

ROYCE VALUE TRUST INC  
Form N-CSR  
March 10, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT  
OF  
REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-04875

Name of Registrant: Royce Value Trust, Inc.

Address of Registrant: 1414 Avenue of the Americas  
New York, NY 10019

Name and address of agent for service: John E. Denneen,  
Esquire  
1414 Avenue of the  
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New York, NY 10019

Registrant's telephone number, including area code: (212) 486-1445

Date of fiscal year end: December 31

Date of reporting period: January 1, 2005 □ December 31, 2005

**Item 1: Reports to Shareholders**

The graphic features a dark blue vertical bar on the left side with white text. The top section of the bar contains the text "Royce Value Trust" and "Royce Micro-Cap Trust". The bottom section contains "Royce Focus Trust" and the website "www.roycefunds.com". The background of the graphic is light yellow. In the center, the text "ANNUAL REVIEW AND REPORT TO STOCKHOLDERS 2005" is displayed in a dark blue, serif font. The year "2005" is larger and positioned below the main title. Horizontal lines extend from the top and bottom of the main title text across the yellow background.

# TheRoyceFund

VALUE INVESTING IN SMALL COMPANIES FOR MORE THAN 30 YEARS

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## A FEW WORDS ON CLOSED-END FUNDS

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***Royce & Associates, LLC manages three closed-end funds: Royce Value Trust, the first small-cap value closed-end fund offering; Royce Micro-Cap Trust, the only micro-cap closed-end fund; and Royce Focus Trust, a closed-end fund that invests in a limited number of primarily small-cap companies.***

A closed-end fund is an investment company whose shares are listed on a stock exchange or are traded in the over-the-counter market. Like all investment companies, including open-end

mutual funds, the assets of a closed-end fund are professionally managed in accordance with the investment objectives and policies approved by the fund's Board of Directors. A closed-end fund raises cash for investment by issuing a fixed number of shares through initial and other public offerings that may include periodic rights offerings. Proceeds from the offerings are invested in an actively managed portfolio of securities. Investors wanting to buy or sell shares of a publicly traded closed-end fund after the offerings must do so on a stock exchange or the Nasdaq market, as with any publicly traded stock. This is in contrast to open-end mutual funds, in which the fund sells and redeems its shares on a continuous basis.

### **A CLOSED-END FUND OFFERS SEVERAL DISTINCT ADVANTAGES NOT AVAILABLE FROM AN OPEN-END FUND STRUCTURE**

- Since a closed-end fund does not issue redeemable securities or offer its securities on a continuous basis, it does not need to liquidate securities or hold uninvested assets to meet investor demands for cash redemptions, as an open-end fund must.
- In a closed-end fund, not having to meet investor redemption requests or invest at inopportune times is ideal for value managers who attempt to buy stocks when prices are depressed and sell securities when prices are high.
- A closed-end fund may invest more freely in less liquid portfolio securities because it is not subject to potential stockholder redemption demands. This is particularly beneficial for Royce-managed closed-end funds, which invest in small- and micro-cap securities.
- The fixed capital structure allows permanent leverage to be employed as a means to enhance capital appreciation potential.
- Unlike Royce's open-end funds, our closed-end funds are able to distribute capital gains on a quarterly basis. Each of the Funds has adopted a quarterly distribution policy for its common stock.

*We believe that the closed-end fund structure is very suitable for the long-term investor who understands the benefits of a stable pool of capital.*

### **WHY DIVIDEND REINVESTMENT IS IMPORTANT**

A very important component of an investor's total return comes from the reinvestment of distributions. By reinvesting distributions, our investors can maintain an undiluted investment in a Fund. To get a fair idea of the impact of reinvested distributions, please see the charts on pages 13, 15 and 17. For additional information on the Funds' Distribution Reinvestment and Cash Purchase Options and the benefits for stockholders, please see page 19 or visit our website at [www.roycefunds.com](http://www.roycefunds.com).

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*For more than 30 years, we have used a value approach to invest in smaller-cap securities. We focus primarily on the quality of a company's balance sheet, its ability to generate free cash flow and other measures of profitability or sound financial condition. At times, we may also look at other factors, such as a company's unrecognized asset values, its future growth prospects or its turnaround potential following an earnings disappointment or other business difficulties. We then use these factors to assess the company's current worth, basing the assessment on either what we believe a knowledgeable buyer might pay to acquire the entire company, or what we think the value of the company should be in the stock market.*

Charles M. Royce, President

## PERFORMANCE TABLE

### AVERAGE ANNUAL NAV TOTAL RETURNS Through December 31, 2005

|                                  | Royce<br>Value<br>Trust | Royce<br>Micro-Cap<br>Trust | Royce<br>Focus<br>Trust | Russell<br>2000 |
|----------------------------------|-------------------------|-----------------------------|-------------------------|-----------------|
| <b>Fourth Quarter 2005*</b>      | 2.68%                   | -0.31%                      | 5.98%                   | 1.13%           |
| <b>July - December<br/>2005*</b> | 10.66                   | 8.26                        | 20.91                   | 5.88            |
| <b>One-Year</b>                  | 8.41                    | 6.75                        | 13.31                   | 4.55            |
| <b>Three-Year</b>                | 22.83                   | 25.38                       | 31.22                   | 22.13           |

*Here at The Royce Funds, we talk a lot about earnings, the profits a company has after expenses, taxes and other costs have been deducted from revenues. As the principal source of long-term shareholder returns, earnings are a critical element in gauging the success of a business. To get a sense of their significance, even a value-oriented portfolio manager such as our own Buzz Zaino likes to joke, "We're all growth investors, because ultimately we're all looking for earnings growth." Of course, one may contrast Buzz's remark with the in-house example of Charlie Dreifus, who is more than happy to find companies with steady, but not necessarily growing (and certainly not fast-growing) earnings, yet there is no denying that earnings are arguably the most critical sign of a company's well-being.*

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|                        |   |          |          |           |      |
|------------------------|---|----------|----------|-----------|------|
| <b>Five-Year</b>       | █ | 12.50    | 15.96    | 16.82     | 8.22 |
| <b>10-Year</b>         | █ | 13.57    | 14.06    | n/a       | 9.26 |
| <b>Since Inception</b> | █ | 12.62    | 13.94    | 14.12     |      |
| <b>Inception Date</b>  | █ | 11/26/86 | 12/14/93 | 11/1/96** |      |

\* Not annualized.

\*\* Date Royce & Associates, LLC assumed investment management responsibility for the Fund.

Royce Value Trust's average annual NAV total return for the 15-year period ended 12/31/05 was 15.22%.

### IMPORTANT PERFORMANCE AND RISK INFORMATION

*All performance information in this Review reflects past performance, is presented on a total return basis and reflects the reinvestment of distributions. Past performance is no guarantee of future results. Performance information does not reflect the deduction of taxes that a stockholder would pay on distributions or on the sale of Fund shares. Investment return and principal value of an investment will fluctuate, so that shares may be worth more or less than their original cost when sold. Current performance may be higher or lower than performance quoted. Current month-end performance may be obtained at [www.roycefunds.com](http://www.roycefunds.com). The Royce Funds invest primarily in securities of small-cap and/or micro-cap companies, which may involve considerably more risk than investments in securities of larger-cap companies.*

*The thoughts expressed in this Review and Report to Stockholders concerning recent market movements and future prospects for small company stocks are solely the opinion of Royce at December 31, 2005, and, of course, historical market trends are not necessarily indicative of future market movements. Statements regarding the future prospects for particular securities held in the Funds' portfolios and Royce's investment intentions with respect to those securities reflect Royce's opinions as of December 31, 2005 and are subject to change at any time without notice. There can be no assurance that securities mentioned in this Review and Report to Stockholders will be included in any Royce-managed portfolio in the future.*

## LETTER TO OUR STOCKHOLDERS

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### **It's Not Unusual. . . But It's Not Quite Normal, Either**

There is an old curse, said to be of Chinese or Scottish origin, which states, "May you live in interesting times." Anyone who has been an equity investor over the last 10 years has more than qualified for the curse of living through a decade of noteworthy days. It began uneventfully enough, with a move to large-cap stocks in the mid-'90s. Internet stock mania then took hold. This feverish activity was attended by an insistence that the stock market was in a new era, one appropriate for the imminent arrival of a new millennium, in which all of the old rules about valuation and how to measure the success of a business were being quickly and thoroughly recast. **Value investors were among those whose relatively ordinary returns between 1996 and 1999 consigned them to the trash heap of the market's new order, the investment equivalent of dinosaurs destined for extinction. Yet the '90s ended, and the new era began, with a stubborn assertion of one of the oldest rules of equity investing known to human kind, namely that markets are cyclical.** The Internet bubble burst in 2000, which led to arguably the most interesting six years of the last 10 for the U.S. stock market.

Along with Y2K hysteria, the collapse of Internet stock prices heralded a series of events that helped keep equity returns underwater—or just barely above the surface—through the end of 2005. In fact, the period that spans 2000 through 2005 may be best thought of as a testament to the remarkable resilience of the stock market. Consider the following list of events that run the gamut from calamitous to criminal: The terrorist attacks of September 2001; accounting scandals and revelations of fraud that brought down more than a couple of corporate Goliaths; mutual fund trading scandals; war with Iraq; subsequent terrorist strikes in Israel, Indonesia, Madrid and London; record trade and budget deficits; natural disasters

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**Last year was the first time since we began to prognosticate low returns in 2003 that both small- and large-cap performance, regardless of style, ended the year in the low single digits.**

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## LETTER TO OUR STOCKHOLDERS

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*However, our portfolio managers occasionally buy shares of small- and micro-cap companies that have been enduring earnings*

in Asia, Louisiana, Mississippi and Texas; skyrocketing energy prices; and ongoing political controversies. Far from capitulating to each new, dispiriting development, the market managed to move forward. Returns across styles and asset

*disappointments or have ceased to post any earnings at all. An investor may well ask why we would make such purchases: If earnings are so important, why would we risk buying shares of a company whose earnings are depressed or nonexistent? How can a company satisfy our exacting security selection criteria if it's missing such a crucial element? The apparent contradiction is resolved in part by another in our endless series of reminders that we always invest with a long-term perspective.*

*Most of our security analyses begin with the balance sheet. We carefully scrutinize a company's underlying assets, which are the ultimate source of earnings, while also looking closely at its liabilities, the claims parties other than the shareholders have on assets. If the assets are in healthy proportion to the liabilities, that gives us confidence that future earnings can be produced, even if there are no current earnings.*

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classes were generally unspectacular (though in certain cases, such as small-cap value's, they were strong on an absolute and relative basis), but in general they avoided outright disaster, even in the more difficult, negative-return years of 2000 and 2002.

We continue to believe that the downturn earlier in 2005 marked the end of the market working through these various difficulties that took place during the last several years. Indeed, 2005 may ultimately be remarkable for its unremarkable nature, for its relatively low, but positive, returns. It will also go down as the year in which a six-year period of small-cap outperformance came to an end, though to what degree that will matter in the future remains to be seen. In a year in which little seemed to take investors by surprise, the most unexpected element may have been that one of our overall market predictions (finally) proved to be accurate. Since 2003, we have been unswerving in our conviction that the market had entered a low-return mode, but the success of our own and similar small-cap investment approaches made our predictive remarks inaccurate. Last year was the first time since we began to prognosticate low returns that both small- and large-cap performance, regardless of style, ended the year in the low single digits. We suspect that this means that the stock market has returned to more historically typical, if not normal, behavior after a decade of tumult. However, our reasons have nothing to do with the low returns themselves or the anomalous accuracy of our forecast.

### **Looming Large**

When the subject is the perennially unpredictable stock market, we are fully aware of the danger of words such as "typical" or "normal," terms that are difficult to define with precision in any context. Another danger is that "normal" markets often represent a transitional stage between bull and bear extremes. In addition, the farther out one looks from the 10-year period ended 12/31/05, long-term average annual returns for both small- and large-cap stocks reach into the low-to-mid teens, not the single-digit positive returns of 2005. Having issued these caveats, we think that the market has returned to more historically typical behavior, and the reason has to do with the narrowing of the gap between large- and small-cap results in the past year.

**For the first calendar year since**

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**1998, large-cap stocks, as measured by the S&P 500, outperformed small-cap, as measured by the Russell 2000, but the advantage was slight.** The S&P 500 was up 4.9% in 2005 versus 4.6% for the Russell 2000 (and 1.4% for the Tech-heavy Nasdaq Composite). The last time that small-cap enjoyed more than five consecutive years of outperformance was between 1975 and 1983. The recently concluded phase of small-cap

outperformance followed the period in which the Russell 2000 underperformed the S&P 500 in five out of six years. Perhaps unsurprisingly, small-caps (as measured by the CRSP 6-10) also underperformed the S&P 500 for four of the five years prior to the 1975-1983 reversal.

Small-cap significantly outpaced large-cap from the 2005 market low on April 28, with the Russell 2000 up 18.1% versus 10.6% for the S&P 500. The Russell 2000 also led in months of positive returns (February, May, June, July, September and November). Equally compelling from our perspective was the stronger performance for large-caps during the negative or flat performance months of January, March, April, August, October and December, a development that we felt revealed nascent large-cap leadership. We have long believed that where investors turn when stock prices are falling is a very telling sign, so large-cap's advantage during 2005's downdrafts indicated to us that investors were more confident in larger stocks. We expect that large-cap will continue to lead in the short and possibly intermediate terms, though we see no reason for small-cap investors to fret. Over long-term time periods, we anticipate that small-cap will continue to perform well, though probably without the substantial outperformance spreads that we have seen over the last six years.

**Over long-term time periods, we anticipate that small-cap will continue to perform well, though probably without the substantial outperformance spreads that we have seen over the last six years.**

### Long-Term Values

Another instance of narrowing spreads could be seen within small-cap in the one- and three-year average annual total returns ended 12/31/05 for the Russell 2000 Value and Growth indices. In each period the Russell 2000 Value index beat its growth counterpart, but the results were close. For the one-year period ended 12/31/05, both indices posted low returns: value was up 4.7% versus 4.2% for growth. For the three-year period, the Russell 2000 Value index gained 23.2% versus 20.9% for the Russell 2000 Growth index. However, the longer-term edge fell more dramatically in small-cap value's favor. **The upshot was that small-cap value owned a performance edge over small-cap growth for the one-, three-, five-, 10-, 15-, 20- and 25-year periods ended 12/31/05, an impressive run of outperformance that was bolstered by the Russell 2000 Value index outflanking the Russell 2000 Growth index in five of the last six calendar years (trailing slightly during 2003's**



**surging small-cap rally**) (see table below). This long-term advantage came primarily from small-cap value's formidable edge in the current decade to date (+131.9% versus -13.2%), which has seen both up and down markets.

#### RUSSELL 2000 VALUE VERSUS RUSSELL 2000 GROWTH

Calendar-Year Returns: 2000-2005

|      | Russell<br>2000<br>Value | Russell<br>2000<br>Growth |      | Russell<br>2000<br>Value | Russell<br>2000 Growth |
|------|--------------------------|---------------------------|------|--------------------------|------------------------|
| 2000 | 22.8%                    | -22.4%                    | 2003 | 46.0%                    | 48.5%                  |
| 2001 | 14.0                     | -9.2                      | 2004 | 22.3                     | 14.3                   |
| 2002 | -11.4                    | -30.3                     | 2005 | 4.7                      | 4.2                    |

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*Our objective when looking at a company's earnings picture is to understand normalized earnings over long-term time periods. Industries usually move in very particular, though not always consistently predictable, business cycles. By focusing on normalized earnings, we are trying to filter out the effects of short-term earnings surprises, whether they are negative or positive. Our long-term investment horizon and thorough research process peer beyond the ebb and flow of near-term events in an attempt to discover long-term opportunities.*

#### LETTER TO OUR STOCKHOLDERS

Looking back at 2005's second half and forward to 2006, one might expect growth to continue to lead during updrafts, or at least during up quarters. In fact, we would not be surprised to see small-cap growth assume a leadership role in the coming months, but we suspect that its advantage will be small and its reign relatively short. The Russell 2000 Growth index led the Russell 2000 Value index in the third and fourth quarters of 2005 as well as from the 2005 market low on April 28, so one could argue that small-cap growth's leadership phase is already underway. In any event, we think that small-cap value is likely to retain its long-term performance edge over small-cap growth, though we do not expect the former to dominate the way that it did over the last six years. **We also do not anticipate a return to the late '90s, when the Russell 2000 Growth index led in most short- and even some long-term periods. As with small- and large-cap stocks, we think that small-cap value and growth should be subject to frequent leadership rotation and low, but positive returns.**

#### This Round to Royce

Energy stocks were the dominant market sector in 2005 across all asset classes and investment styles. The industry's

*In general, we seek businesses that have a solid-to-strong earnings history. A record of profitability is critical when trying to assess both the current financial health and the long-term prospects for a business that has fallen on hard times. In fact, it may be one of the more telling indications that a company's woes are likely to be temporary. We are willing to endure the short-term difficulties of what we believe is a high-quality company struggling with stalled profits, provided that*

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preeminent performance status helped each of our closed-end Funds to post strong absolute and relative returns in the calendar year. We began looking more closely at the industry in 2003, when forecasts of lower oil and gas commodity prices caused the stock prices of many energy companies to fall. While energy was clearly the most dynamic area, our closed-end portfolios also saw impressive gains in the Industrial and/or Financial sectors, as well as in Technology stocks, some of which enjoyed a resurgence in 2005's second half. As we first noted in July of last year, 2005 was unlike 2003, a year in which micro-caps dominated, and 2004, a year that saw stronger small-cap results. Both small- and micro-cap oriented portfolios enjoyed success in 2005, and individual gains and losses were more the result of stock (and sector) selection as opposed to capitalization.

**On both a net asset value (NAV) and market price basis, all three closed-end Funds outperformed the Russell 2000 for the one-year period ended 12/31/05.** The year's second half saw each Fund make an impressive comeback after subpar first-half performances in 2005. The results were just as encouraging for the three-year and five-year periods ended 12/31/05, in which Royce Value Trust, Micro-Cap Trust and Focus Trust each outpaced the Russell 2000 with double-digit average annual NAV and market price total returns. When looking at the 10-year period ended 12/31/05, the same advantage held for Royce Value Trust and Micro-Cap Trust, our two closed-end Funds with more than 10 years of history. All three Funds outperformed the Russell 2000 from the small-cap market peak on 3/9/00 through 12/31/05. They also were ahead of the small-cap index from the small-cap market trough on 10/9/02 through 12/31/05, three impressive instances of mostly bull-market

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outperformance. While we would love for each of our Funds to continue to outpace the small-cap benchmark in most short- and long-term performance periods, we realize that such a feat is impossible, and are happy to hold a greater advantage over long-term and market cycle performance periods, which we believe offer a sterner test of a portfolio's merits.

**While we would love for each of our Funds to continue to outpace the small-cap benchmark in most short- and long-term performance periods, we realize that such a feat is impossible, and are happy to hold a greater advantage over long-term and market cycle performance periods, which we believe offer a sterner test of a portfolio's merits.**

### Lake Wobegone, Not Lake Placid

Although most equity indices enjoyed positive returns in 2005, few made new highs, two exceptions being the Russell 2000 Value index, which made its new high in August, and the Russell 2000 index, which reached a new peak in December. The past few years saw undeniable improvement in overall equity results, yet several major market indices remained substantially shy of the peaks that they established in March 2000: the Russell 2000 Growth index (-33.5%), S&P 500 (-10.4%) and Nasdaq Composite (-56.3%) all failed to surpass their March 2000 highs. Of course, these figures may indicate nothing more than the timeliness of the likely shift in overall market leadership from small- to large-cap, and an analogous change within small-cap from value to growth. It's also worth pointing out that, despite the relatively paltry returns of 2005, the three-year average annual total returns for both the S&P 500 and Russell 2000 were rather impressive on both an absolute and a relative basis, especially compared to the five-year returns for the periods ended 12/31/05 (see table at left). **It occurs to us that the last three years felt remarkably different from the beginning of the current decade, a time in which low or negative large-cap returns were a source**

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*our estimate of the company's long-term prospects is positive. This is especially true with cyclical businesses that regularly go through the ups and downs of their industry. The "downs" are often synonymous with*

### LETTER TO OUR STOCKHOLDERS

**of constant frustration for many investors.** The picture becomes even more interesting on viewing the 10-year average annual total returns for the S&P 500 and Russell 2000. After the whirlwind of the last 10 years, we're not sure if investors will find it surprising or predictable that these results for the 10-year period ended 12/31/05 were nearly

**earnings trouble. The company's actions at such times are critical: Is management buying back stock? Does the firm have sufficient cash reserves to successfully deal with adversity? If so, our confidence is bolstered. If not, we generally look elsewhere.**

**In addition, few events make investors more emotional than earnings trouble. An earnings disappointment can create a wave of selling that drives a stock price down to levels that meet our value criteria. In many cases over the years, we have waited patiently for a particular company's stock price to fall so that we could begin to build a position. Our years of experience have brought home again and again the lesson that even the best businesses have occasional trouble. When they do, we try to use other investors' reactions to our advantage by purchasing shares at prices that we find attractive.**

identical: 9.3% for the Russell 2000 and 9.1% for the S&P 500.

We may look back on 2005 as the year in which everything changed. However, we want to emphasize again that the most significant changes may not be the shifts in leadership to large-cap in general and to small-cap growth within our investment universe (though they are certainly important). The critical move from our perspective has been the narrowing of the performance spread between asset classes and styles. We simply do not think it's likely any time soon that any asset class or investment approach will dominate the way that small-cap value did between 2000 and 2005 or that large-cap did between 1995 and 1999. Low returns, however, do not equate to a lack of volatility. The Russell 2000's positive return in 2005 was not achieved in a straight line, as volatility was quite apparent throughout most of last year. The Russell 2000 posted eight directional high-to-low and/or low-to-high moves of at least 5% in the last 12 months, resulting in two significant declines that were each followed by strong rallies.

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### Navigating the Narrows

With our expectation that leadership rotation between asset categories and styles should be the order of the day and that performance advantages should remain slim, we do not see particularly hard times ahead for small-cap and/or small-cap value. **Regardless of what the future brings, it's important to mention that our approach is not heavily invested in how the rest of the world defines value.** In the past five years of terrific small-cap value performance, we continued to scrutinize those areas that were not enjoying the benefits of value's good fortune, such as Health and Technology. This may seem counterintuitive, even contradictory, but the essence of value investing remains finding what we regard as high-quality companies whose stocks are trading at discounts to our estimate of their worth as businesses. This entails searching in areas that others are ignoring. Markets are always changing, but this aspect of our approach remains the same.

We appreciate your continued support.

Sincerely,

Charles M.  
Royce  
*President*

W. Whitney  
George  
*Vice President*

Jack E. Fockler,  
Jr.  
*Vice President*

January  
31, 2006

**The critical move from our perspective has been the narrowing of the performance spread between asset classes and styles. We simply do not think it's likely that any asset class or investment approach will dominate the way that small-cap value did between 2000 and 2005 or that large-cap did between 1995 and 1999.**

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**ONLINE UPDATE**

**Visit the New RoyceFunds.com**

Here are just a few of our new features:

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## ROYCE VALUE TRUST

### AVERAGE ANNUAL NAV TOTAL RETURNS

Through 12/31/05

|                            |        |
|----------------------------|--------|
| Fourth Quarter 2005*       | 2.68%  |
| July - December 2005*      | 10.66% |
| One-Year                   | 8.41   |
| Three-Year                 | 22.83  |
| Five-Year                  | 12.50  |
| 10-Year                    | 13.57  |
| 15-Year                    | 15.22  |
| Since Inception (11/26/86) | 12.62  |

\*Not annualized.

### CALENDAR YEAR NAV TOTAL RETURNS

| Year | RVT   | Year | RVT   |
|------|-------|------|-------|
| 2005 | 8.4%  | 1996 | 15.5% |
| 2004 | 21.4  | 1995 | 21.1  |
| 2003 | 40.8  | 1994 | 0.1   |
| 2002 | -15.6 | 1993 | 17.3  |
| 2001 | 15.2  | 1992 | 19.3  |
| 2000 | 16.6  | 1991 | 38.4  |
| 1999 | 11.7  | 1990 | -13.8 |
| 1998 | 3.3   | 1989 | 18.3  |
| 1997 | 27.5  | 1988 | 22.7  |

### Manager's Discussion

After struggling in the difficult first half, Royce Value Trust (RVT) came back strong in the second half of 2005, which gave a much-needed boost to its calendar-year results. **RVT was up 8.4% on a net asset value (NAV) basis and 7.0% on a market price basis in 2005, versus gains of 4.6% for the Russell 2000 and 7.7% for the S&P 600. The Fund thus outperformed each of its small-cap benchmarks on an NAV basis during 2005 and trailed the S&P 600 by only a narrow margin on a market price basis.** Although both small-cap indices were ahead of the Fund in the early stages of the dynamic rally that began with the interim small-cap market low on 4/28/05, RVT more than made up for its late start. The Fund gained 7.8% on an NAV basis and 7.5% on a market price basis in the third quarter, ahead of both the Russell 2000 (+4.7%) and the S&P 600 (+5.4%). In the fourth quarter, RVT's NAV (+2.7%) and market price (+3.2%) returns were also ahead of the Russell 2000 (+1.1%) and the S&P 600 (+0.4%).

Strong second-half NAV results helped RVT not only to achieve a performance edge over market cycle and other long-term periods, but to also provide terrific NAV returns on an absolute basis. From the small-cap market peak on 3/9/00 through 12/31/05, RVT gained 93.7% versus 19.7% for the Russell 2000 and 65.0% for the S&P 600. In the mostly upmarket phase running from the small-cap market trough on 10/9/02 through 12/31/05, RVT was up 120.5%, versus 114.2% for the Russell 2000 and 111.6% for the S&P 600. The Fund also beat its small-cap benchmarks on an NAV basis for the one-, three-, five-, 10-, 15-year and since inception (11/26/86) periods ended 12/31/05, while on a market price basis, the Fund outperformed for each of those periods with the exception of the one-year interval. **RVT's average annual NAV total return since inception was 12.6%.**

Of the Fund's 11 equity sectors, nine showed net gains in 2005. The bulk of the losses were confined to the Consumer Products sector. That area held the Fund's top loser, The Boyd's Collection, a collectibles company whose shares we sold in October on news that the firm was filing for reorganization under Chapter 11, ending a mostly dismal five-year experience with the stock. Another significant loser on a dollar basis was Willbros Group, a private contractor that provides construction, engineering and specialty services primarily to the oil and gas industry. While the company's business mostly grew in 2005, the results of an internal investigation (itself the result of a previous shake-up in upper management) led the company to restate earnings for 2002, 2003, 2004 and the first two fiscal quarters of 2005. We sold some shares during 2005, but we held a position at the end of the year because by November the company seemed to have put a good deal of its difficulties behind it.

Elsewhere in the Natural Resources sector, the news was mostly very positive. As the sector that holds the portfolio's energy stocks, the dominant industry in the market for the 18-month period ended 12/31/05, this was hardly a surprise. It was the Fund's top net-gaining sector in 2005, followed by Industrial Services, Industrial Products and Technology. In contrast to Natural Resources, the latter sector's net gains for the year were somewhat unexpected, the result of a strong fourth-quarter comeback. We have owned shares of contract oil and gas well

**TOP 10 POSITIONS**

% of Net Assets Applicable to Common Stockholders

|  |      |
|--|------|
| Alliance Capital Management Holding L.P. | 1.9% |
| Ritchie Bros. Auctioneers                | 1.3  |
| SEACOR Holdings                          | 1.0  |
| Apollo Investment                        | 1.0  |



|                               |     |
|-------------------------------|-----|
| Simpson Manufacturing         | 0.9 |
| Ash Grove Cement Company Cl.B | 0.9 |
| Cimarex Energy                | 0.9 |
| Sotheby's Holdings Cl. A      | 0.9 |
| Newport Corporation           | 0.8 |
| Forward Air                   | 0.8 |

#### PORTFOLIO SECTOR BREAKDOWN

% of Net Assets Applicable  
to Common Stockholders

|                                     |       |
|-------------------------------------|-------|
| Technology                          | 22.5% |
| Industrial Products                 | 17.1  |
| Industrial Services                 | 13.3  |
| Financial Services                  | 9.8   |
| Natural Resources                   | 9.4   |
| Financial Intermediaries            | 8.8   |
| Health                              | 8.0   |
| Consumer Services                   | 5.8   |
| Consumer Products                   | 5.0   |
| Utilities                           | 0.2   |
| Diversified Investment<br>Companies | 0.1   |
| Miscellaneous                       | 4.9   |
| Bonds & Preferred Stocks            | 0.3   |
| Cash and Cash Equivalents           | 16.1  |

*All performance information in this Report reflects past performance, is presented on a total return basis and reflects the reinvestment of distributions. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, so that shares may be worth more or less than their original cost when sold. Current performance may be higher or lower than performance quoted. Current month-end performance may be obtained at [www.roycefunds.com](http://www.roycefunds.com). The Funds' P/E ratio calculations exclude companies with zero or negative earnings.*

**GOOD IDEAS THAT WORKED**

## 2005 Net Realized and Unrealized Gain

|                   |             |
|-------------------|-------------|
| Helmerich & Payne | \$4,642,059 |
|-------------------|-------------|

|  |           |
|--|-----------|
| Alliance Capital Management Holding L.P. | 4,376,806 |
|--|-----------|

|                           |           |
|---------------------------|-----------|
| Energy Conversion Devices | 3,305,802 |
|---------------------------|-----------|

|                    |           |
|--------------------|-----------|
| Plexus Corporation | 3,267,758 |
|--------------------|-----------|

|                  |           |
|------------------|-----------|
| Elan Corporation | 3,196,564 |
|------------------|-----------|

driller Helmerich & Payne since 1998, though our experience with the firm goes all the way back to RVT's inception. In 2005, the firm benefited from rising oil and gas prices, its own growing business and minimal damage in the aftermath of Katrina and Rita to its rigs located in the Gulf of Mexico. We reduced our position at rising share prices between February and October. Pharmaceutical company Elan Corporation ran into difficulties with a multiple sclerosis drug, Tysabri, that it produces with another firm, Biogen. Prospects for the drug's eventual use began to improve during the fall, especially in the aftermath of an announcement in December that an FDA advisory panel would review the drug in March 2006. Its share price received a healthy shot based on

this news. In Technology, Energy Conversion Devices saw its growing business and approach toward profitability interest investors. A newer position in the portfolio, we were drawn to its conservative balance sheet and interesting niche business of developing alternative energy products and technology. Plexus Corporation provides a variety of technological services, including product development, material procurement and distribution, for several industries.

Its stock price rose in 2005 primarily because of improved earnings, but our overall experience with the company, which goes back to 2001, was still not profitable as of 12/31/05.

**GOOD IDEAS AT THE TIME**

## 2005 Net Realized and Unrealized Loss

|                         |             |
|-------------------------|-------------|
| Boyd's Collection (The) | \$2,259,734 |
|-------------------------|-------------|

|                |           |
|----------------|-----------|
| Willbros Group | 2,248,754 |
|----------------|-----------|

|            |           |
|------------|-----------|
| PXRE Group | 2,040,250 |
|------------|-----------|

|                           |           |
|---------------------------|-----------|
| PRG-Schultz International | 1,975,935 |
|---------------------------|-----------|

|           |           |
|-----------|-----------|
| MacDermid | 1,967,852 |
|-----------|-----------|

**PORTFOLIO DIAGNOSTICS**

|                               |                 |
|-------------------------------|-----------------|
| Average Market Capitalization | \$1,049 million |
|-------------------------------|-----------------|

|                            |        |
|----------------------------|--------|
| Weighted Average P/E Ratio | 19.9x* |
|----------------------------|--------|

|                            |      |
|----------------------------|------|
| Weighted Average P/B Ratio | 2.2x |
|----------------------------|------|

|                        |      |
|------------------------|------|
| Weighted Average Yield | 0.9% |
|------------------------|------|

|                 |                 |
|-----------------|-----------------|
| Fund Net Assets | \$1,032 million |
|-----------------|-----------------|

|               |     |
|---------------|-----|
| Turnover Rate | 31% |
|---------------|-----|

|                           |    |
|---------------------------|----|
| Net Leverage <sup>□</sup> | 5% |
|---------------------------|----|

|              |       |
|--------------|-------|
| Symbol       |       |
| Market Price | RVT   |
| NAV          | XRVTX |

\*Excludes 15% of portfolio holdings with zero or negative earnings as of 12/31/05.

<sup>□</sup>Net leverage is the percentage, in excess of 100%, of the total value of equity type investments, divided by net assets, applicable to Common Stockholders.

