

ROYCE VALUE TRUST INC  
Form N-CSRS  
August 31, 2004

**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.

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Date of fiscal year end: December 31  
Date of reporting period: January 1, 2004 - June 30, 2004

**Item 1: Reports to Shareholders**

*2004 Semiannual Report*

**THE**  
**ROYCE**  
**FUNDS**

*Value Investing In Small Companies*  
*For More Than 25 Years*

**ROYCE VALUE TRUST**

**ROYCE MICRO-CAP TRUST**

**ROYCE FOCUS TRUST**

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

## 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 primarily in a limited number of 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 which 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, where 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 stock-holder 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 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, see [page 19](#).

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## THE ROYCE FUNDS

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### SEMIANNUAL REPORT REFERENCE GUIDE

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*For more than 25 years, our approach has focused on evaluating a company's current worth — our assessment of 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. This analysis takes into consideration a number of relevant factors, including the company's future prospects. We select these securities using a risk-averse value approach, with the expectation that their market prices should increase toward our estimate of their current worth, over a two-to five-year period, resulting in capital appreciation for Fund investors.*

|                                                                                                                   |                  |
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## IMPORTANT PERFORMANCE AND RISK INFORMATION

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*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 market 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.*

### NAV AVERAGE ANNUAL TOTAL RETURNS Through June 30, 2004

| FUND                         | 2ND<br>QUARTER JAN-JUNE |       | 1-YEAR | 3-YEAR | 5-YEAR | 10-YEAR | SINCE<br>INCEPTION | INCEPTION<br>DATE |
|------------------------------|-------------------------|-------|--------|--------|--------|---------|--------------------|-------------------|
|                              | 2004*                   | 2004* |        |        |        |         |                    |                   |
| <b>Royce Value Trust</b>     | 2.38%                   | 9.58% | 35.60% | 9.12%  | 13.24% | 13.94%  | 12.59%             | 11/26/86          |
| <b>Royce Micro-Cap Trust</b> | 0.79                    | 8.36  | 41.25  | 13.88  | 16.96  | 15.08   | 14.37              | 12/14/93          |
| <b>Royce Focus Trust</b>     | 1.67                    | 10.60 | 43.84  | 13.90  | 14.43  | n.a.    | 12.91              | 11/1/96**         |
| Russell 2000                 | 0.47                    | 6.76  | 33.37  | 6.24   | 6.63   | 10.93   |                    |                   |

Royce Value Trust's 15-year NAV average annual total return for the period ended 6/30/04 was 12.88%.

\* Not annualized.

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

### NOTES TO PERFORMANCE, STATISTICAL AND OTHER INFORMATION IN THIS REPORT

The thoughts expressed in this report concerning recent market movements and future prospects for small company stocks are solely the opinion of Royce at June 30, 2004, 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 June 30, 2004 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.

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 and S&P 500 are unmanaged indices of domestic common stocks. CRSP (Center for Research in Security Pricing) divides the U.S. equity market into 10 deciles. Deciles 1-5 represent the largest domestic equity companies and deciles 6-10 represent the smallest. 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, CRSP and Morningstar. Royce has not independently verified the above described information. The Royce Funds is a service mark of The Royce Funds.

## SMALL-CAP MARKET CYCLE PERFORMANCE

Since the Russell 2000's inception on 12/31/78, value outperformed growth in five of the six full small-cap market cycles (defined as a move of 15% from a previous peak or trough). The last small-cap market cycle (4/21/98 - 3/9/00) was the exception. **The current cycle represents what we believe is a return to more historically typical performance in that value has provided a significant advantage during the downturn (3/9/00 - 10/9/02) and through June 30, 2004.**

|                     | PRIOR<br>PEAK-TO-PEAK<br>4/21/98 □<br>3/9/00 | PEAK-TO-TROUGH<br>3/9/00 □ | TROUGH-TO-CURRENT<br>10/9/02 □ | PEAK-TO-CURRENT<br>10/9/02 □ 06/30/04 | PRIOR<br>PEAK-TO-CURRENT<br>3/9/00 □ 6/30/04 | PRIOR<br>PEAK-TO-CURRENT<br>4/21/98 □ 6/30/04 |
|---------------------|----------------------------------------------|----------------------------|--------------------------------|---------------------------------------|----------------------------------------------|-----------------------------------------------|
| Russell 2000        | 26.3%                                        | -44.1%                     | 84.8%                          | 3.3%                                  | 30.4%                                        |                                               |
| Russell 2000 Value  | -12.7                                        | 2.0                        | 83.1                           | 86.7                                  | 63.0                                         |                                               |
| Russell 2000 Growth | 64.8                                         | -68.4                      | 86.7                           | -41.0                                 | -2.8                                         |                                               |

| NAV<br>CUMULATIVE<br>TOTAL RETURN |       |       |       |      |      |
|-----------------------------------|-------|-------|-------|------|------|
| Royce Value Trust                 | 10.0  | -12.2 | 83.5  | 61.2 | 77.3 |
| Royce Micro-Cap Trust             | 10.6  | -13.6 | 99.8  | 72.6 | 91.0 |
| Royce Focus Trust                 | -10.7 | -4.9  | 105.1 | 95.1 | 74.3 |

**PEAK-TO-TROUGH:** Not only did value outperform growth (as measured by the Russell 2000 style indices), but it provided positive performance during the downdraft. **All three Royce Funds** outperformed the Russell 2000 in this period.

**TROUGH-TO-CURRENT:** Through June 30, 2004, growth led value during the rally from the October low. All three Royce Funds posted total returns of more than 80% during this period, with **Royce Micro-Cap Trust** and **Royce Focus Trust** outperforming the Russell 2000.

**PEAK-TO-CURRENT:** From March 9, 2000 through June 30, 2004, value maintained a sizeable lead over growth. Again, **all three Royce Funds** held performance advantages over the Russell 2000 (3.3%) and all have provided positive performance. When current cycle returns are combined with those of the prior full market cycle, a period which includes both the pre-bubble rally and the ensuing bear market, value's positive results compare favorably against growth's negative results. During this period, **all three Royce Funds** outperformed the Russell 2000 Value's 63.0% return.

**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 market 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).**

Charles M. Royce, *President*

In our annual and semiannual reports, we feature two-page spreads

## LETTER TO OUR STOCKHOLDERS

### THE IMPERFECT STORM

Two thousand four set sail swimmingly. Mostly rising stock prices seemed to promise that 2003's rally would continue without interruption into the new year. Soon, however, storm clouds

that examine various aspects of a fund's performance and portfolio diagnostics. One of these diagnostic measures is **Weighted Average P/B Ratio**. **P/B** stands for **price to book**, **price** being a stock's price as of the date of the reports and **book** referring to the company's book value. Book value, which can be computed through an analysis of the balance sheet, is sometimes called **equity**, **shareholders' equity** or **book liquidation value**. It represents the net worth based on book value of a company and is calculated by subtracting the business's liabilities from its total assets. One reason that many investment professionals find book value significant is that it measures the value of

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appeared that darkened the sunny view of the ongoing bull market. As there had been in 2003, whispers were heard on Wall Street about bear market rallies and a poor earnings picture that could not justify then-current equity prices. Yet almost as quickly as the skies went gray, a bit of bright light broke through again, and stock prices sailed forward, though on choppy waters. The economy continued to grow, and the worrisome international picture did not seem to generate sufficient undertow to pull stock prices lower, at least not for very long. But if foreign affairs were not capable of depressing prices, what about the specter of rising interest rates, a ghostly shadow that had been looming over the stock market since at least the summer of 2003? Was the rising wave of a recovering economy strong enough to counteract two potential bear market makers? Would it calm the growing tide of discontent that seemed to affect more and more investors each day as the first half drew to a close?

With 2004 at the halfway mark, there are still no clear answers to these questions. More importantly, the resulting uncertainty has left many small-cap investors feeling stranded in tumultuous waters, casting about for calm seas, cloudless skies and a steady course. None seem forthcoming as of this writing. **About the only thing that does seem clear is the stock market's utter unpredictability. This goes beyond the daily movement in prices; it has more to do with an overall lack of direction for equities.** For anyone whose investment experiences began in the mid-90s or later, such a period probably feels very odd. With

obvious exceptions (such as the third quarter of 1998 or the first of 1999 and 2000), much of the last 10 years has been characterized by more or less clearly demarcated bull or bear market periods. Although there was spirited debate about how much longer either might last, no one seemed to be asking, "What kind of market are we in right now?" But this is exactly the question to which investors have been craving an answer since at least February of this year. The frustration of not receiving a response seems palpable as prices rise one day then fall the next, rise again, then fall once more. It's as if several small fleets were scurrying across choppy waters in one direction before being rapidly pulled off course, then tacking to the first course again, desperate for a smooth and lengthy current toward **Equity Treasure Island**.

Unfortunately for all of us, a global positioning system (g.p.s.) for equities does not exist. More nettlesome still is that no device, no matter how sophisticated its technology, is capable of guiding investors to a safe harbor where they could gain a respite from the small-cap market's currently wavy waters without the possibility of missing out on potential returns. Yet it seems to us that the storm-tossed seas of the first half of 2004 are likely to remain with us for at least the next several months. Investors may simply need to accept feeling lost at sea until



the market establishes a more consistent direction; otherwise, increased frustration could result in even higher levels of volatility. The feeling is comparable to the disorientation that often sets in when, at a certain distance from land, you can no longer sense the shore unless you're an experienced sailor. We suspect that many investors have had this frightening sensation lately, which is one reason why the market looks good for a brief period before suddenly lurching in the opposite direction. **Our own take is that unsettled weather on the high seas is all part of the cyclical nature of equity investing.** The most baffled investors are probably those wedded to investing as a form of instant gratification, yet from our perspective there are far worse things than the opportunity to potentially compound at mid single digits per year.

Unfortunately for all of us, a global positioning system (g.p.s.) for equities does not exist. More nettlesome still is that no device, no matter how sophisticated its technology, is capable of guiding investors to a safe harbor where they could gain a respite from the small-cap market's currently wavy waters without the possibility of missing out on potential returns.

## FLEETS AND FLOTILLAS

The market's susceptibility to waves and whirlpools affected equities of all sizes, from the most massive ships to the tiniest dinghies. For the six-month period ended 6/30/04, none of the major indices achieved a double-digit return, though the small-cap oriented Russell 2000 (+6.8%) managed to stay ahead of both the large-cap S&P 500 (+3.4%) and the more tech-oriented Nasdaq Composite (+2.2%). Small-cap's advantage came from its firstquarter performance, in which its 6.3% return outpaced that of both other indices (+1.7% and -0.5%, respectively). In the second quarter, after having outperformed the S&P 500 for four consecutive quarters, the Russell 2000 (+0.5%) lost ground both to the large-cap index

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**the company's assets that shareholders would theoretically receive if a company were liquidated at the value as stated on the balance sheet.**

**The price-to-book ratio is one of the traditional**

## LETTER TO OUR STOCKHOLDERS

(+1.7%) and to the Nasdaq Composite (+2.7%). The second quarter also included the largest decline for the Russell 2000 since the first quarter of 2003. From 4/5/04 through 5/17/04, the small-cap index fell 11.6%. However, the intermediate-term news for the asset class was more encouraging. The Russell 2000 outperformed the S&P 500 for the one-, three- and five-year periods ended

ways by which value investors seek to determine whether or not a company is undervalued. The ratio compares the market's assessment of a company's worth, as measured by its stock price, to the net value of the company as expressed by its book value. If a price-to-book ratio is high, it means that the stock market has placed a high premium on the business above and beyond the value of its net assets as reflected on the balance sheet. For example, if the book value of a firm is \$5 per share, but its current price is \$10 per share, its price-to-book ratio would be 2.0x (10/5). If the stock price moves higher, but the book value remains the same, declines or grows more slowly, then the stock becomes more expensive in relation to its book value. Conversely, if a

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6/30/04.

Although small-cap was a market leader through the bear market of 2000 and during the subsequent rally that kicked off in October 2002, we were not surprised by either its modest year-to-date results or its relative second-quarter stall. **In our view, one consequence of the currently volatile market is likely to be a more or less regular rotation in leadership between small- and large-cap stocks.** And while we still feel confident about the prospects for small-cap outperforming large-cap for the decade taken as whole, it must be admitted that at least part of this confidence is owing to the strong head start that small-cap has so far enjoyed from the beginning of 2000 through the end of June 2004. We continue to believe that the market is sailing on choppy, low-return waters and that neither small- nor large-cap stocks are likely to gain much of an advantage over the other in the months to come. The good ship of single asset class dominance has sailed.

#### VESSELS OF VALUE

In contrast to their practice of often sailing in different directions, the two small-cap style indices — the Russell 2000 Value and Russell 2000 Growth — wound up the first half of the year in similar ports, though value held an advantage. The small-cap value index was up 7.8% versus a gain of 5.7% for its growth counterpart for the year-to-date period ended 6/30/04. The indices were obviously subject to the same volatility that has been rocking many smaller vessels so far this year, so their modest results and performance proximity were not surprising. Each index suffered in the period from 4/5/04 through 5/17/04, as value fell 11.3% and the growth index declined 12.0%. Over longer-term periods, value continued to outpace growth within small-cap, despite underperforming in the trough-to-current period from 10/9/02 through 6/30/04 (+83.1% versus +86.7%). The Russell 2000 Value index outperformed the Russell 2000 Growth index for the one-, three-, five- and 10-year periods ended 6/30/04.

**Frankly, we do not have much insight as to why small-cap value and growth results ran so closely together through the end of June,**

**but we do see a move toward quality developing that we think is consistent with the current low-return climate for stocks.**

Between 9/30/02 (close to the small-cap market trough on 10/9/02) and 1/31/04, historically more volatile micro-cap stocks outperformed their small-cap counterparts. The Russell 2000's micro-cap members were up a cumulative 102.6% versus 55.2% for their small-cap

counterparts during this period. This outperformance coincided with a period in which companies throughout the asset class that had no earnings outperformed those that did by more than 50% (+106.6% versus +53.5%). In addition, dividend-paying companies also suffered relative neglect from the small-cap trough on 10/9/02 through 1/31/04, up 42.5% compared to a gain of 80.2% for non-dividend-paying small-caps. Since the end of January, however, these trends appear to be reversing: From 1/31/04 through 6/30/04, the Russell 2000's small-cap members were up 2.7% versus 1.1% for the index's micro-cap companies. Small-cap companies with earnings bested those without, and dividend-paying small-caps were up 5.2% versus a loss of 6.9% for those that did not pay dividends. Investors, who seemed uninterested in company quality throughout the recent rally period, may be getting into a quality state of mind as they try to navigate the market's waters.

**We continue to believe that the market is sailing on choppy, low-return waters and that neither small- nor large-cap stocks are likely to gain much of an advantage over the other in the months to come. The good ship of single asset class dominance has sailed.**

## THE ROYCE REGATTA

Signs of this trend can be seen to some degree in The Royce Funds' closed-end portfolios' year-to-date performances through the end of June 2004. For the year-to-date period ended 6/30/04, Royce Focus Trust — a portfolio that selects the bulk of its holdings from the upper tier of small-cap — was the top performer among our closed-end funds. The Fund limits the number of its holdings, so its strong performance was an equally powerful testament to what was truly a stock picker's market in 2004's first half. However, it was not the only Fund in this report to generate solid returns. The more broadly diversified Royce Value Trust and Royce Micro-Cap Trust also enjoyed relatively high year-to-date returns. In fact, all three of our closed-end offerings outpaced the Russell 2000 in the first half on a net asset value (NAV) basis (see the bar chart on page 8), but as always we are more concerned with long-term and market cycle performance. We are therefore pleased to report that each of our closed-end funds outperformed the Russell 2000 on an NAV basis from its prior cycle peak on 3/9/00, as well as for the applicable one-, three-, five-, and 10-year periods ended 6/30/04. (Please see pages 12-17 for more

complete information on The Royce Funds' performance during these periods.)

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company is trading at, near or below its book value, its low P/B ratio indicates that a company may be undervalued relative to its stock price.

However, simply because a company is cheap does not mean that its stock is worth buying. Value investors — especially those here at Royce — also want to know that a company possesses strong qualities as a business. A low P/B ratio is not very helpful in determining company quality — there may be very good reasons for a low P/B.

Earnings (or earnings power) produced by book value are the true driving forces of valuation for our purposes. In addition, the ratio is less meaningful for many companies in areas such as healthcare and technology. These businesses are far more likely to have significant intangible assets, especially intellectual property, which are of great value to the company, but that may not be fully reflected in the book value. At Royce, our portfolio managers and analysts thus do not look for companies

As more of a stock picker's market, the first half of 2004 stood in stark contrast to 2003, when Tech and micro-cap companies dominated the rally. Trying to identify industry- or sector-wide performance trends among the Funds is something of a moot exercise. Areas that were big winners in some portfolios posted modest gains or net losses in others. The market's refusal to flow in one direction for very long meant that purchase opportunities have been scarce, although the second quarter gave us more chances to find what we believe are attractively undervalued small-cap stocks than we had found in the first. In the past, the kind of frustration that is so widespread in the market today has often worked to our benefit. If 2004's buying opportunities work out, that frustration could become profitable for us again.

