment income	(0.33)	(0.38)	(0.37)	(0.39)	(0.40)
Distributions from net realized gains	—	—	—	(0.06)	(0.09)
<b>Total distributions</b>	<b>(0.33)</b>	<b>(0.38)</b>	<b>(0.37)</b>	<b>(0.45)</b>	<b>(0.49)</b>
<b>Net asset value, end of year</b>	<b>\$9.43</b>	<b>\$9.60</b>	<b>\$9.36</b>	<b>\$9.29</b>	<b>\$10.56</b>
<b>Total return</b>	<b>1.67%</b>	<b>6.70%</b>	<b>4.74%</b>	<b>(8.03)%</b>	<b>4.73%</b>
<b>Ratios/Supplemental Data:</b>					
Net assets, end of year (in thousands)	\$76,972	\$84,067	\$84,868	\$89,752	\$109,503
Ratio of expenses to average net assets <sup>(1)</sup>	1.01%	1.02%	0.99%	0.93%	0.93%
Ratio of expenses to average net assets <sup>(2)</sup>	0.74%	0.76%	0.69%	0.65%	0.67%
Ratio of net investment income to average net assets	3.45%	3.99%	3.87%	3.83%	3.79%
Portfolio turnover rate	36%	146%	307%	213%	283%

(1) Ratio reflects expenses grossed up for custody credit arrangement and grossed up for the waiver of the service and distribution plan fees by the Distributor and the reimbursement by Value Line of certain expenses incurred by the Fund ("Expenses") in connection with a settlement with the Securities and Exchange Commission related to brokerage commissions charged by the Distributor to the Fund. The ratio of expenses to average net assets, net of custody credits but exclusive of the fee waivers and reimbursement of Expenses, would have been 1.00%, 1.01%, 0.94%, 0.90%, and 0.92% for the years ended February 28, 2011, February 28, 2010, February 28, 2009, February 29, 2008, and February 28, 2007, respectively.

(2) Ratio reflects expenses net of the custody credit arrangement and net of the waiver of the service and distribution plan fees by the Distributor and the reimbursement of Expenses by Value Line.

## *For more information*

Additional information about the Fund's investments is available in the Fund's annual and semi-annual reports to shareholders and quarterly reports filed with the SEC. In the Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year. You can find more detailed information about the Fund in the current Statement of Additional Information dated July 1, 2011, which has been filed electronically with the SEC and which is legally a part of this prospectus. If you want a free copy of the Statement of Additional Information, the annual or semi-annual report, or if you have any questions about investing in this Fund, you can write to the Fund at 7 Times Square, 21<sup>st</sup> Floor, New York, NY 10036-6524 or call toll-free 800-243-2729. You may also obtain the prospectus, Statement of Additional Information and annual and semi-annual reports, free of charge, from the Fund's Internet site at <http://www.vlfunds.com>.

Reports and other information about the Fund are available on the Edgar Database on the SEC Internet site (<http://www.sec.gov>), or you can get copies of this information, after payment of a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the Public Reference Section of the SEC, Washington, D.C. 20549-1520. Information about the Fund, including its Statement of Additional Information, can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. You can get information on operation of the public reference room by calling the SEC at 1-202-551-8090.

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