**CAPITAL STRUCTURE**

Publicly Traded Securities Outstanding at 12/31/05 at NAV or Liquidation Value

|                                     |                 |
|-------------------------------------|-----------------|
| 54.7 million shares of Common Stock | \$1,032 million |
|-------------------------------------|-----------------|

|                                  |               |
|----------------------------------|---------------|
| 5.90% Cumulative Preferred Stock | \$220 million |
|----------------------------------|---------------|

**RISK/RETURN COMPARISON**

Three-Year Period Ended 12/31/05

| Average Annual Standard | Return |
|-------------------------|--------|
|-------------------------|--------|

|                  | Total Return | Deviation Efficiency* |             |
|------------------|--------------|-----------------------|-------------|
| <b>RVT (NAV)</b> | <b>22.8%</b> | <b>14.8</b>           | <b>1.54</b> |
| S&P 600          | 22.4         | 14.0                  | 1.60        |
| Russell 2000     | 22.1         | 15.3                  | 1.44        |

\*Return Efficiency is the average annual total return divided by the annualized standard deviation over a designated time period.

<sup>1</sup> Reflects the cumulative total return of an investment made by a stockholder who purchased one share at inception (\$10.00 IPO) and then reinvested all annual distributions as indicated, and fully participated in primary subscriptions of the Fund's rights offerings.

<sup>2</sup> Reflects the actual market price of one share as it has traded on the NYSE.

## ROYCE MICRO-CAP TRUST

### AVERAGE ANNUAL NAV TOTAL RETURNS

Through 12/31/05

|                                   |        |
|-----------------------------------|--------|
| Fourth Quarter 2005 <sup>*</sup>  | -0.31% |
| July - December 2005 <sup>*</sup> | 8.26   |
| One-Year                          | 6.75   |
| Three-Year                        | 25.38  |
| Five-Year                         | 15.96  |
| 10-Year                           | 14.06  |
| Since Inception (12/14/93)        | 13.94  |

### Manager's Discussion

**Royce Micro-Cap Trust (RMT) gained 6.8% on a net asset value (NAV) basis and 8.9% on a market price basis in 2005, in each case ahead of its small-cap benchmark, the Russell 2000, which was up 4.6% for the same period.** When the stock market began to turn around following the interim small-cap market trough on 4/28/05, the Fund arrived a little late to the dance, but soon began to tear up the floor. RMT was up 8.6% on an NAV basis during the third quarter (+5.1% on a market price basis), outpacing the Russell 2000's 4.7% return. NAV results cooled off in the fourth quarter. The Fund was down 0.3%, though its market price result

\*Not annualized.

**CALENDAR YEAR NAV TOTAL RETURNS**

| Year | RMT   | Year | RMT   |
|------|-------|------|-------|
| 2005 | 6.8%  | 1999 | 12.7% |
| 2004 | 18.7  | 1998 | -4.1  |
| 2003 | 55.6  | 1997 | 27.1  |
| 2002 | -13.8 | 1996 | 16.6  |
| 2001 | 23.4  | 1995 | 22.9  |
| 2000 | 10.9  | 1994 | 5.0   |

**TOP 10 POSITIONS**% of Net Assets Applicable  
to Common Stockholders

|   |      |
|---|------|
| ASA Bermuda                             | 1.5% |
| Transaction Systems<br>Architects Cl. A | 1.4  |

was strong, up 8.8% versus 1.1% for the Russell 2000. The performance spread between RMT's NAV and market price returns during the fourth quarter was the largest in eight years and third largest since the Fund's inception in December 1993.

While short-term outperformance is always welcome, we place much greater importance on long-term and market cycle NAV returns on an absolute and relative basis. Therefore, we were very pleased that the Fund beat the small-cap index from the small-cap market peak on 3/9/00 through 12/31/05, gaining 101.9% versus 19.7% for the Russell 2000. Arguably more impressive (though not any more significant) was RMT outperforming its small-cap benchmark from the small-cap market trough on 10/9/02 through 12/31/05 with a return of 133.7% versus a gain of 114.2% for the Russell 2000. In addition, the Fund was ahead of the small-cap index on both an NAV and market price basis for the one-, three-, five-, 10-year and since inception (12/14/93) periods ended 12/31/05. **RMT's average annual NAV total return since inception was 13.9%.**

Seven of the Fund's 10 equity sectors posted net gains in 2005, with Natural Resources (home to RMT's holdings in energy) and Industrial Products leading the way on a dollar basis. Energy stocks topped all other areas of the stock market for the year, so terrific performance for portfolio holdings in that industry was no surprise. We first built a position in domestic oil and gas company Gulfport Energy between March and August 2004, before its price began a significant climb. Rising oil and gas prices and increased production led to record earnings for the fiscal year 2004 and a surging share price in 2005. We sold off our remaining position in September after beginning to take gains at rising stock prices in May. Top-ten position Dril-Quip makes offshore drilling and production equipment. Its conservative balance sheet and solid earnings first attracted our interest in 1998. Rising oil and gas prices helped its earnings to improve, which in turn



|                                |     |
|--------------------------------|-----|
| HomeFed Corporation            | 1.3 |
| Universal Truckload Services   | 1.2 |
| Abigail Adams National Bancorp | 1.2 |
| Seneca Foods                   | 1.2 |
| TriZetto Group (The)           | 1.1 |
| Covansys Corporation           | 1.1 |
| Pason Systems                  | 1.0 |
| Dril-Quip                      | 1.0 |

#### PORTFOLIO SECTOR BREAKDOWN

% of Net Assets Applicable  
to Common Stockholders

|                          |       |
|--------------------------|-------|
| Technology               | 25.4% |
| Industrial Products      | 16.0  |
| Industrial Services      | 13.7  |
| Health                   | 14.7  |
| Natural Resources        | 9.5   |
| Financial Intermediaries | 7.0   |
| Consumer Products        | 5.7   |
| Consumer Services        | 5.5   |
| Financial Services       | 3.0   |

played a role in the company's mostly soaring share price in 2005. We trimmed our position in January, August and September. The Fund's top gainer in 2005 came from Industrial Products. Sun Hydraulics manufactures high-performance industrial valves and manifolds. Strong earnings seemed to attract investors. We were just as pleased by the firm's decision to use profits to remove debt from an already strong balance sheet. We took some gains in February and July.

The Fund's largest sector, Technology, was a net loser in 2005. TransAct Technologies makes specialized parts and printers used to produce ATM receipts, lottery tickets and other items. A

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|                                  |      |
|----------------------------------|------|
| Diversified Investment Companies | 2.1  |
| Miscellaneous                    | 4.8  |
| Preferred Stock                  | 0.5  |
| Cash and Cash Equivalents        | 12.5 |

## Performance and Portfolio Review

### PORTFOLIO DIAGNOSTICS

|                               |               |
|-------------------------------|---------------|
| Average Market Capitalization | \$275 million |
|-------------------------------|---------------|

|                            |        |
|----------------------------|--------|
| Weighted Average P/E Ratio | 19.2x* |
|----------------------------|--------|

|                            |      |
|----------------------------|------|
| Weighted Average P/B Ratio | 1.9x |
|----------------------------|------|

|                        |      |
|------------------------|------|
| Weighted Average Yield | 0.8% |
|------------------------|------|

|                 |               |
|-----------------|---------------|
| Fund Net Assets | \$294 million |
|-----------------|---------------|

|               |     |
|---------------|-----|
| Turnover Rate | 46% |
|---------------|-----|

|                           |    |
|---------------------------|----|
| Net Leverage <sup>□</sup> | 8% |
|---------------------------|----|

|              |       |
|--------------|-------|
| Symbol       | RMT   |
| Market Price | XOTCX |
| NAV          |       |

\*Excludes 17% of portfolio holdings with zero or negative earnings as of 12/31/05.

<sup>□</sup>Net leverage is the percentage, in excess of 100%, of the total value of

### GOOD IDEAS THAT WORKED

#### 2005 Net Realized and Unrealized Gain

|                |             |
|----------------|-------------|
| Sun Hydraulics | \$2,185,808 |
|----------------|-------------|

|                 |           |
|-----------------|-----------|
| Gulfport Energy | 1,595,152 |
|-----------------|-----------|

|           |           |
|-----------|-----------|
| Dril-Quip | 1,473,127 |
|-----------|-----------|

|                      |           |
|----------------------|-----------|
| TriZetto Group (The) | 1,388,940 |
|----------------------|-----------|

|               |           |
|---------------|-----------|
| PICO Holdings | 1,360,942 |
|---------------|-----------|

decline in domestic gambling early in 2005 hurt sales and sent its share price on a downward slope, which only grew steeper when the firm became embroiled in a patent dispute shortly afterward. We held a small position at the end of the year, mainly because the firm remains conservatively capitalized. We chose to hold a good-sized position in IT business consultant Sapient Corporation at the end of the year, in spite of difficult times for its stock price. Our view at year-end was that the firm possesses a strong balance sheet and an attractive core business. It also remained profitable in 2005, though its growth was slower than many investors seemed to expect. Two gainers in Technology were also top-ten holdings: The TriZetto

TriZetto Group, which creates specialized software and Internet portals to help healthcare firms improve their business procedures, benefited from strong earnings. Transaction processing software manufacturer Transaction Systems Architects made an acquisition of a similar business, restructured its business units for greater in-house efficiency and enjoyed steadily improving earnings. Outside the Technology sector, Aceto Corporation, a specialty chemical maker

and distributor, was plagued by declining growth rates, shrinking margins and plummeting pricing. We took some losses during 2005, but at December 31 still thought that

### GOOD IDEAS AT THE TIME

| 2005 Net Realized and Unrealized Loss |             |
|---------------------------------------|-------------|
| Aceto Corporation                     | \$1,625,478 |
| Sapient Corporation                   | 1,110,000   |
| TransAct Technologies                 | 1,057,956   |
| DiamondCluster International          | 1,011,354   |
| PRG-Schultz International             | 808,741     |

a turnaround could eventually materialize.

equity type investments, divided by net assets, applicable to Common Stockholders.

| CAPITAL STRUCTURE  |               |
|--|---------------|
| Publicly Traded Securities Outstanding at 12/31/05 at NAV or Liquidation Value |               |
| 21.9 million shares of Common Stock  | \$294 million |
| 6.00% Cumulative Preferred Stock   | \$60 million  |

| RISK/RETURN COMPARISON           |                             |                    |                    |
|----------------------------------|-----------------------------|--------------------|--------------------|
| Three-Year Period Ended 12/31/05 |                             |                    |                    |
|                                  | Average Annual Total Return | Standard Deviation | Return Efficiency* |
| <b>RMT (NAV)</b>                 | <b>25.4%</b>                | <b>15.3</b>        | <b>1.66</b>        |
| Russell 2000                     | 22.1                        | 15.3               | 1.44               |

\*Return Efficiency is the average annual total return divided by the annualized standard deviation over a designated time period.

<sup>1</sup> Reflects the cumulative total return of an investment made by a stockholder who purchased one share at inception (\$7.50 IPO) and then reinvested distributions as indicated, and fully participated in the primary subscription of the 1994 rights offering.

<sup>2</sup> Reflects the actual market price of one share as it traded on the Nasdaq, and, beginning on 12/1/03, on the NYSE.

**AVERAGE ANNUAL NAV TOTAL RETURNS**

Through 12/31/05

Fourth Quarter 2005\*

5.98%

**Manager's Discussion**

Although each of our closed-end funds enjoyed impressive second-half rebounds during 2005, the award for "2005's Comeback Fund of the Year" would have to go to Royce Focus Trust (FUND). **The Fund was up 13.3% on a net asset value (NAV) basis and 3.0% on a market price basis during 2005. FUND's small-cap benchmark, the Russell 2000, was up 4.6% for the same period, giving the Fund the performance edge on an NAV basis, but trailing the small-cap benchmark on a market price basis.** Although one would never know it by looking at the Fund's negative second-quarter returns, the market began to rally following the interim small-cap market trough on 4/28/05. Still, FUND was able to overcome its tardy participation in the burgeoning rally with terrific third- and fourth-quarter returns on both an NAV and market price basis. The Fund gained 14.1% on an NAV basis and 16.3% on a market price basis compared to a 4.7% gain for the Russell 2000 during the third quarter. Although returns for stocks as a whole were generally lower in the fourth quarter, FUND gained 6.0% on an NAV basis and 5.7% on a market price basis, while the Russell 2000 was up 1.1%.

While the Fund's NAV performance in 2005 was warmly welcomed, our attention is more focused on market cycle and other long-term time periods, where we seek strong returns on both an absolute and relative basis. From the small-cap market peak on 3/9/00 through 12/31/05, FUND trounced the Russell 2000, up 158.3% versus 19.7% for the benchmark. The Fund also handily outpaced the small-cap index from the small-cap market trough on 10/9/02 through 12/31/05, up 171.6% versus 114.2%. Our value approach admittedly makes outperformance from market peaks somewhat unsurprising, but it's understandable if a performance edge during a generally more bullish period raises an eyebrow or two. For our part, we were very pleased with the results for both periods. The Fund also outperformed the Russell 2000 on an NAV basis for the one-,



three-, five-year and since inception of our management (11/1/96) periods ended 12/31/05, and beat the benchmark on a market price basis for each of these intervals except the one-year period. **FUND's average annual NAV total return since inception was 14.1%.**

Short-term performance is not something that we typically give much attention, but we were struck by how thoroughly the Fund's results turned around in 2005's second half. In the year's first six months, eight of nine equity sectors showed net losses; for the 12-month period ended 12/31/05, only two were in the red. Of the six sectors that went from net losses to net gains, Natural Resources led, thanks to the ongoing dominance of energy stocks in the market as a whole, a move fueled by rising oil and natural gas prices. Canadian energy services company Trican Well Service manufactures piping and drilling equipment and provides oil well completion, maintenance and repair services. The firm posted record revenues and job activity in 2005's fiscal third quarter, boosted by strong business in Canada and overseas. Even after taking gains at various times between March and December, it was a top-ten holding at December 31. We made similar trims beginning in April to another top-ten position, Ensign Energy Services, which provides contract well drilling and other services for the oil and natural

|                            |       |
|----------------------------|-------|
| July - December 2005*      | 20.91 |
| One-Year                   | 13.31 |
| Three-Year                 | 31.22 |
| Five-Year                  | 16.82 |
| Since Inception (11/1/96)† | 14.12 |

\* Not annualized.

† Royce & Associates assumed investment management responsibility for the Fund on 11/1/96.

#### CALENDAR YEAR NAV TOTAL RETURNS

| Year | RFT   | Year | RFT   |
|------|-------|------|-------|
| 2005 | 13.3% | 2000 | 20.9% |

|      |       |      |      |
|------|-------|------|------|
| 2004 | 29.2  | 1999 | 8.7  |
| 2003 | 54.3  | 1998 | -6.8 |
| 2002 | -12.5 | 1997 | 20.5 |
| 2001 | 10.0  |      |      |

**TOP 10 POSITIONS**

% of Net Assets Applicable  
to Common Stockholders

|  |      |
|--|------|
| New Zealand<br>Government 6.50% Bond       | 4.8% |
| Athena Neurosciences<br>Finance 7.25% Bond | 4.1  |
| IPSCO                                      | 3.8  |
| Canadian Government 3.00% Bond             | 3.7  |
| Endo Pharmaceuticals Holdings              | 3.2  |
| Simpson Manufacturing                      | 3.0  |
| Glamis Gold                                | 2.9  |
| Ensign Energy Services                     | 2.8  |
| Thor Industries                            | 2.8  |
| Trican Well Service                        | 2.7  |

**PORTFOLIO SECTOR BREAKDOWN**

% of Net Assets Applicable  
to Common Stockholders

|                          |       |
|--------------------------|-------|
| Industrial Products      | 21.8% |
| Natural Resources        | 19.8  |
| Technology               | 11.9  |
| Health                   | 9.5   |
| Consumer Products        | 6.3   |
| Industrial Services      | 5.5   |
| Financial Services       | 3.7   |
| Financial Intermediaries | 3.3   |
| Consumer Services        | 3.3   |

*All performance information in this Report reflects past performance, is presented on a total return basis and reflects the reinvestment of distributions. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, so that shares may be worth more or less than their original cost when sold. Current performance may be higher or lower than performance quoted. Current month-end performance may be obtained at [www.roycefunds.com](http://www.roycefunds.com). The Funds' P/E ratio calculations exclude companies with zero or negative earnings.*

|                                       |      |
|---------------------------------------|------|
| Bonds                                 | 13.5 |
| Treasuries, Cash and Cash Equivalents | 18.9 |

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## Performance and Portfolio Review

### GOOD IDEAS THAT WORKED

2005 Net Realized and Unrealized Gain

|                             |             |
|-----------------------------|-------------|
| Trican Well Service         | \$3,945,382 |
| IPSCO                       | 2,759,583   |
| Elan Corporation            | 2,405,404   |
| Ensign Energy Services      | 2,346,857   |
| U.S. Global Investors Cl. A | 2,025,460   |

gas industry, primarily in western Canada and the Rocky Mountain U.S. Its expanding business in South America contributed to its record third-quarter revenues in fiscal 2005.

The bull market for energy stocks helped two holdings in the Industrial Products sector. Canadian steel producing and fabricating company IPSCO makes pipes for oil and gas drilling companies, which helped its share price to climb in 2005. We were drawn to its pristine balance sheet and steady earnings at a time during the summer of 2004 when steel prices were recovering. It was the Fund's largest equity holding at the end of 2005. Pason Systems creates specialized software and other drilling instrumentation products for the oil and gas

industry. Its energy-related business, two-for-one stock split, positive cash flow, growing earnings and record fiscal third-quarter revenues all played a role in its soaring stock price during 2005.

Net losses on the sector level came from Consumer Services and Industrial Services. In terms of individual positions, Lexicon Genetics posted the most significant dollar-based loss. The firm specializes in proprietary gene

### GOOD IDEAS AT THE TIME

2005 Net Realized and Unrealized Loss

|                      |             |
|----------------------|-------------|
| Lexicon Genetics     | \$1,311,698 |
| Hecla Mining Company | 1,183,369   |

knockout technology used in the treatment of diseases. Our high regard for the company's business and its conservative capitalization led us to add to our stake in 2005, even as its growing revenues did little to attract other investors. With Hecla Mining Company, we

### PORTFOLIO DIAGNOSTICS

|                               |                 |
|-------------------------------|-----------------|
| Average Market Capitalization | \$1,600 million |
| Weighted Average P/E Ratio    | 16.7x           |
| Weighted Average P/B Ratio    | 2.9x            |
| Weighted Average Yield        | 1.4%            |
| Fund Net Assets               | \$143 million   |
| Turnover Rate                 | 42%             |
| Net Leverage*                 | 0%              |
| Symbol                        | FUND            |
| Market Price                  | XFUNX           |
| NAV                           |                 |

\*Net leverage is the percentage, in excess of 100%, of the total value of equity type investments, divided by net assets applicable to Common Stockholders.

### CAPITAL STRUCTURE

Publicly Traded Securities Outstanding at

|                           |         |
|---------------------------|---------|
| Nu Skin Enterprises Cl. A | 977,903 |
| Pier 1 Imports            | 899,300 |
| Orchid Cellmark           | 585,052 |

chose to take our losses and move on. A rare loser among precious metals and mining companies in 2005, its business was hampered by exposure to a politically uncertain situation in Venezuela and rising mining costs.

| 12/31/05 at NAV or Liquidation Value |               |
|--------------------------------------|---------------|
| 14.7 million shares of Common Stock  | \$143 million |
| 6.00% Cumulative Preferred Stock     | \$25 million  |

| RISK/RETURN COMPARISON           |                             |                    |                    |
|----------------------------------|-----------------------------|--------------------|--------------------|
| Three-Year Period Ended 12/31/05 |                             |                    |                    |
|                                  | Average Annual Total Return | Standard Deviation | Return Efficiency* |
| <b>FUND (NAV)</b>                | <b>31.2%</b>                | <b>16.2</b>        | <b>1.93</b>        |
| Russell 2000                     | 22.1                        | 15.3               | 1.44               |

\*Return Efficiency is the average annual total return divided by the annualized standard deviation over a designated time period.

<sup>1</sup> Royce & Associates assumed investment management responsibility for the Fund on 11/1/96.

<sup>2</sup> Reflects the cumulative total return experience of a continuous common stockholder who reinvested all distributions as indicated, and fully participated in the primary subscription of the 2005 rights offering.

<sup>3</sup> Reflects the actual market price of one share as it has traded on the Nasdaq.

## HISTORY SINCE INCEPTION

The following table details the share accumulations by an initial investor in the Funds who reinvested all distributions (including fractional shares) and participated fully in primary subscriptions for each of the rights offerings. Full participation in distribution reinvestments and rights offerings can maximize the returns available to a long-term investor. This table should be read in conjunction with the Performance and Portfolio Reviews of the Funds.

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| History                      |                                  | Amount Invested  | Purchase Price* | Shares       | NAV Value**       | Market Value**    |
|------------------------------|----------------------------------|------------------|-----------------|--------------|-------------------|-------------------|
| <b>Royce Value Trust</b>     |                                  |                  |                 |              |                   |                   |
| 11/26/86                     | Initial Purchase                 | \$ 10,000        | \$ 10.000       | 1,000        | \$ 9,280          | \$ 10,000         |
| 10/15/87                     | Distribution \$0.30              |                  | 7.000           | 42           |                   |                   |
| 12/31/87                     | Distribution \$0.22              |                  | 7.125           | 32           | 8,578             | 7,250             |
| 12/27/88                     | Distribution \$0.51              |                  | 8.625           | 63           | 10,529            | 9,238             |
| 9/22/89                      | Rights Offering                  | 405              | 9.000           | 45           |                   |                   |
| 12/29/89                     | Distribution \$0.52              |                  | 9.125           | 67           | 12,942            | 11,866            |
| 9/24/90                      | Rights Offering                  | 457              | 7.375           | 62           |                   |                   |
| 12/31/90                     | Distribution \$0.32              |                  | 8.000           | 52           | 11,713            | 11,074            |
| 9/23/91                      | Rights Offering                  | 638              | 9.375           | 68           |                   |                   |
| 12/31/91                     | Distribution \$0.61              |                  | 10.625          | 82           | 17,919            | 15,697            |
| 9/25/92                      | Rights Offering                  | 825              | 11.000          | 75           |                   |                   |
| 12/31/92                     | Distribution \$0.90              |                  | 12.500          | 114          | 21,999            | 20,874            |
| 9/27/93                      | Rights Offering                  | 1,469            | 13.000          | 113          |                   |                   |
| 12/31/93                     | Distribution \$1.15              |                  | 13.000          | 160          | 26,603            | 25,428            |
| 10/28/94                     | Rights Offering                  | 1,103            | 11.250          | 98           |                   |                   |
| 12/19/94                     | Distribution \$1.05              |                  | 11.375          | 191          | 27,939            | 24,905            |
| 11/3/95                      | Rights Offering                  | 1,425            | 12.500          | 114          |                   |                   |
| 12/7/95                      | Distribution \$1.29              |                  | 12.125          | 253          | 35,676            | 31,243            |
| 12/6/96                      | Distribution \$1.15              |                  | 12.250          | 247          | 41,213            | 36,335            |
| 1997                         | Annual distribution total \$1.21 |                  | 15.374          | 230          | 52,556            | 46,814            |
| 1998                         | Annual distribution total \$1.54 |                  | 14.311          | 347          | 54,313            | 47,506            |
| 1999                         | Annual distribution total \$1.37 |                  | 12.616          | 391          | 60,653            | 50,239            |
| 2000                         | Annual distribution total \$1.48 |                  | 13.972          | 424          | 70,711            | 61,648            |
| 2001                         | Annual distribution total \$1.49 |                  | 15.072          | 437          | 81,478            | 73,994            |
| 2002                         | Annual distribution total \$1.51 |                  | 14.903          | 494          | 68,770            | 68,927            |
| 1/28/03                      | Rights Offering                  | 5,600            | 10.770          | 520          |                   |                   |
| 2003                         | Annual distribution total \$1.30 |                  | 14.582          | 516          | 106,216           | 107,339           |
| 2004                         | Annual distribution total \$1.55 |                  | 17.604          | 568          | 128,955           | 139,094           |
| 2005                         | Annual distribution total \$1.61 |                  | 18.739          | 604          |                   |                   |
| <b>12/31/05</b>              |                                  | <b>\$ 21,922</b> |                 | <b>7,409</b> | <b>\$ 139,808</b> | <b>\$ 148,773</b> |
| <b>Royce Micro-Cap Trust</b> |                                  |                  |                 |              |                   |                   |
| 12/14/93                     | Initial Purchase                 | \$ 7,500         | \$ 7.500        | 1,000        | \$ 7,250          | \$ 7,500          |
| 10/28/94                     | Rights Offering                  | 1,400            | 7.000           | 200          |                   |                   |
| 12/19/94                     | Distribution \$0.05              |                  | 6.750           | 9            | 9,163             | 8,462             |
| 12/7/95                      | Distribution \$0.36              |                  | 7.500           | 58           | 11,264            | 10,136            |
| 12/6/96                      | Distribution \$0.80              |                  | 7.625           | 133          | 13,132            | 11,550            |
| 12/5/97                      | Distribution \$1.00              |                  | 10.000          | 140          | 16,694            | 15,593            |
| 12/7/98                      | Distribution \$0.29              |                  | 8.625           | 52           | 16,016            | 14,129            |
| 12/6/99                      | Distribution \$0.27              |                  | 8.781           | 49           | 18,051            | 14,769            |
| 12/6/00                      | Distribution \$1.72              |                  | 8.469           | 333          | 20,016            | 17,026            |
| 12/6/01                      | Distribution \$0.57              |                  | 9.880           | 114          | 24,701            | 21,924            |
| 2002                         | Annual distribution total \$0.80 |                  | 9.518           | 180          | 21,297            | 19,142            |
| 2003                         | Annual distribution total \$0.92 |                  | 10.004          | 217          | 33,125            | 31,311            |
| 2004                         | Annual distribution total \$1.33 |                  | 13.350          | 257          | 39,320            | 41,788            |
| 2005                         | Annual distribution total \$1.85 |                  | 13.848          | 383          |                   |                   |
| <b>12/31/05</b>              |                                  | <b>\$ 8,900</b>  |                 | <b>3,125</b> | <b>\$ 41,969</b>  | <b>\$ 45,500</b>  |
| <b>Royce Focus Trust</b>     |                                  |                  |                 |              |                   |                   |
| 10/31/96                     | Initial Purchase                 | \$ 4,375         | \$ 4.375        | 1,000        | \$ 5,280          | \$ 4,375          |
| 12/31/96                     |                                  |                  |                 |              | 5,520             | 4,594             |
| 12/5/97                      | Distribution \$0.53              |                  | 5.250           | 101          | 6,650             | 5,574             |
| 12/31/98                     |                                  |                  |                 |              | 6,199             | 5,367             |
| 12/6/99                      | Distribution \$0.145             |                  | 4.750           | 34           | 6,742             | 5,356             |

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|         |                                  |       |       |     |        |        |
|---------|----------------------------------|-------|-------|-----|--------|--------|
| 12/6/00 | Distribution \$0.34              |       | 5.563 | 69  | 8,151  | 6,848  |
| 12/6/01 | Distribution \$0.14              |       | 6.010 | 28  | 8,969  | 8,193  |
| 12/6/02 | Distribution \$0.09              |       | 5.640 | 19  | 7,844  | 6,956  |
| 12/8/03 | Distribution \$0.62              |       | 8.250 | 94  | 12,105 | 11,406 |
| 2004    | Annual distribution total \$1.74 |       | 9.325 | 259 | 15,639 | 16,794 |
| 5/6/05  | Rights offering                  | 2,669 | 8.340 | 320 |        |        |
| 2005    | Annual distribution total \$1.21 |       | 9.470 | 249 |        |        |

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|                 |                 |              |                  |                  |
|-----------------|-----------------|--------------|------------------|------------------|
| <b>12/31/05</b> | <b>\$ 7,044</b> | <b>2,173</b> | <b>\$ 21,208</b> | <b>\$ 20,709</b> |
|-----------------|-----------------|--------------|------------------|------------------|

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\* Beginning with the 1997 (RVT), 2002 (RMT) and 2004 (FUND) distributions, the purchase price of distributions is a weighted average of the distribution reinvestment prices for the year.

\*\* Other than for initial purchase, values are stated as of December 31 of the year indicated, after reinvestment of distributions.

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## DISTRIBUTION REINVESTMENT AND CASH PURCHASE OPTIONS

### Why should I reinvest my distributions?

By reinvesting distributions, a stockholder can maintain an undiluted investment in the Fund. The regular reinvestment of distributions has a significant impact on stockholder returns. In contrast, the stockholder who takes distributions in cash is penalized when shares are issued below net asset value to other stockholders.

### How does the reinvestment of distributions from the Royce closed-end funds work?

The Funds automatically issue shares in payment of distributions unless you indicate otherwise. The shares are generally issued at the lower of the market price or net asset value on the valuation date.

### How does this apply to registered stockholders?

If your shares are registered directly with a Fund, your distributions are automatically reinvested unless you have otherwise instructed the Funds transfer agent, Computershare, in writing. A registered stockholder also has the option to receive the distribution in the form of a stock certificate or in cash if Computershare is properly notified.

### What if my shares are held by a brokerage firm or a bank?

If your shares are held by a brokerage firm, bank, or other intermediary as the stockholder of record, you should contact your brokerage firm or bank to be certain that it is automatically reinvesting distributions on your behalf. If they are unable to reinvest distributions on your behalf, you should have your shares registered in your name in order to participate.

### What other features are available for registered stockholders?

The Distribution Reinvestment and Cash Purchase Plans also allow registered stockholders to make optional cash purchases of shares of a Fund's common stock directly through Computershare on a monthly basis, and to deposit certificates representing your Fund shares with Computershare for safekeeping. The Funds' investment adviser is absorbing all commissions on optional cash purchases under the Plans through December 31, 2006.

### How do the Plans work for registered stockholders?

Computershare maintains the accounts for registered stockholders in the Plans and sends written confirmation of all transactions in the account. Shares in the account of each participant will be held by Computershare in non-certificated form in the name of the participant, and each participant will be able to vote those shares at a stockholder meeting or by proxy. A participant may also send other stock certificates held by them to Computershare to be held in non-certificated form. There is no service fee charged to participants for reinvesting distributions. If a participant elects to sell shares from a Plan account, Computershare will deduct a \$2.50 fee plus brokerage commissions from the sale transaction. If a nominee is the registered owner of your shares, the nominee will maintain the accounts on your behalf.

**How can I get more information on the Plans?**

You can call an Investor Services Representative at (800) 221-4268 or you can request a copy of the Plan for your Fund from Computershare. All correspondence (including notifications) should be directed to: [Name of Fund] Distribution Reinvestment and Cash Purchase Plan, c/o Computershare, PO Box 43010, Providence, RI 02940-3010, telephone (800) 426-5523.