### ALL HANDS ON DECK — RATES RISING ON THE HORIZON

Many equity investors are concerned about the recent decision by the Federal Reserve to raise interest rates, fearful that a rising interest rate environment would have a deleterious effect on stock market returns, especially those of small-company stocks. However, history offers a more

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mixed record. Through the 1950s and 1960s, interest rates were rising over the long term, yet small-caps did well, just as they did in the late 1970s, another period in which rates were on the rise. **In fact, over the past 50 years, there have been two major, long-term interest rate cycles: a rising interest-rate period that stretched from June 1954 through September 1981 and a declining interest-rate period that began in September 1981 and lasted until June 2003.**

**During the first period, small-caps, as measured by the CRSP (Center for Research in Securities Prices) 6-10 Composite, produced an average annual total return of 12.9%; in the declining interest rate period, the CRSP 6-10 Composite's average annual total return was 12.6% (see the table below).**

**S&P 500 AND CRSP 6-10**

Interest Rate Cycle Average Annual Total Returns

| Rate Cycle Period | Start Rate | End Rate | Duration (Years) | S&P 500 | CRSP 6-10 |
|-------------------|------------|----------|------------------|---------|-----------|
| 6/30/54 - 9/30/81 | 2.3%       | 15.3%    | 27.3             | 9.3%    | 12.9%     |
| 9/30/81 - 6/30/03 | 15.3       | 3.3      | 21.8             | 13.5    | 12.6      |

In the more recent long-term period of declining rates, there were four instances of significant counter moves, or rate increases. The range of increases fell between 2.2% and 3.2%, and the periods lasted an average of approximately one year. During the first three periods, small-cap returns were negative (-11.7%, -19.3% and -3.4%), while the most recent saw a 44.7% gain. The three more difficult performance periods occurred at the end of

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**with low P/B ratios during the security selection process, but our risk-averse approach usually results in owning many companies that have**

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small-cap outperformance cycles in 1984, 1987 and 1994. Conversely, the positive performance period took place when small-cap was emerging as a market leader from late 1998 through January 2000 (see the table below). We suspect that

them.

This is not to suggest that book value and P/B ratios are not important. Each remains an important measure of valuing companies relative to their stock price. They are also a critical part of our ongoing examination of a business's financial well being. Ideally, we like to see book value growing. In addition, we prefer to see a company's P/B ratio remain somewhat low. Our conservative bias leads us to believe that the further away from book value a company's stock price goes, the further away we move from our margin of safety, a critical component in terms of how much risk we are willing to take in the stocks that we own.

small-cap returns in these counter-move periods owed more to the cyclical nature of the asset class than to any supposed interest rate sensitivity. We believe that the recent increase in interest rates is not likely to be a short-term phenomenon, but instead marks the beginning of a long-term trend that dates back to June 2003 when long-term rates were at 3.3%. **In any case, our belief is that interest rates are not the primary driver of equity — including small-cap equity — returns, but are simply one factor among many to consider when making investment decisions.**

**S&P 500 AND CRSP 6-10**

Declining Rate Period Counter Trend Cumulative Results

| Rate Cycle Period   | Start Rate | End Rate | Duration (Years) | S&P 500 | CRSP 6-10 |
|---------------------|------------|----------|------------------|---------|-----------|
| 5/31/83 - 6/30/84   | 10.4%      | 13.6%    | 1.1              | -1.0%   | -11.7%    |
| 1/31/87 - 10/31/87  | 7.1        | 9.5      | 0.7              | -6.1    | -19.3     |
| 10/31/93 - 11/30/94 | 5.3        | 8.0      | 1.1              | 0.1     | -3.4      |
| 10/31/98 - 1/31/00  | 4.5        | 6.7      | 1.3              | 29.0    | 44.7      |

**SETTING SAIL FOR HOME**

In thinking about the important factors inherent in any investment decision, we would advance the notion that overall company quality is a critical factor, especially in the current market climate. Quality has not, however, been a consistent driver of equity returns over the years. We have witnessed cycles that have brought us euphoria, and those that have left us crestfallen. In the former, we found that many investors shared our craving for quality, while in the latter they seemed impervious to its charms. **The trends that we mentioned earlier — the stronger performance from 1/31/04 through 6/30/04 for small-cap stocks with earnings and/or those that pay dividends — have been of very brief duration, but we believe that they may mark the beginning of a period in which investors will be looking for seasoned, high-quality small-cap companies.** Of course, value approaches have no monopoly on quality, especially if one views strong growth prospects as a qualitative measure. Still, our view is that the most effective way for us to navigate the potentially treacherous waters between the Scylla of rising interest rates and Charybdis of possible inflation is to continue doing what we have always done — search for what we think are financially strong, attractively priced small companies.

Our view is that the most effective way for us to navigate the potentially treacherous waters between the Scylla of rising interest rates and Charybdis of possible inflation is to continue doing what we have always done — search for what we think are financially strong, attractively priced small companies.

We appreciate your continued support.

Sincerely,

Charles M. Royce  
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July 31, 2004

The market performance data and trends outlined in this letter are presented for illustrative purposes only. The thoughts concerning recent market movements and future prospects for small-company stocks are solely those of Royce & Associates, and, of course, there can be no assurance with regard to future market movements. Small- and micro-cap stocks may involve considerably more risk than larger-cap stocks. Past performance is no guarantee of future results. Historical market trends are not necessarily indicative of future market movements.

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## ROYCE VALUE TRUST

### AVERAGE ANNUAL TOTAL RETURNS

Through 6/30/04

Second Quarter 2004\* 2.38%

January-June 2004\* 9.58

1-Year 35.60

3-Year 9.12

5-Year 13.24

10-Year 13.94

### MANAGER'S DISCUSSION

Royce Value Trust's (RVT) broadly diversified portfolio of small- and micro-cap stocks successfully navigated the tempestuous seas of the small-cap realm in 2004's first half. **For the year-to-date period ended 6/30/04, the Fund was up 9.6% on a net asset value (NAV) basis and 6.5% on a market price basis. RVT's year-to-date NAV performance was ahead of the small-cap oriented Russell 2000, which gained 6.8%, but trailed the small-cap S&P 600 index, which was up 10.1% for the same period.** These results were mirrored by the Fund's second-quarter returns, in which RVT gained 2.4% on



|                            |       |
|----------------------------|-------|
| 15-Year                    | 12.88 |
| Since Inception (11/26/86) | 12.59 |

\*Not annualized.

**RISK/RETURN COMPARISON**

3-Year Period ended 6/30/04

|                                | Average Annual Total Return | Standard Deviation | Return Efficiency* |
|--------------------------------|-----------------------------|--------------------|--------------------|
| <b>Royce Value Trust (NAV)</b> | <b>9.1%</b>                 | <b>23.0</b>        | <b>0.40</b>        |
| S&P 600                        | 9.4%                        | 21.0               | 0.45               |
| Russell 2000                   | 6.2%                        | 23.9               | 0.26               |

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

**Over the last three years, Royce Value Trust has outperformed the Russell 2000 on both an absolute and a risk-adjusted basis.**

an NAV basis and 1.0% on a market price basis. The Russell 2000 was up 0.5% in the second quarter while the S&P600 finished the quarter with a return of 3.6%. RVT's NAV performance over market cycle and long-term periods was also solid on an absolute, as well as on a relative, basis. From the previous small-cap market peak on 3/9/00 through 6/30/04, the Fund was up 61.2% versus respective gains of 3.3% and 37.5% for the Russell 2000 and S&P 600. On an NAV basis, RVT outpaced the S&P 600 for the one-, five-, 10-, 15-year and since inception (11/26/86) periods ended 6/30/04 and was ahead of the Russell 2000 for each of these periods and for the three-year period as well. On a market price basis, RVT outperformed both benchmarks for the three-, five-, 10-, 15-year and since inception (11/26/86) periods ended 6/30/04. **The Fund's average annual NAV total return since inception was 12.6%.**

With the exception of modest losses among Technology holdings, the Fund enjoyed positive performances from all of its sectors, particularly in Industrial Products and Industrial Services. Several of these companies experienced slumping prices in the high-test rally in 2003 that primarily benefitted Technology, micro-cap and other more speculative stocks, which gave us the opportunity to build existing positions. Others are perennial favorites in the portfolio in which we were already holding good-sized stakes. We have owned BHA Group Holdings at various times dating back to shortly after the Fund's inception owing to our interest in its well-run and unique business. The company manufactures air pollution control equipment known as baghouses and electrostatic precipitators. Although its stock price had been mostly on the rise between January and May, it rose precipitously on the announcement on May 31 that the energy division of General Electric was acquiring the company. We held a significant position at June 30. Another old favorite and a top-10 holding was welding and cutting products manufacturer Lincoln Electric Holdings. Its business improved late in 2003, especially its expanding operations in China, leading to a recovery in its stock price, which rose more or less steadily in 2004's first half. MPS Group provides staffing, consulting and business services with a specialization in IT services through its subsidiary Modis. We like its business and low-debt balance sheet. Although volatile, its stock price turned in solid returns in the first half as conditions in IT services saw widespread improvement.

Elsewhere in the portfolio, we had success with Urban Outfitters, a merchandiser and specialty retail store operator that we have liked since first purchasing shares in 1998. It experienced strong sales and also announced a two-for-one stock split in June. We took gains in January and May.

**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 market 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).*

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

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## PERFORMANCE AND PORTFOLIO REVIEW

| GOOD IDEAS THAT WORKED<br>Net Realized and Unrealized Gain<br>Year-to-Date Through 6/30/04 |             | MGP Ingredients □<br>What happens to a company in an Atkins-diet-crazed country when it has success creating low-carbohydrate wheat gluten products? For one thing, the company's stock price rises like yeast in an oven, as evidenced by the strong first-half showing of this agricultural products producer. We sold more than |
|--------------------------------------------------------------------------------------------|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MGP Ingredients                                                                            | \$6,693,880 |                                                                                                                                                                                                                                                                                                                                    |
| CompX International Cl. A                                                                  | 4,146,920   |                                                                                                                                                                                                                                                                                                                                    |
| Urban Outfitters                                                                           | 2,642,588   |                                                                                                                                                                                                                                                                                                                                    |
| BHA Group Holdings                                                                         | 2,378,100   |                                                                                                                                                                                                                                                                                                                                    |
| Input/Output                                                                               | 2,364,078   |                                                                                                                                                                                                                                                                                                                                    |

| PORTFOLIO DIAGNOSTICS        |               |
|------------------------------|---------------|
| Median Market Capitalization | \$996 million |
| Weighted Average P/E Ratio   | 21.5x         |
| Weighted Average P/B Ratio   | 2.1x          |
| Weighted Average Yield       | 0.8%          |
| Fund Net Assets              | \$916 million |
| Turnover Rate                | 9%            |

half of our position between January and May.

**CompX International** □ We enjoyed sudden and unexpected success with this maker of cabinet and computer support systems parts. Shortly after purchasing shares in May, NLIndustries announced that it wished to purchase the bulk of the company's outstanding stock, sending its price to new heights. We held a significant position at June 30.

|                           |       |
|---------------------------|-------|
| Net Leverage <sup>□</sup> | 11%   |
| Symbol - Market Price     | RVT   |
| - NAV                     | XRVTX |

□ 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.

## ROYCE MICRO-CAP TRUST

### NAV AVERAGE ANNUAL TOTAL RETURNS

Through 6/30/04

|                            |       |
|----------------------------|-------|
| Second Quarter 2004*       | 0.79% |
| January-June 2004*         | 8.36  |
| 1-Year                     | 41.25 |
| 3-Year                     | 13.88 |
| 5-Year                     | 16.96 |
| 10-Year                    | 15.08 |
| Since Inception (12/14/93) | 14.37 |

\*Not annualized.

### RISK/RETURN COMPARISON

3-Year Period ended 6/30/04

|                                    | Average Annual Total Return | Standard Deviation | Return Efficiency* |
|------------------------------------|-----------------------------|--------------------|--------------------|
| <b>Royce Micro-Cap Trust (NAV)</b> | <b>13.9%</b>                | <b>25.7</b>        | <b>0.54</b>        |
| Russell 2000                       | 6.2%                        | 23.9               | 0.26               |

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

**Over the last three years, Royce Micro-Cap Trust has outperformed the Russell 2000 on both an absolute and a risk-adjusted basis.**

## MANAGER'S DISCUSSION

Following a red-hot 2003, micro-cap performance may have cooled down a bit in 2004's first half, but you'd never know it from looking at recent short-term returns for Royce Micro-Cap Trust (RMT). **For the year-to-date period ended 6/30/04, the Fund was up 8.4% on a net asset value (NAV) basis and 10.8% on a market price basis, both returns ahead of the 6.8% gain turned in by RMT's small-cap benchmark, the Russell 2000.** The Fund also beat the benchmark on both an NAV and market price basis in the second quarter, when micro-cap performance in general began to stall. RMT had respective NAV and market price returns of 0.8% and 2.3% versus 0.5% for the small-cap benchmark in the second quarter. The news was even better over recent market cycle and long-term performance periods. From the previous small-cap market peak on 3/9/00, RMT gained 72.6% on an NAV basis versus a 3.3% return for the benchmark. On both an NAV and market price basis, the Fund also outperformed the Russell 2000 for the one-, three-, five-, 10-year and since inception (12/14/93) periods ended 6/30/04. **RMT's average annual NAV total return since inception was 14.4%.**

2003 was a year in which investors generally flocked to more speculative issues and enjoyed double-digit returns as a result. On the other hand, within small-cap the first half of 2004 generally bestowed favor on higher quality, more liquid companies, producing mostly single-digit positive performances. After leading small-caps (and most other equities) from October 2002 through the end of January 2004, micro-caps ceded leadership to their larger siblings within small-cap in February, though by a small margin. We expect that this trend

will continue at least through the end of the year, as will the kind of constant volatility that marked the year's first six months. However, this should not be construed as dire news for micro-caps or those who invest in them. Small-cap leadership has historically been cyclical, and our own approach to security selection remains firmly rooted in individual company quality. Just as important, our perspective remains focused on the long term. In addition, RMT produced solid absolute results not just in 2004's first half but in the February through June period as well.

Seven of the Fund's nine sectors turned in positive performances in the year-to-date period, and the two that did not — Technology and Financial Services — posted only modest losses. Dominating performance were portfolio holdings in the Industrial Products sector, home to three of the Fund's top five performing holdings. Sun Hydraulics manufactures high-performance, screw-in hydraulic cartridge valves and manifolds for fluid power systems. Its business endured some difficulties between 2001 and 2003 before recovering in 2004. Increased sales seemed enough to attract investors, as its price climbed through most of the first half. We trimmed our position in February, May and June, but still hold a good-sized stake.

We like the way in which managed care company Sierra Health Services has made a name for itself as a small market H.M.O. The firm's earnings improved in 2004, and its earnings outlook was even more optimistic, making it easy for us to hold a large stake at June 30.

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| <b>CALENDAR YEAR NAV TOTAL RETURNS</b> |            |
|----------------------------------------|------------|
| <b>Year</b>                            | <b>RMT</b> |
| 2003                                   | 55.6%      |
| 2002                                   | -13.8      |
| 2001                                   | 23.4       |
| 2000                                   | 10.9       |
| 1999                                   | 12.7       |

|      |      |
|------|------|
| 1998 | -4.1 |
| 1997 | 27.1 |
| 1996 | 16.6 |
| 1995 | 22.9 |
| 1994 | 5.0  |

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## PERFORMANCE AND PORTFOLIO REVIEW

### GOOD IDEAS THAT WORKED

Net Realized and Unrealized Gain  
Year-to-Date Through 6/30/04

|                       |             |
|-----------------------|-------------|
| Stein Mart            | \$2,287,304 |
| Juno Lighting         | 1,661,380   |
| Sun Hydraulics        | 1,580,385   |
| BHA Group Holdings    | 1,230,428   |
| TransAct Technologies | 1,224,007   |

an industry that's known for tight ones fits businesses and strong and its stock price rose, leading us to hold a large stake at June 30.

**Stein Mart** □ An earnings recovery and improving sales proved to be a winning formula for this discount fashion retailer with a business that we have liked for some years. It was the Fund's top holding at June 30.

**Juno Lighting** □ A company that we first bought in RMT's portfolio in 2000, this designer of recessed and track-lighting fixtures has maintained its business and profit margins in

### GOOD IDEAS AT THE TIME

Net Realized and Unrealized Loss  
Year-to-Date Through 6/30/04

|                      |             |
|----------------------|-------------|
| iGATE Corporation    | \$1,144,525 |
| Wet Seal (The) Cl. A | 848,079     |
| Young Innovations    | 651,370     |
| Syntel               | 463,488     |

**iGATE Corporation** □ A recovery in the IT services industry did little for the stock price of this IT consultant and staffing services firm. We held a significant position at June 30 because we still think that it's a well-run, conservatively capitalized business.