**ROYCE VALUE TRUST****Schedule of Investments**

|  | SHARES  | VALUE             |   | SHARES  | VALUE             |
|--|---------|-------------------|---|---------|-------------------|
| <b>COMMON STOCKS</b> □                       |         |                   | <b>Restaurants and Lodgings</b>             |         |                   |
| <b>104.9%</b>                                |         |                   | - 0.9%                                      |         |                   |
| <b>Consumer Products</b> □ <b>5.0%</b>       |         |                   | Benihana Cl. A <sup>a</sup>                 | 6,600   | \$ 152,064        |
| Apparel and Shoes - 2.1%                     |         |                   | CEC Entertainment <sup>a,c</sup>            | 121,400 | 4,132,456         |
| Brown Shoe Company                           | 15,000  | \$ 636,450        | IHOP Corporation                            | 93,400  | 4,381,394         |
| Columbia Sportswear Company <sup>a,c</sup>   | 34,600  | 1,651,458         | Jack in the Box <sup>a</sup>                | 2,000   | 69,860            |
| Jones Apparel Group                          | 81,500  | 2,503,680         | Ryan's Restaurant Group <sup>a,c</sup>      | 7,200   | 86,832            |
| K-Swiss Cl. A                                | 105,000 | 3,406,200         | Steak n Shake Company (The) <sup>a</sup>    | 70,000  | 1,186,500         |
| Oakley                                       | 94,900  | 1,394,081         |   |         | <u>10,009,106</u> |
| Polo Ralph Lauren Cl. A                      | 68,200  | 3,828,748         | <b>Retail Stores - 2.6%</b>                 |         |                   |
| Tandy Brands Accessories                     | 16,900  | 202,800           | BJ's Wholesale Club <sup>a,c</sup>          | 30,100  | 889,756           |
| Timberland Company Cl. A <sup>a</sup>        | 60,000  | 1,953,000         | Big Lots <sup>a</sup>                       | 255,300 | 3,066,153         |
| Tommy Hilfiger <sup>a</sup>                  | 50,000  | 812,000           | CarMax <sup>a,c</sup>                       | 103,000 | 2,851,040         |
| Weyco Group                                  | 307,992 | 5,882,647         | Children's Place Retail Stores <sup>a</sup> | 13,000  | 642,460           |
|  |         | <u>22,271,064</u> | Claire's Stores                             | 189,800 | 5,545,956         |
| <b>Collectibles - 0.1%</b>                   |         |                   | Cost Plus <sup>a,c</sup>                    | 83,700  | 1,435,455         |
| Enesco Group <sup>a</sup>                    | 174,800 | 321,632           | DSW Cl. A <sup>a,c</sup>                    | 10,000  | 262,200           |
|  |         | <u>321,632</u>    | GameStop Corporation Cl. A <sup>a,c</sup>   | 52,300  | 1,664,186         |
| <b>Food/Beverage/Tobacco - 0.3%</b>          |         |                   | Gander Mountain Company <sup>a,c</sup>      | 53,300  | 315,536           |
| Hain Celestial Group <sup>a,c</sup>          | 37,800  | 799,848           | Hot Topic <sup>a</sup>                      | 86,400  | 1,231,200         |
| Hershey Creamery Company                     | 709     | 1,418,000         | Krispy Kreme Doughnuts <sup>a,c</sup>       | 102,000 | 585,480           |
| Lancaster Colony                             | 16,900  | 626,145           | 99 Cents Only Stores <sup>a,c</sup>         | 95,000  | 993,700           |
|  |         | <u>2,843,993</u>  | Payless ShoeSource <sup>a</sup>             | 109,600 | 2,750,960         |
| <b>Home Furnishing and Appliances - 0.2%</b> |         |                   | Stein Mart                                  | 142,800 | 2,591,820         |
|  |         | <u>2,843,993</u>  | Urban Outfitters <sup>a</sup>               | 47,000  | 1,189,570         |
|  |         |                   | West Marine <sup>a,c</sup>                  | 31,100  | 434,778           |
|  |         |                   | Wet Seal (The) Cl. A <sup>a,c</sup>         | 162,000 | 719,280           |







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|  |         |            |  |         |            |
|--|---------|------------|--|---------|------------|
| Gladstone Commercial   | 30,000  | 494,700    | <b>Drugs and Biotech - 2.7%</b>                    |         |            |
|  |         |            | Affymetrix <sup>a,c</sup>                          | 49,100  | 2,344,525  |
| <b>Securities Brokers - 0.9%</b>                                   |         |            | Andrx Corporation <sup>a,c</sup>                   | 34,900  | 574,803    |
| E*TRADE Financial <sup>a</sup>                                     | 152,400 | 3,179,064  | Antigenics <sup>a,c</sup>                          | 99,300  | 472,668    |
| First Albany   | 350,100 | 2,433,195  | Cephalon <sup>a,c</sup>                            | 4,900   | 317,226    |
| Investment Technology Group <sup>a</sup>                           | 30,400  | 1,077,376  | Cerus Corporation <sup>a</sup>                     | 21,700  | 220,255    |
| Knight Capital Group Cl. A <sup>a,c</sup>                          | 229,700 | 2,271,733  | Connetics Corporation <sup>a,c</sup>               | 14,300  | 206,635    |
|  |         |            | DUSA Pharmaceuticals <sup>a,c</sup>                | 79,700  | 858,369    |
|  |         | 8,961,368  | Elan Corporation ADR <sup>a,c</sup>                | 292,100 | 4,068,953  |
|  |         |            | <b>Endo Pharmaceuticals Holdings<sup>a,c</sup></b> | 256,200 | 7,752,612  |
| <b>Other Financial Intermediaries - 0.1%</b>                       |         |            | Gene Logic <sup>a</sup>                            | 365,000 | 1,222,750  |
| Archipelago Holdings <sup>a,c</sup>                                | 17,400  | 865,998    | Hi-Tech Pharmacal <sup>a</sup>                     | 1,100   | 48,719     |
|  |         |            | Hollis-Eden Pharmaceuticals <sup>a,c</sup>         | 44,000  | 212,960    |
| <b>Total</b> (Cost \$55,982,131)                                   |         | 90,391,378 | Human Genome Sciences <sup>a,c</sup>               | 90,000  | 770,400    |
|  |         |            | K-V Pharmaceutical Company Cl. A <sup>a</sup>      | 47,000  | 968,200    |
| <b>Financial Services</b> <span style="font-size: 0.8em;">□</span> |         |            | Medicines Company (The) <sup>a,c</sup>             | 20,000  | 349,000    |
| <b>9.8%</b>  |         |            | Millennium Pharmaceuticals <sup>a,c</sup>          | 100,000 | 970,000    |
| <b>Information and Processing - 2.2%</b>                           |         |            | Myriad Genetics <sup>a,c</sup>                     | 50,000  | 1,040,000  |
| Advent Software <sup>a</sup>                                       | 116,800 | 3,376,688  | Perrigo Company                                    | 186,750 | 2,784,442  |
| eFunds Corporation <sup>a,c</sup>                                  | 126,875 | 2,973,950  | QLT <sup>a,c</sup>                                 | 1,000   | 6,360      |
| FactSet Research Systems   | 35,350  | 1,455,006  | SFBC International <sup>a,c</sup>                  | 10,000  | 160,100    |
| Global Payments  | 137,000 | 6,385,570  | Shire ADR  | 20,853  | 808,888    |
| Interactive Data   | 134,300 | 3,049,953  | Telik <sup>a,c</sup>                               | 73,000  | 1,240,270  |
| SEI Investments Company  | 141,200 | 5,224,400  | VIVUS <sup>a</sup>                                 | 163,300 | 483,368    |
|  |         | 22,465,567 |  |         |            |
|  |         |            |  |         | 27,881,503 |
| <b>Insurance Brokers - 1.1%</b>                                    |         |            | <b>Health Services - 1.2%</b>                      |         |            |
| Crawford & Company Cl. A   | 289,200 | 1,677,360  | Albany Molecular Research <sup>a</sup>             | 85,000  | 1,032,750  |
| Crawford & Company Cl. B   | 162,300 | 934,848    | Covance <sup>a,c</sup>                             | 52,700  | 2,558,585  |
| Gallagher (Arthur J.) & Company                                    | 111,200 | 3,433,856  | Cross Country Healthcare <sup>a</sup>              | 30,000  | 533,400    |
| Hilb Rogal & Hobbs Company   | 155,050 | 5,970,975  | Eclipsys Corporation <sup>a,c</sup>                | 20,000  | 378,600    |
|  |         | 12,017,039 | Gentiva Health Services <sup>a</sup>               | 30,150  | 444,411    |
| <b>Investment Management - 5.7%</b>                                |         |            |  |         |            |
| <b>Alliance Capital Management Holding L.P.</b>                    | 353,100 | 19,946,619 |  |         |            |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 21

ROYCE VALUE TRUST

## Schedule of Investments

|  | SHARES  | VALUE      |                                       | SHARES  | VALUE        |
|--|---------|------------|---------------------------------------|---------|--------------|
| <b>Health (continued)</b>                |         |            |                                       |         |              |
| Health Services (continued)              |         |            |                                       |         |              |
| HMS Holdings <sup>a</sup>                | 50,000  | \$ 382,500 | C & D Technologies                    | 345,700 | \$ 2,634,234 |
| Lincare Holdings <sup>a,c</sup>          | 34,600  | 1,450,086  | Donaldson Company                     | 92,800  | 2,951,040    |
| MedQuist <sup>a</sup>                    | 73,893  | 897,800    | GrafTech International <sup>a,c</sup> | 155,000 | 964,100      |
| National Home Health Care                | 20,000  | 195,200    | Intermagnetics General <sup>a,c</sup> | 4,350   | 138,765      |
| On Assignment <sup>a</sup>               | 425,400 | 4,641,114  | PerkinElmer                           | 135,000 | 3,180,600    |
| Quovadx <sup>a</sup>                     | 3,000   | 7,230      | Powell Industries <sup>a,c</sup>      | 92,400  | 1,659,504    |
|  |         |            | Woodhead Industries                   | 45,400  | 629,698      |
|  |         |            |                                       |         | <hr/>        |
|  |         |            |                                       |         | 16,454,881   |
|  |         | <hr/>      |                                       |         | <hr/>        |
|  |         | 12,521,676 |                                       |         |              |
|  |         | <hr/>      |                                       |         |              |
| <b>Medical Products and Devices</b>      |         |            |                                       |         |              |
| - 2.9%                                   |         |            |                                       |         |              |
| Allied Healthcare Products <sup>a</sup>  | 197,700 | 1,134,798  | <b>Machinery - 5.5%</b>               |         |              |
| Arrow International                      | 195,728 | 5,674,155  | Baldor Electric                       | 62,900  | 1,613,385    |
| ArthroCare Corporation <sup>a,c</sup>    | 10,000  | 421,400    | Coherent <sup>a,c</sup>               | 238,500 | 7,078,680    |
| Bruker BioSciences <sup>a</sup>          | 380,200 | 1,847,772  | Federal Signal                        | 58,600  | 879,586      |
| CONMED Corporation <sup>a</sup>          | 81,500  | 1,928,290  | Franklin Electric                     | 84,200  | 3,329,268    |
| Datascope                                | 12,000  | 396,600    | Graco                                 | 96,825  | 3,532,176    |
| Diagnostic Products                      | 25,000  | 1,213,750  | Hardinge                              | 309,300 | 5,335,425    |
| IDEXX Laboratories <sup>a,c</sup>        | 79,000  | 5,686,420  | IDEX Corporation                      | 36,000  | 1,479,960    |
| Invacare Corporation                     | 88,000  | 2,771,120  | <b>Lincoln Electric Holdings</b>      | 203,680 | 8,077,949    |
| Novoste Corporation <sup>a</sup>         | 16,625  | 37,074     | National Instruments                  | 56,400  | 1,807,620    |
| STERIS Corporation                       | 98,600  | 2,466,972  | Nordson Corporation                   | 172,200 | 6,975,822    |
| Thoratec Corporation <sup>a</sup>        | 2,000   | 41,380     | PAXAR Corporation <sup>a,c</sup>      | 273,100 | 5,360,953    |
| Varian Medical Systems <sup>a</sup>      | 61,600  | 3,100,944  | Rofin-Sinar Technologies <sup>a</sup> | 128,000 | 5,564,160    |
|  |         |            | T-3 Energy Services <sup>a</sup>      | 128,110 | 1,243,436    |
|  |         |            | UNOVA <sup>a,c</sup>                  | 3,000   | 101,400      |
|  |         |            | Woodward Governor                     |         |              |
| Young Innovations                        | 62,550  | 2,131,704  | Company                               | 51,600  | 4,438,116    |
| Zoll Medical <sup>a</sup>                | 20,200  | 508,838    |                                       |         | <hr/>        |
|  |         |            |                                       |         | 56,817,936   |
|  |         | <hr/>      |                                       |         | <hr/>        |
|  |         | 29,361,217 |                                       |         |              |
|  |         | <hr/>      |                                       |         |              |
| <b>Personal Care - 0.3%</b>              |         |            |                                       |         |              |
| Helen of Troy <sup>a,c</sup>             | 86,600  | 1,395,126  | <b>Metal Fabrication and</b>          |         |              |
| Inter Parfums                            | 500     | 8,980      | <b>Distribution - 2.1%</b>            |         |              |
| Nutraceutical International <sup>a</sup> | 22,800  | 308,940    | Commercial Metals Company             | 36,000  | 1,351,440    |
| USANA Health Sciences <sup>a,c</sup>     | 39,000  | 1,496,040  | CompX International Cl. A             | 292,300 | 4,682,646    |
|  |         |            | IPSCO                                 | 14,500  | 1,203,210    |
|  |         |            | Kaydon Corporation                    | 208,700 | 6,707,618    |
|  |         | <hr/>      | NN                                    | 127,100 | 1,347,260    |
|  |         | 3,209,086  |                                       |         | <hr/>        |
|  |         | <hr/>      | Novamerican Steel <sup>a</sup>        | 10,800  | 425,099      |
|  |         |            | Oregon Steel Mills <sup>a,c</sup>     | 158,100 | 4,651,302    |
|  |         |            | Schnitzer Steel Industries Cl.        |         |              |
|  |         |            | A                                     | 34,000  | 1,040,060    |
|  |         |            |                                       |         | <hr/>        |
|  |         |            |                                       |         | 21,408,635   |
|  |         |            |                                       |         | <hr/>        |
| <b>Total</b> (Cost \$55,353,224)         |         | 82,621,527 |                                       |         |              |
|  |         | <hr/>      |                                       |         |              |
| <b>Industrial Products</b> □             |         |            |                                       |         |              |
| <b>17.1%</b>                             |         |            |                                       |         |              |
| <b>Automotive - 0.8%</b>                 |         |            |                                       |         |              |
| CLARCOR                                  | 83,500  | 2,480,785  | <b>Paper and Packaging - 0.1%</b>     |         |              |
| LKQ Corporation <sup>a</sup>             | 128,000 | 4,431,360  | Peak International <sup>a</sup>       | 408,400 | 1,082,260    |
|  |         |            |                                       |         | <hr/>        |

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|  |         |            |  |         |            |
|--|---------|------------|--|---------|------------|
| Quantam Fuel Systems Technologies Worldwide <sup>a,c</sup> | 15,500  | 41,540     | Pumps, Valves and Bearings - 0.2%        |         |            |
| Superior Industries International                          | 52,000  | 1,157,520  | Conbraco Industries <sup>a</sup>         | 7,630   | 2,151,660  |
|  |         |            |  |         |            |
|  |         |            | Specialty Chemicals and Materials - 1.8% |         |            |
|  |         | 8,111,205  | Aceto Corporation                        | 1,050   | 6,909      |
|  |         |            | Bairnco Corporation                      | 43,000  | 374,960    |
| Building Systems and Components - 1.3%                     |         |            | Balchem Corporation                      | 7,500   | 223,575    |
| Decker Manufacturing                                       | 6,022   | 216,792    | CFC International <sup>a</sup>           | 99,000  | 1,390,059  |
| Preformed Line Products Company                            | 91,600  | 3,919,564  | Cabot Corporation                        | 56,500  | 2,022,700  |
| <b>Simpson Manufacturing</b>                               | 250,800 | 9,116,580  | Hawkins                                  | 206,878 | 2,894,223  |
|  |         |            | Lydall <sup>a</sup>                      | 35,500  | 289,325    |
|  |         | 13,252,936 | <b>MacDermid</b>                         | 259,831 | 7,249,285  |
|  |         |            | Schulman (A.)                            | 183,100 | 3,940,312  |
| Construction Materials - 1.6%                              |         |            | Sensient Technologies                    | 22,000  | 393,800    |
| <b>Ash Grove Cement Company Cl. B</b>                      | 50,518  | 9,093,240  |  |         |            |
| ElkCorp  | 48,000  | 1,615,680  |  |         | 18,785,148 |
| Florida Rock Industries                                    | 25,475  | 1,249,803  |  |         |            |
| Heywood Williams Group <sup>a</sup>                        | 958,837 | 1,670,301  | Textiles - 0.1%                          |         |            |
| Synalloy Corporation <sup>a,b</sup>                        | 345,000 | 3,610,080  | Unifi <sup>a</sup>                       | 165,100 | 501,904    |
|  |         |            |  |         |            |
|  |         | 17,239,104 | Other Industrial Products - 2.0%         |         |            |
| Industrial Components - 1.6%                               |         |            | <b>Brady Corporation Cl. A</b>           | 228,800 | 8,277,984  |
| AMETEK   | 86,000  | 3,658,440  | Diebold                                  | 85,000  | 3,230,000  |
| Barnes Group   | 2,000   | 66,000     | Kimball International Cl. B              | 437,380 | 4,649,349  |
| Bel Fuse Cl. A   | 22,900  | 572,500    |  |         |            |

22 | THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

DECEMBER 31, 2005

|  | SHARES | VALUE      |                                     | SHARES | VALUE        |
|--|--------|------------|-------------------------------------|--------|--------------|
| <b>Industrial Products (continued)</b> |        |            | Printing - 0.1%                     |        |              |
| Other Industrial Products (continued)  |        |            | Bowne & Co.                         | 68,100 | \$ 1,010,604 |
| Maxwell Technologies <sup>a</sup>      | 21,500 | \$ 304,655 |                                     |        |              |
| Myers Industries                       | 30,499 | 444,675    | Transportation and Logistics - 3.8% |        |              |

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|   |         |             |  |                    |                        |
|---|---------|-------------|--|--------------------|------------------------|
| Peerless Manufacturing <sup>a,b</sup>           | 158,600 | 2,775,500   | Alexander & Baldwin<br>Atlas Air Worldwide<br>Holdings <sup>a</sup>    | 60,000<br>29,000   | 3,254,400<br>1,290,500 |
| Steelcase Cl. A                                 | 50,000  | 791,500     | C. H. Robinson Worldwide<br>Continental Airlines Cl. B <sup>a,c</sup>  | 80,000<br>100,000  | 2,962,400<br>2,130,000 |
|   |         | 20,473,663  | EGL <sup>a,c</sup>   | 123,125            | 4,625,806              |
| <b>Total</b> (Cost \$105,116,347)               |         | 176,279,332 | <b>Forward Air</b><br>Frozen Food Express<br>Industries <sup>a,c</sup> | 234,750<br>286,635 | 8,603,587<br>3,161,584 |
| <b>Industrial Services</b> □                    |         |             | Hub Group Cl. A <sup>a</sup>   | 87,200             | 3,082,520              |
| <b>13.3%</b>                                    |         |             | Landstar System<br>Patriot Transportation<br>Holding <sup>a</sup>      | 11,200<br>96,300   | 467,488<br>6,247,944   |
| Advertising and Publishing -<br>0.7%            |         |             | UTI Worldwide  | 35,000             | 3,249,400              |
| Interpublic Group of<br>Companies <sup>a</sup>  | 510,000 | 4,921,500   |  |                    | 39,075,629             |
| Lamar Advertising Company<br>Cl. A <sup>a</sup> | 24,000  | 1,107,360   |  |                    |                        |
| ValueClick <sup>a,c</sup>                       | 45,000  | 814,950     |  |                    | 6,843,810              |
|   |         | 6,843,810   | <b>Other Industrial Services -</b><br>0.5%                             |                    |                        |
| <b>Commercial Services - 4.7%</b>               |         |             | Landauer   | 117,900            | 5,434,011              |
| ABM Industries                                  | 134,800 | 2,635,340   |  |                    | 137,016,560            |
| Aaron Rents                                     | 4,500   | 94,860      | <b>Total</b> (Cost \$78,612,248)                                       |                    |                        |
| Allied Waste Industries <sup>a</sup>            | 188,800 | 1,650,112   | <b>Natural Resources</b> □   |                    |                        |
|   |         |             | <b>9.4%</b>  |                    |                        |
| BB Holdings                                     | 194,900 | 1,319,473   | <b>Energy Services - 3.1%</b>  |                    |                        |
| Central Parking                                 | 18,300  | 251,076     | Atwood Oceanics <sup>a,c</sup>   | 14,700             | 1,147,041              |
| Convergys Corporation <sup>a</sup>              | 121,000 | 1,917,850   | <b>Carbo Ceramics</b>  | 148,400            | 8,387,568              |
| Copart <sup>a,c</sup>                           | 158,100 | 3,645,786   | Core Laboratories <sup>a,c</sup>                                       | 10,000             | 373,600                |
| First Advantage Cl. A <sup>a,c</sup>            | 5,000   | 133,550     | ENSCO International  | 6,443              | 285,747                |
| Hewitt Associates Cl. A <sup>a,c</sup>          | 104,000 | 2,913,040   | Global Industries <sup>a</sup>   | 54,500             | 618,575                |
| <b>Iron Mountain<sup>a,c</sup></b>              | 181,175 | 7,649,209   | Hanover Compressor<br>Company <sup>a,c</sup>                           | 160,000            | 2,257,600              |
| Laureate Education <sup>a,c</sup>               | 75,000  | 3,938,250   | Helmerich & Payne  | 62,300             | 3,856,993              |
| Learning Tree International <sup>a,c</sup>      | 53,400  | 685,122     | Input/Output <sup>a</sup>  | 669,100            | 4,703,773              |
| <b>MPS Group<sup>a</sup></b>                    | 564,600 | 7,718,082   | Key Energy Services <sup>a</sup>                                       | 10,000             | 134,700                |
| Manpower  | 105,800 | 4,919,700   | TETRA Technologies <sup>a,c</sup>                                      | 43,000             | 1,312,360              |
| Monster Worldwide <sup>a</sup>                  | 64,000  | 2,612,480   | Tidewater  | 14,000             | 622,440                |
| New Horizons Worldwide <sup>a</sup>             | 228,600 | 157,734     | Universal Compression<br>Holdings <sup>a,c</sup>                       | 105,000            | 4,317,600              |
| RemedyTemp Cl. A <sup>a</sup>                   | 160,700 | 1,486,475   | Veritas DGC <sup>a</sup>   | 5,000              | 177,450                |
| Renaissance Learning                            | 15,000  | 283,650     | W-H Energy Services <sup>a</sup>                                       | 33,800             | 1,118,104              |
| Reynolds & Reynolds<br>Company Cl. A            | 27,000  | 757,890     | Willbros Group <sup>a,c</sup>  | 207,600            | 2,997,744              |
| Rollins   | 130,500 | 2,572,155   |  |                    | 32,311,295             |
| Spherion Corporation <sup>a</sup>               | 53,000  | 530,530     | <b>Oil and Gas - 3.2%</b>  |                    |                        |
| TRC Companies <sup>a</sup>                      | 3,600   | 39,420      | Bill Barrett <sup>a,c</sup>  | 50,000             | 1,930,500              |
| Viad Corporation                                | 9,025   | 264,703     | <b>Cimarex Energy<sup>a</sup></b>                                      | 208,990            | 8,988,660              |
| Wright Express <sup>a,c</sup>                   | 30,000  | 660,000     | Houston Exploration<br>Company (The) <sup>a,c</sup>                    | 50,000             | 2,640,000              |
|   |         | 48,836,487  | Penn Virginia  | 23,300             | 1,337,420              |
| <b>Engineering and<br/>Construction - 1.4%</b>  |         |             | Pioneer Drilling Company <sup>a,c</sup>                                | 65,800             | 1,179,794              |
| Dycom Industries <sup>a,c</sup>                 | 66,000  | 1,452,000   |  |                    |                        |

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|  |         |                   |  |         |                   |
|--|---------|-------------------|--|---------|-------------------|
| Fleetwood Enterprises <sup>a</sup>           | 234,300 | 2,893,605         | Plains Exploration & Production Company <sup>a,c</sup> | 76,500  | 3,039,345         |
| Foster Wheeler <sup>a</sup>                  | 21,000  | 772,380           | Pogo Producing Company                                 | 1,700   | 84,677            |
| Insituform Technologies Cl. A <sup>a,c</sup> | 174,300 | 3,376,191         | Remington Oil & Gas <sup>a</sup>                       | 78,500  | 2,865,250         |
| Jacobs Engineering Group <sup>a</sup>        | 10,000  | 678,700           | <b>SEACOR Holdings<sup>a,c</sup></b>                   | 153,500 | 10,453,350        |
| Washington Group International <sup>c</sup>  | 100,000 | 5,297,000         | Stone Energy <sup>a</sup>                              | 18,500  | 842,305           |
|  |         | <u>14,469,876</u> |  |         | <u>33,361,301</u> |
| <b>Food and Tobacco Processors - 0.4%</b>    |         |                   | <b>Precious Metals and Mining - 2.2%</b>               |         |                   |
| MGP Ingredients                              | 216,400 | 2,553,520         | Agnico-Eagle Mines                                     | 66,500  | 1,314,040         |
| Seneca Foods Cl. A <sup>a</sup>              | 59,400  | 1,143,450         | Apex Silver Mines <sup>a</sup>                         | 38,500  | 612,150           |
| Seneca Foods Cl. B <sup>a</sup>              | 10,900  | 198,925           | Bema Gold <sup>a</sup>                                 | 300,000 | 873,000           |
|  |         | <u>3,895,895</u>  | Etruscan Resources <sup>a</sup>                        | 675,900 | 930,311           |
|  |         |                   | Gammon Lake Resources <sup>a</sup>                     | 206,300 | 2,454,970         |
| <b>Industrial Distribution - 1.7%</b>        |         |                   | Glamis Gold <sup>a</sup>                               | 237,000 | 6,512,760         |
| Central Steel & Wire                         | 5,634   | 3,222,648         | Golden Star Resources <sup>a</sup>                     | 135,000 | 356,400           |
| <b>Ritchie Bros. Auctioneers</b>             | 310,400 | 13,114,400        | Hecla Mining Company <sup>a</sup>                      | 598,000 | 2,427,880         |
| Strategic Distribution <sup>a</sup>          | 115,000 | 1,113,200         | IAMGOLD Corporation                                    | 220,000 | 1,720,400         |
|  |         | <u>17,450,248</u> |  |         |                   |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 23

## ROYCE VALUE TRUST

### Schedule of Investments

|   | SHARES  | VALUE             |                                       | SHARES    | VALUE             |
|---|---------|-------------------|---------------------------------------|-----------|-------------------|
| <b>Natural Resources (continued)</b>          |         |                   | Vishay Intertechnology <sup>a,c</sup> | 186,000   | \$ 2,559,360      |
| <b>Precious Metals and Mining (continued)</b> |         |                   | Western Digital <sup>a,c</sup>        | 5,000     | 93,050            |
| Ivanhoe Mines <sup>a,c</sup>                  | 140,000 | \$ 1,006,600      | Zebra Technologies Cl. A <sup>a</sup> | 76,525    | 3,279,096         |
| Meridian Gold <sup>a,c</sup>                  | 128,500 | 2,810,295         |                                       |           | <u>71,794,622</u> |
| Miramar Mining <sup>a</sup>                   | 245,000 | 612,500           |                                       |           |                   |
| Pan American Silver <sup>a,c</sup>            | 46,000  | 866,180           | <b>Distribution - 1.9%</b>            |           |                   |
| Stillwater Mining Company <sup>a,c</sup>      | 10,780  | 124,725           | Agilysys                              | 165,125   | 3,008,578         |
|   |         | <u>22,622,211</u> | Anixter International                 | 78,900    | 3,086,568         |
|   |         |                   | Benchmark Electronics <sup>a</sup>    | 138,800   | 4,667,844         |
| <b>Real Estate - 0.7%</b>                     |         |                   | Brightpoint <sup>a,c</sup>            | 33,500    | 928,955           |
| Alico   | 27,000  | 1,220,130         | Solectron Coporation <sup>a</sup>     | 1,140,000 | 4,172,400         |

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|   |         |            |  |         |            |
|---|---------|------------|--|---------|------------|
| CB Richard Ellis Group Cl. A <sup>a</sup> | 70,000  | 4,119,500  | Tech Data <sup>a,c</sup>                     | 86,500  | 3,432,320  |
| Consolidated-Tomoka Land                  | 13,564  | 961,688    |  |         |            |
| Trammell Crow Company <sup>a,c</sup>      | 46,500  | 1,192,725  |  |         | 19,296,665 |
|   |         | <hr/>      |  |         |            |
|   |         | 7,494,043  | <b>Internet Software and Services - 1.1%</b> |         |            |
| <b>Other Natural Resources - 0.2%</b>     |         |            | Arbinet-thexchange <sup>a,c</sup>            | 87,200  | 611,272    |
| PICO Holdings <sup>a</sup>                | 55,200  | 1,780,752  | CNET Networks <sup>a,c</sup>                 | 155,400 | 2,282,826  |
|   |         | <hr/>      | CryptoLogic                                  | 137,000 | 2,683,830  |
| <b>Total</b> (Cost \$57,309,057)          |         | <hr/>      | CyberSource Corporation <sup>a,c</sup>       | 10,000  | 66,000     |
|   |         | 97,569,602 | eResearch Technology <sup>a,c</sup>          | 72,000  | 1,087,200  |
|   |         |            | Internet Security Systems <sup>a</sup>       | 40,000  | 838,000    |
| <b>Technology □ 22.5%</b>                 |         |            | Lionbridge Technologies <sup>a</sup>         | 37,500  | 263,250    |
| <b>Aerospace and Defense - 0.8%</b>       |         |            | RSA Security <sup>a,c</sup>                  | 14,000  | 157,220    |
| Allied Defense Group (The) <sup>a</sup>   | 45,700  | 1,040,589  | RealNetworks <sup>a,c</sup>                  | 245,400 | 1,904,304  |
| Armor Holdings <sup>a,c</sup>             | 33,000  | 1,407,450  | S1 Corporation <sup>a,c</sup>                | 20,000  | 87,000     |
|   |         |            | Satyam Computer Services                     |         |            |
| Astronics Corporation <sup>a</sup>        | 52,400  | 555,440    | ADR  | 20,000  | 731,800    |
| Ducommun <sup>a</sup>                     | 117,200 | 2,503,392  | SupportSoft <sup>a</sup>                     | 170,000 | 717,400    |
| Herley Industries <sup>a</sup>            | 2,000   | 33,020     |  |         |            |
| Hexcel Corporation <sup>a,c</sup>         | 72,800  | 1,314,040  |  |         | 11,430,102 |
| Integral Systems                          | 49,800  | 939,228    |  |         |            |
|   |         | <hr/>      |  |         |            |
|   |         | 7,793,159  | <b>IT Services - 4.0%</b>                    |         |            |
| <b>Components and Systems - 7.0%</b>      |         |            | answerthink <sup>a</sup>                     | 655,000 | 2,783,750  |
| Adaptec <sup>a,c</sup>                    | 167,000 | 971,940    | BearingPoint <sup>a,c</sup>                  | 649,000 | 5,101,140  |
| American Power Conversion                 | 151,200 | 3,326,400  | Black Box                                    | 47,000  | 2,226,860  |
| Analogic Corporation                      | 40,900  | 1,957,065  | CACI International Cl. A <sup>a</sup>        | 10,000  | 573,800    |
|   |         |            | CGI Group Cl. A <sup>a</sup>                 | 136,700 | 1,101,802  |
| Belden CDT                                | 57,800  | 1,412,054  | CIBER <sup>a,c</sup>                         | 10,000  | 66,000     |
| Checkpoint Systems <sup>a</sup>           | 52,000  | 1,281,800  | Cogent Communications                        |         |            |
| Dionex Corporation <sup>a</sup>           | 81,000  | 3,975,480  | Group <sup>a,c</sup>                         | 55,000  | 301,950    |
|   |         |            | Computer Task Group <sup>a</sup>             | 101,100 | 399,345    |
| Electronics for Imaging <sup>a,c</sup>    | 25,000  | 665,250    | Covansys Corporation <sup>a</sup>            | 238,900 | 3,251,429  |
| Energy Conversion Devices <sup>a,c</sup>  | 146,300 | 5,961,725  | DiamondCluster                               |         |            |
| Excel Technology <sup>a,c</sup>           | 168,500 | 4,006,930  | International <sup>a</sup>                   | 80,400  | 638,376    |
| Hutchinson Technology <sup>a,c</sup>      | 42,800  | 1,217,660  | Forrester Research <sup>a</sup>              | 40,300  | 755,625    |
| Imation Corporation                       | 15,700  | 723,299    | Gartner Cl. A <sup>a</sup>                   | 126,000 | 1,625,400  |
| InFocus Corporation <sup>a</sup>          | 245,800 | 985,658    | Keane <sup>a</sup>                           | 443,000 | 4,877,430  |
| KEMET Corporation <sup>a</sup>            | 95,600  | 675,892    | MAXIMUS                                      | 127,900 | 4,692,651  |
| Kronos <sup>a</sup>                       | 38,775  | 1,623,121  | Perot Systems Cl. A <sup>a</sup>             | 165,100 | 2,334,514  |
| Methode Electronics                       | 50,000  | 498,500    | Sapient Corporation <sup>a,c</sup>           | 731,602 | 4,162,815  |
| Metrologic Instruments <sup>a,c</sup>     | 15,000  | 288,900    | Syntel                                       | 152,679 | 3,180,304  |
| <b>Newport Corporation<sup>a,c</sup></b>  | 642,200 | 8,695,388  | TriZetto Group (The) <sup>a,c</sup>          | 215,200 | 3,656,248  |
| On Track Innovations <sup>a,c</sup>       | 40,000  | 547,200    |  |         |            |
|   |         |            |  |         | 41,729,439 |
| Perceptron <sup>a</sup>                   | 397,400 | 2,813,592  | <b>Semiconductors and Equipment - 2.3%</b>   |         |            |
|   |         |            | BE Semiconductor                             |         |            |
| <b>Plexus Corporation<sup>a,c</sup></b>   | 325,700 | 7,406,418  | Industries <sup>a,c</sup>                    | 58,000  | 269,700    |
| Power-One <sup>a</sup>                    | 10,000  | 60,200     | Brooks Automation <sup>a</sup>               | 53,000  | 664,090    |
| REMEC <sup>a</sup>                        | 143,387 | 182,101    | Cabot Microelectronics <sup>a</sup>          | 131,200 | 3,848,096  |
| Radiant Systems <sup>a</sup>              | 32,500  | 395,200    | CEVA <sup>a</sup>                            | 31,666  | 198,229    |
| Richardson Electronics                    | 201,000 | 1,457,250  | Cognex Corporation                           | 55,300  | 1,663,977  |
| SafeNet <sup>a,c</sup>                    | 36,240  | 1,167,653  | Conexant Systems <sup>a,c</sup>              | 11,980  | 27,075     |