**Wet Seal (The)** □ We

### PORTFOLIO DIAGNOSTICS

|                              |               |
|------------------------------|---------------|
| Median Market Capitalization | \$279 million |
| Weighted Average P/E Ratio   | 19.5x*        |
| Weighted Average P/B Ratio   | 1.8x          |
| Weighted Average Yield       | 0.6%          |
| Fund Net Assets              | \$271 million |
| Turnover Rate                | 16%           |
| Net Leverage <sup>□</sup>    | 5%            |
| Symbol - Market Price - NAV  | RMT XOTCX     |

\*Excludes 22% of portfolio holdings with zero or negative earnings as of 6/30/04.

□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.

### TOP 10 POSITIONS

% of Net Assets Applicable to Common Stockholders

|               |      |
|---------------|------|
| Stein Mart    | 1.7% |
| Juno Lighting | 1.7  |
| Delta Apparel | 1.3  |

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|             |         |                                                                                                                                                                                                                                                                                                 |
|-------------|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Modem Media | 422,346 | liked the low debt and solid reputation of this specialty retailer that focuses on clothing for teenage girls. Sales slumped and the turnaround that we had hoped for never materialized. Still confident that the company can reverse its fortunes, we held a significant position at June 30. |
|-------------|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                      |     |
|--------------------------------------|-----|
| BHA Group Holdings                   | 1.3 |
| Seneca Foods                         | 1.2 |
| Excel Technology                     | 1.2 |
| Transaction Systems Architects Cl. A | 1.1 |
| Sapient Corporation                  | 1.1 |
| ASA                                  | 1.1 |
| PICO Holdings                        | 1.0 |

**PORTFOLIO SECTOR BREAKDOWN**  
% of Net Assets Applicable to Common Stockholders

|                                     |       |
|-------------------------------------|-------|
| Technology                          | 23.3% |
| Industrial Products                 | 16.1  |
| Industrial Services                 | 15.1  |
| Health                              | 11.1  |
| Natural Resources                   | 10.3  |
| Consumer Products                   | 7.3   |
| Financial Intermediaries            | 7.2   |
| Consumer Services                   | 6.0   |
| Diversified Investment Companies    | 2.0   |
| Financial Services                  | 1.2   |
| Miscellaneous                       | 4.9   |
| Preferred Stocks                    | 0.5   |
| Treasuries, Cash & Cash Equivalents | 17.1  |

**CAPITAL STRUCTURE**  
Publicly Traded Securities Outstanding at 6/30/04 at NAV or Liquidation Value

**The regular reinvestment of distributions makes a difference!**

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

|                                        |                  |
|----------------------------------------|------------------|
| 19.5 million shares<br>of Common Stock | \$271<br>million |
| 6.00% Cumulative<br>Preferred Stock    | \$60 million     |

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## ROYCE FOCUS TRUST

### NAV AVERAGE ANNUAL TOTAL RETURNS

Through 6/30/04

|                                        |       |
|----------------------------------------|-------|
| Second Quarter 2004*                   | 1.67% |
| January-June 2004*                     | 10.60 |
| 1-Year                                 | 43.84 |
| 3-Year                                 | 13.90 |
| 5-Year                                 | 14.43 |
| Since Inception (11/1/96) <sup>□</sup> | 12.91 |

\*Not annualized.

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

### RISK/RETURN COMPARISON

3-Year Period ended 6/30/04

|                                        | Average<br>Annual<br>Total Return | Standard<br>Deviation | Return<br>Efficiency* |
|----------------------------------------|-----------------------------------|-----------------------|-----------------------|
| <b>Royce<br/>Focus Trust<br/>(NAV)</b> | <b>13.9%</b>                      | <b>23.8</b>           | <b>0.58</b>           |
| Russell 2000                           | 6.2%                              | 23.9                  | 0.26                  |

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

**Over the last three years, Royce Focus Trust has outperformed the Russell 2000 on both an absolute and a risk-adjusted basis.**

### MANAGER'S DISCUSSION

Quality companies from the upper tier of the small-cap universe profited from the recent shift in leadership within the sector. The move certainly helped many of the holdings in Royce Focus Trust's (FUND) limited portfolio of small-cap securities in the first half. **For the year-to-date period ended 6/30/04, the Fund was up 10.6% on a net asset value (NAV) basis, well ahead of its small-cap benchmark, the Russell 2000, which was up 6.8% for the same period.** The Fund was up 5.2% on a market price basis year-to-date. The NAV return in 2004's second quarter was 1.7% (versus 0.5% for the Russell 2000), and the Fund's market price return was -6.6%. While some snapback in the Fund's market price after a strong first quarter result was understandable, we were frankly mystified by the market price's sudden recoil from April through June. Over market-cycle and long-term performance periods, the Fund shone on both a market price and NAV basis. From the previous small-cap market peak on 3/9/00 through 6/30/04, the Fund was up 95.1% on an NAV basis and 109.0% on a market price basis versus a return of 3.3% for the small-cap index. The Fund outpaced the Russell 2000 for the one-, three-, five-year and since inception of our management (11/01/96) periods ended 6/30/04 on both a market price and NAV basis. **The Fund's average annual NAV total return since inception was 12.9%.**

The recent move to quality has been of very short duration, lasting only from February through the end of June, but may mark the beginning of a longer-term trend. During the rally that lasted from 10/9/02 through 1/31/04, not only did small-cap fall behind micro-cap, but companies with earnings trailed those without and businesses that paid dividends posted lower returns than those that did not. However, all three of these trends have reversed since the end of January. After a 16-month period of outperformance, a reversal was not unexpected, and has so far benefitted several of the Fund's portfolio holdings.

Holdings in the Health, Industrial Products and Financial Intermediaries sectors made the most

significant positive impact on first-half performance. The rising price of generic and brand name drug maker Endo Pharmaceuticals Holdings led us to take some gains in February and April, though we still hold a good-sized position. Top-10 holding Schnitzer Steel Industries is a recycling and scrap metal company in a unique business with little competition and high barriers to entry. We think that it's a well-managed firm and were pleased to see it post record profits and to explore the sale of one of its mills in the first half. Another top-10 position, Alleghany Corporation, is a holding company whose primary business is insurance. The firm made a series of what we regard as interesting acquisitions late in 2003 and has been deploying its cash effectively, two factors that boosted our confidence.

Elsewhere in the portfolio, we sold our position in Tom Brown in April. We have long liked the fundamentals and management of this oil and natural gas company and were given a chance to sell at a substantial gain when a large Canadian oil and natural gas producer, Encana, announced that it was acquiring the firm. We also sold our position in Charming Shoppes, a women's fashion retailer that has been held in many Royce-managed portfolios over the years due to our admiration for its ability to succeed in an extraordinarily competitive industry.

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| <b>CALENDAR YEAR NAV TOTAL RETURNS</b> |             |
|----------------------------------------|-------------|
| <b>Year</b>                            | <b>FUND</b> |
| 2003                                   | 54.3%       |
| 2002                                   | -12.5       |
| 2001                                   | 10.0        |
| 2000                                   | 20.9        |
| 1999                                   | 8.7         |
| 1998                                   | -6.8        |
| 1997                                   | 20.5        |

## PERFORMANCE AND PORTFOLIO REVIEW

**GOOD IDEAS THAT WORKED**

Net Realized and Unrealized Gain  
Year-to-Date Through 6/30/04

|                               |             |
|-------------------------------|-------------|
| Nu Skin Enterprises Cl. A     | \$1,348,243 |
| Input/Output                  | 1,144,358   |
| Tom Brown                     | 925,084     |
| Alleghany Corporation         | 863,952     |
| Endo Pharmaceuticals Holdings | 711,023     |

**N u S k i n Enterprises** □ We like the core business of this direct marketer of cosmetics and diet and nutritional supplements. New products succeeded in North America, its increasingly important Japanese business flourished and the firm made profitable inroads into China. It was a top-10 holding in the Fund at June 30.

**Input/Output** □ The company provides several seismic imaging products primarily used by seismic contracting and oil and gas companies. New management took over the firm in 2002, with the intention of maintaining the company's preeminence in its field. Booming business and what we think were a series of smart acquisitions indicate that they are succeeding. It was a top-10 holding in the Fund at June 30.

**GOOD IDEAS AT THE TIME**

Net Realized and Unrealized Loss  
Year-to-Date Through 6/30/04

|                       |           |
|-----------------------|-----------|
| Hecla Mining Company  | \$915,285 |
| Goldcorp              | 770,400   |
| Callaway Golf Company | 560,411   |
| Syntel                | 408,000   |
| CEVA                  | 287,626   |

**Hecla Mining Company** □ This silver, gold, lead and zinc miner suffered from the same King Midas in Reverse condition that afflicted many of its compeers in the precious metals industry. We remain hopeful that this well-managed firm can turn things around, so we increased our position in the first half.

**Goldcorp** □ We still believe that this is one of the premier North American gold mining companies. However, the prospect (and subsequent actuality) of rising interest rates, the rallying U.S. dollar and the decision on the part of the Chinese government to curb growth all conspired to depress precious metals prices. This

**PORTFOLIO DIAGNOSTICS**

|                              |                 |
|------------------------------|-----------------|
| Median Market Capitalization | \$1,191 million |
| Weighted Average P/E Ratio   | 19.2x           |
| Weighted Average P/B Ratio   | 2.5x            |
| Weighted Average Yield       | 1.6%            |
| Fund Net Assets              | \$96 million    |
| Turnover Rate                | 24%             |
| Net Leverage <sup>□</sup>    | 3%              |
| Symbol - Market Price        | FUND            |
| - NAV                        | XFUNX           |

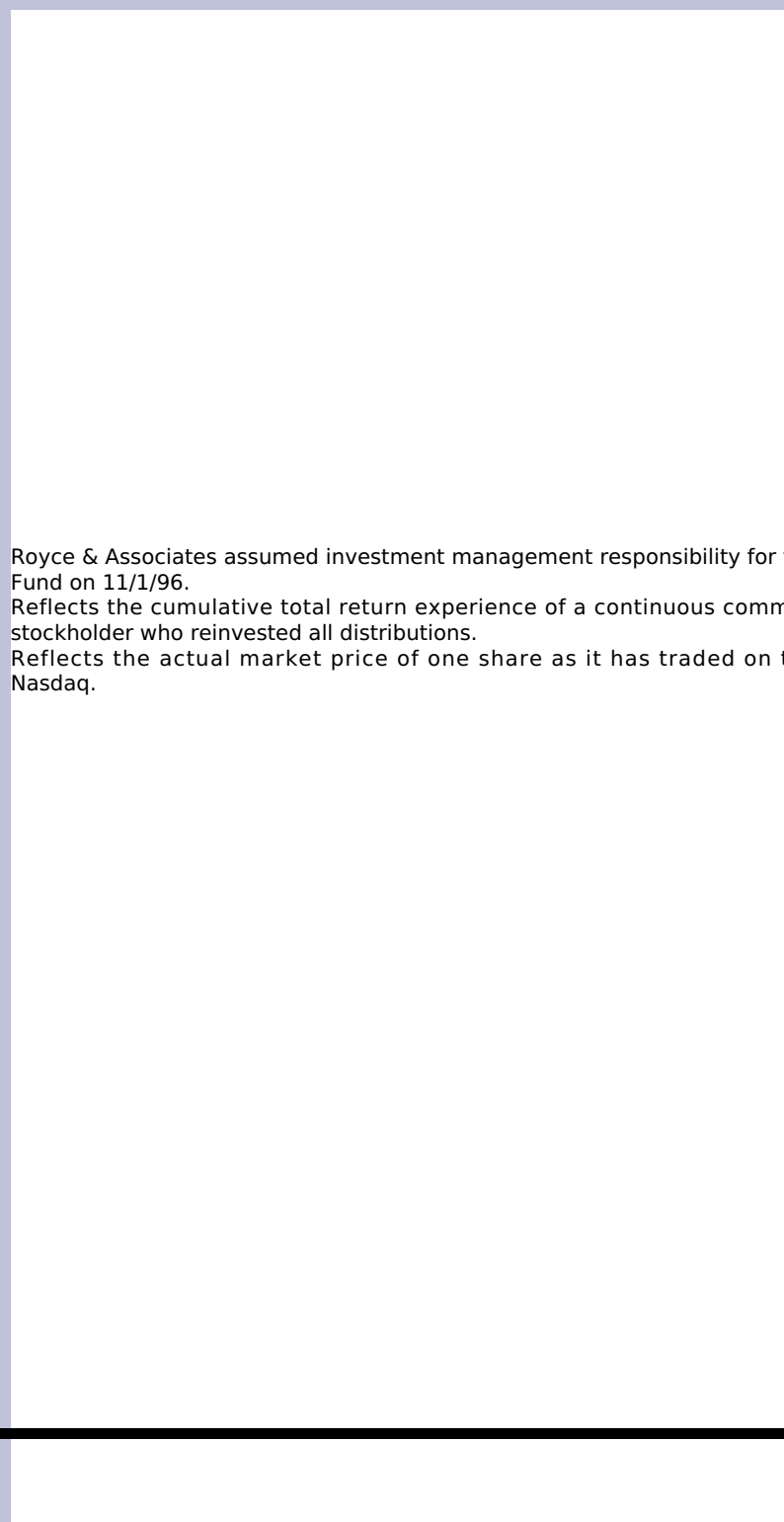
□ Net leverage is the percentage, in excess of 100%, of the total value of equity type investments, divided by net assets, excluding preferred stock.

**TOP 10 POSITIONS**

|                                                   |      |
|---------------------------------------------------|------|
| % of Net Assets Applicable to Common Stockholders |      |
| New Zealand Government 6.5% Bond                  | 6.7% |
| Simpson Manufacturing                             | 4.1  |
| Alleghany Corporation                             | 3.8  |
| Schnitzer Steel Industries Cl. A                  | 3.6  |
| Glamis Gold                                       | 3.3  |
| Bruker BioSciences                                | 3.2  |



in turn hurt the stock prices of companies such as Goldcorp, but we held a significant position at June 30.



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

|                                                                               |              |
|-------------------------------------------------------------------------------|--------------|
| E*TRADE Financial 6% Cv.                                                      | 3.2          |
| Nu Skin Enterprises Cl. A                                                     | 3.2          |
| Input/Output                                                                  | 3.0          |
| Florida Rock Industries                                                       | 3.0          |
| <b>PORTFOLIO SECTOR BREAKDOWN</b>                                             |              |
| % of Net Assets Applicable to Common Stockholders                             |              |
| Industrial Products                                                           | 20.0%        |
| Natural Resources                                                             | 19.1         |
| Health                                                                        | 14.2         |
| Financial Intermediaries                                                      | 10.3         |
| Industrial Services                                                           | 7.0          |
| Consumer Products                                                             | 6.7          |
| Technology                                                                    | 6.2          |
| Financial Services                                                            | 5.6          |
| Consumer Services                                                             | 4.5          |
| Bonds                                                                         | 9.9          |
| Treasuries, Cash & Cash Equivalents                                           | 22.7         |
| <b>CAPITAL STRUCTURE</b>                                                      |              |
| Publicly Traded Securities Outstanding at 6/30/04 at NAV or Liquidation Value |              |
| 9.8 million shares of Common Stock                                            | \$96 million |
| 6.00% Cumulative Preferred Stock                                              | \$25 million |

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**HISTORY SINCE INCEPTION**

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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.

| <u>HISTORY</u>               |                                        | <u>AMOUNT<br/>INVESTED</u> | <u>PURCHASE<br/>PRICE*</u> | <u>SHARES</u> | <u>NAV<br/>VALUE**</u> | <u>MARKET<br/>VALUE**</u> |
|------------------------------|----------------------------------------|----------------------------|----------------------------|---------------|------------------------|---------------------------|
| <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                         | Year-to-Date distribution total \$0.69 |                            | 17.115                     | 254           |                        |                           |
| <b>6/30/04</b>               |                                        | <b>\$ 21,922</b>           |                            | <b>6,491</b>  | <b>\$ 116,384</b>      | <b>\$ 114,307</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                         | Year-to-Date distribution total \$0.53 |                            | 12.917                     | 103           |                        |                           |
| <b>6/30/04</b>               |                                        | <b>\$ 8,900</b>            |                            | <b>2,588</b>  | <b>\$ 35,896</b>       | <b>\$ 34,679</b>          |
| <b>Royce Focus Trust</b>     |                                        |                            |                            |               |                        |                           |

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|                |                                        |                 |          |              |                  |                  |
|----------------|----------------------------------------|-----------------|----------|--------------|------------------|------------------|
| 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            |
| 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           | Year-to-Date distribution total \$0.21 |                 | 8.878    | 32           |                  |                  |
| <b>6/30/04</b> |                                        | <b>\$ 4,375</b> |          | <b>1,377</b> | <b>\$ 13,384</b> | <b>\$ 11,994</b> |

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

\*\* Other than for initial purchase and June 30, 2004, 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 FOR COMMON STOCKHOLDERS

#### 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, EquiServe, in writing. A registered stockholder also has the option to receive the distribution in the form of a stock certificate or in cash if EquiServe 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 EquiServe on a monthly basis, and to deposit certificates representing your Fund shares with EquiServe for safekeeping. The Funds' investment adviser is absorbing all commissions on optional cash purchases under the Plans through December 31, 2004.

**HOW DO THE PLANS WORK FOR REGISTERED STOCKHOLDERS?**

EquiServe 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 EquiServe 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 EquiServe 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, EquiServe 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 EquiServe. All correspondence (including notifications) should be directed to: [Name of Fund] Distribution Reinvestment and Cash Purchase Plan, c/o EquiServe, PO Box 43011, Providence, RI 02940-3011, telephone (800) 426-5523.

**DIRECTORS AND OFFICERS**

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

**NAME AND POSITION:** Charles M. Royce (64), Director\* and President

**Term Expires:** 2006

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

**Number of Funds Overseen:** 21

**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 (49), Director\*

**Term Expires:** 2004

**Tenure:** Since 2001

**NAME AND POSITION:** Arthur S. Mehlman (62), Director

**Term Expires:** 2004

**Tenure:** Since 2004

**Number of Funds Overseen:** 21

**Non-Royce Directorships:** Director/Trustee of registered investment companies constituting the 23 Legg Mason Funds.

**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) and Partner, KPMG LLP (international accounting firm) (1972-2002).

**NAME AND POSITION:** David L. Meister (64), Director

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**Number of Funds Overseen:** 21

**Non-Royce Directorships:** Director/Trustee of the registered investment companies constituting the 23 Legg Mason Funds.

**Term Expires:** 2004

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

**Number of Funds Overseen:** 21

**Non-Royce Directorships:** None

**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.

**Principal Occupation(s) During Past Five Years:** Chairman and Chief Executive Officer of The Tennis Channel (since June 2000). 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 (73), Director

**Term Expires:** 2005

**Tenure:** Since 1998

**Number of Funds Overseen:** 21

**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 94 Eaton Vance Funds.

**NAME AND POSITION:** G. Peter O'Brien (58), Director

**Term Expires:** 2006

**Tenure:** Since 2001

**Number of Funds Overseen:** 21

**Non-Royce Directorships:** Director/Trustee of registered investment companies constituting the 23 Legg Mason Funds; Director of Renaissance Capital Greenwich Fund and Director of Technology Investment Capital Corp.

**Principal Occupation(s) During Past Five Years:** Trustee of Colgate University; President of Hill House, Inc.; Director/Trustee of certain Legg Mason retail funds; Managing Director/Equity Capital Markets Group of Merrill Lynch & Co. (from 1971 to 1999).

**NAME AND POSITION:** Richard M. Galkin (66), Director

**Term Expires:** 2004

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

**Number of Funds Overseen:** 21

**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 Haverhills 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:** John D. Diederich (53), 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. (45), 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:** Stephen L. Isaacs (64), Director

**Term Expires:** 2005 (RVT), 2005 (RMT), 2004 (FUND)

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

**Number of Funds Overseen:** 21

**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:** W. Whitney George (46), 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 (42), 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:** William L. Koke (69), Director

**Term Expires:** 2004 (RVT), 2004 (RMT), 2005 (FUND)

**Tenure:** Since 2001 (RVT), 2001 (RMT), 1997 (FUND)

**Number of Funds Overseen:** 21

**Non-Royce Directorships:** None

**Principal Occupation(s) During Past Five Years:** Financial planner with Shoreline Financial Consultants. Mr. Koke's prior

**NAME AND POSITION:** John E. Denneen (37), 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

business experience includes having served as Director of Financial Relations of SONAT, Inc., Treasurer of Ward Foods, Inc. and President of CFC, Inc. (1996-2001 and since April 2002); Principal of Credit Suisse First Boston Private Equity (2001-2002).

\* Interested Director.

## NOTES TO PERFORMANCE AND OTHER IMPORTANT INFORMATION

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### PROXY VOTING POLICIES AND PROCEDURES

A copy of the policies and procedures that The Royce Funds use to determine how to vote proxies relating to portfolio securities is available, without charge, by calling 1-800-221-4268 (toll-free) and on The Royce Funds' website at [www.roycefunds.com](http://www.roycefunds.com). Beginning September 2004, information regarding how each of The Royce Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 will also be available without charge, by calling 1-800-221-4268 (toll-free), on the website of the Securities and Exchange Commission, at [www.sec.gov](http://www.sec.gov), and on The Royce Funds' website at [www.roycefunds.com](http://www.roycefunds.com).

### 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 each series of its preferred stock during the year ending December 31, 2004. 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.

### 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 shareholder

communications or reports.

## INVESTMENT POLICY CHANGES

The Funds' Board of Directors has approved the following non-fundamental investment policy changes:

- ◆ Effective May 1, 2004, the Funds adjusted their definitions of small- and micro-cap securities. Accordingly, all companies with market capitalizations of less than \$500 million are considered micro-cap, and all companies between \$500 million and \$2.5 billion are considered small-cap.
- ◆ Effective June 15, 2004, the amount of Royce Focus Trust's net assets that must normally be invested in equity securities was lowered from 75% to 65%.

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## SCHEDULES OF INVESTMENTS AND OTHER FINANCIAL STATEMENTS

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|                              |                     |
|------------------------------|---------------------|
| <i>Royce Value Trust</i>     | <b><u>24-36</u></b> |
| <i>Royce Micro-Cap Trust</i> | <b><u>37-48</u></b> |
| <i>Royce Focus Trust</i>     | <b><u>49-56</u></b> |

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**ROYCE VALUE TRUST, INC.**

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**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

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**COMMON STOCKS** □

**110.5%**

SHARES

VALUE

SHARES

VALUE

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**ROYCE VALUE TRUST, INC.**

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**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

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SHARES

VALUE

SHARES

VALUE

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**ROYCE VALUE TRUST, INC.**

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**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2003 (UNAUDITED)**

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SHARES

VALUE

SHARES

VALUE

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**ROYCE VALUE TRUST, INC.**

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**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

SHARES

VALUE

SHARES

VALUE

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**ROYCE VALUE TRUST, INC.**

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**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

SHARES

VALUE

SHARES

VALUE

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**ROYCE VALUE TRUST, INC.**

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**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

|  | <u>SHARES</u> | <u>VALUE</u> | <u>VALUE</u> |
|--|---------------|--------------|--------------|
|--|---------------|--------------|--------------|

- a Non-income producing.
- b American Depository Receipt.
- c At June 30, 2004, 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 A portion of these securities were on loan at June 30, 2004. Total market value of loaned securities at June 30, 2004 was \$16,600,071.
- e A security for which market quotations are no longer readily available represents 0.4% of net assets. This security has been valued at its fair value under procedures established by the Fund's Board of Directors.
- New additions in 2004.

**Bold indicates the Fund's largest 20 equity holdings in terms of June 30, 2004 market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$813,738,257. At June 30, 2004, net unrealized appreciation for all securities was \$339,511,636, consisting of aggregate gross unrealized appreciation of \$384,719,732 and aggregate gross unrealized depreciation of \$45,208,096. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and amortization of discount for book and tax purposes.

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

THE ROYCE FUNDS SEMIANNUAL REPORT 2004 | 29

## ROYCE VALUE TRUST, INC.

### STATEMENT OF ASSETS AND LIABILITIES

#### ASSETS:

Investments at value (including collateral on loaned securities)  
 Affiliated Companies (cost \$7,777,789)  
 Non-affiliates (cost \$708,629,199)

Total investments at value  
 Repurchase agreement (at cost and value)  
 Cash  
 Receivable for investments sold  
 Receivable for dividends and interest  
 Prepaid expenses

Total Assets

#### LIABILITIES:

Payable for collateral on loaned securities

Payable for investments purchased  
 Payable for investment advisory fee  
 Preferred dividends accrued but not yet declared  
 Accrued expenses

Total Liabilities

**PREFERRED STOCK:**

5.90% Cumulative Preferred Stock □ \$0.001 par value, \$25 liquidation value per share; 8,800,000 shares outstanding

Total Preferred Stock

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**

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

Common Stock paid-in capital □ \$0.001 par value per share; 51,109,751 shares outstanding (150,000,000 shares authorized)  
 Undistributed net investment income (loss)  
 Accumulated net realized gain (loss) on investments  
 Net unrealized appreciation (depreciation) on investments  
 Quarterly and accrued distributions

Net Assets applicable to Common Stockholders (net asset value per share □ \$17.93)

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

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**ROYCE VALUE TRUST, INC.**

**SIX  
 MONTHS  
 ENDED JUNE  
 30, 2004  
 (UNAUDITED)**

**STATEMENT OF OPERATIONS**

**INVESTMENT INCOME:**

|                      |                  |
|----------------------|------------------|
| Income:              |                  |
| Dividends            |                  |
| Affiliated Companies | \$ □             |
| Non-affiliates       | 3,208,968        |
| Interest             | 579,846          |
| Securities lending   | 60,121           |
| <b>Total income</b>  | <b>3,848,935</b> |

Expenses:

|                                                                                                                     |                      |
|---------------------------------------------------------------------------------------------------------------------|----------------------|
| Investment advisory fees                                                                                            | 6,071,937            |
| Stockholder reports                                                                                                 | 202,626              |
| Custody and transfer agent fees                                                                                     | 120,966              |
| Directors' fees                                                                                                     | 59,886               |
| Administrative and office facilities expenses                                                                       | 50,964               |
| Professional fees                                                                                                   | 31,130               |
| Other expenses                                                                                                      | 55,929               |
| <b>Total expenses</b>                                                                                               | <b>6,593,438</b>     |
| <b>Net investment income (loss)</b>                                                                                 | <b>(2,744,503)</b>   |
| <b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>                                                          |                      |
| Net realized gain (loss) on investments                                                                             |                      |
| Affiliated Companies                                                                                                | 5,043,390            |
| Non-affiliates                                                                                                      | 21,462,331           |
| Net change in unrealized appreciation (depreciation) on investments                                                 | 63,304,077           |
| <b>Net realized and unrealized gain (loss) on investments</b>                                                       | <b>89,809,798</b>    |
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS</b>                                   | <b>87,065,295</b>    |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>                                                                      | <b>(6,490,000)</b>   |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>\$ 80,575,295</b> |

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

THE ROYCE FUNDS SEMIANNUAL REPORT 2004 | 31

## ROYCE VALUE TRUST, INC.

### STATEMENT OF CHANGES IN NET ASSETS

|                                                                                   | Six months<br>ended<br>June 30, 2004<br>(unaudited) | Year ended<br>December<br>2003 |
|-----------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------------|
| <b>INVESTMENT OPERATIONS:</b>                                                     |                                                     |                                |
| Net investment income (loss)                                                      | \$ (2,744,503)                                      | \$ (2,490,000)                 |
| Net realized gain (loss) on investments                                           | 26,505,721                                          | 74,980                         |
| Net change in unrealized appreciation (depreciation) on investments               | 63,304,077                                          | 208,270                        |
| <b>Net increase (decrease) in net assets resulting from investment operations</b> | <b>87,065,295</b>                                   | <b>280,770</b>                 |

**DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:**

|                                                      |                    |               |
|------------------------------------------------------|--------------------|---------------|
| Net investment income                                | □                  | □             |
| Net realized gain on investments                     | □                  | (12,25        |
| Quarterly distributions*                             | (6,490,000)        | (2            |
| <b>Total distributions to Preferred Stockholders</b> | <b>(6,490,000)</b> | <b>(12,27</b> |

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

80,575,295 268,49

**DISTRIBUTIONS TO COMMON STOCKHOLDERS:**

|                                                   |                     |               |
|---------------------------------------------------|---------------------|---------------|
| Net investment income                             | □                   | □             |
| Net realized gain on investments                  | □                   | (61,29        |
| Quarterly distributions*                          | (34,664,021)        | □             |
| <b>Total distributions to Common Stockholders</b> | <b>(34,664,021)</b> | <b>(61,29</b> |

**CAPITAL STOCK TRANSACTIONS:**

|                                                      |                   |              |
|------------------------------------------------------|-------------------|--------------|
| Net proceeds from rights offering                    | □                 | 54,48        |
| Offering costs from issuance of Preferred Stock      | □                 | (7,26        |
| Reinvestment of distributions to Common Stockholders | 19,722,271        | 35,56        |
| <b>Total capital stock transactions</b>              | <b>19,722,271</b> | <b>82,79</b> |

**NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS  
NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

65,633,545 289,99

|                                                                                               |               |          |
|-----------------------------------------------------------------------------------------------|---------------|----------|
| Beginning of period                                                                           | 850,773,115   | 560,77   |
| End of period (including undistributed net investment income (loss) of \$(2,744,503) in 2004) | \$916,406,660 | \$850,77 |

\*To be allocated to net investment income and capital gains at year end.

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

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**ROYCE VALUE TRUST, INC.****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.

|                                      |                          |
|--------------------------------------|--------------------------|
| Six months<br>ended<br>June 30, 2004 | Years ended December 31, |
|--------------------------------------|--------------------------|

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|                                                                                                                     | (unaudited) | 2003      | 2002      | 2001      | 2000      |
|---------------------------------------------------------------------------------------------------------------------|-------------|-----------|-----------|-----------|-----------|
| <b>NET ASSET VALUE, BEGINNING OF PERIOD</b>                                                                         | \$17.03     | \$13.22   | \$17.31   | \$16.56   | \$16.56   |
| <b>INVESTMENT OPERATIONS:</b>                                                                                       |             |           |           |           |           |
| Net investment income (loss)                                                                                        | (0.05)      | (0.05)    | (0.02)    | 0.05      | 0.05      |
| Net realized and unrealized gain (loss) on investments                                                              | 1.77        | 5.64      | (2.25)    | 2.58      | 2.58      |
| Total investment operations                                                                                         | 1.72        | 5.59      | (2.27)    | 2.63      | 2.63      |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>                                                                     |             |           |           |           |           |
| Net investment income                                                                                               | □           | □         | (0.01)    | (0.01)    | (0.01)    |
| Net realized gain on investments                                                                                    | □           | (0.26)    | (0.28)    | (0.30)    | (0.30)    |
| Quarterly distributions*                                                                                            | (0.13)      | □         | □         | □         | □         |
| Total distributions to Preferred Stockholders                                                                       | (0.13)      | (0.26)    | (0.29)    | (0.31)    | (0.31)    |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> |             |           |           |           |           |
|                                                                                                                     | 1.59        | 5.33      | (2.56)    | 2.32      | 2.32      |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>                                                                        |             |           |           |           |           |
| Net investment income                                                                                               | □           | □         | (0.07)    | (0.05)    | (0.05)    |
| Net realized gain on investments                                                                                    | □           | (1.30)    | (1.44)    | (1.44)    | (1.44)    |
| Quarterly distributions*                                                                                            | (0.69)      | □         | □         | □         | □         |
| Total distributions to Common Stockholders                                                                          | (0.69)      | (1.30)    | (1.51)    | (1.49)    | (1.49)    |
| <b>CAPITAL STOCK TRANSACTIONS:</b>                                                                                  |             |           |           |           |           |
| Effect of reinvestment of distributions by Common Stockholders                                                      | (0.00)      | (0.00)    | (0.02)    | (0.08)    | (0.08)    |
| Effect of rights offering and Preferred Stock offering                                                              | □           | (0.22)    | □         | □         | □         |
| Total capital stock transactions                                                                                    | (0.00)      | (0.22)    | (0.02)    | (0.08)    | (0.08)    |
| <b>NET ASSET VALUE, END OF PERIOD</b>                                                                               | \$17.93     | \$17.03   | \$13.22   | \$17.31   | \$17.31   |
| <b>MARKET VALUE, END OF PERIOD</b>                                                                                  | \$17.61     | \$17.21   | \$13.25   | \$15.72   | \$15.72   |
| <b>TOTAL RETURN (a):</b>                                                                                            |             |           |           |           |           |
| Market Value                                                                                                        | 6.5%***     | 42.0%     | (6.9)%    | 20.0%     | 20.0%     |
| Net Asset Value                                                                                                     | 9.6%***     | 40.8%     | (15.6)%   | 15.2%     | 15.2%     |
| <b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>                                        |             |           |           |           |           |
| Total expenses (b,c)                                                                                                | 1.49%**     | 1.49%     | 1.72%     | 1.61%     | 1.61%     |
| Management fee expense                                                                                              | 1.37%**     | 1.34%     | 1.56%     | 1.45%     | 1.45%     |
| Other operating expenses                                                                                            | 0.12%**     | 0.15%     | 0.16%     | 0.16%     | 0.16%     |
| Net investment income (loss)                                                                                        | (0.62)%**   | (0.36)%   | (0.09)%   | 0.35%     | 0.35%     |
| <b>SUPPLEMENTAL DATA:</b>                                                                                           |             |           |           |           |           |
| Net Assets Applicable to Common Stockholders, End of Period (in thousands)                                          | \$916,407   | \$850,773 | \$560,776 | \$689,141 | \$623,000 |
| Liquidation Value of Preferred Stock, End of Period (in thousands)                                                  | \$220,000   | \$220,000 | \$160,000 | \$160,000 | \$160,000 |
| Portfolio Turnover Rate                                                                                             | 9%          | 23%       | 35%       | 30%       | 30%       |
| <b>PREFERRED STOCK:</b>                                                                                             |             |           |           |           |           |
| Total shares outstanding                                                                                            | 8,800,000   | 8,800,000 | 6,400,000 | 6,400,000 | 6,400,000 |
| Asset coverage per share                                                                                            | \$129.14    | \$121.68  | \$112.62  | \$132.68  | \$129.14  |
| Liquidation preference per share                                                                                    | \$25.00     | \$25.00   | \$25.00   | \$25.00   | \$25.00   |

Average market value per share (d):

|                                 |         |         |         |         |     |
|---------------------------------|---------|---------|---------|---------|-----|
| 5.90% Cumulative                | \$24.46 | \$25.04 |         |         |     |
| 7.80% Cumulative                |         | \$25.87 | \$26.37 | \$25.70 | \$2 |
| 7.30% Tax-Advantaged Cumulative |         | \$25.53 | \$25.82 | \$25.37 | \$2 |

- (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 1.19%, 1.19%, 1.38%, 1.30%, 1.12% and 1.06% for the periods ended June 30, 2004 and December 31, 2003, 2002, 2001, 2000 and 1999, 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%, 1.65%, 1.51% and 1.48% for the periods ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively.
- (d) The average of month-end market values during the period that the preferred stock was outstanding.  
 \* To be allocated to net investment income and capital gains at year end.  
 \*\* Annualized.  
 \*\*\* Not annualized.