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|                                 |         |           |                                 |         |           |
|---------------------------------|---------|-----------|---------------------------------|---------|-----------|
| Symbol Technologies             | 99,389  | 1,274,167 | Credence Systems <sup>a,c</sup> | 53,600  | 373,056   |
| TTM Technologies <sup>a</sup>   | 221,400 | 2,081,160 | Cymer <sup>a,c</sup>            | 14,500  | 514,895   |
| Technitrol                      | 322,400 | 5,513,040 | DSP Group <sup>a</sup>          | 115,000 | 2,881,900 |
| Tektronix                       | 159,680 | 4,504,573 | DTS <sup>a</sup>                | 64,100  | 948,680   |
| UQM Technologies <sup>a,c</sup> | 50,000  | 193,500   | Exar Corporation <sup>a</sup>   | 181,976 | 2,278,340 |

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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

DECEMBER 31, 2005

|   | SHARES  | VALUE      |  | SHARES      | VALUE         |
|---|---------|------------|--|-------------|---------------|
| <b>Technology (continued)</b>             |         |            | <b>Utilities</b> $\square$ <b>0.2%</b> |             |               |
| Semiconductors and Equipment (continued)  |         |            | CH Energy Group                        | 44,500      | \$ 2,042,550  |
| Fairchild Semiconductor                   |         |            | Southern Union <sup>a</sup>            | 11,576      | 273,541       |
| International Cl. A <sup>a,c</sup>        | 51,200  | \$ 865,792 | <b>Total</b> (Cost \$2,127,413)        |             | 2,316,091     |
| International Rectifier <sup>a,c</sup>    | 20,000  | 638,000    |  |             |               |
| Intevac <sup>a,c</sup>                    | 57,450  | 758,340    | <b>Miscellaneous (e)</b> $\square$     |             |               |
| Kulicke & Soffa Industries <sup>a,c</sup> | 105,800 | 935,272    | <b>4.9%</b>                            |             |               |
| MEMC Electronic Materials <sup>a,c</sup>  | 36,000  | 798,120    | <b>Total</b> (Cost \$47,892,514)       |             | 50,516,897    |
| Novellus Systems <sup>a,c</sup>           | 53,800  | 1,297,656  |  |             |               |
| OmniVision Technologies <sup>a</sup>      | 38,800  | 774,448    | <b>TOTAL COMMON STOCKS</b>             |             | 1,082,864,290 |
| Sanmina-SCI Corporation <sup>a</sup>      | 100,000 | 426,000    | (Cost \$722,347,336)                   |             |               |
| Semitool <sup>a</sup>                     | 50,000  | 544,000    | <b>PREFERRED STOCKS</b> $\square$      |             |               |
| Silicon Storage Technology <sup>a</sup>   | 88,900  | 448,945    | <b>0.2%</b>                            |             |               |
| Staktek Holdings <sup>a</sup>             | 184,700 | 1,374,168  | Aristotle Corporation                  |             |               |
| Veeco Instruments <sup>a</sup>            | 65,000  | 1,126,450  | 11.00% Conv.                           | 4,800       | 37,440        |
|   |         |            | Seneca Foods Conv. <sup>a</sup>        | 100         | 1,900         |
|   |         |            | Seneca Foods Conv. <sup>a,d</sup>      | 85,000      | 1,472,625     |
|   |         | 23,655,229 | <b>TOTAL PREFERRED STOCKS</b>          |             | 1,511,965     |
|   |         |            | (Cost \$1,311,958)                     |             |               |
| <b>Software - 2.8%</b>                    |         |            | <b>PRINCIPAL AMOUNT</b>                |             |               |
| Adobe Systems                             | 71,207  | 2,631,811  | <b>CORPORATE BONDS</b> $\square$       |             |               |
| ANSYS <sup>a,c</sup>                      | 20,000  | 853,800    | <b>0.1%</b>                            |             |               |
| Aspen Technology <sup>a</sup>             | 27,100  | 212,735    | Athena Neurosciences                   |             |               |
| Business Objects ADR <sup>a</sup>         | 20,500  | 828,405    | Finance 7.25%                          |             |               |
| Dendrite International <sup>a,c</sup>     | 35,000  | 504,350    | Senior Note due 2/21/08                | \$1,000,000 | 976,250       |
| iPass <sup>a,c</sup>                      | 268,400 | 1,760,704  | Dixie Group 7.00%                      |             |               |
| JDA Software Group <sup>a</sup>           | 99,900  | 1,699,299  |  |             |               |



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|  |         |                    |  |         |                    |
|--|---------|--------------------|--|---------|--------------------|
| MRO Software <sup>a,c</sup>  | 46,000  | 645,840            | Conv. Sub. Deb. due<br>5/15/12   | 445,000 | 427,200            |
| ManTech International Cl.<br>A <sup>a,c</sup>                              | 119,400 | 3,326,484          |  |         |                    |
| Manugistics Group <sup>a,c</sup>   | 49,200  | 86,100             |  |         |                    |
| Novell <sup>a</sup>  | 20,000  | 176,600            |  |         |                    |
| PLATO Learning <sup>a</sup>  | 149,642 | 1,188,157          |  |         |                    |
| Progress Software <sup>a</sup>   | 30,500  | 865,590            |  |         |                    |
| SPSS <sup>a</sup>  | 179,600 | 5,555,028          |  |         |                    |
| Sybase <sup>a,c</sup>  | 82,600  | 1,805,636          |  |         |                    |
| Transaction Systems<br>Architects Cl. A <sup>a</sup>                       | 203,150 | 5,848,689          |  |         |                    |
| Verint Systems <sup>a,c</sup>  | 40,000  | 1,378,800          |  |         |                    |
|  |         | <u>29,368,028</u>  |  |         |                    |
|  |         |                    | <b>TOTAL CORPORATE<br/>BONDS</b><br>(Cost \$1,213,707)   |         | <u>1,403,450</u>   |
|  |         |                    | <b>REPURCHASE<br/>AGREEMENTS</b> □ <b>16.2%</b><br>State Street Bank & Trust<br>Company,<br>4.10% dated 12/30/05,<br>due 1/3/06,<br>maturity value<br>\$82,000,339<br>(collateralized<br>by obligations of various<br>U.S. Government<br>Agencies, valued at<br>\$84,015,178)<br>(Cost \$81,963,000) |         | <u>81,963,000</u>  |
| <b>Telecommunications - 2.6%</b>   |         |                    |  |         |                    |
| ADTRAN   | 65,000  | 1,933,100          | Lehman Brothers<br>(Tri-Party),<br>4.05% dated 12/30/05,<br>due 1/3/06,<br>maturity value<br>\$85,038,250<br>(collateralized<br>by obligations of various<br>U.S. Government<br>Agencies, valued at<br>\$86,742,959)<br>(Cost \$85,000,000)  |         |                    |
| Broadwing Corporation <sup>a</sup>   | 1,000   | 6,050              |  |         |                    |
| Catapult Communications <sup>a,c</sup>                                     | 75,100  | 1,110,729          |  |         |                    |
| China Techfaith Wireless<br>Communication<br>Technology ADR <sup>a,c</sup> | 100,000 | 1,349,990          |  |         |                    |
| Covad Communications<br>Group <sup>a,c</sup>                               | 35,000  | 34,300             |  |         |                    |
| Foundry Networks <sup>a,c</sup>  | 373,400 | 5,156,654          |  |         |                    |
| Globecomm Systems <sup>a,c</sup>   | 233,700 | 1,441,929          |  |         |                    |
| IDT Corporation <sup>a</sup>   | 25,000  | 289,000            |  |         |                    |
| IDT Corporation Cl. B <sup>a,c</sup>                                       | 65,000  | 760,500            |  |         |                    |
| Level 3 Communications <sup>a,c</sup>                                      | 200,000 | 574,000            |  |         |                    |
| PECO II <sup>a,c</sup>   | 93,600  | 167,544            |  |         |                    |
| Polycom <sup>a,c</sup>   | 95,000  | 1,453,500          |  |         |                    |
| Scientific-Atlanta   | 117,300 | 5,052,111          |  |         |                    |
| Time Warner Telecom Cl.<br>A <sup>a,c</sup>                                | 179,000 | 1,763,150          |  |         |                    |
| Tollgrade Communications <sup>a</sup>                                      | 20,000  | 218,600            |  |         |                    |
| USA Mobility <sup>c</sup>  | 84,500  | 2,342,340          |  |         |                    |
| West Corporation <sup>a</sup>  | 75,000  | 3,161,250          |  |         |                    |
| Yak Communications <sup>a,c</sup>  | 20,000  | 63,400             |  |         |                    |
|  |         | <u>26,878,147</u>  |  |         |                    |
|  |         |                    | <b>TOTAL REPURCHASE<br/>AGREEMENTS</b><br>(Cost \$166,963,000)   |         | <u>166,963,000</u> |
|  |         |                    | <b>COLLATERAL RECEIVED FOR<br/>SECURITIES LOANED</b> □ <b>7.1%</b><br>U.S. Treasury Bonds<br>5.25%-8.125% due<br>8/15/19-5/15/30<br>Money Market Funds<br>State Street Navigator<br>Securities Lending   |         | 286,945            |
|  |         |                    | Prime Portfolio  |         | <u>73,215,181</u>  |
|  |         |                    | <b>TOTAL COLLATERAL<br/>RECEIVED FOR<br/>SECURITIES LOANED</b><br>(Cost \$73,502,126)  |         | <u>73,502,126</u>  |
| <b>Total</b> (Cost \$170,978,081)  |         | <u>231,945,391</u> |  |         |                    |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 25

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**ROYCE VALUE TRUST**
**DECEMBER 31, 2005**


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**Schedule of Investments**

|  | <b>VALUE</b>                   |
|--|--------------------------------|
| <b>TOTAL INVESTMENTS</b> <input type="checkbox"/> <b>128.5%</b><br>(Cost \$965,338,127)        | \$ 1,326,244,831               |
| <b>LIABILITIES LESS CASH<br/>AND OTHER ASSETS</b> <input type="checkbox"/> <b>(7.2)%</b>       | (74,124,745)                   |
| <b>PREFERRED STOCK</b> <input type="checkbox"/> <b>(21.3)%</b>                                 | (220,000,000)                  |
| <b>NET ASSETS APPLICABLE TO<br/>COMMON STOCKHOLDERS</b> <input type="checkbox"/> <b>100.0%</b> | <u><u>\$ 1,032,120,086</u></u> |

<sup>a</sup> Non-income producing.

<sup>b</sup> At December 31, 2005, the Fund owned 5% or more of the Company's outstanding voting securities thereby making the Company an Affiliated Company as that term is defined in the Investment Company Act of 1940.

<sup>c</sup> A portion of these securities were on loan at December 31, 2005. Total market value of loaned securities at December 31, 2005 was \$71,476,901.

<sup>d</sup> A security for which market quotations are no longer readily available represents 0.1% of net assets. This security has been valued at its fair value under procedures established by the Fund's Board of Directors.

<sup>e</sup> Includes securities first acquired in 2005 and less than 1% of net assets applicable to Common Stockholders.

New additions in 2005.

**Bold indicates the Fund's largest 20 equity holdings in terms of December 31, 2005 market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$967,562,248. At December 31, 2005, net unrealized appreciation for all securities was \$358,682,583, consisting of aggregate gross unrealized appreciation of \$390,700,568 and aggregate gross unrealized depreciation of \$32,017,985. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and unrealized gains on investments in Passive Foreign Investment Companies.

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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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**ROYCE VALUE TRUST**
**DECEMBER 31, 2005**

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**Statement of Assets and Liabilities**


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**ASSETS:**

|   |                      |
|---|----------------------|
| Investments at value (including collateral on loaned securities)* |                      |
| Non-Affiliates (Cost \$795,757,459)                               | \$ 1,152,896,251     |
| Affiliated Companies (Cost \$2,617,668)                           | 6,385,580            |
| <hr/>   |                      |
| Total investments at value  | 1,159,281,831        |
| Repurchase agreements (at cost and value)                         | 166,963,000          |
| Cash  | 1,137,297            |
| Receivable for investments sold                                   | 4,883,179            |
| Receivable for dividends and interest                             | 782,662              |
| Prepaid expenses  | 29,550               |
| <hr/>   |                      |
| <b>Total Assets</b>   | <b>1,333,077,519</b> |

**LIABILITIES:**

|  |                   |
|--|-------------------|
| Payable for collateral on loaned securities      | 73,502,126        |
| Payable for investments purchased                | 5,583,642         |
| Payable for investment advisory fee              | 1,204,581         |
| Preferred dividends accrued but not yet declared | 288,452           |
| Accrued expenses                                 | 378,632           |
| <hr/>  |                   |
| <b>Total Liabilities</b>                         | <b>80,957,433</b> |

**PREFERRED STOCK:**

|   |                    |
|---|--------------------|
| 5.90% Cumulative Preferred Stock □ \$0.001 par value, \$25 liquidation value per share;<br>8,800,000 shares outstanding | 220,000,000        |
| <hr/>   |                    |
| <b>Total Preferred Stock</b>  | <b>220,000,000</b> |

|   |                         |
|---|-------------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 1,032,120,086</b> |
|---|-------------------------|

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**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

|  |                         |
|--|-------------------------|
| Common Stock paid-in capital □ \$0.001 par value per share; 54,710,798 shares outstanding<br>(150,000,000 shares authorized) | \$ 664,322,777          |
| Undistributed net investment income (loss)   | 321,412                 |
| Accumulated net realized gain (loss) on investments  | 6,857,642               |
| Net unrealized appreciation (depreciation) on investments  | 360,906,704             |
| Preferred dividends accrued but not yet declared   | (288,449)               |
| <hr/>  |                         |
| <b>Net Assets applicable to Common Stockholders (net asset value per share □ \$18.87)</b>                                    | <b>\$ 1,032,120,086</b> |

|   |                |
|---|----------------|
| *Investments at identified cost (including \$73,502,126 of collateral on loaned securities) | \$ 798,375,127 |
|---|----------------|

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**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 27

**ROYCE VALUE TRUST****YEAR ENDED DECEMBER 31, 2005****Statement of Operations****INVESTMENT INCOME:**

|                    |               |
|--------------------|---------------|
| Income:            |               |
| Dividends          |               |
| Non-Affiliates     | \$ 11,526,693 |
| Interest           | 2,999,575     |
| Securities lending | 297,885       |

|              |            |
|--------------|------------|
| Total income | 14,824,153 |
|--------------|------------|

|   |            |
|---|------------|
| Expenses:                                     |            |
| Investment advisory fees                      | 13,360,367 |
| Stockholder reports                           | 478,219    |
| Custody and transfer agent fees               | 275,453    |
| Directors' fees                               | 114,805    |
| Administrative and office facilities expenses | 99,404     |
| Professional fees                             | 54,394     |
| Other expenses                                | 120,099    |

|                |            |
|----------------|------------|
| Total expenses | 14,502,741 |
|----------------|------------|

|                              |         |
|------------------------------|---------|
| Net investment income (loss) | 321,412 |
|------------------------------|---------|

**REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:**

|   |             |
|---|-------------|
| Net realized gain (loss) on investments                             |             |
| Non-Affiliates  | 104,573,195 |
| Affiliated Companies  | (5,394,384) |
| Net change in unrealized appreciation (depreciation) on investments | (4,983,024) |

|  |            |
|--|------------|
| Net realized and unrealized gain (loss) on investments | 94,195,787 |
|--|------------|

|   |            |
|---|------------|
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS</b> | 94,517,199 |
|---|------------|

|  |              |
|--|--------------|
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b> | (12,980,000) |
|--|--------------|

|   |               |
|---|---------------|
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | \$ 81,537,199 |
|---|---------------|

## Statement of Changes in Net Assets

|   | Year ended<br>12/31/05 | Year ended<br>12/31/04 |
|---|------------------------|------------------------|
| <b>INVESTMENT OPERATIONS:</b>   |                        |                        |
| Net investment income (loss)  | \$ 321,412             | \$ (4,450,007)         |
| Net realized gain (loss) on investments   | 99,178,811             | 108,080,947            |
| Net change in unrealized appreciation (depreciation) on investments   | (4,983,024)            | 87,658,900             |
| Net increase (decrease) in net assets resulting from investment operations  | 94,517,199             | 191,289,840            |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |                        |                        |
| Net realized gain on investments  | (12,980,000)           | (12,980,000)           |
| Total distributions to Preferred Stockholders   | (12,980,000)           | (12,980,000)           |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> |                        |                        |
|   | 81,537,199             | 178,309,840            |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |                        |                        |
| Net realized gain on investments  | (85,780,292)           | (78,920,089)           |
| Total distributions to Common Stockholders  | (85,780,292)           | (78,920,089)           |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |                        |                        |
| Reinvestment of distributions to Common Stockholders  | 43,058,750             | 43,141,563             |
| Total capital stock transactions  | 43,058,750             | 43,141,563             |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>                                      |                        |                        |
|   | 38,815,657             | 142,531,314            |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>  |                        |                        |
| Beginning of year   | 993,304,429            | 850,773,115            |
| End of year (including undistributed net investment income of \$321,412 at 12/31/05)                                | \$ 1,032,120,086       | \$ 993,304,429         |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 29

ROYCE VALUE TRUST

## Financial Highlights

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.

### Years ended December 31,

|   | 2005          | 2004          | 2003          | 2002          | 2001          |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>NET ASSET VALUE, BEGINNING OF PERIOD</b>   | \$18.95       | \$17.03       | \$13.22       | \$17.31       | \$16.56       |
| <b>INVESTMENT OPERATIONS:</b>   |               |               |               |               |               |
| Net investment income (loss)  | 0.01          | (0.08)        | (0.05)        | (0.02)        | 0.05          |
| Net realized and unrealized gain (loss) on investments  | 1.75          | 3.81          | 5.64          | (2.25)        | 2.58          |
| <b>Total investment operations</b>  | <b>1.76</b>   | <b>3.73</b>   | <b>5.59</b>   | <b>(2.27)</b> | <b>2.63</b>   |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |               |               |               |               |               |
| Net investment income   | □             | □             | □             | (0.01)        | (0.01)        |
| Net realized gain on investments  | (0.24)        | (0.26)        | (0.26)        | (0.28)        | (0.30)        |
| <b>Total distributions to Preferred Stockholders</b>  | <b>(0.24)</b> | <b>(0.26)</b> | <b>(0.26)</b> | <b>(0.29)</b> | <b>(0.31)</b> |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>1.52</b>   | <b>3.47</b>   | <b>5.33</b>   | <b>(2.56)</b> | <b>2.32</b>   |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |               |               |               |               |               |
| Net investment income   | □             | □             | □             | (0.07)        | (0.05)        |
| Net realized gain on investments  | (1.61)        | (1.55)        | (1.30)        | (1.44)        | (1.44)        |
| <b>Total distributions to Common Stockholders</b>   | <b>(1.61)</b> | <b>(1.55)</b> | <b>(1.30)</b> | <b>(1.51)</b> | <b>(1.49)</b> |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |               |               |               |               |               |
| Effect of reinvestment of distributions by Common   | 0.01          | 0.00          | (0.00)        | (0.02)        | (0.08)        |

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|  |             |           |           |           |           |
|--|-------------|-----------|-----------|-----------|-----------|
| Stockholders   |             |           |           |           |           |
| Effect of rights offering and Preferred Stock offering                       | □           | □         | (0.22)    | □         | □         |
| Total capital stock transactions   | 0.01        | 0.00      | (0.22)    | (0.02)    | (0.08)    |
| <b>NET ASSET VALUE, END OF PERIOD</b>  | \$18.87     | \$18.95   | \$17.03   | \$13.22   | \$17.31   |
| <b>MARKET VALUE, END OF PERIOD</b>   | \$20.08     | \$20.44   | \$17.21   | \$13.25   | \$15.72   |
| <b>TOTAL RETURN (a):</b>   |             |           |           |           |           |
| Market Value   | 6.95%       | 29.60%    | 41.96%    | (6.87)%   | 20.03%    |
| Net Asset Value  | 8.41%       | 21.42%    | 40.80%    | (15.61)%  | 15.23%    |
| <b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b> |             |           |           |           |           |
| Total expenses (b,c)   | 1.49%       | 1.51%     | 1.49%     | 1.72%     | 1.61%     |
| Management fee expense   | 1.37%       | 1.39%     | 1.34%     | 1.56%     | 1.45%     |
| Other operating expenses   | 0.12%       | 0.12%     | 0.15%     | 0.16%     | 0.16%     |
| Net investment income (loss)   | 0.03%       | (0.50)%   | (0.36)%   | (0.09)%   | 0.35%     |
| <b>SUPPLEMENTAL DATA:</b>  |             |           |           |           |           |
| Net Assets Applicable to Common Stockholders, End of Period (in thousands)   | \$1,032,120 | \$993,304 | \$850,773 | \$560,776 | \$689,141 |
| Liquidation Value of Preferred Stock, End of Period (in thousands)           | \$220,000   | \$220,000 | \$220,000 | \$160,000 | \$160,000 |
| Portfolio Turnover Rate  | 31%         | 30%       | 23%       | 35%       | 30%       |
| <b>PREFERRED STOCK:</b>  |             |           |           |           |           |
| Total shares outstanding   | 8,800,000   | 8,800,000 | 8,800,000 | 6,400,000 | 6,400,000 |
| Asset coverage per share   | \$142.29    | \$137.88  | \$121.68  | \$112.62  | \$132.68  |
| Liquidation preference per share   | \$25.00     | \$25.00   | \$25.00   | \$25.00   | \$25.00   |
| Average market value per share (d):  |             |           |           |           |           |
| 5.90% Cumulative   | \$24.75     | \$24.50   | \$25.04   | □         | □         |
| 7.80% Cumulative   | □           | □         | \$25.87   | \$26.37   | \$25.70   |
| 7.30% Tax-Advantaged Cumulative  | □           | □         | \$25.53   | \$25.82   | \$25.37   |

- (a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and distributions, if any, are assumed for the purposes of this calculation to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.
- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 1.22%, 1.21%, 1.19%, 1.38% and 1.30% for the periods ended December 31, 2005, 2004, 2003, 2002 and 2001, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees by the investment adviser would have been 1.62%, 1.82% and 1.65% for the periods ended December 31, 2003, 2002 and 2001, respectively.
- (d) The average of month-end market values during the period that the Preferred Stock was outstanding.

## Notes to Financial Statements

### Summary of Significant Accounting Policies:

Royce Value Trust, Inc. (the Fund) was incorporated under the laws of the State of Maryland on July 1, 1986 as a diversified closed-end investment company. The Fund commenced operations on November 26, 1986.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

### Valuation of Investments:

Securities are valued as of the close of trading on the New York Stock Exchange (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange or Nasdaq are valued at their last reported sales price or Nasdaq official closing price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their bid price. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. Bonds and other fixed income securities may be valued by reference to other securities with comparable ratings, interest rates and maturities, using established independent pricing services.

### Investment Transactions and Related Investment Income:

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date and any non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on an accrual basis. Realized gains and losses from investment transactions are determined on the basis of identified cost for book and tax purposes.

fiscal year. The Schedule of Investments includes information regarding income taxes under the caption "Income Tax Information".

### Distributions:

The Fund currently has a policy of paying quarterly distributions on the Fund's Common Stock. Distributions are currently being made at the annual rate of 9% of the rolling average of the prior four calendar quarterend NAVs of the Fund's Common Stock, with the fourth quarter distribution being the greater of 2.25% of the rolling average or the distribution required by IRS regulations. Distributions to Preferred Stockholders are recorded on an accrual basis and paid quarterly. The Fund is required to allocate long-term capital gain distributions and other types of income proportionately to distributions made to holders of shares of Common Stock and Preferred Stock. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. Permanent book and tax basis differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

### Repurchase Agreements:

The Fund may enter into repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of the counter-party, including possible delays or restrictions upon the ability of the Fund to



**Expenses:**

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated in an equitable manner. Allocated personnel and occupancy costs related to The Royce Funds are included in administrative and office facilities expenses. The Fund has adopted a deferred fee agreement that allows the Fund's Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

**Taxes:**

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its

dispose of the underlying securities.

**Securities Lending:**

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral on all securities loaned for the Fund is accepted in cash and cash equivalents and invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day.

**Capital Stock:**

The Fund issued 2,294,908 and 2,459,541 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2005 and 2004, respectively.

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**ROYCE VALUE TRUST**

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**Notes to Financial Statements (continued)**

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At December 31, 2005, 8,800,000 shares of 5.90% Cumulative Preferred Stock were outstanding. Commencing October 9, 2008 and thereafter, the Fund, at its option, may redeem the Cumulative Preferred Stock, in whole or in part, at the redemption price. The Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements in accordance with Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities, that requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer.

The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to

performance period). The Basic Fee for each month is increased or decreased at the rate of 1/12 of .05% for each percentage point that the investment performance of the Fund exceeds, or is exceeded by, the percentage change in the investment record of the S&P 600 for the performance period by more than two percentage points. The performance period for each such month is a rolling 60-month period ending with such month. The maximum increase or decrease in the Basic Fee for any month may not exceed 1/12 of .5%. Accordingly, for each month, the maximum monthly fee rate as adjusted for performance is 1/12 of 1.5% and is payable if the investment performance of the Fund exceeds the percentage change in the investment record of the S&P 600 by 12 or more percentage points for the performance period, and the minimum monthly fee rate as adjusted for performance is 1/12 of .5% and is payable if the percentage change in the investment record of the S&P 600 exceeds the investment performance of the Fund by 12 or more percentage points for the performance period.

Notwithstanding the foregoing, Royce is not entitled to receive any fee for any month when the investment performance of the Fund for the rolling

redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share, plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Cumulative Preferred Stock.

**Investment Advisory Agreement:**

As compensation for its services under the Investment Advisory Agreement, Royce & Associates, LLC ("Royce") receives a fee comprised of a Basic Fee ("Basic Fee") and an adjustment to the Basic Fee based on the investment performance of the Fund in relation to the investment record of the S&P SmallCap 600 Index ("S&P 600").

The Basic Fee is a monthly fee equal to 1/12 of 1% (1% on an annualized basis) of the average of the Fund's month-end net assets applicable to Common Stockholders, plus the liquidation value of Preferred Stock, for the rolling 60-month period ending with such month (the

36-month period ending with such month is negative. In the event that the Fund's investment performance for such a performance period is less than zero, Royce will not be required to refund to the Fund any fee earned in respect of any prior performance period.

Royce has voluntarily committed to waive the portion of its investment advisory fee attributable to an issue of the Fund's Preferred Stock for any month in which the Fund's average annual NAV total return since issuance of the Preferred Stock fails to exceed the applicable Preferred Stock's dividend rate.

For the 12 rolling 60-month periods ending in 2005, the investment performance of the Fund exceeded the investment performance of the S&P 600 by 7% to 23%. Accordingly, the investment advisory fee consisted of a Basic Fee of \$9,219,099 and an upward adjustment of \$4,141,268 for performance of the Fund above that of the S&P 600. For the year ended December 31, 2005, the Fund accrued and paid Royce advisory fees totaling \$13,360,367.

The Fund paid Legg Mason Wood Walker, Incorporated, ("Legg Mason"), an affiliate of Royce, \$4,408 in brokerage commissions for security transactions during the year ended December 31, 2005.

**DECEMBER 31, 2005**

**Distributions to Stockholders:**

The tax character of distributions paid to stockholders during 2005 and 2004 was as follows:

| Distributions paid from: | 2005                 | 2004                 |
|--------------------------|----------------------|----------------------|
| Ordinary income          | \$ 11,811,731        | \$ □                 |
| Long-term capital gain   | 86,948,561           | 91,900,089           |
|                          | <u>\$ 98,760,292</u> | <u>\$ 91,900,089</u> |

As of December 31, 2005, the tax basis components of distributable earnings included in stockholders' equity were as follows:

|                                      |              |
|--------------------------------------|--------------|
| Undistributed net investment income  | \$ 1,599,418 |
| Undistributed long-term capital gain | 7,803,757    |
| Unrealized appreciation              | 358,682,583  |
| Accrued preferred distributions      | (288,449)    |

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\$ 367,797,309

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The difference between book basis and tax basis unrealized appreciation is attributable primarily to the tax deferral on wash sales and the unrealized gains on investments in Passive Foreign Investment Companies.

For financial reporting purposes, capital accounts and distributions to stockholders are adjusted to reflect the tax character of permanent book / tax differences. For the year ended December 31, 2005, the Fund recorded the following permanent reclassifications, which relate primarily to the current net operating losses. Results of operations and net assets were not affected by these reclassifications.

| Undistributed<br>Net<br>Investment<br>Income | Accumulated<br>Net Realized<br>Gain (Loss) | Paid-in<br>Capital |
|--|--|--------------------|
| \$ 0   | \$ (178,960)                               | \$ 178,960         |

#### Purchases and Sales of Investment Securities:

For the year ended December 31, 2005, the cost of purchases and proceeds from sales of investment securities, other than short-term securities and collateral received for securities loaned, amounted to \$350,628,407 and \$495,640,973, respectively.