**ROYCE VALUE TRUST, INC.**

**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**

**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 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 the 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 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.

**Repurchase Agreements:**

The Fund enters into repurchase agreements with respect to its portfolio securities solely with State Street Bank and Trust Company ("SSB&T"), the custodian of its assets. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held by SSB&T 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 SSB&T, 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 is invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities.

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## ROYCE VALUE TRUST, INC.

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### NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

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#### Capital Stock:

The Fund issued 1,153,402 and 2,448,904 shares of Common Stock as reinvestment of distributions by Common Stockholders for the six months ended June 30, 2004 and the year ended December 31, 2003, respectively.

On March 10, 2003, the Fund completed a rights offering of Common Stock to its stockholders at the rate of one common share for each 10 rights held by stockholders of record on January 28, 2003. The rights offering was fully subscribed, resulting in the issuance of 5,090,083 common shares at a price of \$10.77, and proceeds of \$54,820,194 to the Fund prior to the deduction of estimated expenses of \$332,577. The net asset value per share of the Fund's Common Stock was reduced by approximately \$0.07 per share as a result of the issuance.

On October 10, 2003, the Fund redeemed all (2,400,000 shares) of its then outstanding 7.80% Cumulative Preferred Stock at the redemption price of \$25.00 per share, plus accumulated and unpaid dividends through the redemption date of \$0.0975 per share, and all (4,000,000 shares) of its outstanding 7.30% Tax-Advantaged Cumulative Preferred Stock at the redemption price of \$25.00 per share, plus accumulated and unpaid dividends through the redemption date of \$0.09125 per share. On October 9, 2003, the Fund received net proceeds of \$213,070,000 (after underwriting discounts of \$6,930,000 and before estimated offering expenses of \$331,800) from the public offering of 8,800,000 shares of 5.90% Cumulative Preferred Stock. Commencing October 9, 2008 and thereafter, the Fund, at its option, may redeem the 5.90% Cumulative Preferred Stock, in whole or in part, at the redemption price.

At June 30, 2004, 8,800,000 shares of the 5.90% Cumulative Preferred Stock were outstanding. 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 Preferred Stock.

Under Emerging Issues Task Force (EITF) Topic D-98, Classification and

Measurement of Redeemable Securities, preferred securities that are redeemable for cash or other assets are 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. Subject to the guidance of the EITF, the Fund's Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements.

**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 600 SmallCap 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 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 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 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 dividend rate.

For the six months ended June 30, 2004 the Fund accrued and paid Royce advisory fees totaling \$6,071,937.

**Purchases and Sales of Investment Securities:**

For the six months ended June 30, 2004, the cost of purchases and proceeds from sales of investment securities, other than short-term securities, amounted to \$132,416,200 and \$90,575,726, respectively.

**NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)****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 six months ended June 30, 2004:

| <b>Affiliated Company</b>                       | <b>Shares 12/31/03</b> | <b>Market Value 12/31/03</b> | <b>Purchases</b> | <b>Sales</b> | <b>Realized Gain (Loss)</b> | <b>Dividend Income</b> | <b>Shares 6/30/04</b> | <b>Market Value 6/30/04</b> |
|-------------------------------------------------|------------------------|------------------------------|------------------|--------------|-----------------------------|------------------------|-----------------------|-----------------------------|
| CompX International *                           | 482,200                | \$ 3,086,080                 | \$               | \$           | \$                          | \$                     |                       |                             |
| Falcon Products                                 | 761,600                | 3,351,040                    | 109,500          |              |                             |                        | 791,600               | \$ 2,105,656                |
| MGP Ingredients *                               | 417,322                | 6,572,822                    |                  | 2,682,904    | 5,043,390                   |                        |                       |                             |
| Peerless Manufacturing Richardson Electronics * | 1,58,600               | 2,045,940                    |                  |              |                             |                        | 158,600               | 1,879,410                   |
| 7.25% Conv. Due 12/15/06                        | 1,319,000              | 1,213,480                    |                  |              |                             |                        |                       |                             |
| Synalloy Corporation                            | 345,000                | 2,387,400                    |                  |              |                             |                        | 345,000               | 3,519,000                   |
|                                                 |                        | \$18,656,762                 |                  |              | \$5,043,390                 |                        |                       | \$7,504,066                 |

\* Not an affiliated company at June 30, 2004.

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**ROYCE MICRO-CAP TRUST, INC.****SCHEDULE OF INVESTMENTS****JUNE 30, 2004 (UNAUDITED)****COMMON STOCKS □ 104.5%**

|                                 | <u>SHARES</u> | <u>VALUE</u> |                                         | <u>SHARES</u> | <u>VALUE</u> |
|---------------------------------|---------------|--------------|-----------------------------------------|---------------|--------------|
| <b>Consumer Products □ 7.3%</b> |               |              | Media and Broadcasting -                |               |              |
| Apparel and Shoes - 3.1%        |               |              | 0.4%                                    |               |              |
| Ashworth <sup>a</sup>           | 58,100        | \$ 482,811   | Outdoor Channel Holdings <sup>a,c</sup> | 27,900        | \$ 962,550   |
| <b>Delta Apparel</b>            | 146,500       | 3,567,275    | Restaurants and Lodgings -              |               |              |
|                                 |               |              | 0.3%                                    |               |              |

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|                                               |         |                  |                                                               |         |                   |
|-----------------------------------------------|---------|------------------|---------------------------------------------------------------|---------|-------------------|
| Innovo Group <sup>a,c</sup>                   | 86,000  | 98,040           | Angelo and Maxie's <sup>a</sup>                               | 3,333   | 2,866             |
| Kleinert's <sup>a,d</sup>                     | 14,200  |                  | Benihana Cl. A <sup>a</sup>                                   | 34,770  | 518,073           |
| Steven Madden <sup>a</sup>                    | 14,500  | 289,565          | BUCA <sup>a,c</sup>                                           | 30,000  | 159,900           |
| Marisa Christina <sup>a</sup>                 | 76,600  | 96,516           | California Pizza Kitchen <sup>a</sup>                         | 10,000  | 191,600           |
| Mossimo <sup>a</sup>                          | 103,000 | 386,250          |                                                               |         |                   |
| Oshkosh B'Gosh Cl. A                          | 37,000  | 923,890          |                                                               |         | 872,439           |
| Skechers U.S.A. Cl. A <sup>a,c</sup>          | 44,000  | 572,000          |                                                               |         |                   |
| Weyco Group                                   | 60,000  | 2,057,460        |                                                               |         |                   |
|                                               |         | <u>8,473,807</u> | Retail Stores - 4.7%                                          |         |                   |
|                                               |         |                  | America's Car-Mart <sup>a,c</sup>                             | 23,000  | 690,690           |
|                                               |         |                  | Brookstone <sup>a</sup>                                       | 51,750  | 1,037,587         |
|                                               |         |                  | Buckle (The)                                                  | 36,500  | 1,031,125         |
| Collectibles - 0.8%                           |         |                  | Cato Corporation Cl. A                                        | 58,000  | 1,302,100         |
| Action Performance Companies                  | 5,000   | 75,350           | Deb Shops                                                     | 19,900  | 478,794           |
| The Boyds Collection <sup>a</sup>             | 227,700 | 755,964          | Dress Barn (The) <sup>a,c</sup>                               | 53,660  | 918,659           |
| Enesco Group <sup>a</sup>                     | 37,400  | 335,104          | La Senza Corporation                                          | 99,900  | 731,775           |
| Toppers Company (The)                         | 101,000 | 979,700          | REX Stores <sup>a,c</sup>                                     | 38,000  | 465,500           |
|                                               |         | <u>2,146,118</u> | Shoe Carnival <sup>a</sup>                                    | 11,000  | 165,110           |
|                                               |         |                  | Stein Mart <sup>a</sup>                                       | 285,200 | 4,637,352         |
|                                               |         |                  | United Retail Group <sup>a</sup>                              | 60,600  | 155,136           |
| Food/Beverage/Tobacco - 0.2%                  |         |                  | Wet Seal (The) Cl. A <sup>a,c</sup>                           | 227,000 | 1,187,210         |
| Green Mountain Coffee Roasters <sup>a,c</sup> | 28,600  | 531,102          |                                                               |         |                   |
| Riviana Foods                                 | 1,200   | 31,404           |                                                               |         | <u>12,801,038</u> |
|                                               |         | <u>562,506</u>   | Other Consumer Services - 0.4%                                |         |                   |
|                                               |         |                  | Ambassadors Group                                             | 7,500   | 176,325           |
| Home Furnishing and Appliances - 0.8%         |         |                  | Ambassadors International                                     | 6,100   | 78,019            |
| Falcon Products <sup>a</sup>                  | 150,000 | 399,000          | E-LOAN <sup>a,c</sup>                                         | 82,500  | 222,750           |
| Lifetime Hoan <sup>c</sup>                    | 73,854  | 1,683,133        | Rent-Way <sup>a</sup>                                         | 66,000  | 594,000           |
| Stanley Furniture Company                     | 2,500   | 105,275          |                                                               |         | <u>1,071,094</u>  |
|                                               |         | <u>2,187,408</u> | <b>Total (Cost \$10,473,009)</b>                              |         | <b>16,301,761</b> |
|                                               |         |                  | <b>Diversified Investment Companies</b> $\square$ <b>2.0%</b> |         |                   |
| Publishing - 0.4%                             |         |                  | Closed-End Mutual Funds - 2.0%                                |         |                   |
| Information Holdings <sup>a</sup>             | 40,000  | 1,094,800        | ASA                                                           | 81,500  | 2,941,335         |
|                                               |         |                  | Central Fund of Canada Cl. A                                  | 237,000 | 1,246,620         |
| Sports and Recreation - 1.0%                  |         |                  | MVC Capital <sup>a</sup>                                      | 122,200 | 1,153,568         |
| Monaco Coach                                  | 73,900  | 2,081,763        |                                                               |         |                   |
| National R.V. Holdings <sup>a</sup>           | 31,800  | 469,050          |                                                               |         |                   |
|                                               |         | <u>2,550,813</u> | <b>Total (Cost \$5,075,465)</b>                               |         | <b>5,341,523</b>  |
|                                               |         |                  | <b>Financial Intermediaries</b> $\square$ <b>7.2%</b>         |         |                   |
| Other Consumer Products - 1.0%                |         |                  | Banking - 2.1%                                                |         |                   |
| Burnham Holdings Cl. A                        | 1,000   | 28,000           | Abigail Adams National Bancorp                                | 17,000  | 255,850           |
| Cobra Electronics <sup>a</sup>                | 10,000  | 87,800           | Arrow Financial                                               | 13,500  | 411,075           |
| Concord Camera <sup>a</sup>                   | 5,000   | 16,500           | First Midwest Financial                                       | 64,800  | 1,539,000         |
| Cross (A.T.) Company Cl. A <sup>a</sup>       | 100,000 | 477,000          | First National Lincoln                                        | 40,200  | 783,900           |
| ZCORP Cl. A <sup>a,c</sup>                    | 15,000  | 148,800          | FirstBank NW                                                  | 4,930   | 132,420           |
| JAKKS Pacific <sup>a</sup>                    | 30,000  | 623,700          | Lakeland Financial                                            | 22,500  | 753,750           |
| Lazare Kaplan International <sup>a</sup>      | 151,700 | 1,281,865        | Pacific Mercantile Bancorp <sup>a</sup>                       | 39,000  | 424,632           |

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|                                                   |        |                   |                                     |        |                  |
|---------------------------------------------------|--------|-------------------|-------------------------------------|--------|------------------|
|                                                   |        | 2,663,665         | Peapack-Gladstone Financial         | 7,800  | 250,536          |
|                                                   |        | <u>19,679,117</u> | Queen City Investments <sup>a</sup> | 948    | 568,800          |
| <b>Total</b> (Cost \$11,615,744)                  |        |                   | Sterling Bancorp                    | 18,150 | 501,303          |
|                                                   |        |                   |                                     |        | <u>5,621,266</u> |
| <b>Consumer Services</b> <sup>b</sup> <b>6.0%</b> |        |                   |                                     |        |                  |
| Direct Marketing - 0.1%                           |        |                   | Insurance - 4.2%                    |        |                  |
| J. Jill Group <sup>a</sup>                        | 5,500  | 129,745           | American Safety Insurance           |        |                  |
| Sportsman's Guide (The) <sup>a</sup>              | 5,000  | 116,995           | Holdings <sup>a</sup>               | 5,000  | 75,050           |
| ValueVision Media Cl. A <sup>a</sup>              | 5,000  | 65,100            | Argonaut Group <sup>a</sup>         | 30,900 | 569,487          |
|                                                   |        | <u>311,840</u>    | Independence Holding                | 18,630 | 633,420          |
|                                                   |        |                   | NYMAGIC                             | 67,900 | 1,792,560        |
|                                                   |        |                   | Navigators Group <sup>a</sup>       | 37,200 | 1,074,708        |
| Leisure and Entertainment - 0.1%                  |        |                   |                                     |        |                  |
| IMAX Corporation <sup>a,c</sup>                   | 25,000 | 138,500           |                                     |        |                  |
| Singing Machine Company (The) <sup>a,c</sup>      | 5,000  | 2,500             |                                     |        |                  |
| TiVo <sup>a,c</sup>                               | 20,000 | 141,800           |                                     |        |                  |
|                                                   |        | <u>282,800</u>    |                                     |        |                  |

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**ROYCE MICRO-CAP TRUST, INC.**

**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

|                                             | <u>SHARES</u> | <u>VALUE</u>      |                                         | <u>SHARES</u> | <u>VALUE</u> |
|---------------------------------------------|---------------|-------------------|-----------------------------------------|---------------|--------------|
| <b>Financial Intermediaries (continued)</b> |               |                   | Health Services - 1.8%                  |               |              |
| Insurance (continued)                       |               |                   | ATC Healthcare Cl. A <sup>a</sup>       | 35,000        | \$ 17,850    |
| <b>PICO Holdings</b> <sup>a,c</sup>         | 145,100       | \$ 2,774,167      | Covalent Group <sup>a</sup>             | 25,000        | 95,750       |
| PXRE Group                                  | 73,164        | 1,848,854         | Curative Health Services <sup>a,c</sup> | 4,900         | 42,434       |
| ProAssurance Corporation <sup>a</sup>       | 29,800        | 1,016,478         | Gentiva Health Services <sup>a</sup>    | 15,000        | 243,900      |
| Wellington Underwriting                     | 444,712       | 727,613           | MIM Corporation <sup>a,c</sup>          | 83,100        | 722,970      |
| Zenith National Insurance                   | 19,100        | 928,260           | MedCath Corporation <sup>a</sup>        | 18,000        | 360,000      |
|                                             |               | <u>11,440,597</u> | On Assignment <sup>a</sup>              | 26,100        | 153,990      |
|                                             |               |                   | Quovadx <sup>a</sup>                    | 5,000         | 6,000        |
|                                             |               |                   | RehabCare Group <sup>a</sup>            | 22,000        | 585,860      |
| Real Estate Investment Trusts - 0.7%        |               |                   | SFBC International <sup>a</sup>         | 15,000        | 469,950      |
| First Acceptance <sup>a</sup>               | 258,405       | 1,808,835         | Sierra Health Services <sup>a</sup>     | 40,000        | 1,788,000    |
|                                             |               |                   | Sun Healthcare Group <sup>a,c</sup>     | 10,000        | 90,000       |
| Securities Brokers - 0.2%                   |               |                   |                                         | 10,000        | 60,000       |

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|                                          |         |            |                                            |         |            |
|------------------------------------------|---------|------------|--------------------------------------------|---------|------------|
|                                          |         |            | Superior Consultant Holdings<br><u>a</u>   |         |            |
| First Albany                             | 9,600   | 96,384     | U.S. Physical Therapy <u>a,c</u>           | 10,000  | 137,100    |
| Sanders Morris Harris Group              | 21,000  | 309,750    |                                            |         |            |
| Stifel Financial <u>a</u>                | 8,800   | 239,360    |                                            |         | 4,773,804  |
|                                          |         |            |                                            |         |            |
|                                          |         | 645,494    | Medical Products and Devices<br>- 3.0%     |         |            |
| <b>Total</b> (Cost \$12,694,481)         |         | 19,516,192 | Aksys <u>a,c</u>                           | 76,000  | 443,080    |
|                                          |         |            | Allied Healthcare Products <u>a</u>        | 258,400 | 1,294,584  |
| <b>Financial Services</b> $\square$ 1.2% |         |            | Cantel Medical <u>a,c</u>                  | 19,000  | 409,450    |
| Insurance Brokers - 0.4%                 |         |            | CONMED Corporation <u>a</u>                | 3,900   | 106,860    |
| Clark <u>a</u>                           | 20,900  | 387,695    | Exactech <u>a</u>                          | 60,200  | 1,306,340  |
| CorVel Corporation <u>a,c</u>            | 28,750  | 815,062    | Medical Action Industries <u>a</u>         | 58,500  | 1,076,400  |
|                                          |         |            | Molecular Devices <u>a,c</u>               | 25,500  | 453,390    |
|                                          |         | 1,202,757  | NMT Medical <u>a</u>                       | 44,000  | 165,000    |
| Other Financial Services - 0.8%          |         |            | OrthoLogic Corporation <u>a</u>            | 20,000  | 173,400    |
| MicroFinancial <u>a</u>                  | 10,000  | 33,900     | Orthofix International <u>a</u>            | 28,000  | 1,196,440  |
| PRG-Schultz International <u>a</u>       | 365,000 | 1,996,550  | Osteotech <u>a</u>                         | 26,100  | 169,389    |
|                                          |         |            | PLC Systems <u>a</u>                       | 105,200 | 85,212     |
|                                          |         | 2,030,450  | Synovis Life Technologies <u>a,c</u>       | 5,000   | 53,750     |
|                                          |         |            | Utah Medical Products                      | 42,300  | 1,117,566  |
| <b>Total</b> (Cost \$2,814,985)          |         | 3,233,207  |                                            |         | 8,050,861  |
|                                          |         |            | Personal Care - 1.5%                       |         |            |
| <b>Health</b> $\square$ 11.1%            |         |            | CCA Industries                             | 69,000  | 581,670    |
| Commercial Services - 2.8%               |         |            | Helen of Troy <u>a,c</u>                   | 20,000  | 737,400    |
| Brucker BioSciences <u>a</u>             | 195,300 | 951,111    | Lifeline Systems <u>a</u>                  | 20,400  | 482,664    |
| First Consulting Group <u>a</u>          | 274,700 | 1,516,344  | Nature's Sunshine Products                 | 36,000  | 512,640    |
| ICON ADR <u>a,b</u>                      | 800     | 35,192     | Ocular Sciences <u>a</u>                   | 47,300  | 1,797,400  |
| <b>PAREXEL International</b> <u>a,c</u>  | 121,400 | 2,403,720  |                                            |         |            |
| The TriZetto Group <u>a</u>              | 182,000 | 1,219,400  |                                            |         | 4,111,774  |
| Young Innovations                        | 61,450  | 1,560,830  |                                            |         |            |
|                                          |         |            | <b>Total</b> (Cost \$20,615,947)           |         | 30,035,425 |
|                                          |         | 7,686,597  |                                            |         |            |
|                                          |         |            | <b>Industrial Products</b> $\square$ 16.1% |         |            |
| Drugs and Biotech - 2.0%                 |         |            | Automotive - 0.4%                          |         |            |
| Able Laboratories <u>a,c</u>             | 2,500   | 51,400     | Spartan Motors                             | 2,800   | 34,300     |
| Antigenics <u>a,c</u>                    | 60,800  | 520,448    | Strattec Security <u>a</u>                 | 3,300   | 225,819    |
| Arena Pharmaceuticals <u>a,c</u>         | 14,000  | 76,440     | Wecast Industries Cl. A                    | 37,900  | 915,285    |
| BioSource International <u>a</u>         | 177,900 | 1,255,974  |                                            |         | 1,175,404  |
| CancerVax Corporation <u>a,c</u>         | 15,000  | 114,150    |                                            |         |            |
| Cerus Corporation <u>a</u>               | 20,000  | 48,000     | Building Systems and<br>Components - 2.0%  |         |            |
|                                          |         |            | <b>Juno Lighting</b> <u>a</u>              | 126,600 | 4,519,620  |
| Durect Corporation <u>a,c</u>            | 44,100  | 153,909    | LSI Industries                             | 67,812  | 779,838    |
| DUSA Pharmaceuticals <u>a,c</u>          | 10,200  | 96,900     |                                            |         | 5,299,458  |
| Emisphere Technologies <u>a,c</u>        | 174,700 | 716,270    | Construction Materials - 1.4%              |         |            |
| Genitope Corporation <u>a</u>            | 10,000  | 98,710     | Ash Grove Cement Company                   | 8,000   | 1,036,000  |
| Geron Corporation <u>a,c</u>             | 6,000   | 48,540     | Monarch Cement                             | 50,410  | 1,146,827  |
| Hi-Tech Pharmacal <u>a,c</u>             | 30,000  | 490,200    | Synalloy Corporation <u>a</u>              | 171,000 | 1,744,200  |
| Maxim Pharmaceuticals <u>a,c</u>         | 6,200   | 59,830     |                                            |         |            |
| Maxygen <u>a,c</u>                       | 5,000   | 52,850     |                                            |         |            |
| Myriad Genetics <u>a,c</u>               | 45,000  | 671,400    |                                            |         |            |
| Nabi Biopharmaceuticals <u>a</u>         | 5,000   | 71,100     |                                            |         |            |
| NeoPharm <u>a</u>                        | 1,000   | 10,330     |                                            |         |            |

|                                        |         |                  |                              |        |           |
|----------------------------------------|---------|------------------|------------------------------|--------|-----------|
| Regeneration Technologies <sup>a</sup> | 21,000  | 225,330          |                              |        | 3,927,027 |
| Sangamo BioSciences <sup>a</sup>       | 10,000  | 60,200           |                              |        |           |
| VIVUS <sup>a,c</sup>                   | 162,200 | 590,408          | Industrial Components - 2.6% |        |           |
|                                        |         |                  | Aaon <sup>a</sup>            | 47,500 | 959,025   |
|                                        |         | <u>5,412,389</u> |                              |        |           |

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**ROYCE MICRO-CAP TRUST, INC.****SCHEDULE OF INVESTMENTS****JUNE 30, 2004 (UNAUDITED)**

|                                        | <u>SHARES</u> | <u>VALUE</u>     |                                       | <u>SHARES</u> | <u>VALUE</u>      |
|----------------------------------------|---------------|------------------|---------------------------------------|---------------|-------------------|
| <b>Industrial Products (continued)</b> |               |                  | Quixote Corporation                   | 35,000        | \$ 701,750        |
| Industrial Components (continued)      |               |                  | Raven Industries                      | 20,000        | 710,600           |
| Bel Fuse Cl. A                         | 52,600        | \$ 1,891,496     |                                       |               |                   |
| Penn Engineering & Manufacturing       | 56,600        | 1,213,504        |                                       |               | 6,787,300         |
| Penn Engineering & Manufacturing Cl. A | 30,800        | 562,100          |                                       |               |                   |
| Powell Industries <sup>a,c</sup>       | 85,300        | 1,456,924        | <b>Total (Cost \$25,379,555)</b>      |               | <u>43,551,267</u> |
| Scientific Technologies <sup>a</sup>   | 10,700        | 56,710           | <b>Industrial Services □ 15.1%</b>    |               |                   |
| Tech/Ops Sevcon                        | 76,200        | 450,342          | Advertising and Publishing - 1.1%     |               |                   |
| II-VI                                  | 10,000        | 306,600          | FindWhat.com <sup>a,c</sup>           | 10,000        | 231,400           |
| Woodhead Industries                    | 10,000        | 154,600          | MDC Partners Cl. A <sup>a</sup>       | 80,000        | 960,000           |
|                                        |               | <u>7,051,301</u> | Modem Media <sup>a</sup>              | 194,200       | 1,021,492         |
|                                        |               |                  | NetRatings <sup>a</sup>               | 50,000        | 814,500           |
| Machinery - 1.6%                       |               |                  |                                       |               | <u>3,027,392</u>  |
| Astec Industries <sup>a,c</sup>        | 40,200        | 756,966          | Commercial Services - 6.4%            |               |                   |
| Cascade Corporation                    | 24,800        | 775,000          | APAC Customer Services <sup>a,c</sup> | 178,900       | 309,497           |
| Hurco Companies <sup>a,c</sup>         | 16,100        | 191,896          | Administaff <sup>a</sup>              | 10,000        | 166,000           |
| Keithley Instruments                   | 14,000        | 310,100          | American Bank Note                    |               |                   |
| Lindsay Manufacturing                  | 10,000        | 240,200          | Holographics <sup>a</sup>             | 267,200       | 681,360           |
| MTS Systems                            | 10,000        | 234,500          | Bennett Environmental <sup>a</sup>    | 13,000        | 163,020           |
| Mueller (Paul) Company                 | 13,650        | 431,340          | Butler International <sup>a</sup>     | 38,500        | 92,400            |
| Pason Systems                          | 57,200        | 1,322,691        | <b>Carlisle Holdings <sup>a</sup></b> | 390,000       | 2,570,100         |
|                                        |               | <u>4,262,693</u> | Edgewater Technology <sup>a</sup>     | 18,339        | 113,518           |
|                                        |               |                  | Exponent <sup>a</sup>                 | 68,300        | 1,835,221         |



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|                                                   |         |           |                                            |         |            |
|---------------------------------------------------|---------|-----------|--------------------------------------------|---------|------------|
| Metal Fabrication and Distribution - 1.5%         |         |           | Geo Group (The) <sup>a,c</sup>             | 53,700  | 1,095,480  |
| Commonwealth Industries <sup>a</sup>              | 71,890  | 743,343   | Gevity HR                                  | 2,000   | 52,380     |
| Encore Wire <sup>a</sup>                          | 10,000  | 275,700   | Hardinge                                   | 5,000   | 60,100     |
| Memry Corporation <sup>a</sup>                    | 114,100 | 189,406   | iGATE Corporation <sup>a</sup>             | 309,700 | 1,232,606  |
| Metals USA <sup>a</sup>                           | 70,000  | 1,251,600 | Kforce <sup>a</sup>                        | 55,000  | 519,200    |
| NN                                                | 127,300 | 1,617,983 | NCO Group <sup>a</sup>                     | 20,000  | 533,800    |
| Universal Stainless & Alloy Products <sup>a</sup> | 7,700   | 83,622    | NIC <sup>a</sup>                           | 26,800  | 192,156    |
|                                                   |         |           | New Horizons Worldwide <sup>a</sup>        | 141,000 | 846,000    |
|                                                   |         | 4,161,654 | Pegasus Solutions <sup>a,c</sup>           | 59,700  | 783,861    |
|                                                   |         |           | Pegasystems <sup>a,c</sup>                 | 211,600 | 1,851,500  |
| Paper and Packaging - 0.1%                        |         |           | Pemstar <sup>a,c</sup>                     | 157,500 | 365,400    |
| Mod-Pac Corporation <sup>a</sup>                  | 23,200  | 206,921   | RemedyTemp Cl. A <sup>a</sup>              | 98,200  | 1,188,220  |
|                                                   |         |           | TRC Companies <sup>a,c</sup>               | 33,400  | 557,112    |
| Pumps, Valves and Bearings - 1.2%                 |         |           | Volt Information Sciences <sup>a</sup>     | 36,600  | 1,153,266  |
| Gardner Denver <sup>a</sup>                       | 14,600  | 407,340   | Westaff <sup>a</sup>                       | 362,500 | 1,025,875  |
| Gorman-Rupp Company                               | 2,700   | 73,359    |                                            |         |            |
| <b>Sun Hydraulics</b>                             | 150,850 | 2,657,977 |                                            |         | 17,388,072 |
|                                                   |         |           |                                            |         |            |
|                                                   |         | 3,138,676 | Engineering and Construction - 1.4%        |         |            |
|                                                   |         |           | Comfort Systems USA <sup>a</sup>           | 77,000  | 492,030    |
| Specialty Chemicals and Materials - 2.6%          |         |           | Devcon International <sup>a</sup>          | 21,700  | 256,277    |
| <b>Aceto</b>                                      | 131,446 | 2,313,450 | Insituform Technologies Cl. A <sup>a</sup> | 89,000  | 1,448,030  |
| American Pacific                                  | 36,000  | 271,440   | Keith Companies <sup>a</sup>               | 10,000  | 144,000    |
| Balchem Corporation                               | 10,000  | 275,000   | Skyline Corporation                        | 32,100  | 1,304,865  |
| CFC International <sup>a</sup>                    | 136,700 | 1,053,957 |                                            |         |            |
| Eastern Company (The)                             | 61,627  | 1,029,171 |                                            |         | 3,645,202  |
| Hawkins                                           | 122,667 | 1,469,551 |                                            |         |            |
|                                                   |         |           | Food and Tobacco Processors - 0.9%         |         |            |
| NuCo2 <sup>a,c</sup>                              | 20,000  | 394,000   | ML Macadamia Orchards L.P.                 | 120,200 | 494,022    |
| Park Electrochemical                              | 10,000  | 252,500   | <b>Seneca Foods Cl. A</b> <sup>a</sup>     | 62,500  | 1,140,625  |
|                                                   |         | 7,059,069 | <b>Seneca Foods Cl. B</b> <sup>a</sup>     | 42,500  | 775,668    |
|                                                   |         |           |                                            |         |            |
| Textiles - 0.2%                                   |         |           |                                            |         | 2,410,315  |
| Fab Industries                                    | 56,400  | 192,324   | Industrial Distribution - 0.8%             |         |            |
| Tag-It Pacific <sup>a,c</sup>                     | 67,000  | 289,440   | Central Steel & Wire                       | 1,200   | 570,000    |
|                                                   |         | 481,764   | Elamex <sup>a</sup>                        | 70,200  | 151,632    |
|                                                   |         |           | Lawson Products                            | 19,500  | 743,925    |
| Other Industrial Products - 2.5%                  |         |           | Strategic Distribution                     | 59,690  | 784,924    |
| Airboss of America <sup>a</sup>                   | 159,300 | 237,655   |                                            |         |            |
| <b>BHA Group Holdings</b>                         | 93,915  | 3,554,683 |                                            |         | 2,250,481  |
| EnPro Industries <sup>a,c</sup>                   | 20,000  | 459,600   | Printing - 1.6%                            |         |            |
| Maxwell Technologies <sup>a</sup>                 | 15,300  | 197,370   | Bowne & Co.                                | 66,500  | 1,054,025  |
| Myers Industries                                  | 29,342  | 413,722   | Courier Corporation                        | 15,300  | 638,622    |
| Peerless Manufacturing <sup>a</sup>               | 43,200  | 511,920   |                                            |         |            |