#### Transactions in Shares of Affiliated Companies:

An "Affiliated Company", as defined in the Investment Company Act of 1940, is a company in which a Fund owns 5% or more of the company's outstanding voting securities. The Fund effected the following transactions in shares of such companies during the year ended December 31, 2005:

| Affiliated<br>Company     | Shares<br>12/31/04 | Market<br>Value<br>12/31/04 | Cost<br>of<br>Purchases | Cost of<br>Sales | Realized<br>Gain (Loss) | Dividend<br>Income | Shares<br>12/31/05 | Market<br>Value<br>12/31/05 |
|---------------------------|--------------------|-----------------------------|-------------------------|------------------|-------------------------|--------------------|--------------------|-----------------------------|
| Falcon<br>Products*       | 941,600            | \$ 197,736                  | 0                       | \$ 5,418,871     | \$ (5,394,384)          | 0                  |                    |                             |
| Peerless<br>Manufacturing | 158,600            | 2,299,700                   | 0                       | 0                | 0                       | 0                  | 158,600            | \$ 2,775,500                |
| Synalloy<br>Corporation   | 345,000            | 3,415,500                   | 0                       | 0                | 0                       | 0                  | 345,000            | 3,610,080                   |
|                           |                    | \$ 5,912,936                |                         |                  | \$ (5,394,384)          | 0                  |                    | \$ 6,385,580                |

\* Not an Affiliated Company at December 31, 2005.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 33

## ROYCE VALUE TRUST

### Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of Royce Value Trust, Inc.**

We have audited the accompanying statement of assets and liabilities of Royce Value Trust, Inc. ( Fund ), including the schedule of investments, as of December 31, 2005, and the related statement of operations for the year then ended, and the statement of changes in net assets for the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2005, by correspondence with the custodian and brokers or by other appropriate audit procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above and audited by us present fairly, in all material respects, the financial position of Royce Value Trust, Inc. at December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER LLP

Philadelphia, PA  
January 20, 2006

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**ROYCE MICRO-CAP TRUST****DECEMBER 31, 2005****Schedule of Investments**

|  | SHARES  | VALUE        |   | SHARES  | VALUE         |
|--|---------|--------------|---|---------|---------------|
| <b>COMMON STOCKS</b> □ <b>107.4%</b>   |         |              | <b>Restaurants and Lodgings - 0.1%</b>  |         |               |
| <b>Consumer Products</b> □ <b>5.7%</b> |         |              | Benihana Cl. A <sup>a</sup>             | 800     | \$ 18,432     |
| Apparel and Shoes - 2.4%               |         |              | California Pizza Kitchen <sup>a,b</sup> | 2,100   | 67,137        |
| Cherokee                               | 42,300  | \$ 1,454,697 |   |         | <u>85,569</u> |
| Delta Apparel                          | 146,400 | 2,276,520    | <b>Retail Stores - 4.3%</b>             |         |               |
| Hartmarx Corporation <sup>a,b</sup>    | 50,000  | 390,500      | A.C. Moore Arts & Crafts <sup>a,b</sup> | 7,600   | 110,580       |
| Kleinert <sup>s,a,d</sup>              | 14,200  | 0            | America's Car-Mart <sup>a,b</sup>       | 113,000 | 1,866,760     |
| Steven Madden                          | 14,500  | 423,835      | Buckle (The)                            | 35,500  | 1,144,520     |
| Marisa Christina <sup>a,b</sup>        | 76,600  | 46,726       | Cache <sup>a</sup>                      | 3,200   | 55,424        |
| Skechers U.S.A. Cl. A <sup>a</sup>     | 10,000  | 153,200      | Casual Male Retail Group <sup>a</sup>   | 2,000   | 12,260        |
| Stride Rite                            | 10,000  | 135,600      | Cato Corporation Cl. A                  | 71,850  | 1,541,182     |
| Weyco Group                            | 120,000 | 2,292,000    | Charlotte Russe Holding <sup>a,b</sup>  | 1,700   | 35,411        |

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|  |         |            |   |         |            |
|--|---------|------------|---|---------|------------|
|  |         | 7,173,078  | Cost Plus <sup>a,b</sup>                          | 31,477  | 539,831    |
|  |         |            | Deb Shops   | 19,900  | 591,627    |
| <b>Collectibles - 0.4%</b>                   |         |            | La Senza Corporation                              | 99,900  | 1,632,844  |
| Topps Company (The)                          | 148,500 | 1,103,355  | Shoe Carnival <sup>a</sup>                        | 11,000  | 241,120    |
|  |         |            | <b>Stein Mart</b>                                 | 148,900 | 2,702,535  |
| <b>Food/Beverage/Tobacco - 0.4%</b>          |         |            | United Retail Group <sup>a</sup>                  | 60,600  | 796,890    |
| Green Mountain Coffee                        |         |            | West Marine <sup>a,b</sup>                        | 74,000  | 1,034,520  |
| Roasters <sup>a,b</sup>                      | 26,600  | 1,079,960  | Wild Oats Markets <sup>a,b</sup>                  | 32,000  | 386,560    |
| Nutrition 21 <sup>a</sup>                    | 40,000  | 25,680     |   |         |            |
|  |         |            |   |         |            |
|  |         | 1,105,640  |   |         | 12,692,064 |
|  |         |            |   |         |            |
| <b>Home Furnishing and Appliances - 0.4%</b> |         |            | <b>Other Consumer Services - 0.4%</b>             |         |            |
| Lifetime Brands                              | 52,554  | 1,086,291  | Ambassadors Group                                 | 15,000  | 343,350    |
| Stanley Furniture Company                    | 5,000   | 115,900    | Ambassadors International                         | 6,100   | 94,550     |
|  |         |            | Autobyte <sup>a,b</sup>                           | 20,000  | 98,800     |
|  |         | 1,202,191  | Escala Group <sup>a,b</sup>                       | 26,000  | 527,280    |
|  |         |            |   |         |            |
|  |         |            |   |         | 1,063,980  |
| <b>Publishing - 0.1%</b>                     |         |            |   |         |            |
| Educational Development                      | 10,600  | 85,860     | <b>Total</b> (Cost \$9,486,837)                   |         | 16,107,698 |
|  |         |            |   |         |            |
| <b>Sports and Recreation - 0.6%</b>          |         |            | <b>Diversified Investment Companies □ 2.1%</b>    |         |            |
| Monaco Coach                                 | 73,900  | 982,870    | <b>Closed-End Mutual Funds - 2.1%</b>             |         |            |
| National R.V. Holdings <sup>a</sup>          | 31,800  | 200,022    | <b>ASA Bermuda</b>                                | 81,500  | 4,483,315  |
| Orange 21 <sup>a,b</sup>                     | 7,400   | 28,120     | Central Fund of Canada Cl. A                      | 237,000 | 1,613,970  |
| Sturm, Ruger & Company                       | 95,000  | 665,950    |   |         |            |
|  |         |            | <b>Total</b> (Cost \$4,055,600)                   |         | 6,097,285  |
|  |         | 1,876,962  |   |         |            |
|  |         |            | <b>Financial Intermediaries □ 7.0%</b>            |         |            |
| <b>Other Consumer Products - 1.4%</b>        |         |            | <b>Banking - 3.0%</b>                             |         |            |
| Burnham Holdings Cl. A                       | 79,500  | 1,701,300  | <b>Abigail Adams National Bancorp<sup>c</sup></b> | 244,400 | 3,421,624  |
| Cobra Electronics <sup>a</sup>               | 10,000  | 133,700    | Arrow Financial                                   | 14,322  | 374,520    |
| Cross (A. T.) Company Cl. A <sup>a</sup>     | 100,000 | 405,000    | Bancorp (The) <sup>a,b</sup>                      | 51,380  | 873,460    |
| JAKKS Pacific <sup>a</sup>                   | 30,000  | 628,200    | Eurobancshares <sup>a,b</sup>                     | 32,000  | 453,440    |
| Lazare Kaplan International <sup>a</sup>     | 151,700 | 1,193,879  | First National Lincoln                            | 40,200  | 706,837    |
| Sonic Solutions <sup>a,b</sup>               | 6,000   | 90,660     | FirstBank NW                                      | 4,930   | 156,873    |
|  |         |            | Lakeland Financial                                | 22,500  | 908,550    |
|  |         | 4,152,739  | Meta Financial Group                              | 44,800  | 907,200    |
|  |         |            | Queen City Investments <sup>a</sup>               | 948     | 801,060    |
| <b>Total</b> (Cost \$11,686,794)             |         | 16,699,825 | Sterling Bancorp                                  | 22,869  | 451,205    |
|  |         |            |   |         |            |
|  |         |            |   |         | 9,054,769  |
| <b>Consumer Services □ 5.5%</b>              |         |            | <b>Insurance - 3.1%</b>                           |         |            |
| <b>Direct Marketing - 0.1%</b>               |         |            | American Safety Insurance Holdings <sup>a</sup>   | 20,000  | 334,600    |
| Sportsman's Guide (The) <sup>a</sup>         | 6,000   | 143,100    | Argonaut Group <sup>a</sup>                       | 30,900  | 1,012,593  |
| ValueVision Media Cl. A <sup>a,b</sup>       | 5,000   | 63,000     | <b>First Acceptance<sup>a</sup></b>               | 258,405 | 2,658,987  |
|  |         |            | Independence Holding                              | 33,534  | 655,590    |
|  |         | 206,100    |   |         |            |
|  |         |            |   |         |            |
| <b>Leisure and Entertainment - 0.1%</b>      |         |            |   |         |            |

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|  |        |           |                                      |         |           |
|--|--------|-----------|--------------------------------------|---------|-----------|
| IMAX Corporation <sup>a,b</sup>              | 25,000 | 176,500   | NYMAGIC                              | 65,400  | 1,621,266 |
| Mikohn Gaming <sup>a,b</sup>                 | 9,500  | 93,765    | Navigators Group <sup>a</sup>        | 37,200  | 1,622,292 |
| Multimedia Games <sup>a,b</sup>              | 5,000  | 46,250    | Quanta Capital Holdings <sup>a</sup> | 100,000 | 510,000   |
| Singing Machine Company (The) <sup>a,b</sup> | 5,000  | 1,850     | Wellington Underwriting              | 444,712 | 742,174   |
| TiVo <sup>a,b</sup>                          | 20,000 | 102,400   |                                      |         |           |
|  |        |           |                                      |         | 9,157,502 |
|  |        | 420,765   |                                      |         |           |
| Media and Broadcasting - 0.5%                |        |           |                                      |         |           |
| Nelson (Thomas)                              | 28,300 | 697,595   |                                      |         |           |
| Outdoor Channel Holdings <sup>a,b</sup>      | 69,750 | 941,625   |                                      |         |           |
|  |        |           |                                      |         |           |
|  |        | 1,639,220 |                                      |         |           |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 35

## ROYCE MICRO-CAP TRUST

### Schedule of Investments

|   | SHARES | VALUE      |   | SHARES  | VALUE      |
|---|--------|------------|---|---------|------------|
| <b>Financial Intermediaries (continued)</b> |        |            | Monogram Biosciences <sup>a,b</sup>           | 55,000  | \$ 102,850 |
| Real Estate Investment Trusts - 0.3%        |        |            | Myriad Genetics <sup>a,b</sup>                | 26,500  | 551,200    |
| Bimini Mortgage Management Cl. A            | 99,000 | \$ 895,950 | Nabi Biopharmaceuticals <sup>a,b</sup>        | 5,000   | 16,900     |
|   |        |            | Nastech Pharmaceutical Company <sup>a,b</sup> | 3,700   | 54,464     |
| Securities Brokers - 0.5%                   |        |            | Neurogen Corporation <sup>a,b</sup>           | 30,000  | 197,700    |
| First Albany                                | 45,000 | 312,750    | Nuvelo <sup>a</sup>                           | 52,000  | 421,720    |
| Sanders Morris Harris Group                 | 21,000 | 344,190    | Oncolytics Biotech <sup>a,b</sup>             | 41,000  | 191,060    |
| Stifel Financial <sup>a,b</sup>             | 21,233 | 798,148    | Orchid Cellmark <sup>a,b</sup>                | 78,000  | 592,800    |
|   |        |            | Pharmacoepia Drug Discovery <sup>a,b</sup>    | 25,000  | 89,000     |
|   |        | 1,455,088  | Pharmacyclics <sup>a</sup>                    | 138,000 | 489,900    |
| Other Financial Intermediaries - 0.1%       |        |            | SFBC International <sup>a,b</sup>             | 25,000  | 400,250    |
| Electronic Clearing House <sup>a</sup>      | 20,000 | 199,400    | Sangamo BioSciences <sup>a</sup>              | 10,000  | 40,300     |
|   |        |            | Senesco Technologies <sup>a,b</sup>           | 25,000  | 35,500     |
| <b>Total</b> (Cost \$14,925,618)            |        | 20,762,709 | Tercica <sup>a,b</sup>                        | 61,900  | 443,823    |
|   |        |            | Theragenics Corporation <sup>a</sup>          | 145,800 | 440,316    |
| <b>Financial Services</b> □ 3.0%            |        |            | Trimeris <sup>a,b</sup>                       | 30,000  | 344,700    |
| Investment Management - 2.4%                |        |            |   |         |            |
|   |        |            |   |         | 14,212,815 |

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|   |         |           |   |         |           |
|---|---------|-----------|---|---------|-----------|
| ADDENDA Capital                                 | 48,000  | 1,298,636 |   |         |           |
| Epoch Holding <sup>a</sup>                      | 218,300 | 1,287,970 | Health Services - 2.0%                    |         |           |
| International Assets Holding <sup>a</sup>       | 169,000 | 1,537,900 | ATC Healthcare Cl. A <sup>a</sup>         | 35,000  | 11,550    |
| MVC Capital                                     | 211,200 | 2,251,392 | Albany Molecular Research <sup>a,b</sup>  | 40,000  | 486,000   |
| NGP Capital Resources Company                   | 50,000  | 656,500   | Bio-Imaging Technologies <sup>a,b</sup>   | 42,400  | 135,680   |
|   |         |           | Covalent Group <sup>a</sup>               | 25,000  | 54,500    |
|   |         | 7,032,398 | Gentiva Health Services <sup>a</sup>      | 23,000  | 339,020   |
|   |         |           | HMS Holdings <sup>a</sup>                 | 71,900  | 550,035   |
| Other Financial Services - 0.6%                 |         |           | Horizon Health <sup>a</sup>               | 50,000  | 1,131,500 |
| Clark   | 20,900  | 276,925   | MedCath Corporation <sup>a,b</sup>        | 18,000  | 333,900   |
|   |         |           | Mediware Information Systems <sup>a</sup> | 70,000  | 842,800   |
| MarketAxess Holdings <sup>a</sup>               | 123,700 | 1,413,891 | National Home Health Care                 | 18,078  | 176,441   |
| MicroFinancial                                  | 10,000  | 39,400    | On Assignment <sup>a</sup>                | 80,100  | 873,891   |
|   |         | 1,730,216 | Quovadx <sup>a</sup>                      | 5,000   | 12,050    |
|   |         |           | RehabCare Group <sup>a</sup>              | 22,000  | 444,400   |
| <b>Total</b> (Cost \$7,377,970)                 |         | 8,762,614 | Sun Healthcare Group <sup>a</sup>         | 51,000  | 337,110   |
|   |         |           | U.S. Physical Therapy <sup>a</sup>        | 10,000  | 184,700   |
| <b>Health</b> □ <b>14.7%</b>                    |         |           |   |         |           |
| Commercial Services -1.4%                       |         |           |   |         | 5,913,577 |
| Discovery Partners International <sup>a</sup>   | 35,000  | 92,750    | Medical Products and Devices - 5.8%       |         |           |
| First Consulting Group <sup>a</sup>             | 274,700 | 1,612,489 | Adeza Biomedical <sup>a,b</sup>           | 20,000  | 421,000   |
| ICON ADR <sup>a</sup>                           | 800     | 32,912    | Allied Healthcare Products <sup>a</sup>   | 253,500 | 1,455,090 |
| <b>PAREXEL International<sup>a,b</sup></b>      | 121,400 | 2,459,564 | AngioDynamics <sup>a,b</sup>              | 14,000  | 357,420   |
|   |         | 4,197,715 | Anika Therapeutics <sup>a</sup>           | 24,000  | 280,560   |
| <b>Drugs and Biotech - 4.9%</b>                 |         |           | Bruker BioSciences <sup>a,b</sup>         | 187,200 | 909,792   |
| Allos Therapeutics <sup>a,b</sup>               | 233,600 | 502,240   | Caliper Life Sciences <sup>a</sup>        | 52,100  | 306,348   |
| Anylam Pharmaceuticals <sup>a,b</sup>           | 3,800   | 50,768    | Cardiac Science <sup>a</sup>              | 29,947  | 271,020   |
| Anormed <sup>a</sup>                            | 280,600 | 1,164,490 | CONMED Corporation <sup>a,b</sup>         | 3,900   | 92,274    |
| Antigenics <sup>a,b</sup>                       | 70,000  | 333,200   | Del Global Technologies <sup>a</sup>      | 168,279 | 546,907   |
| Axonyx <sup>a</sup>                             | 50,000  | 41,500    | EPIX Pharmaceuticals <sup>a,b</sup>       | 49,000  | 197,960   |
| Barrier Therapeutics <sup>a,b</sup>             | 14,300  | 117,260   | Endologix <sup>a</sup>                    | 7,500   | 51,750    |
| CancerVax Corporation <sup>a,b</sup>            | 43,000  | 59,340    | Exactech <sup>a,b</sup>                   | 113,200 | 1,295,008 |
| Caraco Pharmaceutical Laboratories <sup>a</sup> | 125,450 | 1,126,541 | Kensey Nash <sup>a,b</sup>                | 28,000  | 616,840   |
| Cardiome Pharma <sup>a</sup>                    | 56,000  | 565,600   | Medical Action Industries <sup>a</sup>    | 83,500  | 1,706,740 |
| Cell Genesys <sup>a,b</sup>                     | 58,000  | 343,940   | Merit Medical Systems <sup>a,b</sup>      | 5,700   | 69,198    |
| Cerus Corporation <sup>a</sup>                  | 84,600  | 858,690   | Molecular Devices <sup>a,b</sup>          | 25,500  | 737,715   |
| CollaGenex Pharmaceuticals <sup>a,b</sup>       | 25,000  | 301,750   | NMT Medical <sup>a</sup>                  | 19,500  | 312,000   |
| Dendreon Corporation <sup>a,b</sup>             | 10,000  | 54,200    | Neurometrix <sup>a,b</sup>                | 21,500  | 586,520   |
| Direct Corporation <sup>a</sup>                 | 44,100  | 223,587   | Orthofix International <sup>a</sup>       | 28,000  | 1,116,920 |
| DUSA Pharmaceuticals <sup>a</sup>               | 26,400  | 284,328   | OrthoLogic Corporation <sup>a</sup>       | 85,000  | 416,500   |
| Emisphere Technologies <sup>a</sup>             | 163,200 | 708,288   | PLC Systems <sup>a</sup>                  | 105,200 | 52,600    |
| Gene Logic <sup>a</sup>                         | 241,579 | 809,290   | Possis Medical <sup>a,b</sup>             | 29,900  | 297,505   |
| Genitope Corporation <sup>a,b</sup>             | 3,000   | 23,850    | Schick Technologies <sup>a</sup>          | 25,000  | 823,975   |
| Geron Corporation <sup>a,b</sup>                | 6,000   | 51,660    |   |         |           |
| ImmunoGen <sup>a,b</sup>                        | 44,000  | 225,720   |   |         |           |
| Mannkind Corporation <sup>a,b</sup>             | 42,000  | 472,920   |   |         |           |
| Maxygen <sup>a,b</sup>                          | 5,000   | 37,550    |   |         |           |
| Momenta Pharmaceuticals <sup>a,b</sup>          | 65,500  | 1,443,620 |   |         |           |

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|   | SHARES  | VALUE             |  | SHARES  | VALUE             |
|---|---------|-------------------|--|---------|-------------------|
| <b>Health (continued)</b>                         |         |                   | Lindsay Manufacturing                                | 10,000  | \$ 192,300        |
| Medical Products and Devices<br>(continued)       |         |                   | MTS Systems  | 10,000  | 346,400           |
| Synovis Life Technologies <sup>a,b</sup>          | 23,000  | \$ 230,690        | Mueller (Paul) Company                               | 9,650   | 272,613           |
| Urologix <sup>a,b</sup>                           | 127,000 | 490,220           | <b>Pason Systems</b>                                 | 121,200 | 3,013,188         |
| Utah Medical Products                             | 42,300  | 1,355,292         | Sun Hydraulics                                       | 38,950  | 752,903           |
| Young Innovations                                 | 61,450  | 2,094,216         | Tennant Company                                      | 44,100  | 2,293,200         |
|   |         | <u>17,092,060</u> |  |         | <u>13,916,826</u> |
| <b>Personal Care - 0.6%</b>                       |         |                   | <b>Metal Fabrication and<br/>Distribution - 1.9%</b> |         |                   |
| CCA Industries                                    | 51,040  | 472,120           | Aleris International <sup>a,b</sup>                  | 4,075   | 131,378           |
| Helen of Troy <sup>a,b</sup>                      | 20,000  | 322,200           | Encore Wire <sup>a,b</sup>                           | 15,000  | 341,400           |
| Lifeline Systems <sup>a,b</sup>                   | 20,050  | 733,028           | Harris Steel Group                                   | 50,000  | 1,122,629         |
| Nutraceutical International <sup>a</sup>          | 15,000  | 203,250           | Haynes International <sup>a</sup>                    | 23,800  | 559,300           |
|   |         | <u>1,730,598</u>  | Insteel Industries                                   | 56,000  | 927,360           |
| <b>Total</b> (Cost \$32,672,334)                  |         | <u>43,146,765</u> | NN   | 176,900 | 1,875,140         |
|   |         |                   | Novamerican Steel <sup>a</sup>                       | 2,500   | 98,403            |
| <b>Industrial Products</b> □                      |         |                   | Oregon Steel Mills <sup>a</sup>                      | 3,300   | 97,086            |
| <b>16.0%</b>                                      |         |                   | Universal Stainless & Alloy<br>Products <sup>a</sup> | 36,100  | 541,500           |
| <b>Automotive - 0.7%</b>                          |         |                   |  |         | <u>5,694,196</u>  |
| MPICO Technologies <sup>a,b</sup>                 | 30,500  | 156,465           | <b>Paper and Packaging - 0.1%</b>                    |         |                   |
| LKQ Corporation <sup>a</sup>                      | 5,700   | 197,334           | Mod-Pac Corporation <sup>a,b</sup>                   | 23,200  | 260,768           |
| Spartan Motors                                    | 2,800   | 28,812            | <b>Pumps, Valves and Bearings -<br/>0.2%</b>         |         |                   |
| Strattec Security <sup>a</sup>                    | 28,300  | 1,143,886         | CIRCOR International                                 | 28,000  | 718,480           |
| Wescast Industries Cl. A                          | 37,900  | 572,844           |  |         | <u>2,099,341</u>  |
|   |         | <u>2,099,341</u>  | <b>Specialty Chemicals and<br/>Materials - 2.0%</b>  |         |                   |
| <b>Building Systems and<br/>Components - 1.4%</b> |         |                   | Aceto Corporation                                    | 334,419 | 2,200,477         |
| Aaon <sup>a</sup>                                 | 58,100  | 1,041,152         | Balchem Corporation                                  | 15,000  | 447,150           |
| AZZ <sup>a</sup>                                  | 45,600  | 822,624           | CFC International <sup>a,b</sup>                     | 40,600  | 570,065           |
| Craftmade International                           | 30,000  | 600,300           | Hawkins  | 122,667 | 1,716,111         |
| Flanders Corporation <sup>a,b</sup>               | 46,000  | 559,360           | NuCo2 <sup>a,b</sup>                                 | 20,000  | 557,600           |



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|   |         |           |   |         |            |
|---|---------|-----------|---|---------|------------|
| LSI Industries                              | 63,812  | 999,296   | Park Electrochemical  | 10,000  | 259,800    |
| Modtech Holdings <sup>a</sup>               | 3,800   | 35,492    |   |         |            |
|   |         |           |   |         | 5,751,203  |
|   |         | 4,058,224 |   |         |            |
| <b>Construction Materials - 1.5%</b>        |         |           | <b>Textiles - 0.1%</b>  |         |            |
| Ash Grove Cement Company                    | 8,000   | 1,440,000 | Fab Industries <sup>d</sup>   | 56,400  | 177,660    |
| Monarch Cement                              | 50,410  | 1,166,992 |   |         |            |
| Synalloy Corporation <sup>a</sup>           | 171,000 | 1,789,344 | <b>Other Industrial Products - 1.9%</b>                             |         |            |
|   |         |           | Color Kinetics <sup>a,b</sup>                                       | 50,000  | 719,500    |
|   |         | 4,396,336 | Eastern Company (The)   | 26,500  | 517,015    |
| <b>Industrial Components - 1.5%</b>         |         |           | Maxwell Technologies <sup>a</sup>                                   | 15,300  | 216,801    |
| American Superconductor <sup>a,b</sup>      | 67,000  | 527,290   | Myers Industries  | 32,276  | 470,584    |
| Bel Fuse Cl. A                              | 55,200  | 1,380,000 | Peerless Manufacturing <sup>a</sup>                                 | 42,200  | 738,500    |
| C & D Technologies                          | 53,000  | 403,860   | Quixote Corporation   | 35,500  | 702,900    |
| Ladish Company <sup>a</sup>                 | 10,000  | 223,500   | Raven Industries  | 73,000  | 2,106,050  |
| Plug Power <sup>a,b</sup>                   | 1,370   | 7,028     |   |         |            |
| Powell Industries <sup>a,b</sup>            | 50,300  | 903,388   | <b>Total</b> (Cost \$33,903,554)                                    |         | 46,946,543 |
| Scientific Technologies <sup>a</sup>        | 10,700  | 45,703    |   |         |            |
| Tech/Ops Sevcon                             | 76,200  | 415,290   | <b>Industrial Services</b> <span style="font-size: 0.8em;">□</span> |         |            |
| II-VI <sup>a</sup>                          | 20,000  | 357,400   | <b>13.7%</b>  |         |            |
| Woodhead Industries                         | 10,000  | 138,700   | Advertising and Publishing - 0.2%                                   |         |            |
|   |         |           | Greenfield Online <sup>a,b</sup>                                    | 20,000  | 117,200    |
|   |         | 4,402,159 | NetRatings <sup>a</sup>   | 50,000  | 616,500    |
|   |         |           |   |         | 733,700    |
| <b>Machinery - 4.7%</b>                     |         |           | <b>Commercial Services - 5.4%</b>                                   |         |            |
| Alamo Group                                 | 38,600  | 791,300   | Administaff   | 10,000  | 420,500    |
| Ampco-Pittsburgh                            | 96,900  | 1,406,019 | American Bank Note  |         |            |
| Astec Industries <sup>a</sup>               | 40,200  | 1,312,932 | Holographics <sup>a</sup>   | 242,200 | 1,501,640  |
| Global Power Equipment Group <sup>a,b</sup> | 55,100  | 249,052   | <b>BB Holdings</b>  | 390,000 | 2,640,300  |
| Gorman-Rupp Company                         | 3,375   | 74,621    | CBIZ <sup>a,b</sup>   | 87,000  | 523,740    |
| Hardinge                                    | 117,000 | 2,018,250 | Collectors Universe <sup>a</sup>                                    | 11,700  | 188,604    |
| Hurco Companies <sup>a,b</sup>              | 31,400  | 967,748   | CorVel Corporation <sup>a,b</sup>                                   | 28,450  | 540,266    |
| Keithley Instruments                        | 14,000  | 195,720   | Exponent <sup>a</sup>   | 68,300  | 1,938,354  |
| LeCroy Corporation <sup>a</sup>             | 2,000   | 30,580    | Geo Group (The) <sup>a</sup>  | 51,200  | 1,174,016  |
|   |         |           | iGATE Corporation <sup>a,b</sup>                                    | 273,400 | 1,328,724  |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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## ROYCE MICRO-CAP TRUST

### Schedule of Investments

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|  | SHARES  | VALUE      |   | SHARES  | VALUE             |
|--|---------|------------|---|---------|-------------------|
| <b>Industrial Services (continued)</b>       |         |            | <b>Other Industrial Services - 0.3%</b>   |         |                   |
| Commercial Services (continued)              |         |            | Landauer Team <sup>a</sup>                | 21,300  | \$ 981,717        |
| Kforce <sup>a,b</sup>                        | 55,000  | \$ 613,800 |   | 2,200   | 46,442            |
| NCO Group <sup>a,b</sup>                     | 20,000  | 338,400    |   |         |                   |
| PDI <sup>a</sup>                             | 15,200  | 205,200    |   |         | 1,028,159         |
| RCM Technologies <sup>a</sup>                | 85,100  | 434,010    |   |         |                   |
| Renaissance Learning                         | 2,365   | 44,722     | <b>Total (Cost \$23,380,147)</b>          |         | <b>40,222,186</b> |
| SM&A <sup>a,b</sup>                          | 31,300  | 257,599    |   |         |                   |
| Senomyx <sup>a,b</sup>                       | 47,000  | 569,640    | <b>Natural Resources □ 9.5%</b>           |         |                   |
| Stantec <sup>a</sup>                         | 2,819   | 96,128     | <b>Energy Services - 3.4%</b>             |         |                   |
| TRC Companies <sup>a,b</sup>                 | 5,600   | 61,320     | Calfrac Well Services                     | 1,000   | 34,668            |
| Volt Information Sciences <sup>a,b</sup>     | 64,100  | 1,219,182  | Carbo Ceramics                            | 18,750  | 1,059,750         |
| Westaff <sup>a</sup>                         | 362,500 | 1,794,375  | Conrad Industries <sup>a</sup>            | 154,000 | 261,800           |
|  |         |            | Dawson Geophysical <sup>a</sup>           | 3,400   | 104,788           |
|  |         | 15,890,520 | <b>Dril-Quip<sup>a,b</sup></b>            | 62,500  | 2,950,000         |
|  |         |            | Enerflex Systems                          | 5,000   | 115,446           |
| <b>Engineering and Construction - 1.0%</b>   |         |            | Gulf Island Fabrication                   | 45,400  | 1,103,674         |
| Devcon International <sup>a,b</sup>          | 21,700  | 224,378    | GulfMark Offshore <sup>a,b</sup>          | 65,200  | 1,931,224         |
| Insituform Technologies Cl. A <sup>a,b</sup> | 80,300  | 1,555,411  | Input/Output <sup>a,b</sup>               | 118,500 | 833,055           |
| Skyline Corporation                          | 32,100  | 1,168,440  | Valley National Gases                     | 30,100  | 589,960           |
|  |         | 2,948,229  | Willbros Group <sup>a,b</sup>             | 77,500  | 1,119,100         |
|  |         |            |   |         | 10,103,465        |
| <b>Food and Tobacco Processors - 1.2%</b>    |         |            |   |         |                   |
| Galaxy Nutritional Foods <sup>a</sup>        | 159,450 | 199,313    | <b>Oil and Gas - 2.5%</b>                 |         |                   |
| ML Macadamia Orchards L.P.                   | 120,200 | 688,746    | ATP Oil & Gas <sup>a</sup>                | 6,300   | 233,163           |
| Omega Protein <sup>a</sup>                   | 9,600   | 64,416     | <b>Bonavista Energy Trust</b>             | 88,000  | 2,884,253         |
| <b>Seneca Foods Cl. A<sup>a,b</sup></b>      | 62,500  | 1,203,125  | CE Franklin <sup>a</sup>                  | 52,100  | 723,669           |
| <b>Seneca Foods Cl. B<sup>a</sup></b>        | 42,500  | 775,625    | Cano Petroleum <sup>a</sup>               | 115,200 | 887,040           |
| Sunopta <sup>a</sup>                         | 90,000  | 473,400    | Contango Oil & Gas Company <sup>a</sup>   | 10,000  | 114,400           |
|  |         | 3,404,625  | Edge Petroleum <sup>a</sup>               | 3,500   | 87,185            |
|  |         |            | Nuvista Energy <sup>a</sup>               | 121,000 | 1,878,833         |
| <b>Industrial Distribution - 1.0%</b>        |         |            | Pioneer Drilling Company <sup>a</sup>     | 9,200   | 164,956           |
| Central Steel & Wire                         | 2,437   | 1,393,964  | Savanna Energy Services <sup>a</sup>      | 2,500   | 61,508            |
| Elamex <sup>a</sup>                          | 60,200  | 90,300     | VAALCO Energy <sup>a</sup>                | 61,500  | 260,760           |
| Lawson Products                              | 19,500  | 735,930    |   |         | 7,295,767         |
| Strategic Distribution <sup>a</sup>          | 59,690  | 577,799    |   |         |                   |
|  |         | 2,797,993  | <b>Precious Metals and Mining - 1.3%</b>  |         |                   |
|  |         |            | Apex Silver Mines <sup>a</sup>            | 76,100  | 1,209,990         |
| <b>Printing - 1.0%</b>                       |         |            | Aurizon Mines <sup>a</sup>                | 237,000 | 357,870           |
| Bowne & Co.                                  | 66,500  | 986,860    | Brush Engineered Materials <sup>a,b</sup> | 15,500  | 246,450           |
| Champion Industries                          | 23,500  | 103,400    | Gammon Lake Resources <sup>a</sup>        | 23,000  | 273,700           |
| Courier Corporation                          | 22,950  | 788,103    | Metallica Resources <sup>a</sup>          | 281,300 | 523,218           |
| Ennis  | 9,700   | 176,249    | Minefinders Corporation <sup>a</sup>      | 116,000 | 596,240           |
| Schawk                                       | 38,900  | 807,175    | Nevsun Resources <sup>a</sup>             | 5,000   | 10,450            |
|  |         |            | Northern Orion Resources <sup>a</sup>     | 53,400  | 176,754           |
|  |         |            | NovaGold Resources <sup>a,b</sup>         | 13,400  | 121,940           |

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|   |         |            |  |        |            |
|---|---------|------------|--|--------|------------|
|   |         | 2,861,787  | Spur Ventures <sup>a</sup>             | 30,000 | 33,292     |
|   |         | <hr/>      | Western Silver <sup>a</sup>            | 11,800 | 132,868    |
| <b>Transportation and Logistics - 3.6%</b>      |         |            |  |        |            |
| AirNet Systems <sup>a</sup>                     | 180,000 | 613,800    |  |        | <hr/>      |
| Atlas Air Worldwide Holdings <sup>a</sup>       | 11,500  | 511,750    |  |        | <hr/>      |
| <b>Forward Air</b>                              | 65,700  | 2,407,905  | <b>Real Estate 1.3%</b>                |        |            |
| Frozen Food Express Industries <sup>a</sup>     | 92,000  | 1,014,760  | <b>HomeFed Corporation<sup>a</sup></b> | 54,852 | 3,675,084  |
| Hub Group Cl. A <sup>a</sup>                    | 11,000  | 388,850    | Kennedy-Wilson <sup>a</sup>            | 21,500 | 290,250    |
| Knight Transportation                           | 31,500  | 652,995    |  |        | <hr/>      |
| MAIR Holdings <sup>a,b</sup>                    | 8,600   | 40,506     |  |        | 3,965,334  |
| Marten Transport <sup>a,b</sup>                 | 4,050   | 73,791     |  |        | <hr/>      |
|   |         |            | <b>Other Natural Resources - 1.0%</b>  |        |            |
| Pacific CMA <sup>a,b</sup>                      | 200,000 | 130,000    |  |        |            |
| Patriot Transportation Holding <sup>a</sup>     | 15,700  | 1,018,616  | PICO Holdings <sup>a</sup>             | 55,700 | 1,796,882  |
| <b>Universal Truckload Services<sup>a</sup></b> | 154,200 | 3,546,600  | Pope Resources L.P.                    | 33,000 | 1,023,660  |
| Vitran Corporation Cl. A <sup>a</sup>           | 8,000   | 157,600    |  |        | <hr/>      |
|   |         |            |  |        | 2,820,542  |
|   |         | <hr/>      |  |        |            |
|   |         | 10,557,173 | <b>Total (Cost \$10,819,994)</b>       |        | <hr/>      |
|   |         |            |  |        | 27,867,880 |

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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

DECEMBER 31, 2005

|   | SHARES | VALUE        |   | SHARES  | VALUE      |
|---|--------|--------------|---|---------|------------|
| <b>Technology □ 25.4%</b>               |        |              | Provide Commerce <sup>a</sup>             | 5,000   | \$ 165,550 |
| <b>Aerospace and Defense - 2.6%</b>     |        |              | RealNetworks <sup>a,b</sup>               | 65,700  | 509,832    |
| Allied Defense Group (The) <sup>a</sup> | 60,900 | \$ 1,386,693 | Stamps.com <sup>a</sup>                   | 21,200  | 486,752    |
| Astronics Corporation <sup>a</sup>      | 26,400 | 279,840      | Stellent <sup>a,b</sup>                   | 15,000  | 148,950    |
| Axisys Technologies <sup>a,b</sup>      | 4,700  | 84,365       | Varsity Group <sup>a,b</sup>              | 89,400  | 379,950    |
| Ducommun <sup>a</sup>                   | 84,500 | 1,804,920    |   |         | <hr/>      |
| HEICO Corporation                       | 41,600 | 1,076,608    |   |         | 3,983,998  |
| HEICO Corporation Cl. A                 | 24,160 | 495,763      |   |         | <hr/>      |
| Herley Industries <sup>a,b</sup>        | 81,000 | 1,337,310    | <b>IT Services - 5.4%</b>                 |         |            |
| Integral Systems                        | 58,500 | 1,103,310    | CIBER <sup>a,b</sup>                      | 182,662 | 1,205,569  |
| SIFCO Industries <sup>a</sup>           | 45,800 | 178,620      | Computer Task Group <sup>a</sup>          | 381,100 | 1,505,345  |
|   |        | <hr/>        | <b>Covansys Corporation<sup>a</sup></b>   | 227,500 | 3,096,275  |
|   |        | 7,747,429    | DiamondCluster International <sup>a</sup> | 138,100 | 1,096,514  |
|   |        | <hr/>        | Forrester Research <sup>a</sup>           | 105,500 | 1,978,125  |
| <b>Components and Systems - 5.1%</b>    |        |              |   |         | <hr/>      |
|   |        |              | Rainmaker Systems <sup>a</sup>            | 2,000   | 5,660      |

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|  |         |            |  |         |            |
|--|---------|------------|--|---------|------------|
| Advanced Photonix Cl. A <sup>a,b</sup>       | 147,900 | 408,204    | <b>Sapient Corporation<sup>a,b</sup></b>   | 500,000 | 2,845,000  |
| Belden CDT                                   | 15,000  | 366,450    | Syntel                                     | 54,300  | 1,131,069  |
| CSP <sup>a</sup>                             | 122,581 | 849,486    | Tier Technologies Cl. B <sup>a</sup>       | 6,800   | 49,912     |
| Dot Hill Systems <sup>a,b</sup>              | 2,000   | 13,860     | <b>TriZetto Group (The)<sup>a,b</sup></b>  | 182,300 | 3,097,277  |
| Excel Technology <sup>a</sup>                | 92,900  | 2,209,162  |  |         |            |
| Giga-tronics <sup>a</sup>                    | 3,200   | 7,968      |  |         | 16,010,746 |
| Hypercom Corporation <sup>a,b</sup>          | 50,000  | 319,500    |  |         |            |
|  |         |            | <b>Semiconductors and Equipment - 2.2%</b> |         |            |
| International DisplayWorks <sup>a,b</sup>    | 108,500 | 644,490    | ADE Corporation <sup>a</sup>               | 23,000  | 553,380    |
| Kronos <sup>a,b</sup>                        | 17,375  | 727,318    | Advanced Energy Industries <sup>a,b</sup>  | 48,800  | 577,304    |
| <b>Lowrance Electronics</b>                  | 91,000  | 2,385,110  | California Micro Devices <sup>a</sup>      | 16,700  | 108,717    |
| Merix Corporation <sup>a</sup>               | 7,000   | 50,610     | Cascade Microtech <sup>a</sup>             | 5,000   | 63,000     |
| Metrologic Instruments <sup>a,b</sup>        | 2,900   | 55,854     | Catalyst Semiconductor <sup>a</sup>        | 139,700 | 677,545    |
| Mobility Electronics <sup>a,b</sup>          | 1,000   | 9,660      | CyberOptics Corporation <sup>a,b</sup>     | 39,800  | 536,504    |
| MOCON  | 15,600  | 145,392    | ESS Technology <sup>a,b</sup>              | 25,000  | 85,750     |
| Neoware Systems <sup>a,b</sup>               | 2,600   | 60,580     | Electroglas <sup>a,b</sup>                 | 281,700 | 816,930    |
| Performance Technologies <sup>a,b</sup>      | 117,250 | 960,277    | Exar Corporation <sup>a</sup>              | 41,208  | 515,924    |
| Plexus Corporation <sup>a</sup>              | 26,500  | 602,610    | Integrated Silicon Solution <sup>a</sup>   | 15,000  | 96,600     |
| Richardson Electronics                       | 202,100 | 1,465,225  | Intevac <sup>a,b</sup>                     | 40,550  | 535,260    |
| Rimage Corporation <sup>a,b</sup>            | 20,000  | 579,600    | MIPS Technologies <sup>a,b</sup>           | 10,000  | 56,800     |
| SafeNet <sup>a</sup>                         | 11,781  | 379,584    | PDF Solutions <sup>a,b</sup>               | 29,000  | 471,250    |
| SimpleTech <sup>a</sup>                      | 225,700 | 850,889    | Photronics <sup>a,b</sup>                  | 29,750  | 448,035    |
| TTM Technologies <sup>a</sup>                | 125,000 | 1,175,000  | QuickLogic Corporation <sup>a</sup>        | 20,000  | 79,000     |
| TransAct Technologies <sup>a</sup>           | 78,600  | 620,940    | Rudolph Technologies <sup>a,b</sup>        | 38,000  | 489,440    |
| Zomax <sup>a</sup>                           | 20,000  | 41,600     | Semitoool <sup>a,b</sup>                   | 25,500  | 277,440    |
|  |         | 14,929,369 | Virage Logic <sup>a,b</sup>                | 4,000   | 39,520     |
|  |         |            | White Electronic Designs <sup>a</sup>      | 10,000  | 51,100     |
| <b>Distribution - 0.8%</b>                   |         |            |  |         | 6,479,499  |
| Agilysys                                     | 90,000  | 1,639,800  |  |         |            |
| Bell Industries <sup>a</sup>                 | 85,700  | 223,677    | <b>Software - 4.9%</b>                     |         |            |
| Jaco Electronics <sup>a</sup>                | 30,900  | 105,369    | Aladdin Knowledge Systems <sup>a</sup>     | 43,300  | 745,626    |
| Nu Horizons Electronics <sup>a</sup>         | 40,000  | 404,000    | ANSYS <sup>a,b</sup>                       | 30,800  | 1,314,852  |
| PC Mall <sup>a,b</sup>                       | 6,000   | 33,960     | Applix <sup>a</sup>                        | 20,000  | 146,000    |
| Pomeroy IT Solutions <sup>a</sup>            | 6,900   | 57,615     | ILOG ADR <sup>a,b</sup>                    | 35,000  | 604,800    |
|  |         | 2,464,421  | Indus International <sup>a,b</sup>         | 19,200  | 60,288     |
|  |         |            | InterVideo <sup>a</sup>                    | 24,500  | 258,475    |
| <b>Internet Software and Services - 1.4%</b> |         |            | iPass <sup>a</sup>                         | 190,000 | 1,246,400  |
| Answers Corporation <sup>a,b</sup>           | 4,100   | 47,015     | JDA Software Group <sup>a,b</sup>          | 59,500  | 1,012,095  |
| CryptoLogic                                  | 24,900  | 487,791    | MSC.Software <sup>a</sup>                  | 12,700  | 215,900    |
|  |         |            | Majesco Entertainment Company <sup>a</sup> | 2,500   | 2,925      |
| Digitas <sup>a,b</sup>                       | 98,840  | 1,237,477  | MapInfo <sup>a,b</sup>                     | 5,000   | 63,050     |
| @COST.com <sup>a,b</sup>                     | 7,242   | 8,401      | McDATA Corporation Cl. A <sup>a,b</sup>    | 18,199  | 69,156     |
| EDGAR Online <sup>a,b</sup>                  | 83,600  | 152,152    | MetaSolv <sup>a</sup>                      | 5,800   | 16,820     |
| Inforte Corporation <sup>a</sup>             | 11,400  | 45,030     | MIND C.T.I.                                | 20,000  | 52,400     |
| LookSmart <sup>a</sup>                       | 4,000   | 15,040     | <b>Pegasystems<sup>a</sup></b>             | 320,200 | 2,340,662  |
| MIVA <sup>a</sup>                            | 10,000  | 49,500     | Phase Forward <sup>a,b</sup>               | 43,000  | 419,250    |
| NIC <sup>a</sup>                             | 26,800  | 165,088    |  |         |            |
| Packeteer <sup>a,b</sup>                     | 11,000  | 85,470     |  |         |            |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 39

## ROYCE MICRO-CAP TRUST

DECEMBER 31, 2005

## Schedule of Investments

|  | SHARES  | VALUE        |  | SHARES | VALUE                 |
|--|---------|--------------|--|--------|-----------------------|
| <b>Technology (continued)</b>                  |         |              | <b>TOTAL COMMON STOCKS</b>                                     |        |                       |
| Software (continued)                           |         |              | (Cost \$208,992,798)   |        | \$ 315,599,914        |
| SPSS <sup>a</sup>                              | 41,800  | \$ 1,292,874 |  |        |                       |
| SeaChange International <sup>a,b</sup>         | 5,000   | 39,500       | <b>PREFERRED STOCK</b> □ <b>0.5%</b>                           |        |                       |
| Telecommunication Systems Cl. A <sup>a,b</sup> | 158,600 | 348,920      | <b>Seneca Foods Conv.</b> <sup>a</sup>                         | 75,409 | 1,432,771             |
| <b>Transaction Systems</b>                     |         |              |  |        |                       |
| <b>Architects Cl. A</b> <sup>a</sup>           | 140,100 | 4,033,479    | <b>TOTAL PREFERRED STOCK</b>                                   |        |                       |
| Unica Corporation <sup>a,b</sup>               | 7,500   | 90,375       | (Cost \$943,607)   |        | 1,432,771             |
|  |         | 14,373,847   |  |        |                       |
|  |         |              | <b>REPURCHASE AGREEMENT</b>                                    |        |                       |
|  |         |              | □ <b>12.2%</b>   |        |                       |
| <b>Telecommunications - 3.0%</b>               |         |              | State Street Bank & Trust Company,                             |        |                       |
| Anaren <sup>a</sup>                            | 24,300  | 379,809      | 4.10% dated 12/30/05, due 1/3/06,                              |        |                       |
| C-COR.net <sup>a</sup>                         | 5,000   | 24,300       | maturity value \$35,802,303 (collateralized                    |        |                       |
| Captaris <sup>a</sup>                          | 67,800  | 250,182      | by obligations of various U.S. Government                      |        |                       |
| Catapult Communications <sup>a,b</sup>         | 5,000   | 73,950       | Agencies, valued at \$36,685,000)                              |        |                       |
| Centillium Communications <sup>a</sup>         | 11,000  | 38,500       | (Cost \$35,786,000)  |        | 35,786,000            |
| Channell Commercial <sup>a</sup>               | 71,100  | 352,940      |  |        |                       |
| Communications Systems                         | 87,200  | 1,070,816    | <b>COLLATERAL RECEIVED FOR SECURITIES LOANED</b> □ <b>9.2%</b> |        |                       |
| Ditech Communications <sup>a,b</sup>           | 20,000  | 167,000      | Money Market Funds   |        |                       |
| Globecomm Systems <sup>a</sup>                 | 6,300   | 38,871       | State Street Navigator   |        |                       |
| Intervoice <sup>a,b</sup>                      | 58,000  | 461,680      | Securities Lending   |        |                       |
| North Pittsburgh Systems                       | 15,700  | 296,259      | Prime Portfolio  |        |                       |
| Novatel Wireless <sup>a,b</sup>                | 29,000  | 351,190      | (Cost \$26,979,986)  |        | 26,979,986            |
| PC-Tel <sup>a</sup>                            | 47,100  | 412,596      | <b>TOTAL INVESTMENTS</b> □ <b>129.3%</b>                       |        |                       |
| Powerwave Technologies <sup>a,b</sup>          | 20,315  | 255,360      | (Cost \$272,702,391)   |        | 379,798,671           |
| Radyne ComStream <sup>a</sup>                  | 47,000  | 684,790      | <b>LIABILITIES LESS CASH AND OTHER ASSETS</b> □ <b>(8.9)%</b>  |        | (26,079,474)          |
| SpectraLink Corporation                        | 57,000  | 676,590      | <b>PREFERRED STOCK</b> □ <b>(20.4)%</b>                        |        | (60,000,000)          |
| Symmetricom <sup>a,b</sup>                     | 87,482  | 740,973      |  |        |                       |
| ViaSat <sup>a,b</sup>                          | 91,812  | 2,454,135    |  |        |                       |
|  |         | 8,729,941    | <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>            |        |                       |
| <b>Total</b> (Cost \$47,669,006)               |         | 74,719,250   | □ <b>100.0%</b>  |        | <b>\$ 293,719,197</b> |

**Miscellaneous<sup>(e)</sup>** □ **4.8%****Total** (Cost \$13,014,944) 14,267,159

- a Non-income producing.  
 A portion of these securities were on loan at December 31, 2005. Total market value of loaned securities at  
 b December 31, 2005 was \$25,935,486.  
 c At December 31, 2005, the Fund owned 5% or more of the Company's outstanding voting securities thereby making the Company an Affiliated Company as that term is defined in the Investment Company Act of 1940.  
 d Securities for which market quotations are no longer readily available represent 0.06% of net assets. These securities have been valued at their fair value under procedures established by the Fund's Board of Directors.  
 e Includes securities first acquired in 2005 and less than 1% of net assets applicable to Common Stockholders.  
 □ New additions in 2005.

**Bold indicates the Fund's largest 20 equity holdings in terms of December 31, 2005 market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$275,046,548. At December 31, 2005, net unrealized appreciation for all securities was \$104,752,123, consisting of aggregate gross unrealized appreciation of \$113,333,505 and aggregate gross unrealized depreciation of \$8,581,382. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and unrealized gains on investments in Passive Foreign Investment Companies for book and tax purposes.

**ROYCE MICRO-CAP TRUST****DECEMBER 31, 2005****Statement of Assets and Liabilities****ASSETS:**

|   |                |
|---|----------------|
| Investments at value (including collateral on loaned securities)* |                |
| Non-Affiliates (cost \$233,005,991)                               | \$ 340,591,047 |
| Affiliated Companies (cost \$3,910,400)                           | 3,421,624      |
| <hr/>   |                |
| Total investments at value  | 344,012,671    |
| Repurchase agreement (at cost and value)                          | 35,786,000     |
| Cash  | 2,450,888      |
| Receivable for investments sold                                   | 529,724        |
| Receivable for dividends and interest                             | 277,573        |
| Prepaid expenses  | 8,651          |
| <hr/>   |                |
| Total Assets  | 383,065,507    |

**LIABILITIES:**

|  |            |
|--|------------|
| Payable for collateral on loaned securities      | 26,979,986 |
| Payable for investments purchased                | 1,743,648  |
| Payable for investment advisory fee              | 384,864    |
| Preferred dividends accrued but not yet declared | 80,000     |

|                          |                   |
|--------------------------|-------------------|
| Accrued expenses         | 157,812           |
| <b>Total Liabilities</b> | <b>29,346,310</b> |

**PREFERRED STOCK:**

6.00% Cumulative Preferred Stock □ \$0.001 par value, \$25 liquidation value per share; 2,400,000 shares outstanding

60,000,000

|                              |                   |
|------------------------------|-------------------|
| <b>Total Preferred Stock</b> | <b>60,000,000</b> |
|------------------------------|-------------------|

|   |                       |
|---|-----------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 293,719,197</b> |
|---|-----------------------|

**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

|   |                |
|---|----------------|
| Common Stock paid-in capital □ \$0.001 par value per share; 21,869,051 shares outstanding (150,000,000 shares authorized) | \$ 184,445,927 |
| Undistributed net investment income (loss)  | (1,104)        |
| Accumulated net realized gain (loss) on investments   | 2,258,094      |
| Net unrealized appreciation (depreciation) on investments   | 107,096,280    |
| Preferred dividends accrued but not yet declared  | (80,000)       |

|   |                       |
|---|-----------------------|
| <b>Net Assets applicable to Common Stockholders (net asset value per share □ \$13.43)</b> | <b>\$ 293,719,197</b> |
|---|-----------------------|

|   |                |
|---|----------------|
| *Investments at identified cost (including \$26,979,986 of collateral on loaned securities) | \$ 236,916,391 |
|---|----------------|

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 41

**ROYCE MICRO-CAP TRUST****YEAR ENDED DECEMBER 31, 2005****Statement of Operations****INVESTMENT INCOME:**

|                      |              |
|----------------------|--------------|
| Income:              |              |
| Dividends            |              |
| Non-Affiliates       | \$ 2,419,616 |
| Affiliated Companies | 30,550       |
| Interest             | 1,325,185    |
| Securities lending   | 140,630      |

|                     |                  |
|---------------------|------------------|
| <b>Total income</b> | <b>3,915,981</b> |
|---------------------|------------------|

|   |           |
|---|-----------|
| Expenses:                                     |           |
| Investment advisory fees                      | 4,114,659 |
| Custody and transfer agent fees               | 158,865   |
| Stockholder reports                           | 146,709   |
| Directors' fees                               | 55,365    |
| Professional fees                             | 35,924    |
| Administrative and office facilities expenses | 29,054    |
| Other expenses                                | 138,614   |

|   |                      |
|---|----------------------|
| Total expenses  | 4,679,190            |
| Net investment income (loss)  | (763,209)            |
| <b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>  |                      |
| Net realized gain (loss) on investments   |                      |
| Non-Affiliates  | 37,754,245           |
| Net change in unrealized appreciation (depreciation) on investments   | (14,066,144)         |
| Net realized and unrealized gain (loss) on investments  | 23,688,101           |
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS</b>                                   | <b>22,924,892</b>    |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>  | <b>(3,600,000)</b>   |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>\$ 19,324,892</b> |

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TO STOCKHOLDERSTHE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL  
STATEMENTS.**ROYCE MICRO-CAP TRUST****Statement of Changes in Net Assets**

|   | <b>Year ended<br/>12/31/05</b> | <b>Year ended<br/>12/31/04</b> |
|---|--------------------------------|--------------------------------|
| <b>INVESTMENT OPERATIONS:</b>   |                                |                                |
| Net investment income (loss)  | \$ (763,209)                   | \$ (1,486,082)                 |
| Net realized gain (loss) on investments   | 37,754,245                     | 25,396,860                     |
| Net change in unrealized appreciation (depreciation) on investments   | (14,066,144)                   | 26,164,677                     |
| Net increase (decrease) in net assets resulting from investment operations  | 22,924,892                     | 50,075,455                     |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |                                |                                |
| Net realized gain on investments  | (3,600,000)                    | (3,600,000)                    |
| Total distributions to Preferred Stockholders   | (3,600,000)                    | (3,600,000)                    |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>19,324,892</b>              | <b>46,475,455</b>              |

**DISTRIBUTIONS TO COMMON STOCKHOLDERS:**



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|   |                     |                     |
|---|---------------------|---------------------|
| Net realized gain on investments  | (38,452,900)        | (25,919,005)        |
| <b>Total distributions to Common Stockholders</b>   | <b>(38,452,900)</b> | <b>(25,919,005)</b> |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |                     |                     |
| Reinvestment of distributions to Common Stockholders  | 22,483,567          | 16,382,136          |
| <b>Total capital stock transactions</b>   | <b>22,483,567</b>   | <b>16,382,136</b>   |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>              |                     |                     |
|   | 3,355,559           | 36,938,586          |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>  |                     |                     |
| Beginning of year   | 290,363,638         | 253,425,052         |
| End of year (including undistributed net investment income (loss) of \$(1,104) at 12/31/05) | \$ 293,719,197      | \$ 290,363,638      |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 43

## ROYCE MICRO-CAP TRUST

### Financial Highlights

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.

Years ended December 31,

|  | 2005          | 2004          | 2003          | 2002          | 2001          |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>NET ASSET VALUE, BEGINNING OF PERIOD</b>            | \$14.34       | \$13.33       | \$9.39        | \$11.83       | \$10.14       |
| <b>INVESTMENT OPERATIONS:</b>                          |               |               |               |               |               |
| Net investment income (loss)                           | (0.03)        | (0.08)        | (0.09)        | (0.13)        | (0.05)        |
| Net realized and unrealized gain (loss) on investments | 1.14          | 2.62          | 5.28          | (1.29)        | 2.57          |
| <b>Total investment operations</b>                     | <b>1.11</b>   | <b>2.54</b>   | <b>5.19</b>   | <b>(1.42)</b> | <b>2.52</b>   |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>        |               |               |               |               |               |
| Net investment income                                  | □             | □             | □             | □             | □             |
| Net realized gain on investments                       | (0.17)        | (0.19)        | (0.18)        | (0.18)        | (0.19)        |
| <b>Total distributions to Preferred Stockholders</b>   | <b>(0.17)</b> | <b>(0.19)</b> | <b>(0.18)</b> | <b>(0.18)</b> | <b>(0.19)</b> |

**NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS**

|      |      |      |        |      |
|------|------|------|--------|------|
| 0.94 | 2.35 | 5.01 | (1.60) | 2.33 |
|------|------|------|--------|------|

**DISTRIBUTIONS TO COMMON STOCKHOLDERS:**

|                                  |        |        |        |        |        |
|----------------------------------|--------|--------|--------|--------|--------|
| Net investment income            | □      | □      | □      | □      | □      |
| Net realized gain on investments | (1.85) | (1.33) | (0.92) | (0.80) | (0.57) |

|  |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
| Total distributions to Common Stockholders | (1.85) | (1.33) | (0.92) | (0.80) | (0.57) |
|--|--------|--------|--------|--------|--------|

**CAPITAL STOCK TRANSACTIONS:**

|  |      |        |        |        |        |
|--|------|--------|--------|--------|--------|
| Effect of reinvestment of distributions by Common Stockholders | 0.00 | (0.01) | (0.04) | (0.04) | (0.07) |
| Effect of Preferred Stock offering                             | □    | □      | (0.11) | □      | □      |

|                                  |      |        |        |        |        |
|----------------------------------|------|--------|--------|--------|--------|
| Total capital stock transactions | 0.00 | (0.01) | (0.15) | (0.04) | (0.07) |
|----------------------------------|------|--------|--------|--------|--------|

**NET ASSET VALUE, END OF PERIOD**

|         |         |         |        |         |
|---------|---------|---------|--------|---------|
| \$13.43 | \$14.34 | \$13.33 | \$9.39 | \$11.83 |
|---------|---------|---------|--------|---------|

**MARKET VALUE, END OF PERIOD**

|         |         |         |        |         |
|---------|---------|---------|--------|---------|
| \$14.56 | \$15.24 | \$12.60 | \$8.44 | \$10.50 |
|---------|---------|---------|--------|---------|

**TOTAL RETURN (a):**

|                 |       |        |        |          |        |
|-----------------|-------|--------|--------|----------|--------|
| Market Value    | 8.90% | 33.44% | 63.58% | (12.70)% | 28.76% |
| Net Asset Value | 6.75% | 18.69% | 55.55% | (13.80)% | 23.40% |

**RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

|                              |         |         |         |         |         |
|------------------------------|---------|---------|---------|---------|---------|
| Total expenses (b,c)         | 1.63%   | 1.62%   | 1.82%   | 1.96%   | 1.78%   |
| Management fee expense       | 1.43%   | 1.43%   | 1.59%   | 1.59%   | 1.57%   |
| Other operating expenses     | 0.20%   | 0.19%   | 0.23%   | 0.37%   | 0.21%   |
| Net investment income (loss) | (0.27)% | (0.56)% | (0.82)% | (1.23)% | (0.43)% |

**SUPPLEMENTAL DATA:**

|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Net Assets Applicable to Common Stockholders, End of Period (in thousands) | \$293,719 | \$290,364 | \$253,425 | \$167,571 | \$200,443 |
| Liquidation Value of Preferred Stock, End of Period (in thousands)         | \$60,000  | \$60,000  | \$60,000  | \$40,000  | \$40,000  |
| Portfolio Turnover Rate  | 46%       | 32%       | 26%       | 39%       | 27%       |

**PREFERRED STOCK:**

|                                     |           |           |           |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Total shares outstanding            | 2,400,000 | 2,400,000 | 2,400,000 | 1,600,000 | 1,600,000 |
| Asset coverage per share            | \$147.38  | \$145.98  | \$130.59  | \$129.73  | \$150.28  |
| Liquidation preference per share    | \$25.00   | \$25.00   | \$25.00   | \$25.00   | \$25.00   |
| Average market value per share (d): |           |           |           |           |           |
| 6.00% Cumulative                    | \$24.97   | \$24.66   | \$25.37   | □         | □         |
| 7.75% Cumulative                    | □         | □         | \$25.70   | \$25.91   | \$25.30   |

(a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and

distributions, if any, are assumed for the purposes of this calculation to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.

- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 1.35%, 1.32%, 1.49%, 1.62% and 1.46% for the periods ended December 31, 2005, 2004, 2003, 2002 and 2001, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees by the investment adviser would have been 1.92%, 2.04% and 1.81% for the periods ended December 31, 2003, 2002 and 2001, respectively.
- (d) The average of month-end market values during the period that the Preferred Stock was outstanding.

## ROYCE MICRO-CAP TRUST

DECEMBER 31, 2005

### Notes to Financial Statements

#### Summary of Significant Accounting Policies:

Royce Micro-Cap Trust, Inc. (the Fund) was incorporated under the laws of the State of Maryland on September 9, 1993 as a diversified closed-end investment company. The Fund commenced operations on December 14, 1993.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

#### Valuation of Investments:

Securities are valued as of the close of trading on the New York Stock Exchange (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange or Nasdaq are valued at their last reported sales price or Nasdaq official closing price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their bid price. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. Bonds and other fixed income securities may be valued by reference to other securities with comparable ratings, interest rates and maturities,

fiscal year. The Schedule of Investments includes information regarding income taxes under the caption "Income Tax Information".

#### Distributions:

The Fund currently has a policy of paying quarterly distributions on the Fund's Common Stock. Distributions are currently being made at the annual rate of 9% of the rolling average of the prior four calendar quarter-end NAVs of the Fund's Common Stock, with the fourth quarter distribution being the greater of 2.25% of the rolling average or the distribution required by IRS regulations. Distributions to Preferred Stockholders are recorded on an accrual basis and paid quarterly. The Fund is required to allocate long-term capital gain distributions and other types of income proportionately to distributions made to holders of shares of Common Stock and Preferred Stock. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. Permanent book and tax basis differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

using established independent pricing services.

### **Investment Transactions and Related Investment Income:**

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date and any non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on an accrual basis. Realized gains and losses from investment transactions are determined on the basis of identified cost for book and tax purposes.

### **Expenses:**

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated in an equitable manner. Allocated personnel and occupancy costs related to The Royce Funds are included in administrative and office facilities expenses. The Fund has adopted a deferred fee agreement that allows the Fund's Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

### **Taxes:**

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its

### **Repurchase Agreements:**

The Fund may enter into repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of the counter-party, including possible delays or restrictions upon the ability of the Fund to dispose of the underlying securities.

### **Securities Lending:**

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral on all securities loaned for the Fund is accepted in cash and cash equivalents and invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day.

### **Capital Stock:**

The Fund issued 1,625,665 and 1,228,046 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2005 and 2004, respectively.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 45

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## **ROYCE MICRO-CAP TRUST**

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### **Notes to Financial Statements (continued)**

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At December 31, 2005, 2,400,000 shares of 6.00% Cumulative Preferred Stock were outstanding. Commencing October 16, 2008 and thereafter, the Fund, at its option, may redeem the Cumulative Preferred Stock, in whole or in part, at the redemption price. The Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements in accordance with Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities, that requires

The Basic Fee is a monthly fee equal to 1/12 of 1% (1% on an annualized basis) of the average of the Fund's month-end net assets applicable to Common Stockholders, plus the liquidation value of Preferred Stock, for the rolling 36-month period ending with such month (the "performance period"). The Basic Fee for each month is increased or decreased at the rate of 1/12 of .05% for each percentage point that the investment performance of the Fund exceeds, or is exceeded by, the percentage change in the investment record of the Russell 2000 for the performance period

preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer.

The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share, plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Cumulative Preferred Stock.

**Investment Advisory Agreement:**

As compensation for its services under the Investment Advisory Agreement, Royce & Associates, LLC (Royce) receives a fee comprised of a Basic Fee (Basic Fee) and an adjustment to the Basic Fee based on the investment performance of the Fund in relation to the investment record of the Russell 2000.

by more than two percentage points. The performance period for each such month is a rolling 36-month period ending with such month. The maximum increase or decrease in the Basic Fee for any month may not exceed 1/12 of .5%. Accordingly, for each month, the maximum monthly fee rate as adjusted for performance is 1/12 of 1.5% and is payable if the investment performance of the Fund exceeds the percentage change in the investment record of the Russell 2000 by 12 or more percentage points for the performance period, and the minimum monthly fee rate as adjusted for performance is 1/12 of .5% and is payable if the percentage change in the investment record of the Russell 2000 exceeds the investment performance of the Fund by 12 or more percentage points for the performance period.

Royce has voluntarily committed to waive the portion of its investment advisory fee attributable to an issue of the Fund's Preferred Stock for any month in which the Fund's average annual NAV total return since issuance of the Preferred Stock fails to exceed the applicable Preferred Stock's dividend rate.

For the 12 rolling 36-month periods ending in 2005, the investment performance of the Fund exceeded the investment performance of the Russell 2000 by 5% to 23%. Accordingly, the investment advisory fee consisted of a Basic Fee of \$2,876,281 and an upward adjustment of \$1,238,378 for performance of the Fund above that of the Russell 2000. For the year ended December 31, 2005, the Fund accrued and paid Royce advisory fees totaling \$4,114,659.

**DECEMBER 31, 2005**

**Distributions to Stockholders:**

The tax character of distributions paid to stockholders during 2005 and 2004 was as follows:

| Distributions paid from: | 2005                | 2004                |
|--------------------------|---------------------|---------------------|
| Ordinary income          | \$ 4,022,315        | \$ 3,410,255        |
| Long-term capital gain   | 38,030,585          | 26,108,750          |
|                          | <u>\$42,052,900</u> | <u>\$29,519,005</u> |

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As of December 31, 2005, the tax basis components of distributable earnings included in stockholders' equity were as follows:

|  |               |
|--|---------------|
| Undistributed net investment income                | \$ 1,714,386  |
| Undistributed long-term capital gain               | 2,887,865     |
| Unrealized appreciation Post October currency loss | 104,752,123   |
| Accrued preferred distributions                    | (1,104)       |
|  | (80,000)      |
|  | \$109,273,270 |

The difference between book basis and tax basis unrealized appreciation is attributable primarily to the tax deferral on wash sales and the unrealized gains on investments in Passive Foreign Investment Companies.

For financial reporting purposes, capital accounts and distributions to stockholders are adjusted to reflect the tax character of permanent book / tax differences. For the year ended December 31, 2005, the Fund recorded the following permanent reclassifications, which relate primarily to the current net operating losses. Results of operations and net assets were not affected by these reclassifications.

| Undistributed Net Investment Income | Accumulated Net Realized Gain (Loss) | Paid-in Capital |
|-------------------------------------|--------------------------------------|-----------------|
| \$762,105                           | \$(633,134)                          | \$(128,971)     |

**Purchases and Sales of Investment Securities:**

For the year ended December 31, 2005, the cost of purchases and proceeds from sales of investment securities, other than short-term securities and collateral received for securities loaned, amounted to \$138,845,430 and \$143,624,350, respectively.

**Transactions in Shares of Affiliated Companies:**

An "Affiliated Company", as defined in the Investment Company Act of 1940, is a company in which a Fund owns 5% or more of the company's outstanding voting securities. The Fund effected the following transactions in shares of such companies during the year ended December 31, 2005:

| Affiliated Company             | Shares<br>12/31/04 | Market Value<br>12/31/04 | Cost of Purchases | Cost of Sales | Realized Gain (Loss) | Dividend Income | Shares<br>12/31/05 | Market Value<br>12/31/05 |
|--------------------------------|--------------------|--------------------------|-------------------|---------------|----------------------|-----------------|--------------------|--------------------------|
| Abigail Adams National Bancorp | □                  | □                        | \$ 3,910,400      | □             | □                    | \$ 30,550       | 244,400            | \$ 3,421,624             |
|                                |                    | □                        |                   |               | □                    | \$ 30,550       |                    | \$ 3,421,624             |

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## ROYCE MICRO-CAP TRUST

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### Report of Independent Registered Public Accounting Firm

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#### To the Board of Directors and Stockholders of Royce Micro-Cap Trust, Inc.