## ROYCE MICRO-CAP TRUST, INC.

## SCHEDULE OF INVESTMENTS

JUNE 30, 2004 (UNAUDITED)

|                                                 | SHARES  | VALUE             |                                                | SHARES  | VALUE             |
|-------------------------------------------------|---------|-------------------|------------------------------------------------|---------|-------------------|
| <b>Industrial Services (continued)</b>          |         |                   |                                                |         |                   |
| Printing (continued)                            |         |                   | Etruscan Resources <sup>a,c</sup>              | 575,900 | \$ 850,576        |
| Ennis Business Forms                            | 11,200  | \$ 218,400        | MK Resources Company <sup>a</sup>              | 516,300 | 1,342,380         |
| New England Business Service                    | 32,400  | 1,425,600         | Northern Orion Resources <sup>a</sup>          | 165,000 | 377,853           |
| Schawk Cl. A                                    | 75,700  | 1,057,529         |                                                |         |                   |
|                                                 |         | <u>4,394,176</u>  |                                                |         | <u>4,195,364</u>  |
| Transportation and Logistics - 2.2%             |         |                   | Real Estate - 0.9%                             |         |                   |
| AirNet Systems <sup>a</sup>                     | 196,000 | 878,080           | <b>HomeFed Corporation</b> <sup>a</sup>        | 69,352  | 2,340,630         |
| Forward Air <sup>a</sup>                        | 43,800  | 1,638,120         | Kennedy-Wilson <sup>a</sup>                    | 21,500  | 150,285           |
| Frontier Airlines <sup>a,c</sup>                | 27,000  | 293,760           |                                                |         |                   |
| Frozen Food Express Industries <sup>a</sup>     | 141,000 | 967,260           | Other Natural Resources - 0.2%                 |         |                   |
| Hub Group Cl. A <sup>a</sup>                    | 6,500   | 221,650           | Pope Resources L.P.                            | 33,000  | 643,500           |
| Knight Transportation <sup>a</sup>              | 28,925  | 831,015           |                                                |         |                   |
| Marten Transport <sup>a</sup>                   | 5,000   | 93,250            | <b>Total (Cost \$14,579,736)</b>               |         | <u>28,022,155</u> |
| Patriot Transportation Holding <sup>a</sup>     | 28,400  | 937,200           |                                                |         |                   |
| Vitran Corporation Cl. A <sup>a</sup>           | 5,000   | 82,250            | <b>Technology</b> $\square$ <b>23.3%</b>       |         |                   |
|                                                 |         | <u>5,942,585</u>  | Aerospace and Defense - 2.4%                   |         |                   |
| Other Industrial Services - 0.7%                |         |                   | Astronics Corporation <sup>a</sup>             | 104,000 | 560,560           |
| Landauer                                        | 21,300  | 951,258           | CPI Aerostructures <sup>a</sup>                | 62,000  | 700,600           |
| Perma-Fix Environmental Services <sup>a</sup>   | 156,000 | 279,240           | Ducommun <sup>a</sup>                          | 84,500  | 1,806,610         |
| Team <sup>a</sup>                               | 39,000  | 631,410           | Fairchild Corporation (The) Cl. A <sup>a</sup> | 76,500  | 327,420           |
|                                                 |         | <u>1,861,908</u>  | HEICO Corporation                              | 54,600  | 996,450           |
| <b>Total (Cost \$26,364,681)</b>                |         | <u>40,920,131</u> | HEICO Corporation Cl. A                        | 4,160   | 58,032            |
|                                                 |         |                   | Herley Industries <sup>a</sup>                 | 81,000  | 1,582,740         |
| <b>Natural Resources</b> $\square$ <b>10.3%</b> |         |                   | Kaman Corporation Cl. A                        | 22,500  | 314,775           |
| Energy Services - 4.6%                          |         |                   | MAIR Holdings <sup>a,c</sup>                   | 8,600   | 70,176            |
| <b>Carbo Ceramics</b>                           | 33,600  | 2,293,200         | SIFCO Industries <sup>a</sup>                  | 45,800  | 167,170           |
| Conrad Industries <sup>a</sup>                  | 98,000  | 235,200           |                                                |         |                   |
| Dril-Quip <sup>a</sup>                          | 66,500  | 1,243,550         | Components and Systems - 5.9%                  |         |                   |
| Gulf Island Fabrication                         | 59,500  | 1,286,985         | Advanced Photonix Cl. A <sup>a,c</sup>         | 267,900 | 648,318           |
|                                                 |         |                   | AlphaSmart <sup>a,c</sup>                      | 16,200  | 91,206            |
|                                                 |         |                   |                                                | 39,300  | 235,800           |
|                                                 |         |                   |                                                |         | <u>6,584,533</u>  |

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|                                                      |         |            |                                              |         |            |
|------------------------------------------------------|---------|------------|----------------------------------------------|---------|------------|
| GulfMark Offshore <sup>a</sup>                       | 70,200  | 1,107,756  | Bonso Electronics International <sup>a</sup> |         |            |
| Horizon Offshore <sup>a,c</sup>                      | 176,000 | 174,240    | CSP <sup>a</sup>                             | 127,581 | 944,099    |
| Input/Output <sup>a,c</sup>                          | 168,500 | 1,396,865  | Cable Design Technologies <sup>a</sup>       | 30,000  | 318,000    |
| Lufkin Industries                                    | 36,000  | 1,151,280  | Del Global Technologies <sup>a</sup>         | 168,279 | 429,111    |
| NATCO Group Cl. A <sup>a</sup>                       | 100,400 | 774,084    | <b>Excel Technology</b> <sup>a</sup>         | 97,900  | 3,255,175  |
| Tesco Corporation <sup>a,c</sup>                     | 25,000  | 202,250    | International DisplayWorks <sup>a,c</sup>    | 51,000  | 216,750    |
| Trican Well Service <sup>a</sup>                     | 5,000   | 156,646    | Intrusion <sup>a,c</sup>                     | 18,750  | 37,125     |
| Valley National Gases <sup>a</sup>                   | 30,100  | 307,020    | Kronos <sup>a</sup>                          | 17,375  | 715,850    |
| Veritas DGC <sup>a,c</sup>                           | 37,700  | 872,755    | Lantronix <sup>a</sup>                       | 34,500  | 43,815     |
| Willbros Group <sup>a,c</sup>                        | 79,900  | 1,204,093  | MOCON                                        | 22,600  | 192,100    |
|                                                      |         |            | Mobility Electronics <sup>a</sup>            | 1,000   | 8,420      |
|                                                      |         | 12,405,924 | Neoware Systems <sup>a,c</sup>               | 48,000  | 396,960    |
|                                                      |         |            | Newport Corporation <sup>a,c</sup>           | 45,000  | 727,650    |
| Oil and Gas - 3.1%                                   |         |            | OSI Systems <sup>a,c</sup>                   | 13,000  | 259,090    |
| <b>Bonavista Energy Trust</b>                        | 132,000 | 2,268,596  | Performance Technologies <sup>a</sup>        | 44,750  | 421,098    |
| Contango Oil & Gas Company <sup>a</sup>              | 30,000  | 199,500    | Plexus Corporation <sup>a</sup>              | 21,500  | 290,250    |
| Delta Petroleum <sup>a,c</sup>                       | 39,000  | 524,550    | Printronic <sup>a</sup>                      | 32,700  | 482,325    |
| Denbury Resources <sup>a</sup>                       | 53,800  | 1,127,110  | REMEC <sup>a</sup>                           | 166,500 | 1,052,280  |
| Evergreen Resources <sup>a</sup>                     | 25,000  | 1,010,000  | Richardson Electronics                       | 202,100 | 2,239,268  |
| Gulfport Energy <sup>a,c</sup>                       | 182,400 | 419,520    | <b>TransAct Technologies</b> <sup>a</sup>    | 78,600  | 2,485,332  |
| Nuvista Energy <sup>a</sup>                          | 121,000 | 741,019    | Zomax <sup>a</sup>                           | 86,000  | 324,220    |
| Pioneer Drilling Company <sup>a,c</sup>              | 45,000  | 345,600    |                                              |         | 15,814,242 |
| Plains Exploration & Production Company <sup>a</sup> | 24,140  | 442,969    |                                              |         |            |
| Prima Energy <sup>a</sup>                            | 18,000  | 712,260    | Distribution - 0.9%                          |         |            |
| Toreador Resources <sup>a,c</sup>                    | 67,300  | 495,328    | Agilysys                                     | 90,000  | 1,241,100  |
|                                                      |         | 8,286,452  | Bell Industries <sup>a</sup>                 | 85,700  | 257,100    |
|                                                      |         |            | Jaco Electronics <sup>a</sup>                | 31,400  | 190,912    |
| Precious Metals and Mining - 1.5%                    |         |            | Nu Horizons Electronics <sup>a</sup>         | 40,000  | 360,000    |
| Apex Silver Mines <sup>a</sup>                       | 78,100  | 1,331,605  | Pomeroy IT Solutions                         | 35,000  | 417,200    |
| Brush Engineered Materials <sup>a</sup>              | 15,500  | 292,950    |                                              |         | 2,466,312  |

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**ROYCE MICRO-CAP TRUST, INC.**

**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

|                                       | SHARES | VALUE |                         | SHARES | VALUE      |
|---------------------------------------|--------|-------|-------------------------|--------|------------|
| <b>Technology (continued)</b>         |        |       | Brooktrout <sup>a</sup> | 27,100 | \$ 292,951 |
| Internet Software and Services - 0.7% |        |       | C-COR.net <sup>a</sup>  | 5,000  | 51,450     |

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|                                             |         |            |                                                                                                 |              |             |
|---------------------------------------------|---------|------------|-------------------------------------------------------------------------------------------------|--------------|-------------|
| Inforte Corporation <sup>a</sup>            | 40,000  | \$ 403,960 | Captaris <sup>a</sup>                                                                           | 50,000       | 323,000     |
| Keynote Systems <sup>a</sup>                | 7,200   | 99,000     | Centillum Communications <sup>a</sup>                                                           | 108,000      | 413,640     |
| Lionbridge Technologies <sup>a,c</sup>      | 37,500  | 286,875    | Computer Network Technology <sup>a,c</sup>                                                      | 20,000       | 119,800     |
| LookSmart <sup>a</sup>                      | 20,000  | 43,400     | Giga-tronics <sup>a</sup>                                                                       | 3,200        | 5,920       |
| Raindance Communications <sup>a,c</sup>     | 52,000  | 108,160    | Interland <sup>a</sup>                                                                          | 2,500        | 7,025       |
| RealNetworks <sup>a</sup>                   | 65,700  | 449,388    | MetaSolv <sup>a</sup>                                                                           | 5,800        | 16,472      |
| Register.com <sup>a</sup>                   | 41,857  | 249,468    | North Pittsburgh Systems Optical Communication Products <sup>a</sup>                            | 15,700       | 314,785     |
| Stamps.com <sup>a</sup>                     | 21,200  | 216,028    | PC-Tel <sup>a</sup>                                                                             | 45,000       | 109,800     |
| Vastera <sup>a</sup>                        | 25,000  | 75,000     | Radyne ComStream <sup>a</sup>                                                                   | 28,100       | 331,580     |
|                                             |         | <hr/>      | SpectraLink Corporation                                                                         | 79,400       | 635,200     |
|                                             |         | 1,931,279  | Terremark Worldwide <sup>a,c</sup>                                                              | 57,000       | 849,300     |
| IT Services - 4.8%                          |         |            | Tollgrade Communications <sup>a</sup>                                                           | 345,000      | 293,250     |
| CIBER <sup>a</sup>                          | 207,662 | 1,706,982  | ViaSat <sup>a</sup>                                                                             | 20,000       | 212,400     |
| Computer Task Group <sup>a</sup>            | 341,100 | 1,347,345  | <b>Total</b> (Cost \$39,622,989)                                                                | 95,200       | 2,375,240   |
| <b>Covansys Corporation</b> <sup>a</sup>    | 242,500 | 2,505,025  |                                                                                                 |              | <hr/>       |
| DiamondCluster International <sup>a</sup>   | 158,100 | 1,373,889  |                                                                                                 |              | 7,879,603   |
| DynTek Cl. A <sup>a</sup>                   | 100,000 | 80,000     | <b>Total</b> (Cost \$12,742,199)                                                                |              | <hr/>       |
| Forrester Research <sup>a,c</sup>           | 105,500 | 1,967,575  |                                                                                                 |              | 63,032,942  |
| <b>Sapient Corporation</b> <sup>a,c</sup>   | 500,000 | 3,005,000  |                                                                                                 |              | <hr/>       |
| Syntel                                      | 56,800  | 940,040    |                                                                                                 |              | 13,344,496  |
| Tier Technologies Cl. B <sup>a</sup>        | 6,800   | 66,232     |                                                                                                 |              | <hr/>       |
|                                             |         | <hr/>      |                                                                                                 |              |             |
|                                             |         | 12,992,088 | <b>TOTAL COMMON STOCKS</b><br>(Cost \$181,978,791)                                              |              | <hr/>       |
|                                             |         |            |                                                                                                 |              | 282,978,216 |
| Semiconductors and Equipment - 1.5%         |         |            | <b>PREFERRED STOCKS</b> <input type="checkbox"/>                                                |              |             |
| August Technology <sup>a</sup>              | 2,000   | 25,080     | <b>0.5%</b>                                                                                     |              |             |
| Exar Corporation <sup>a</sup>               | 68,500  | 1,004,210  | Angelo and Maxie's 10.00% Conv.                                                                 | 6,991        | 16,149      |
| FSI International <sup>a</sup>              | 34,500  | 269,445    | <b>Seneca Foods Conv.</b> <sup>a</sup>                                                          | 75,409       | 1,364,903   |
| Helix Technology                            | 9,500   | 202,635    |                                                                                                 |              | <hr/>       |
| Inficon Holding ADR <sup>a,b,c</sup>        | 10,000  | 87,500     | <b>TOTAL PREFERRED STOCKS</b><br>(Cost \$957,998)                                               |              | <hr/>       |
| Intevac <sup>a</sup>                        | 85,450  | 757,942    |                                                                                                 |              | 1,381,052   |
| Monolithic System Technology <sup>a,c</sup> | 5,000   | 37,650     |                                                                                                 |              |             |
| PDF Solutions <sup>a,c</sup>                | 30,000  | 254,100    |                                                                                                 |              |             |
| Photronics <sup>a</sup>                     | 29,750  | 563,465    | <b>U.S. TREASURY OBLIGATIONS</b> <input type="checkbox"/>                                       |              |             |
| QuickLogic Corporation <sup>a</sup>         | 20,000  | 69,800     | <b>1.8%</b>                                                                                     |              |             |
| Semitool <sup>a</sup>                       | 25,500  | 288,660    | U.S. Treasury Notes 1.875%, due 9/30/04                                                         | \$ 5,000,000 | 5,006,250   |
| SIPEX Corporation <sup>a,c</sup>            | 58,000  | 330,600    |                                                                                                 |              | <hr/>       |
| White Electronic Designs <sup>a</sup>       | 10,000  | 52,400     | <b>TOTAL U.S. TREASURY OBLIGATIONS</b><br>(Cost \$5,002,167)                                    |              | <hr/>       |
|                                             |         | <hr/>      |                                                                                                 |              | 5,006,250   |
|                                             |         | 3,943,487  |                                                                                                 |              |             |
|                                             |         |            | <b>REPURCHASE AGREEMENT</b> <input type="checkbox"/>                                            |              |             |
| Software - 4.2%                             |         |            | <b>15.5%</b>                                                                                    |              |             |
| Aladdin Knowledge Systems <sup>a</sup>      | 27,300  | 449,085    | State Street Bank & Trust Company, 0.60% dated 6/30/04, due 7/1/04, maturity value \$42,146,702 |              |             |
| ANSYS <sup>a,c</sup>                        | 15,400  | 723,800    |                                                                                                 |              |             |

|                                                  |         |                   |                                                                                      |            |
|--------------------------------------------------|---------|-------------------|--------------------------------------------------------------------------------------|------------|
| Applix <sup>a</sup>                              | 20,000  | 86,200            | (collateralized by U.S. Treasury Bonds, 12.75% due 11/15/10, valued at \$42,994,494) |            |
| ILOG ADR <sup>a,b,c</sup>                        | 35,000  | 447,650           |                                                                                      |            |
| Indus International <sup>a</sup>                 | 180,200 | 378,420           | (Cost \$42,146,000)                                                                  | 42,146,000 |
| Integral Systems                                 | 59,000  | 948,720           |                                                                                      |            |
| <b>COLLATERAL RECEIVED FOR SECURITIES LOANED</b> |         |                   |                                                                                      |            |
| Intervideo <sup>a,c</sup>                        | 2,000   | 25,880            | □ 4.3%                                                                               |            |
| JDA Software Group <sup>a,c</sup>                | 59,500  | 783,615           | U.S. Treasury Bonds 5.50%-13.25% due 2/15/06-8/15/28                                 | 41,111     |
| MSC Software <sup>a,c</sup>                      | 17,700  | 158,415           | U.S. Treasury Notes 1.625%-6.75% due 8/31/04-1/15/14                                 | 35,614     |
| OpenTV Cl. A <sup>a</sup>                        | 40,333  | 83,893            | Money Market Funds State Street Navigator                                            |            |
| Peerless Systems <sup>a</sup>                    | 36,600  | 46,482            | Securities Lending Prime Portfolio                                                   | 11,495,360 |
| PLATO Learning <sup>a</sup>                      | 121,142 | 1,200,517         |                                                                                      |            |
| SCO Group (The) <sup>a,c</sup>                   | 23,500  | 137,475           |                                                                                      |            |
| SPSS <sup>a</sup>                                | 91,900  | 1,651,443         |                                                                                      |            |
| <b>Transaction Systems</b>                       |         |                   |                                                                                      |            |
| Architects Cl. A <sup>a</sup>                    | 140,100 | 3,016,353         |                                                                                      |            |
| Verity <sup>a</sup>                              | 95,000  | 1,283,450         | (Cost \$11,572,085)                                                                  | 11,572,085 |
|                                                  |         | <u>11,421,398</u> |                                                                                      |            |
| Telecommunications - 2.9%                        |         |                   |                                                                                      |            |
| Anaren <sup>a</sup>                              | 93,500  | 1,527,790         |                                                                                      |            |

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**ROYCE MICRO-CAP TRUST, INC.****SCHEDULE OF INVESTMENTS****JUNE 30, 2004 (UNAUDITED)**

|                                                              | <u>VALUE</u>          |
|--------------------------------------------------------------|-----------------------|
| <b>TOTAL INVESTMENTS</b> □ 126.6%<br>(Cost \$241,657,041)    | \$ 343,083,603        |
| <b>LIABILITIES LESS CASH AND OTHER ASSETS</b> □ (4.5)%       | (12,171,107)          |
| <b>PREFERRED STOCK</b> □ (22.1)%                             | <u>(60,000,000)</u>   |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> □ 100.0% | <u>\$ 270,912,496</u> |

- <sup>a</sup> Non-income producing.
- <sup>b</sup> American Depository Receipt.
- <sup>c</sup> A portion of these securities were on loan at June 30, 2004. Total market value of loaned securities at June 30, 2004 was \$11,297,088.
- <sup>d</sup> A security for which market quotations are no longer readily available represents 0% of net assets. This security has been valued at its fair value under procedures established by the Fund's Board of Directors.
- New additions in 2004.