We have audited the accompanying statement of assets and liabilities of Royce Micro-Cap Trust, Inc. (the "Fund"), including the schedule of investments, as of December 31, 2005, and the related statement of operations for the year then ended, and the statement of changes in net assets for the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2005, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above and audited by us present fairly, in all material respects, the financial position of Royce Micro-Cap Trust, Inc. at December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER, & BAKER LLP

Philadelphia, PA  
January 20, 2006

## Schedule of Investments

|  | SHARES  | VALUE        |                                 | SHARES  | VALUE        |
|--|---------|--------------|---------------------------------|---------|--------------|
| <b>COMMON STOCKS</b>                                 |         |              |                                 |         |              |
| ☐ <b>85.1%</b>                                       |         |              |                                 |         |              |
| <b>Consumer Products</b> ☐ <b>6.3%</b>               |         |              |                                 |         |              |
| Apparel and Shoes - 1.2%                             |         |              |                                 |         |              |
| Timberland Company Cl. A <sub>1</sub> <sup>a,b</sup> | 50,000  | \$ 1,627,500 |                                 |         |              |
| Sports and Recreation - 5.1%                         |         |              |                                 |         |              |
| Thor Industries                                      | 100,000 | 4,007,000    |                                 |         |              |
| Winnebago Industries                                 | 100,000 | 3,328,000    |                                 |         |              |
|  |         | 7,335,000    |                                 |         | 6,750,778    |
| <b>Total</b> (Cost \$6,695,553)                      |         |              |                                 |         |              |
|  |         | 8,962,500    |                                 |         | 18,365,587   |
| <b>Consumer Services</b> ☐ <b>3.3%</b>               |         |              |                                 |         |              |
| Direct Marketing - 2.5%                              |         |              |                                 |         |              |
| Nu Skin Enterprises Cl. A                            | 200,000 | 3,516,000    |                                 |         |              |
| Other Consumer Services - 0.8%                       |         |              |                                 |         |              |
| Corinthian Colleges <sup>a</sup>                     | 100,000 | 1,178,000    |                                 |         |              |
|  |         | 4,694,000    |                                 |         | 3,195,465    |
| <b>Total</b> (Cost \$3,889,690)                      |         |              |                                 |         |              |
|  |         | 4,694,000    |                                 |         | 18,365,587   |
| <b>Financial Intermediaries</b> ☐ <b>3.3%</b>        |         |              |                                 |         |              |
| Insurance - 2.3%                                     |         |              |                                 |         |              |
| Alleghany Corporation <sup>a</sup>                   | 7,500   | 2,130,000    |                                 |         |              |
| ProAssurance Corporation <sup>a,b</sup>              | 25,000  | 1,216,000    |                                 |         |              |
|  |         | 3,346,000    |                                 |         | 3,346,000    |
| Other Financial Intermediaries - 1.0%                |         |              |                                 |         |              |
| <b>Metal Fabrication and Distribution</b> - 12.8%    |         |              |                                 |         |              |
|  |         |              | Pason Systems                   | 100,000 | \$ 2,486,128 |
|  |         |              | Woodward Governor Company       | 15,000  | 1,290,150    |
|  |         | 3,346,000    |                                 |         | 3,346,000    |
| <b>Total</b> (Cost \$16,295,295)                     |         |              |                                 |         |              |
|  |         | 8,962,500    |                                 |         | 31,195,465   |
| <b>Industrial Services</b> ☐ <b>5.5%</b>             |         |              |                                 |         |              |
| Commercial Services - 1.2%                           |         |              |                                 |         |              |
|  |         |              | BB Holdings                     | 250,000 | 1,692,500    |
| Engineering and Construction - 1.9%                  |         |              |                                 |         |              |
|  |         |              | Dycom Industries <sup>a,b</sup> | 120,000 | 2,640,000    |
|  |         | 4,694,000    |                                 |         | 2,640,000    |
| Transportation and Logistics - 2.4%                  |         |              |                                 |         |              |
|  |         |              | Arkansas Best                   | 80,000  | 3,494,400    |
|  |         | 3,346,000    |                                 |         | 3,494,400    |
| <b>Total</b> (Cost \$5,486,466)                      |         |              |                                 |         |              |
|  |         | 3,346,000    |                                 |         | 7,826,900    |
| <b>Natural Resources</b> ☐ <b>19.8%</b>              |         |              |                                 |         |              |
| Energy Services - 8.8%                               |         |              |                                 |         |              |
|  |         |              | Ensign Energy Services          | 100,000 | 4,036,303    |



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|  |         |            |  |         |            |
|--|---------|------------|--|---------|------------|
| TSX Group  | 35,000  | 1,409,996  | Input/Output <sup>a,b</sup>                                | 250,000 | 1,757,500  |
|  |         |            | <b>Tesco Corporation<sup>a</sup></b>                       | 160,000 | 2,960,000  |
| <b>Total</b> (Cost<br>\$2,038,496)   |         | 4,755,996  | <b>Trican Well Service<sup>a</sup></b>                     | 80,000  | 3,853,929  |
|  |         |            |  |         | 12,607,732 |
| <b>Financial Services</b> □ 3.7%<br>Information and Processing - 2.4%        |         |            |  |         |            |
| <b>eFunds Corporation<sup>a,b</sup></b>                                      | 150,000 | 3,516,000  | Precious Metals and Mining - 11.0%                         |         |            |
| Investment Management - 1.3%   |         |            | Gammon Lake Resources <sup>a</sup>                         | 100,000 | 1,190,000  |
| GAMCO Investors Cl. A  | 41,500  | 1,806,495  | <b>Glamis Gold<sup>a</sup></b>                             | 150,000 | 4,122,000  |
|  |         |            | <b>Ivanhoe Mines<sup>a,b</sup></b>                         | 400,000 | 2,876,000  |
| <b>Total</b> (Cost<br>\$3,678,413)   |         | 5,322,495  | Meridian Gold <sup>a,b</sup>                               | 120,000 | 2,624,400  |
|  |         |            | Pan American Silver <sup>a,b</sup>                         | 120,000 | 2,259,600  |
| <b>Health</b> □ 9.5%<br>Drugs and Biotech - 8.0%                             |         |            | Silver Standard Resources <sup>a,b</sup>                   | 180,000 | 2,755,800  |
| Elan Corporation ADR <sup>a,b</sup>  | 200,000 | 2,786,000  |  |         | 15,827,800 |
| <b>Endo Pharmaceuticals Holdings<sup>a,b</sup></b>                           | 150,000 | 4,539,000  | <b>Total</b> (Cost \$15,532,480)                           |         | 28,435,532 |
| Lexicon Genetics <sup>a,b</sup>  | 400,000 | 1,460,000  | <b>Technology</b> □ 11.9%<br>Components and Systems - 1.8% |         |            |
| Myriad Genetics <sup>a,b</sup>   | 75,000  | 1,560,000  | Lowrance Electronics                                       | 100,000 | 2,621,000  |
| Orchid Cellmark <sup>a,b</sup>   | 150,000 | 1,140,000  |  |         |            |
|  |         | 11,485,000 | Internet Software and Services - 1.9%                      |         |            |
| Medical Products and Devices - 1.5%  |         |            | RealNetworks <sup>a,b</sup>                                | 350,000 | 2,716,000  |
| Caliper Life Sciences <sup>a,b</sup>   | 200,000 | 1,176,000  |  |         |            |
| Possis Medical <sup>a,b</sup>  | 100,000 | 995,000    | IT Services - 0.9%   |         |            |
|  |         | 2,171,000  | Syntel   | 60,000  | 1,249,800  |
| <b>Total</b> (Cost<br>\$10,286,605)  |         | 13,656,000 | Software - 4.9%  |         |            |
|  |         |            | ManTech International Cl. A <sup>a,b</sup>                 | 100,000 | 2,786,000  |
| <b>Industrial Products</b> □ 21.8%<br>Building Systems and Components - 3.1% |         |            | PLATO Learning <sup>a,b</sup>                              | 160,000 | 1,270,400  |
| <b>Simpson Manufacturing</b>   | 120,000 | 4,362,000  | <b>Transaction Systems Architects Cl. A<sup>a</sup></b>    | 100,100 | 2,881,879  |
| Construction Materials - 1.2%  |         |            |  |         | 6,938,279  |
|  |         |            | Telecommunications - 2.4%                                  |         |            |

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|   |        |           |   |         |                |
|---|--------|-----------|---|---------|----------------|
| Florida Rock Industries                               | 35,000 | 1,717,100 | <b>Foundry Networks<sup>a,b</sup></b>             | 250,000 | 3,452,500      |
|   |        |           |   |         |                |
| <b>Machinery - 4.7%<br/>Lincoln Electric Holdings</b> | 75,000 | 2,974,500 | <b>Total</b> (Cost \$12,073,536)                  |         | 16,977,579     |
|   |        |           | <b>TOTAL COMMON STOCKS</b><br>(Cost \$75,976,534) |         | \$ 121,826,467 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 49

ROYCE FOCUS TRUST

DECEMBER 31, 2005

Schedule of Investments

|   | PRINCIPAL AMOUNT | VALUE        |  | VALUE         |
|---|------------------|--------------|--|---------------|
| <b>CORPORATE BONDS</b> ☐ 5.1%   |                  |              | <b>REPURCHASE AGREEMENT</b> ☐ 11.7%  |               |
| Athena Neurosciences Finance 7.25% Senior Note due 2/21/08                    | \$ 6,000,000     | \$ 5,857,500 | State Street Bank & Trust Company, 4.10% dated 12/30/05, due 1/3/06, maturity value \$16,757,631 (collateralized by obligations of various U.S. Government Agencies, valued at \$17,172,625) |               |
| E*TRADE Financial 6.00% Conv. Sub. Note due 2/1/07                            | 1,500,000        | 1,515,000    |  |               |
| <b>TOTAL CORPORATE BONDS</b><br>(Cost \$6,890,957)                            |                  | 7,372,500    | (Cost \$16,750,000)  | \$ 16,750,000 |
| <b>GOVERNMENT BONDS</b> ☐ 8.4%<br>(Principal Amount shown in local currency.) |                  |              | <b>COLLATERAL RECEIVED FOR SECURITIES LOANED</b> ☐ 13.5%   |               |
| Canadian Government Bond 3.00% due 6/1/07                                     | 6,150,000        | 5,230,132    | Money Market Funds<br>State Street Navigator Securities Lending  |               |
| New Zealand Government  |                  |              | Prime Portfolio  | 19,262,846    |
|   |                  |              | (Cost \$19,262,846)  | 19,262,846    |

|   |            |            |  |                       |
|---|------------|------------|--|-----------------------|
| Bond<br>6.50% due<br>2/15/06  | 10,000,000 | 6,824,030  | <b>TOTAL INVESTMENTS</b> □<br><b>130.7%</b><br>(Cost \$140,080,099)        | 187,210,115           |
| <b>TOTAL<br/>GOVERNMENT<br/>BONDS</b><br>(Cost<br>\$10,785,668)   |            | 12,054,162 | <b>LIABILITIES LESS CASH<br/>AND OTHER ASSETS</b> □ (13.2)%                | (18,966,373)          |
| <b>U.S.<br/>TREASURY<br/>OBLIGATIONS</b><br>□ 6.9%<br>U.S Treasury<br>Notes<br>Treasury<br>Inflation Index<br>Protection<br>Security 2.00%<br>due 7/15/14 | 10,000,000 | 9,944,140  | <b>PREFERRED STOCK</b> □ (17.5)%   | (25,000,000)          |
| <b>TOTAL U.S<br/>TREASURY<br/>OBLIGATIONS</b><br>(Cost<br>\$10,414,094)   |            | 9,944,140  | <b>NET ASSETS APPLICABLE TO<br/>COMMON STOCKHOLDERS</b> □<br><b>100.0%</b> | <b>\$ 143,243,742</b> |

<sup>a</sup> Non-income producing.

A portion of these securities were on loan at December 31, 2005. Total market value of loaned securities at

<sup>b</sup> December 31, 2005 was \$18,626,250.

□ New additions in 2005.

**Bold indicates the Fund's largest 20 equity holdings in terms of December 31, 2005, market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$140,968,473. At December 31, 2005, net unrealized appreciation for all securities was \$46,241,642, consisting of aggregate gross unrealized appreciation of \$47,933,493 and aggregate gross unrealized depreciation of \$1,691,851. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and unrealized gains on investments in Passive Foreign Investment Companies for book and tax purposes.

**ASSETS:**

|   |                |
|---|----------------|
| Investments at value (including collateral on loaned securities)* | \$ 170,460,115 |
| Repurchase agreement (at cost and value)                          | 16,750,000     |
| Cash  | 320            |
| Receivable for investments sold                                   | 3,224          |
| Receivable for dividends and interest                             | 547,724        |
| Prepaid expenses  | 3,389          |

|                     |                    |
|---------------------|--------------------|
| <b>Total Assets</b> | <b>187,764,772</b> |
|---------------------|--------------------|

**LIABILITIES:**

|  |            |
|--|------------|
| Payable for collateral on loaned securities      | 19,262,846 |
| Payable for investment advisory fee              | 142,998    |
| Preferred dividends accrued but not yet declared | 33,333     |
| Accrued expenses                                 | 81,853     |

|                          |                   |
|--------------------------|-------------------|
| <b>Total Liabilities</b> | <b>19,521,030</b> |
|--------------------------|-------------------|

**PREFERRED STOCK:**

|  |            |
|--|------------|
| 6.00% Cumulative Preferred Stock □ \$0.001 par value, \$25 liquidation value per share; 1,000,000 shares outstanding | 25,000,000 |
|--|------------|

|                              |                   |
|------------------------------|-------------------|
| <b>Total Preferred Stock</b> | <b>25,000,000</b> |
|------------------------------|-------------------|

|   |                       |
|---|-----------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 143,243,742</b> |
|---|-----------------------|

**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

|   |               |
|---|---------------|
| Common Stock paid-in capital □ \$0.001 par value per share; 14,674,667 shares outstanding (100,000,000 shares authorized) | \$ 92,368,072 |
| Undistributed net investment income (loss)  | (55,839)      |
| Accumulated net realized gain (loss) on investments   | 3,834,826     |
| Net unrealized appreciation (depreciation) on investments   | 47,130,016    |
| Preferred dividends accrued but not yet declared  | (33,333)      |

|  |                       |
|--|-----------------------|
| <b>Net Assets applicable to Common Stockholders (net asset value per share □ \$9.76)</b> | <b>\$ 143,243,742</b> |
|--|-----------------------|

|   |                |
|---|----------------|
| *Investments at identified cost (including \$19,262,846 of collateral on loaned securities) | \$ 123,330,099 |
|---|----------------|

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

THE ROYCE FUNDS 2005 REPORT TO STOCKHOLDERS | 51

**ROYCE FOCUS TRUST****YEAR ENDED DECEMBER 31, 2005****Statement of Operations****INVESTMENT INCOME:**

|          |              |
|----------|--------------|
| Income:  |              |
| Interest | \$ 1,819,666 |

|   |                     |
|---|---------------------|
| Dividends   | 653,713             |
| Securities lending  | 20,780              |
| <b>Total income</b>   | <b>2,494,159</b>    |
| <b>Expenses:</b>  |                     |
| Investment advisory fees  | 1,436,054           |
| Custody and transfer agent fees   | 88,136              |
| Stockholder reports   | 69,804              |
| Professional fees   | 28,333              |
| Directors' fees   | 20,347              |
| Administrative and office facilities expenses   | 11,067              |
| Other expenses  | 96,836              |
| <b>Total expenses</b>   | <b>1,750,577</b>    |
| <b>Net investment income (loss)</b>   | <b>743,582</b>      |
| <b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>  |                     |
| Net realized gain (loss) on investments   | 19,164,839          |
| Net change in unrealized appreciation (depreciation) on investments   | 1,922,287           |
| <b>Net realized and unrealized gain (loss) on investments</b>   | <b>21,087,126</b>   |
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS</b>                                   | <b>21,830,708</b>   |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>  | <b>(1,500,000)</b>  |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>\$20,330,708</b> |

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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

## ROYCE FOCUS TRUST

### Statement of Changes in Net Assets

|   | Year ended<br>12/31/05 | Year ended<br>12/31/04 |
|---|------------------------|------------------------|
| <b>INVESTMENT OPERATIONS:</b>                                       |                        |                        |
| Net investment income (loss)  | \$ 743,582             | \$ 225,575             |
| Net realized gain (loss) on investments                             | 19,164,839             | 16,972,445             |
| Net change in unrealized appreciation (depreciation) on investments | 1,922,287              | 9,319,147              |

|   |                |                |
|---|----------------|----------------|
| Net increase (decrease) in net assets resulting from investment operations  | 21,830,708     | 26,517,167     |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |                |                |
| Net investment income   | (80,100)       | (21,150)       |
| Net realized gain on investments  | (1,419,900)    | (1,478,850)    |
| Total distributions to Preferred Stockholders   | (1,500,000)    | (1,500,000)    |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b>     |                |                |
|   | 20,330,708     | 25,017,167     |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |                |                |
| Net investment income   | (853,787)      | (242,185)      |
| Net realized gain on investments  | (15,134,720)   | (16,948,411)   |
| Total distributions to Common Stockholders  | (15,988,507)   | (17,190,596)   |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |                |                |
| Reinvestment of distributions to Common Stockholders  | 11,288,577     | 11,013,943     |
| Net proceeds from rights offering   | 21,760,372     | □              |
| Total capital stock transactions  | 33,048,949     | 11,013,943     |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>  |                |                |
|   | 37,391,150     | 18,840,514     |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>  |                |                |
| Beginning of year   | 105,852,592    | 87,012,078     |
| End of year (including undistributed net investment income (loss) of \$(55,839) at 12/31/05 and \$(15,000) at 12/31/04) | \$ 143,243,742 | \$ 105,852,592 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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## ROYCE FOCUS TRUST

### Financial Highlights

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.

Years ended December 31,

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|   | 2005   | 2004    | 2003   | 2002     | 2001   |
|---|--------|---------|--------|----------|--------|
| <b>NET ASSET VALUE, BEGINNING OF PERIOD</b>   | \$9.75 | \$9.00  | \$6.27 | \$7.28   | \$6.77 |
| <b>INVESTMENT OPERATIONS:</b>   |        |         |        |          |        |
| Net investment income (loss)  | 0.06   | 0.02    | 0.08   | (0.01)   | 0.05   |
| Net realized and unrealized gain (loss) on investments  | 1.44   | 2.63    | 3.57   | (0.74)   | 0.79   |
| Total investment operations   | 1.50   | 2.65    | 3.65   | (0.75)   | 0.84   |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>   |        |         |        |          |        |
| Net investment income   | (0.01) | (0.00)  | (0.02) | (0.03)   | (0.04) |
| Net realized gain on investments  | (0.11) | (0.15)  | (0.14) | (0.13)   | (0.13) |
| Total distributions to Preferred Stockholders   | (0.12) | (0.15)  | (0.16) | (0.16)   | (0.17) |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | 1.38   | 2.50    | 3.49   | (0.91)   | 0.67   |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>  |        |         |        |          |        |
| Net investment income   | (0.06) | (0.02)  | (0.06) | (0.02)   | (0.03) |
| Net realized gain on investments  | (1.15) | (1.72)  | (0.56) | (0.07)   | (0.11) |
| Total distributions to Common Stockholders  | (1.21) | (1.74)  | (0.62) | (0.09)   | (0.14) |
| <b>CAPITAL STOCK TRANSACTIONS:</b>  |        |         |        |          |        |
| Effect of reinvestment of distributions by Common Stockholders  | (0.03) | (0.01)  | (0.03) | (0.01)   | (0.02) |
| Effect of rights offering and Preferred Stock offering  | (0.13) | □       | (0.11) | □        | □      |
| Total capital stock transactions  | (0.16) | (0.01)  | (0.14) | (0.01)   | (0.02) |
| <b>NET ASSET VALUE, END OF PERIOD</b>   | \$9.76 | \$9.75  | \$9.00 | \$6.27   | \$7.28 |
| <b>MARKET VALUE, END OF PERIOD</b>  | \$9.53 | \$10.47 | \$8.48 | \$5.56   | \$6.65 |
| <b>TOTAL RETURN (a):</b>  |        |         |        |          |        |
| Market Value  | 3.03%  | 47.26%  | 63.98% | (15.06)% | 19.65% |
| Net Asset Value   | 13.31% | 29.21%  | 54.33% | (12.50)% | 10.04% |
| <b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>  |        |         |        |          |        |
| Total expenses (b,c)  | 1.48%  | 1.53%   | 1.57%  | 1.88%    | 1.47%  |

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|                              |       |       |       |         |       |
|------------------------------|-------|-------|-------|---------|-------|
| Management fee expense       | 1.21% | 1.27% | 1.14% | 1.13%   | 1.11% |
| Other operating expenses     | 0.27% | 0.26% | 0.43% | 0.75%   | 0.36% |
| Net investment income (loss) | 0.63% | 0.24% | 1.07% | (0.16)% | 0.70% |

**SUPPLEMENTAL DATA:**

|   |           |           |          |          |          |
|---|-----------|-----------|----------|----------|----------|
| Net Assets Applicable to Common Stockholders,<br>End of Period (in thousands) | \$143,244 | \$105,853 | \$87,012 | \$57,956 | \$66,654 |
| Liquidation Value of Preferred Stock,<br>End of Period (in thousands)         | \$25,000  | \$25,000  | \$25,000 | \$20,000 | \$20,000 |
| Portfolio Turnover Rate   | 42%       | 52%       | 49%      | 61%      | 54%      |

**PREFERRED STOCK:**

|                                  |           |           |           |         |          |
|----------------------------------|-----------|-----------|-----------|---------|----------|
| Total shares outstanding         | 1,000,000 | 1,000,000 | 1,000,000 | 800,000 | 800,000  |
| Asset coverage per share         | \$168.24  | \$130.85  | \$112.01  | \$97.44 | \$108.32 |
| Liquidation preference per share | \$25.00   | \$25.00   | \$25.00   | \$25.00 | \$25.00  |
| Average market value per share   |           |           |           |         |          |

**(d):**

|                  |         |         |         |         |         |
|------------------|---------|---------|---------|---------|---------|
| 6.00% Cumulative | \$25.38 | \$24.83 | \$25.45 | □       | □       |
| 7.45% Cumulative | □       | □       | \$25.53 | \$25.64 | \$25.09 |

- (a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and distributions, if any, are assumed for the purposes of this calculation to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.
- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 1.22%, 1.21%, 1.20%, 1.43% and 1.11% for the periods ended December 31, 2005, 2004, 2003, 2002 and 2001, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees by the investment adviser would have been 1.73%, 2.06% and 1.69% for the periods ended December 31, 2003, 2002 and 2001, respectively.
- (d) The average of month-end market values during the period that the preferred stock was outstanding.

**ROYCE FOCUS TRUST**

**DECEMBER 31, 2005**

**Notes to Financial Statements**

**Summary of Significant Accounting Policies:**

Royce Focus Trust, Inc. (the Fund) is a diversified closed-end investment company. The Fund commenced operations on March 2, 1988 and Royce & Associates, LLC (Royce) assumed investment management responsibility for the Fund on November 1, 1996.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that

fiscal year. The Schedule of Investments includes information regarding income taxes under the caption "Income Tax Information".

**Distributions:**

The Fund currently has a policy of paying quarterly distributions on the Fund's Common Stock. Distributions are currently being made at the annual rate of 5% of the rolling average of the prior four calendar quarter-end NAVs of the Fund's Common Stock, with the fourth quarter distribution being the



affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

#### **Valuation of Investments:**

Securities are valued as of the close of trading on the New York Stock Exchange (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange or Nasdaq are valued at their last reported sales price or Nasdaq official closing price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their bid price. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. Bonds and other fixed income securities may be valued by reference to other securities with comparable ratings, interest rates and maturities, using established independent pricing services.

#### **Investment Transactions and Related Investment Income:**

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date and any non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on an accrual basis. Realized gains and losses from investment transactions are determined on the basis of identified cost for book and tax purposes.

#### **Expenses:**

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated in an equitable manner. Allocated personnel and occupancy costs related to The Royce Funds are included in administrative and office facilities expenses. The Fund has adopted a deferred fee agreement that allows the Fund's Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

#### **Taxes:**

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its

greater of 1.25% of the rolling average or the distribution required by IRS regulations. Distributions to Preferred Stockholders are recorded on an accrual basis and paid quarterly. The Fund is required to allocate long-term capital gain distributions and other types of income proportionately to distributions made to holders of shares of Common Stock and Preferred Stock. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. Permanent book and tax basis differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

#### **Repurchase Agreements:**

The Fund may enter into repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of the counter-party, including possible delays or restrictions upon the ability of the Fund to dispose of the underlying securities.

#### **Securities Lending:**

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral on all securities loaned for the Fund is accepted in cash and cash equivalents and invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day.

#### **Capital Stock:**

The Fund issued 1,191,399 and 1,182,493 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2005 and 2004, respectively.

**ROYCE FOCUS TRUST****DECEMBER 31, 2005****Notes to Financial Statements (continued)**

On June 10, 2005, the Fund completed a rights offering of Common Stock to its stockholders at the rate of one common share for each 5 rights held by stockholders of record on May 6, 2005. The rights offering was fully subscribed, resulting in the issuance of 2,627,397 common shares at a price of \$8.34, and proceeds of \$21,912,491 to the Fund prior to the deduction of expenses of \$152,119. The net asset value per share of the Fund's Common Stock was reduced by approximately \$0.13 per share as a result of the issuance.

At December 31, 2005, 1,000,000 shares of 6.00% Cumulative Preferred Stock were outstanding. Commencing October 17, 2008 and thereafter, the Fund, at its option, may redeem the Cumulative Preferred Stock, in whole or in part, at the redemption price. The Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements in accordance with Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities, that requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer.

The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by

Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share, plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Cumulative Preferred Stock.

**Investment Advisory Agreement:**

The Investment Advisory Agreement between Royce and the Fund provides for fees to be paid at an annual rate of 1.0% of the Fund's average daily net assets applicable to Common Stockholders plus the liquidation value of Preferred Stock. Royce has voluntarily committed to waive the portion of its investment advisory fee attributable to an issue of the Fund's Preferred Stock for any month in which the Fund's average annual NAV total return since issuance of the Preferred Stock fails to exceed the applicable Preferred Stock's dividend rate. For the year ended December 31, 2005, the Fund accrued and paid Royce advisory fees totaling \$1,436,054.

**Distributions to Stockholders:**

The tax character of distributions paid to stockholders during 2005 and 2004 was as follows:

| Distributions paid from: | 2005                | 2004                |
|--------------------------|---------------------|---------------------|
| Ordinary income          | \$ 1,682,395        | \$ 263,335          |
| Long-term capital gain   | 15,806,112          | 18,427,261          |
|                          | <u>\$17,488,507</u> | <u>\$18,690,596</u> |

As of December 31, 2005, the tax basis components of distributable earnings included in stockholders' equity were as follows:

|                                      |              |
|--------------------------------------|--------------|
| Undistributed net investment income  | \$ 536,514   |
| Undistributed long-term capital gain | 4,130,847    |
| Unrealized appreciation              | 46,241,642   |
| Accrued preferred distributions      | (33,333)     |
|                                      | \$50,875,670 |

The difference between book basis and tax basis unrealized appreciation is attributable primarily to the tax deferral on wash sales and the unrealized gains on investments in Passive Foreign Investment Companies.

For financial reporting purposes, capital accounts and distributions to stockholders are adjusted to reflect the tax character of permanent book / tax differences. For the year ended December 31, 2005, the Fund recorded the following permanent reclassifications, which relate primarily to the current net operating losses. Results of operations and net assets were not affected by these reclassifications.

| Undistributed<br>Net<br>Investment<br>Income | Accumulated<br>Net Realized<br>Gain (Loss) | Paid-in<br>Capital |
|--|--|--------------------|
| \$ 149,466                                   | \$ (149,466)                               | \$ □               |

#### **Purchases and Sales of Investment Securities:**

For the year ended December 31, 2005, the cost of purchases and proceeds from sales of investment securities, other than short-term securities and collateral received for securities loaned, amounted to \$55,157,207 and \$54,393,314, respectively.

## **ROYCE FOCUS TRUST**

### **Report of Independent Registered Public Accounting Firm**

#### **To the Board of Directors and Stockholders of Royce Focus Trust, Inc.**

We have audited the accompanying statement of assets and liabilities of Royce Focus Trust, Inc. ( Fund ), including the schedule of investments, as of December 31, 2005, and the related statement of operations for the year then ended, and the statement of changes in net assets for the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but

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not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2005, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above and audited by us present fairly, in all material respects, the financial position of Royce Focus Trust, Inc. at December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER, & BAKER LLP

Philadelphia, PA

January 20, 2006

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## DIRECTORS AND OFFICERS

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**All Directors and Officers may be reached c/o The Royce Funds, 1414 Avenue of the Americas, New York, NY 10019**

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**NAME AND POSITION:** Charles M. Royce (66), Director\* and President

**Term Expires:** 2006      **Tenure:** Since 1986  
(RVT), 1993 (RMT), 1996 (FUND)

**Number of Funds Overseen:** 23      **Non-Royce**  
**Directorships:** Director of Technology Investment Capital Corp.

**Principal Occupation(s) During Past Five Years:** President, Chief Investment Officer and Member of Board of Managers of Royce & Associates, LLC (Royce) (since October 2001), the Trust's investment adviser.

**NAME AND POSITION:** Mark R. Fetting (51), Director\*

**Term Expires:** 2007      **Tenure:** Since 2001  
**Number of Funds Overseen:** 46\*\*      **Non-Royce**

**Directorships:** None  
\*\*Director/Trustee of all Royce Funds consisting of 23 portfolios; Director/Trustee of the Legg Mason Family of Funds consisting of 23 portfolios.

**Principal Occupation(s) During Past Five Years:** Executive Vice President of Legg Mason, Inc.; Member of Board of Managers of Royce (since October 2001); Division President and Senior Officer, Prudential Financial Group, Inc. and related companies, including Fund Boards and consulting services to subsidiary companies (from 1991 to 2000). Mr. Fetting's prior business experience includes having served as Partner, Greenwich Associates and Vice President, T. Rowe Price Group, Inc.

**NAME AND POSITION:** Arthur S. Mehlman (64), Director  
**Term Expires:** 2007      **Tenure:** Since 2004

**Number of Funds Overseen:** 46\*\*      **Non-Royce**  
**Directorships:** Director of Municipal Mortgage & Equity, LLC.  
\*\*Director/Trustee of all Royce Funds consisting of 23 portfolios; Director/Trustee of the Legg Mason Family of Funds consisting of 23 portfolios.

**Principal Occupation(s) During Past Five Years:** Director of The League for People with Disabilities, Inc.; Director of University of Maryland Foundation and University of Maryland College Park Foundation (nonprofits). Formerly Partner, KPMG LLP (international accounting firm) (1972-2002). Director of Maryland Business Roundtable for Education (July 1984-June 2002).

**NAME AND POSITION:** David L. Meister (66), Director  
**Term Expires:** 2006      **Tenure:** Since 1986

(RVT), 1993  
(RMT), 1996 (FUND)  
**Number of Funds Overseen:** 23      **Non-Royce**  
**Directorships:** None

**Principal Occupation(s) During Past Five Years:** Private Investor. Chairman and Chief Executive Officer of The Tennis Channel (June 2000-March 2005). Chief Executive Officer of Seniorlife.com (from December 1999 to May 2000). Mr. Meister's prior business experience includes having served as a consultant to the communications industry, President of Financial News Network, Senior Vice President of HBO, President of Time-Life Films and Head of Broadcasting for Major League Baseball.

**NAME AND POSITION:** Donald R. Dwight (74), Director  
**Term Expires:** 2008      **Tenure:** Since 1998

**NAME AND POSITION:** G. Peter O'Brien (60), Director  
**Term Expires:** 2006      **Tenure:** Since 2001

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**Number of Funds Overseen:** 23      **Non-Royce**  
**Directorships:** None

**Principal Occupation(s) During Past Five Years:** President of Dwight Partners, Inc., corporate communications consultant; Chairman (from 1982 to March 1998) and Chairman Emeritus (since March 1998) of Newspapers of New England, Inc. Mr. Dwight's prior experience includes having served as Lieutenant Governor of the Commonwealth of Massachusetts, as President and Publisher of Minneapolis Star and Tribune Company, and as Trustee of the registered investment companies constituting the Eaton Vance Funds.

**NAME AND POSITION:** Richard M. Galkin (67), Director  
**Term Expires:** 2007      **Tenure:** Since 1986  
(RVT), 1993 (RMT), 1996 (FUND)

**Number of Funds Overseen:** 23      **Non-Royce**  
**Directorships:** None

**Principal Occupation(s) During Past Five Years:** Private investor. Mr. Galkin's prior business experience includes having served as President of Richard M. Galkin Associates, Inc., telecommunications consultants, President of Manhattan Cable Television (a subsidiary of Time, Inc.), President of Haverhill Inc. (another Time, Inc. subsidiary), President of Rhode Island Cable Television and Senior Vice President of Satellite Television Corp. (a subsidiary of Comsat).

**NAME AND POSITION:** Stephen L. Isaacs (66), Director  
**Term Expires:** 2008 (RVT), 2008      **Tenure:** Since 1986  
(RVT), 1993

(RMT), 2006 (FUND)      (RMT), 1996 (FUND)  
**Number of Funds Overseen:** 23      **Non-Royce**  
**Directorships:** None

**Principal Occupation(s) During Past Five Years:** President of The Center for Health and Social Policy (since September 1996); Attorney and President of Health Policy Associates, Inc., consultants. Mr. Isaacs's prior business experience includes having served as Director of Columbia University Development Law and Policy Program and Professor at Columbia University (until August 1996).

**NAME AND POSITION:** William L. Koke (71), Director  
**Term Expires:** 2006 (RVT), 2006      **Tenure:** Since 2001  
(RVT), 2001

(RMT), 2008 (FUND)      (RMT), 1997 (FUND)  
**Number of Funds Overseen:** 23      **Non-Royce**  
**Directorships:** None

**Principal Occupation(s) During Past Five Years:** Private Investor. Mr. Koke's prior business experience includes having served as Director of Financial Relations of SONAT, Inc., Treasurer of Ward Foods, Inc. and President of CFC, Inc.

**Number of Funds Overseen:** 46\*\*      **Non-Royce**  
**Directorships:** Director of Technology Investment Capital Corp.

\*\*Director/Trustee of all Royce Funds consisting of 23 portfolios; Director/ Trustee of the Legg Mason Family of Funds consisting of 23 portfolios.

**Principal Occupation(s) During Past Five Years:** Trustee Emeritus of Colgate University; Board Member of Hill House, Inc. (since 1999); Formerly Trustee of Colgate University (from 1996-2005), President of Hill House, Inc. (from 2001-2005) and Managing Director/Equity Capital Markets Group of Merrill Lynch & Co. (from 1971 to 1999).

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**NAME AND POSITION:** John D. Diederich (54), Vice President and Treasurer  
**Tenure:** Since 1997

**Principal Occupation(s) During Past Five Years:** Managing Director, Chief Operating Officer and Member of Board of Managers of Royce (since October 2001); Director of Administration of the Funds since April 1993.

**NAME AND POSITION:** Jack E. Fockler, Jr. (47), Vice President  
**Tenure:** Since 1995 (RVT), 1995 (RMT), 1996 (FUND)

**Principal Occupation(s) During Past Five Years:** Managing Director and Vice President of Royce, having been employed by Royce since October 1989.

**NAME AND POSITION:** W. Whitney George (47), Vice President  
**Tenure:** Since 1995 (RVT), 1995 (RMT), 1996 (FUND)

**Principal Occupation(s) During Past Five Years:** Managing Director and Vice President of Royce, having been employed by Royce since October 1991.

**NAME AND POSITION:** Daniel A. O'Byrne (43), Vice President and Assistant Secretary  
**Tenure:** Since 1994 (RVT), 1994 (RMT), 1996 (FUND)

**Principal Occupation(s) During Past Five Years:** Vice President of Royce, having been employed by Royce since October 1986.

**NAME AND POSITION:** John E. Denneen (38), Secretary  
**Tenure:** 1996-2001 and Since April 2002

**Principal Occupation(s) During Past Five Years:** General Counsel (Deputy General Counsel prior to 2003), Principal, Chief Legal and Compliance Officer and Secretary of Royce (1996-2001 and since April 2002); Principal of Credit Suisse First Boston Private Equity (2001-2002).

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\* Interested Director.

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## NOTES TO PERFORMANCE AND OTHER IMPORTANT INFORMATION

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The thoughts expressed in this *Report* concerning recent market movements and future prospects for small company stocks are solely the opinion of Royce at December 31, 2005, and, of course, historical market trends are not necessarily indicative of future market movements. Statements regarding the future prospects for particular securities held in the Funds' portfolios and Royce's investment intentions with respect to

those securities reflect Royce's opinions as of December 31, 2005 and are subject to change at any time without notice. There can be no assurance that securities mentioned in this *Report* will be included in any Royce-managed portfolio in the future. The Funds invest primarily in securities of mid-, small- and micro-cap companies, that may involve considerably more risk than investments of larger-cap companies. All publicly released material information is always disclosed by the Funds on the website at [www.roycefunds.com](http://www.roycefunds.com).

Standard deviation is a statistical measure within which a fund's total returns have varied over time. The greater the standard deviation, the greater a fund's volatility. The Funds' P/E ratio calculations exclude companies with zero or negative earnings.

The Russell 2000, Russell 2000 Value, Russell 2000 Growth, Nasdaq Composite, S&P 500 and S&P 600 are unmanaged indices of domestic common stocks. CRSP (Center for Research in Security Pricing) equally divides the companies listed on the NYSE into 10 deciles based on market capitalization. Deciles 1-5 represent the largest domestic equity companies and deciles 6-10 represent the smallest. CRSP then sorts all listed domestic equity companies based on these market cap ranges. By way of comparison, the CRSP 1-5 would have similar capitalization parameters to the S&P 500 and the CRSP 6-10 would approximately match those of the Russell 2000. Returns for the market indices used in this *Report* were based on information supplied to Royce by Frank Russell and Morningstar. Royce has not independently verified the above described information. The Royce Funds is a service mark of The Royce Funds.

### Forward-Looking Statements

This material contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the Exchange Act), that involve risks and uncertainties, including, among others, statements as to:

- the Funds' future operating results
- the prospects of the Funds' portfolio companies
- the impact of investments that the Funds have made or may make
- the dependence of the Funds' future success on the general economy and its impact on the companies and industries in which the Funds invest, and
- the ability of the Funds' portfolio companies to achieve their objectives.

This *Report* uses words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements for any reason.

The Royce Funds have based the forward-looking statements included in this *Report* on information available to us on the date of the report, and we assume no obligation to update any such forward-looking statements. Although The Royce Funds undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make through future stockholder communications or reports.

### Authorized Share Transactions

Royce Value Trust, Royce Micro-Cap Trust and Royce Focus Trust may each repurchase up to 300,000 shares of its respective common stock and up to 10% of the issued and outstanding shares of its respective preferred stock during the year ending December 31, 2006. Any such repurchases would take place at then prevailing prices in the open market or in other transactions. Common stock repurchases would be effected at a price per share that is less than the share's then current net asset value, and preferred stock repurchases would be effected at a price per share that is less than the share's liquidation value.

Royce Value Trust, Royce Micro-Cap Trust and Royce Focus Trust are also authorized to offer their common stockholders an opportunity to subscribe for additional shares of their common stock through rights offerings at a price per share that may be less than the share's then current net asset value. The timing and terms of any such offerings are within each Board's discretion.

### Proxy Voting

A copy of the policies and procedures that The Royce Funds use to determine how to vote proxies relating to portfolio securities and information regarding how each of The Royce Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available, without charge, on the Royce Funds' website at [www.roycefunds.com](http://www.roycefunds.com), by calling 1-800-221-4268 (toll-free) and on the website of the Securities and Exchange Commission (SEC), at [www.sec.gov](http://www.sec.gov).

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## NOTES TO PERFORMANCE AND OTHER IMPORTANT INFORMATION (CONTINUED)

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### Form N-Q Filing

The Funds file their complete schedules of investments with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q are available on The Royce Funds' website at [www.roycefunds.com](http://www.roycefunds.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov). The Funds' Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. To find out more about this public

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service, call the SEC at 1-800-732-0330. The Funds' complete schedules of investments are updated quarterly, and are available at [www.roycefunds.com](http://www.roycefunds.com).

### Annual Certifications

As required, the Funds have submitted to the New York Stock Exchange ( NYSE ) for Royce Value Trust and Royce Micro-Cap Trust and to Nasdaq for Royce Focus Trust, respectively, the annual certification of the Funds' Chief Executive Officer that he is not aware of any violation of the NYSE's or Nasdaq's Corporate Governance listing standards. The Funds also have included the certification of the Funds' Chief Executive Officer and Chief Financial Officer required by section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Funds' Form N-CSR for the period ended December 31, 2005, filed with the Securities and Exchange Commission.

### Royce Value Trust, Inc.

At the 2005 Annual Meeting of Stockholders held on September 29, 2005, the Fund's stockholders elected four Directors, consisting of:

|                     | Votes For  | Votes Abstained |
|---------------------|------------|-----------------|
| * Donald R. Dwight  | 55,341,521 | 524,245         |
| * Stephen L. Isaacs | 55,442,757 | 423,009         |
| ** William L. Koke  | 7,494,598  | 67,784          |
| ** David L. Meister | 7,482,620  | 79,762          |

\* Common Stock and Preferred Stock Voting Together as a Single Class

\*\* Preferred Stock Voting as a Separate Class

### Royce Micro-Cap Trust, Inc.

At the 2005 Annual Meeting of Stockholders held on September 29, 2005, the Fund's stockholders elected four Directors, consisting of:

|                     | Votes For  | Votes Abstained |
|---------------------|------------|-----------------|
| * Donald R. Dwight  | 21,354,815 | 181,227         |
| * Stephen L. Isaacs | 21,362,901 | 173,141         |
| ** William L. Koke  | 1,951,681  | 18,351          |
| ** David L. Meister | 1,952,481  | 17,551          |

\* Common Stock and Preferred Stock Voting Together as a Single Class

\*\* Preferred Stock Voting as a Separate Class

### Royce Focus Trust, Inc.

At the 2005 Annual Meeting of Stockholders held on September 29, 2005, the Fund's stockholders elected four Directors, consisting of:

|                      | Votes For  | Votes Abstained |
|----------------------|------------|-----------------|
| * Donald R. Dwight   | 12,467,299 | 123,891         |
| ** Stephen L. Isaacs | 920,921    | 4,780           |
| * William L. Koke    | 12,723,349 | 118,841         |
| ** David L. Meister  | 920,521    | 5,180           |

- \* Common Stock and Preferred Stock Voting Together as a Single Class
- \*\* Preferred Stock Voting as a Separate Class

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## POSTSCRIPT

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### Our Favorite Things

By the time that stockholders and other interested parties are reading this *Annual Review and Report to Stockholders*, the presents have all been opened, the tree has been taken down and the decorations have been stored away until next year's holiday season. However, each year we begin preparing the Report and reflecting on the year long before, right in the midst of the holiday season. As December winds to a close, and we look back on the year that will soon be over, our thoughts are invariably mixed with the spirit of the holiday season. This is how the following verses came to be written in December 2005. They are a combination of holiday spirit and another enjoyable year doing the things that we love—helping you to build wealth with our time-tested, disciplined approach to small-cap investing. So, we humbly present our version of a holiday treat, with sincerest apologies to Rodgers and Hammerstein, Julie Andrews and John Coltrane.

#### **Royce's Holiday Tune (Sung to the Tune of "My Favorite Things")**

Well-run small companies selling for peanuts,  
Balance sheets so pure they don't need much clean-up,  
Cash flow, good management, lots of earnings—  
These are a few of our favorite things.

Micro-cap businesses Wall Street's not heard of,  
Research 'til midnight until we feel sure of  
A firm that is debt-free and high-returning—  
These are a few of our favorite things.

People who sell at the first sign of trouble,  
Bargain-priced stocks from the burst of a bubble,  
Prices dropped so low they make our hearts sing—  
These are a few of our favorite things

Financial statements that tell a good story,  
Transparent accounting that won't make us sorry,  
Prices that bottom out from missed earnings—  
These are a few of our favorite things

When the price stalls  
As the bell rings,  
When returns are bad,  
We simply remember our favorite things,  
And then we don't feel so sad.

THIS PAGE IS NOT PART OF THE 2005 REPORT TO STOCKHOLDERS

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# The Royce Funds

## Wealth Of Experience

With approximately \$22.4 billion in open- and closed-end fund assets under management, Royce & Associates is committed to the same small-company investing principles that have served us well for more than 30 years. Charles M. Royce, our Chief Investment Officer, enjoys one of the longest tenures of any active mutual fund manager. Royce's investment staff includes six other Portfolio Managers, as well as eight assistant portfolio managers and analysts, and six traders.

## Multiple Funds, Common Focus

Our goal is to offer both individual and institutional investors the best available small-cap value portfolios. Unlike a lot of mutual fund groups with broad product offerings, we have chosen to concentrate on small-company value investing by providing investors with a range of funds that take full advantage of this large and diverse sector.

## Consistent Discipline

Our approach emphasizes paying close attention to risk and maintaining the same discipline, regardless of market movements and trends. The price we pay for a security must be significantly below our appraisal of its current worth. This requires a thorough analysis of the financial and business dynamics of an enterprise, as though we were purchasing the entire company.

## Co-Ownership Of Funds

It is important that our employees and shareholders share a common financial goal; our officers, employees and their families currently have approximately \$108 million invested in The Royce Funds.

### General Information

Additional Report Copies  
and Fund Inquiries  
(800) 221-4268

### Computershare

Transfer Agent and Registrar  
(800) 426-5523

### Broker/Dealer Services

For Fund Materials and Performance Updates,  
(800) 59-ROYCE (597-6923)

### Advisor Services

For Fund Materials, Performance Updates  
or Account Inquiries  
(800) 33-ROYCE (337-6923)

[www.roycefunds.com](http://www.roycefunds.com)

CE-REP-1205

**Item 2: Code(s) of Ethics** □ As of the end of the period covered by this report, the Registrant had adopted a code of ethics, as defined in Item 2 of Form N-CSR, applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of this code of ethics is filed as an exhibit to this Form N-CSR. No substantive amendments were approved or waivers were granted to this code of ethics during the period covered by this report.

**Item 3: Audit Committee Financial Expert** □

- (a)(1) The Board of Directors of the Registrant has determined that it has an audit committee financial expert.
- (a)(2) Arthur S. Mehlman was designated by the Board of Directors as the Registrant's Audit Committee Financial Expert, effective April 15, 2004. Mr. Mehlman is □independent□ as defined under Item 3 of Form N-CSR.

**Item 4: Principal Accountant Fees and Services.**

- (a) Audit Fees:  
Year ended December 31, 2005 - \$33,000  
Year ended December 31, 2004 - \$31,000
- (b) Audit-Related Fees:  
Year ended December 31, 2005 - \$1,500 □ Preparation of reports to rating agency for Preferred Stock  
Year ended December 31, 2004 - \$1,500 □ Preparation of reports to rating agency for Preferred Stock
- (c) Tax Fees:  
Year ended December 31, 2005 - \$2,500 - Preparation of tax returns  
Year ended December 31, 2004 - \$2,500 - Preparation of tax returns
- (d) All Other Fees:  
Year ended December 31, 2005 - \$2,500 □ Agreed upon procedures report relating to investment advisory fee calculation  
Year ended December 31, 2004 - \$0
- (e)(1) Annual Pre-Approval: On an annual basis, the Registrant's independent auditor submits to the Audit Committee a schedule of proposed audit, audit-related, tax and other non-audit services to be rendered to the Registrant and/or investment adviser(s) for the following year that require pre-approval by the Audit Committee. This schedule provides a description of each type of service that is expected to require pre-approval and the maximum fees that can be paid for each such service without further Audit Committee approval. The Audit Committee then reviews and determines whether to approve the types of scheduled services and the projected fees for them. Any subsequent revision to already pre-approved services or fees (including fee increases) are presented for consideration at the next regularly scheduled Audit Committee meeting, as needed.

If subsequent to the annual pre-approval of services and fees by the Audit Committee, the Registrant or one of its affiliates determines that it would like to engage the Registrant's independent auditor to perform a service not already pre-approved, the request is to be submitted to the Registrant's Chief Financial Officer, and if he or she determines that the service fits within the independence guidelines (e.g., it is not a prohibited service), he or she will then arrange for a discussion of the proposed service and fee to be included on the agenda for the next regularly scheduled Audit Committee meeting so that pre-approval can be considered.

Interim Pre-Approval: If, in the judgment of the Registrant's Chief Financial Officer, a proposed engagement needs to commence before the next regularly scheduled Audit Committee meeting, he or she shall submit a written summary of the proposed engagement to all members of the Audit Committee, outlining the services, the estimated maximum cost, the category of the services (e.g., audit, audit-related, tax or other) and the rationale for engaging the Registrant's independent auditor to perform the services. To the extent the proposed engagement involves audit, audit-related or tax services, any individual member of the Audit Committee who is an

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independent Board member is authorized to pre-approve the engagement. To the extent the proposed engagement involves non-audit services other than audit-related or tax, the Chairman of the Audit Committee is authorized to pre-approve the engagement. The Registrant's Chief Financial Officer will arrange for this interim review and coordinate with the appropriate member(s) of the Committee. The independent auditor may not commence the engagement under consideration until the Registrant's Chief Financial Officer has informed the auditor in writing that pre-approval has been obtained from the Audit Committee or an individual member who is an independent Board member. The member of the Audit Committee who pre-approves any engagements in between regularly scheduled Audit Committee meetings is to report, for informational purposes only, any

pre-approval decisions to the Audit Committee at its next regularly scheduled meeting.

(e)(2) Not Applicable

(f) Not Applicable

(g) Year ended December 31, 2005 - \$11,500  
Year ended December 31, 2004 - \$4,000

(h) No such services were rendered during 2005 or 2004.

**Item 5:** The Registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Donald R. Dwight, Richard M. Galkin, Stephen L. Isaacs, William L. Koke, Arthur S. Mehlman, David L. Meister and G. Peter O'Brien are members of the Registrant's audit committee.

**Item 6: Not Applicable.**

**Item 7:**

June 5, 2003  
As amended on April  
14, 2005

### **Royce & Associates Proxy Voting Guidelines and Procedures**

These procedures apply to Royce & Associates, LLC (["Royce"]) and all funds and other client accounts for which it is responsible for voting proxies, including all open and closed-end registered investment companies (["The Royce Funds"]), limited partnerships, limited liability companies, separate accounts, other accounts for which it acts as investment adviser and any accounts for which it acts as sub-adviser that have directly or indirectly delegated proxy voting authority to Royce. The Boards of Trustees/Directors of The Royce Funds have delegated all proxy voting decisions to Royce, and in the case of Royce Technology Value Fund, to JHC Capital Management subject to these policies and procedures.

Receipt of Proxy Material. Under the continuous oversight of the Head of Administration, an Administrative Assistant designated by him is responsible for monitoring receipt of all proxies and ensuring that proxies are received for all securities for which Royce has proxy voting responsibility. All proxy materials are logged in upon receipt by Royce's Librarian.

Voting of Proxies. Once proxy material has been logged in by Royce's Librarian, it is then promptly reviewed by the designated Administrative Assistant to evaluate the issues presented. Regularly recurring matters are usually voted as recommended by the issuer's board of directors or "management." The Head of Administration, in consultation with the Chief Investment Officer, develops and updates a list of matters Royce treats as "regularly recurring" and is responsible for ensuring that the designated Administrative Assistant has an up-to-date list of these matters at all times, including instructions from Royce's Chief Investment Officer on how to vote on those matters on behalf of Royce clients. Examples of "regularly recurring" matters include non-contested elections of directors and non-contested approval of independent auditors. Non-"regularly recurring" matters are brought to the attention of the portfolio manager(s) for the account(s) involved by the designated Administrative Assistant, and, after giving some consideration to advisories from "Proxy Master" (a service provided by Institutional Shareholder Services),

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the portfolio manager directs that such matters be voted in a way that he or she believes should better protect or enhance the value of the investment. If the portfolio manager determines that information concerning any proxy requires analysis, is missing or incomplete, he or she then gives the proxy to an analyst or another portfolio manager for review and analysis.

- a. From time to time, it is possible that one Royce portfolio manager will decide (i) to vote shares held in client accounts he or she manages differently from the vote of another Royce portfolio manager whose client accounts hold the same security or (ii) to abstain from voting on behalf of client accounts he or she manages when another Royce portfolio manager is casting votes on behalf of other Royce client accounts.

The designated Administrative Assistant reviews all proxy votes collected from Royce's portfolio managers prior to such votes being cast. If any difference exists among the voting instructions given by Royce's portfolio managers, as described above, the designated Administrative Assistant then presents these proposed votes to the Head of Administration and the Chief Investment Officer. The Chief Investment Officer, after consulting with the relevant portfolio managers, either reconciles the votes or authorizes the casting of differing votes by different portfolio managers. The Head of Administration maintains a log of all votes for which different portfolio managers have cast differing votes, that describes the rationale for allowing such differing votes and contains the initials of both the Chief Investment Officer and Head of Administration allowing such differing votes. The Head of Administration performs a weekly review of all votes cast by Royce to confirm that any conflicting votes were properly handled in accordance with the above-described procedures.

- b. There are many circumstances that might cause Royce to vote against an issuer's board of directors or management proposal. These would include, among others, excessive compensation, unusual management stock options, preferential voting, poison pills, etc. The portfolio managers decide these issues on a case-by-case basis as described above.
- c. A portfolio manager may, on occasion, determine to abstain from voting a proxy or a specific proxy item when he or she concludes that the potential benefit of voting is outweighed by the cost, when it is not in the client account's best interest to vote.
- d. When a client has authorized Royce to vote proxies on its behalf, Royce will generally not accept instructions from the clients regarding how to vote proxies.
- e. If a security is on loan under The Royce Funds' Securities Lending Program with State Street Bank and Trust Company ("Loaned Securities"), the Head of Administration or the designated Administrative Assistant will recall the Loaned Securities and request that they be delivered within the customary settlement period after the notice, to permit the exercise of their voting rights if the number of shares of the security on loan would have a material effect on The Royce Funds' voting power at the up-coming stockholder meeting. A material effect is defined as any case where the Loaned Securities are 1% or more of a class of a company's outstanding equity securities.

Custodian banks are authorized to release all shares held for Royce client account portfolios to Automated Data Processing Corporation ("ADP") for voting, utilizing ADP's "Proxy Edge" software system. Substantially all portfolio companies utilize ADP to collect their proxy votes. However, for the limited number of portfolio companies that do not utilize ADP, Royce attempts to register at least a portion of its clients holdings as a physical shareholder in order to ensure its receipt of a physical proxy.

Under the continuous oversight of the Head of Administration, the designated Administrative Assistant is responsible for voting all proxies in a timely manner. Votes are returned to ADP using Proxy Edge as ballots are received, generally two weeks before the scheduled meeting date. The issuer can thus see that the shares were voted, but the actual vote cast is not released to the company until 4pm on the day before the meeting. If proxies must be mailed, they go out at least ten business days before the meeting date.

Conflicts of Interest. The designated Administrative Assistant reviews reports generated by Royce's portfolio management system ("Quest PMS") that set forth by record date, any security held in a Royce client account which is issued by a (i) public company that is, or a known affiliate of which is, a separate account client of Royce

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(including sub-advisory relationships), (ii) public company, or a known affiliate of a public company, that has invested in a privately-offered pooled vehicle managed by Royce or (iii) public company, or a known affiliate of a public company, by which the spouse of a Royce employee or an immediate family member of a Royce employee living in the household of such employee is employed, for the purpose of identifying any potential proxy votes that could present a conflict of interest for Royce. The Head of Administration develops and updates the list of such public companies or their known affiliates which is used by Quest PMS to generate these daily reports. This list also contains information regarding the source of any potential conflict relating to such companies. Potential conflicts identified on the "conflicts reports" are brought to the attention of the Head of Administration by the designated Administrative Assistant, who then reviews them to determine if business or personal relationships exist between Royce, its officers, managers or employees and the company that could present a material conflict of interest. Any such identified material conflicts are voted by Royce in accordance with the recommendation given by an independent third party research firm (Institutional Shareholder Services). The Head of Administration maintains a log of all such conflicts identified, the analysis of the conflict and the vote ultimately cast. Each entry in this log is signed by the Chief Investment Officer before the relevant votes are cast.

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**Recordkeeping.** A record of the issues and how they are voted is stored in the Proxy Edge system. Copies of all physically executed proxy cards, all proxy statements and any other documents created or reviewed that are material to making a decision on how to vote proxies are retained in the Company File maintained by Royce's Librarian.

**Item 8:** (a)(1) Portfolio Managers of Closed-End Management Investment Companies (information as of March 8, 2006)

| <b>Name</b>      | <b>Title</b>   | <b>Length of Service</b> | <b>Principal Occupation(s) During Past 5 Years</b>  |
|------------------|--|--------------------------|---|
| Charles M. Royce | President, Chief Investment Officer and member of the Board of Managers of Royce & Associates, LLC and its predecessor, Royce & Associates, Inc. (collectively, "Royce") | Since 1972               | President, Chief Investment Officer and member of the Board of Managers of Royce, the Registrant's investment adviser; Director and President of the Registrant, Royce Micro-Cap Trust, Inc. ("RMT") and Royce Focus Trust, Inc. ("RFT"), closed-end diversified management investment companies of which Royce is the investment adviser; Trustee and President of The Royce Fund ("TRF") and Royce Capital Fund ("RCF"), open-end diversified management investment companies of which Royce is the investment adviser (the Registrant, RMT, RFT, TRF, and RCF collectively, "The Royce Funds"); Secretary and sole director of Royce Fund Services, Inc., a wholly-owned subsidiary of Royce and the distributor of the TRF's shares; and managing general partner of Royce Management Company, the general partner of various private investment limited partnerships until October 2001. |

(a)(2) Other Accounts Managed by Portfolio Manager and Potential Conflicts of Interest (information as of December 31, 2005)

**Other Accounts**

| <b>Type of Account</b>             | <b>Number of Accounts Managed</b> | <b>Total Assets Managed</b> | <b>Number of Accounts Managed for which Advisory Fee is Performance-Based</b> | <b>Value of Managed Accounts for which Advisory Fee Performance Based</b> |
|------------------------------------|-----------------------------------|-----------------------------|---|---|
| Registered investment companies    | 11                                | \$14,108,049,219            | 4   | \$1,632,203,240   |
| Private pooled investment vehicles | 5                                 | \$122,237,742               | 3   | \$54,129,612  |
| Other accounts*                    | 14                                | \$76,418,164                | -   | -   |

\*Other accounts include all other accounts managed by the Portfolio Manager in either a professional or personal capacity except for personal accounts subject to pre-approval and reporting requirements under the Registrant's Rule 17j-1 Code of Ethics.

**Conflicts of Interest**

The fact that the Portfolio Manager has day-to-day management responsibility for more than one client account may create actual, potential or only apparent conflicts of interest. For example, the Portfolio Manager may have an opportunity to purchase securities of limited availability. In this circumstance, the Portfolio Manager is expected to review each account's investment guidelines, restrictions, tax considerations, cash balances, liquidity needs and other factors to determine the suitability of the investment for each account and to ensure that his

managed accounts are treated equitably. The Portfolio Manager may also decide to purchase or sell the same security for multiple managed accounts at approximately the same time. To address any conflicts that this situation may create, the Portfolio Manager will generally combine managed account orders (i.e., enter a "bunched" order) in an effort to obtain best execution or a more favorable commission rate. In addition, if orders to buy or sell a security for multiple accounts managed by the same Portfolio Manager on the same day are executed at different prices or commission rates, the transactions will generally be allocated by Royce to each of such managed accounts at the weighted average execution price and commission. In circumstances where a bunched order is not completely filled, each account will normally receive a pro-rated portion of the securities based upon the account's level of participation in the order. Royce may under certain circumstances allocate securities in a manner other than pro-rata if it determines that the allocation is fair and equitable under the circumstances and does not discriminate against any account.

As described below, there is a revenue-based component of the Portfolio Manager's Performance Bonus and the Portfolio Manager also receives a Firm Bonus based on revenues (adjusted for certain imputed expenses) generated by Royce. In addition, the Portfolio Manager receives a bonus based on Royce's retained pre-tax profits from operations. As a result, the Portfolio Manager may receive a greater relative benefit from activities that increase the value to Royce of The Royce Funds and/or other Royce client accounts, including, but not limited to, increases in sales of the Registrant's shares and assets under management.

Also, as described above, the Portfolio Manager generally manages more than one client account, including, among others, registered investment company accounts, separate accounts and private pooled accounts managed on behalf of institutions (e.g., pension funds, endowments and foundations) and for high-net-worth individuals. The appearance of a conflict of interest may arise where Royce has an incentive, such as a performance-based management fee (or any other variation in the level of fees payable by The Royce Funds or other Royce client accounts to Royce), which relates to the management of one or more of The Royce Funds or accounts with respect to which the Portfolio Manager has day-to-day management responsibilities. The Performance Bonus paid to the Portfolio Manager for two registered investment company accounts (the Registrant and RMT) is based, in part, on performance-based fee revenues. The Registrant and RMT pay Royce a fulcrum fee that is adjusted up or down depending on the performance of that Fund relative to its benchmark index. In addition, two other registered investment company accounts managed by the Portfolio Manager, Royce Select Fund I and Royce Select Fund II, each pay Royce a performance-based fee.

Finally, conflicts of interest may arise when the Portfolio Manager personally buys, holds or sells securities held or to be purchased or sold for the Registrant or other Royce client account or personally buys, holds or sells the shares of one or more of The Royce Funds. To address this, Royce has adopted a written Code of Ethics designed to prevent and detect personal trading activities that may interfere or conflict with client interests (including Registrant shareholders' interests). Royce generally does not permit its Portfolio Managers to purchase small- or micro-cap securities in their personal investment portfolios.

Royce and The Royce Funds have adopted certain compliance procedures which are designed to address the above-described types of conflicts. However, there is no guarantee that such procedures will detect each and every situation in which a conflict arises.

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(a)(3) Description of Portfolio Manager Compensation Structure (information as of December 31, 2005)

Royce seeks to maintain a compensation program that is competitively positioned to attract and retain high-caliber investment professionals. The Portfolio Manager receives from Royce a base salary, a Performance Bonus and a benefits package. The Portfolio Manager's compensation is reviewed and may be modified from time to time as appropriate to reflect changes in the market, as well as to adjust the factors used to determine bonuses. The Portfolio Manager's compensation consists of the following elements:

- **BASE SALARY.** The Portfolio Manager is paid a base salary. In setting the base salary, Royce seeks to be competitive in light of the Portfolio Manager's experience and responsibilities.
- **PERFORMANCE BONUS.** The Portfolio Manager receives a quarterly Performance Bonus that is either asset-based, or revenue based and therefore in part based on the value of the accounts' net assets, determined with reference to each of the registered investment company and other client accounts managed by him. The revenue used to determine the quarterly performance bonus received by the Portfolio Manager that relates to each of the Registrant and RMT are performance-based fee revenues. Except as described

below, the Performance Bonus applicable to the registered investment company accounts managed by the Portfolio Manager is subject to upward or downward adjustment or elimination based on a combination of 3-year and 5-year risk-adjusted pre-tax returns of such accounts relative to all small-cap objective funds with three years of history tracked by Morningstar (as of December 31, 2005 there were 390 such Funds tracked by Morningstar) and the 5-year absolute returns of such accounts relative to 5-year U.S. Treasury Notes. The Performance Bonus applicable to non-registered investment company accounts managed by the Portfolio Manager, and to Royce Select Fund I and Royce Select Fund II, is not subject to a performance-related adjustment.

Payment of the Performance Bonus may be deferred as described below, and any amounts deferred are forfeitable, if the Portfolio Manager is terminated by Royce with or without cause or resigns. The amount of the deferred Performance Bonus will appreciate or depreciate during the deferral period, based on the total return performance of one or more Royce-managed registered investment company accounts selected by the Portfolio Manager at the beginning of the deferral period. The amount deferred will depend on the Portfolio Manager's total direct, indirect beneficial and deferred unvested bonus investments in the Royce registered investment company account for which he or she is receiving portfolio management compensation.

- FIRM BONUS. The Portfolio Manager receives a quarterly bonus based on Royce's net revenues.
- BENEFIT PACKAGE. The Portfolio Manager also receives benefits standard for all Royce employees, including health care and other insurance benefits, and participation in Royce's 401(k) Plan and Money Purchase Pension Plan. From time to time, on a purely discretionary basis, the Portfolio Manager may also receive options to acquire stock in Royce's parent company, Legg Mason, Inc. Those options typically represent a relatively small portion of a Portfolio Manager's overall compensation.

The Portfolio Manager, in addition to the above-described compensation, also receives a bonus based on Royce's retained pre-tax operating profit. This bonus, along with the Performance Bonus and Firm Bonus, generally represents the most significant element of the Portfolio Manager's compensation. A portion of the above-described compensation payable to the Portfolio Manager relates to his responsibilities as Royce's Chief Executive Officer, Chief Investment Officer and President of The Royce Funds.

(a)(4) Dollar Range of Equity Securities in Registrant Beneficially Owned by Portfolio Manager (information as of December 31, 2005)

The following table shows the dollar range of the Registrant's shares owned beneficially and of record by the Portfolio Manager, including investments by his immediately family members sharing the same household and amounts invested through retirement and deferred compensation plans.

**Dollar Range of Registrant's Shares Beneficially Owned**

Over \$1,000,000

**Item 9: Not Applicable.**

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**Item 10: Not Applicable.**

**Item 11: Controls and Procedures.**

(a) Disclosure Controls and Procedures. The Principal Executive and Financial Officers concluded that the Registrant's Disclosure Controls and Procedures are effective based on their evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

(b) Internal Control over Financial Reporting. There were no significant changes in Registrant's internal control over financial reporting or in other factors that could significantly affect this control subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses during the second fiscal quarter of the period covered by this report.

**Item 12: Exhibits attached hereto.**

(a)(1) The Registrant's code of ethics pursuant to Item 2 of Form N-CSR.

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(a)(2) Separate certifications by the Registrant's Principal Executive Officer and Principal Financial Officer as required by Rule 30a-2(a) under the Investment Company Act of 1940.

(a)(3) Not Applicable

(b) Separate certifications by the Registrant's Principal Executive Officer and Principal Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and required by Rule 30a-2(b) under the Investment Company Act of 1940.

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ROYCE VALUE TRUST, INC.**

/s/Charles M.  
BY: Royce

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**Charles M. Royce**  
**President**  
Date: March 8, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

**ROYCE VALUE TRUST, INC.**

/s/Charles M.  
BY: Royce

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**Charles M. Royce**  
**President**  
Date: March 8, 2006

**ROYCE VALUE TRUST, INC.**

/s/John D.  
BY: Diederich

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**John D.**  
**Diederich**  
**Chief Financial**  
**Officer**  
Date: March 8, 2006