**Bold indicates the Fund's largest 20 equity holdings in terms of June 30, 2004 market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$242,550,297. At June 30, 2004, net unrealized appreciation for all securities was \$100,533,306, consisting of aggregate gross unrealized appreciation of \$108,621,486 and aggregate gross unrealized depreciation of \$8,088,180. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and amortization of discount for book and tax purposes.

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

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## ROYCE MICRO-CAP TRUST, INC.

**JUNE 30, 2004**  
**(UNAUDITED)**

### STATEMENT OF ASSETS AND LIABILITIES

#### ASSETS:

|                                                                   |                |
|-------------------------------------------------------------------|----------------|
| Investments at value (including collateral on loaned securities)* | \$ 300,937,603 |
| Repurchase agreement (at cost and value)                          | 42,146,000     |
| Cash                                                              | 560            |
| Receivable for investments sold                                   | 280,322        |
| Receivable for dividends and interest                             | 131,712        |
| Prepaid expenses                                                  | 44             |

|              |             |
|--------------|-------------|
| Total Assets | 343,496,241 |
|--------------|-------------|

#### LIABILITIES:

|                                                  |            |
|--------------------------------------------------|------------|
| Payable for collateral on loaned securities      | 11,572,085 |
| Payable for investments purchased                | 517,036    |
| Payable for investment advisory fee              | 315,568    |
| Preferred dividends accrued but not yet declared | 80,000     |
| Accrued expenses                                 | 99,056     |

|                   |            |
|-------------------|------------|
| Total Liabilities | 12,583,745 |
|-------------------|------------|

#### PREFERRED STOCK:

|                                                                                                                      |            |
|----------------------------------------------------------------------------------------------------------------------|------------|
| 6.00% Cumulative Preferred Stock □ \$0.001 par value, \$25 liquidation value per share; 2,400,000 shares outstanding | 60,000,000 |
|----------------------------------------------------------------------------------------------------------------------|------------|

|                       |            |
|-----------------------|------------|
| Total Preferred Stock | 60,000,000 |
|-----------------------|------------|

|                                                     |                       |
|-----------------------------------------------------|-----------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 270,912,496</b> |
|-----------------------------------------------------|-----------------------|

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

|                                                                                                                           |                |
|---------------------------------------------------------------------------------------------------------------------------|----------------|
| Common Stock paid-in capital □ \$0.001 par value per share; 19,532,180 shares outstanding (150,000,000 shares authorized) | \$ 152,388,696 |
| Undistributed net investment income (loss)                                                                                | 2,276,672      |
| Accumulated net realized gain (loss) on investments                                                                       | 26,846,681     |
| Net unrealized appreciation (depreciation) on investments                                                                 | 101,426,562    |
| Quarterly and accrued distributions                                                                                       | (12,026,115)   |

|                                                                                    |                |
|------------------------------------------------------------------------------------|----------------|
| Net Assets applicable to Common Stockholders (net asset value per share □ \$13.87) | \$ 270,912,496 |
|------------------------------------------------------------------------------------|----------------|

|                                 |                |
|---------------------------------|----------------|
| *Investments at identified cost | \$ 199,511,041 |
|---------------------------------|----------------|

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

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**ROYCE MICRO-CAP TRUST, INC.**

**STATEMENT OF OPERATIONS**

**SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED)**

**INVESTMENT INCOME:**

|                    |    |         |
|--------------------|----|---------|
| Income:            |    |         |
| Dividends          | \$ | 750,518 |
| Interest           |    | 116,366 |
| Securities lending |    | 32,682  |

|              |  |         |
|--------------|--|---------|
| Total income |  | 899,566 |
|--------------|--|---------|

Expenses:

|                                               |  |           |
|-----------------------------------------------|--|-----------|
| Investment advisory fees                      |  | 1,841,056 |
| Custody and transfer agent fees               |  | 79,055    |
| Stockholder reports                           |  | 63,223    |
| Directors' fees                               |  | 28,277    |
| Professional fees                             |  | 20,618    |
| Administrative and office facilities expenses |  | 14,845    |
| Other expenses                                |  | 25,768    |

|                                                                                                                     |                      |
|---------------------------------------------------------------------------------------------------------------------|----------------------|
| Total expenses                                                                                                      | 2,072,842            |
| Net investment income (loss)                                                                                        | (1,173,276)          |
| <b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>                                                          |                      |
| Net realized gain (loss) on investments                                                                             | 17,489,862           |
| Net change in unrealized appreciation (depreciation) on investments                                                 | 6,428,815            |
| Net realized and unrealized gain (loss) on investments                                                              | 23,918,677           |
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS</b>                                   | <b>22,745,401</b>    |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>                                                                      | <b>(1,800,000)</b>   |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>\$ 20,945,401</b> |

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

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## ROYCE MICRO-CAP TRUST, INC.

### STATEMENT OF CHANGES IN NET ASSETS

|                                                                            | SI | Jun | (u |
|----------------------------------------------------------------------------|----|-----|----|
| <b>INVESTMENT OPERATIONS:</b>                                              |    |     |    |
| Net investment income (loss)                                               |    | \$  |    |
| Net realized gain (loss) on investments                                    |    |     | 1  |
| Net change in unrealized appreciation (depreciation) on investments        |    |     |    |
| Net increase (decrease) in net assets resulting from investment operations |    |     | 2  |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>                            |    |     |    |
| Net realized gain on investments                                           |    |     |    |
| Quarterly distributions*                                                   |    |     |    |

Total distributions to Preferred Stockholders

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

**DISTRIBUTIONS TO COMMON STOCKHOLDERS:**

Net realized gain on investments

Quarterly distributions\*

Total distributions to Common Stockholders

**CAPITAL STOCK TRANSACTIONS:**

Offering costs from issuance of Preferred Stock

Reinvestment of distributions to Common Stockholders

Total capital stock transactions

**NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

Beginning of period

End of period (including undistributed net investment income (loss) of \$2,276,672 in 2004 and \$3,449,948 in 2003)

\*To be allocated to net investment income and capital gains at year end.

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

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**ROYCE MICRO-CAP TRUST, INC.**

**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.

|                                                        | Six months ended<br>June 30, 2004<br>(unaudited) | Years ended December 31, |         |         |         |         |
|--------------------------------------------------------|--------------------------------------------------|--------------------------|---------|---------|---------|---------|
|                                                        |                                                  | 2003                     | 2002    | 2001    | 2000    | 1999    |
| <b>NET ASSET VALUE, BEGINNING OF PERIOD</b>            | \$13.33                                          | \$9.39                   | \$11.83 | \$10.14 | \$11.00 | \$10.06 |
| <b>INVESTMENT OPERATIONS:</b>                          |                                                  |                          |         |         |         |         |
| Net investment income (loss)                           | (0.06)                                           | (0.09)                   | (0.13)  | (0.05)  | 0.09    | 0.12    |
| Net realized and unrealized gain (loss) on investments | 1.24                                             | 5.28                     | (1.29)  | 2.57    | 1.23    | 1.35    |



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|                                                                                                                     |           |           |           |           |           |           |
|---------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total investment operations                                                                                         | 1.18      | 5.19      | (1.42)    | 2.52      | 1.32      | 1.47      |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>                                                                     |           |           |           |           |           |           |
| Net investment income                                                                                               | □         | □         | □         | □         | (0.01)    | (0.05)    |
| Net realized gain on investments                                                                                    | □         | (0.18)    | (0.18)    | (0.19)    | (0.22)    | (0.18)    |
| Quarterly distributions*                                                                                            | (0.09)    | □         | □         | □         | □         | □         |
| Total distributions to Preferred Stockholders                                                                       | (0.09)    | (0.18)    | (0.18)    | (0.19)    | (0.23)    | (0.23)    |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> |           |           |           |           |           |           |
|                                                                                                                     | 1.09      | 5.01      | (1.60)    | 2.33      | 1.09      | 1.24      |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>                                                                        |           |           |           |           |           |           |
| Net investment income                                                                                               | □         | □         | □         | □         | (0.09)    | (0.06)    |
| Net realized gain on investments                                                                                    | □         | (0.92)    | (0.80)    | (0.57)    | (1.63)    | (0.21)    |
| Quarterly distributions*                                                                                            | (0.53)    | □         | □         | □         | □         | □         |
| Total distributions to Common Stockholders                                                                          | (0.53)    | (0.92)    | (0.80)    | (0.57)    | (1.72)    | (0.27)    |
| <b>CAPITAL STOCK TRANSACTIONS:</b>                                                                                  |           |           |           |           |           |           |
| Effect of Preferred Stock Offering                                                                                  | □         | (0.11)    | □         | □         | □         | □         |
| Effect of reinvestment of distributions by Common Stockholders                                                      | (0.02)    | (0.04)    | (0.04)    | (0.07)    | (0.23)    | (0.03)    |
| Total capital stock transactions                                                                                    | (0.02)    | (0.15)    | (0.04)    | (0.07)    | (0.23)    | (0.03)    |
| <b>NET ASSET VALUE, END OF PERIOD</b>                                                                               |           |           |           |           |           |           |
|                                                                                                                     | \$13.87   | \$13.33   | \$9.39    | \$11.83   | \$10.14   | \$11.00   |
| <b>MARKET VALUE, END OF PERIOD</b>                                                                                  |           |           |           |           |           |           |
|                                                                                                                     | \$13.40   | \$12.60   | \$8.44    | \$10.50   | \$8.625   | \$9.00    |
| <b>TOTAL RETURN (a):</b>                                                                                            |           |           |           |           |           |           |
| Market Value                                                                                                        | 10.8%***  | 63.6%     | (12.7)%   | 28.8%     | 15.3%     | 4.5%      |
| Net Asset Value                                                                                                     | 8.4%***   | 55.6%     | (13.8)%   | 23.4%     | 10.9%     | 12.7%     |
| <b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>                                        |           |           |           |           |           |           |
| Total expenses (b,c)                                                                                                | 1.56%**   | 1.82%     | 1.96%     | 1.78%     | 1.32%     | 1.27%     |
| Management fee expense                                                                                              | 1.39%**   | 1.59%     | 1.59%     | 1.57%     | 1.08%     | 0.91%     |
| Other operating expenses                                                                                            | 0.17%**   | 0.23%     | 0.37%     | 0.21%     | 0.24%     | 0.36%     |
| Net investment income (loss)                                                                                        | (0.89)%** | (0.82)%   | (1.23)%   | (0.43)%   | 0.74%     | 1.20%     |
| <b>SUPPLEMENTAL DATA:</b>                                                                                           |           |           |           |           |           |           |
| Net Assets Applicable to Common Stockholders,                                                                       |           |           |           |           |           |           |
| End of Period (in thousands)                                                                                        | \$270,912 | \$253,425 | \$167,571 | \$200,443 | \$163,820 | \$151,269 |
| Liquidation Value of Preferred Stock, End of Period (in thousands)                                                  | \$60,000  | \$60,000  | \$40,000  | \$40,000  | \$40,000  | \$40,000  |
| Portfolio Turnover Rate                                                                                             | 16%       | 26%       | 39%       | 27%       | 49%       | 49%       |
| <b>PREFERRED STOCK:</b>                                                                                             |           |           |           |           |           |           |
| Total shares outstanding                                                                                            | 2,400,000 | 2,400,000 | 1,600,000 | 1,600,000 | 1,600,000 | 1,600,000 |
| Asset coverage per share                                                                                            | \$137.88  | \$130.59  | \$129.73  | \$150.28  | \$127.39  | \$119.54  |
| Liquidation preference per share                                                                                    | \$25.00   | \$25.00   | \$25.00   | \$25.00   | \$25.00   | \$25.00   |
| Average market value per share (d):                                                                                 |           |           |           |           |           |           |
| 6.00% Cumulative                                                                                                    | \$24.62   | \$25.37   | □         | □         | □         | □         |
| 7.75% Cumulative                                                                                                    | □         | \$25.70   | \$25.91   | \$25.30   | \$23.08   | \$24.67   |

- (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 1.28%, 1.49%, 1.62%, 1.46%, 1.06% and 0.98% for the periods ended June 30, 2004 and December 31, 2003, 2002, 2001, 2000 and 1999, 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%, 1.81% and 1.44% for the periods ended December 31, 2003, 2002, 2001 and 1999, respectively.
- (d) The average of month-end market values during the period that the preferred stock was outstanding.

\* To be allocated to net investment income and capital gains at year end.

\*\* Annualized.

\*\*\* Not annualized.

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## ROYCE MICRO-CAP TRUST, INC.

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### NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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#### 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 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 the 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 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.

**Repurchase Agreements:**

The Fund enters into repurchase agreements with respect to its portfolio securities solely with State Street Bank and Trust Company ("SSB&T"), the custodian of its assets. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held by SSB&T 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 SSB&T, including possible delays or restrictions upon the ability of the Fund to dispose of the underlying securities.

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**ROYCE MICRO-CAP TRUST, INC.**

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**NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

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**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 is invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities.

**Capital Stock:**

The Fund issued 516,840 and 1,173,282 shares of Common Stock as reinvestment of distributions by Common Stockholders for the six months ended June 30, 2004 and the year ended December 31, 2003, respectively.

On October 20, 2003, the Fund redeemed all (1,600,000 shares) of its then outstanding 7.75% Cumulative Preferred Stock at the redemption price of \$25.00 per share, plus accumulated and unpaid dividends through the redemption date of \$0.15069 per share. On October 16, 2003, the Fund received net proceeds of \$58,110,000 (after underwriting discounts of \$1,890,000 and before estimated offering expenses of \$207,350) from the public offering of 2,400,000 shares of 6.00% Cumulative Preferred Stock. Commencing October 16, 2008 and thereafter, the Fund, at its option, may redeem the 6.00% Cumulative Preferred Stock, in whole or in part, at the redemption price.

At June 30, 2004, 2,400,000 shares of the 6.00% Cumulative Preferred Stock were outstanding. 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 Preferred Stock.

Under Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities, preferred securities that are redeemable for cash or other assets are 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. Subject to the guidance of the EITF, the Fund's Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements.

**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.

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 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 dividend rate.

For the six months ended June 30, 2004 the Fund accrued and paid Royce advisory fees totaling \$1,841,056.

**Purchases and Sales of Investment Securities:**

For the six months ended June 30, 2004, the cost of purchases and proceeds from sales of investment securities, other than short-term securities, amounted to \$44,735,404 and \$45,266,499, respectively.

**ROYCE FOCUS TRUST, INC.**

**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

**COMMON STOCKS □ 93.6%**

|                                    | SHARES  | VALUE      |                                           | SHARES  | VALUE        |
|------------------------------------|---------|------------|-------------------------------------------|---------|--------------|
| <b>Consumer Products □ 6.7%</b>    |         |            | Construction Materials - 3.0%             |         |              |
| Sports and Recreation - 3.4%       |         |            | <b>Florida Rock Industries</b>            | 67,500  | \$ 2,846,475 |
| Callaway Golf Company              | 75,000  | \$ 850,500 |                                           |         |              |
| <b>Winnebago Industries</b>        | 65,000  | 2,423,200  | Machinery - 7.0%                          |         |              |
|                                    |         | 3,273,700  | <b>Lincoln Electric Holdings</b>          | 75,000  | 2,556,750    |
|                                    |         |            | <b>Pason Systems</b>                      | 100,000 | 2,312,397    |
| Other Consumer Products - 3.3%     |         |            | Woodward Governor Company                 | 24,400  | 1,759,484    |
| Matthews International Cl. A       | 42,500  | 1,399,950  |                                           |         |              |
| Yankee Candle Company <sup>a</sup> | 60,000  | 1,755,000  |                                           |         |              |
|                                    |         | 3,154,950  | Metal Fabrication and Distribution - 5.9% |         |              |
|                                    |         |            | <b>IPSCO</b>                              | 100,000 | 2,253,000    |
|                                    |         |            | <b>Schnitzer Steel Industries Cl. A</b>   | 100,000 | 3,396,000    |
| <b>Total (Cost \$3,984,719)</b>    |         | 6,428,650  |                                           |         |              |
|                                    |         |            | <b>Total (Cost \$11,055,899)</b>          |         | 19,052,506   |
| <b>Consumer Services □ 4.5%</b>    |         |            |                                           |         |              |
| Direct Marketing - 3.2%            |         |            | <b>Industrial Services □ 7.0%</b>         |         |              |
| <b>Nu Skin Enterprises Cl. A</b>   | 119,900 | 3,035,868  | Commercial Services - 3.4%                |         |              |
|                                    |         |            | Carlisle Holdings <sup>a,b</sup>          | 300,000 | 1,977,000    |
| Retail Stores - 1.3%               |         |            | West Corporation <sup>a</sup>             | 50,000  | 1,307,500    |
| Big Lots <sup>a</sup>              | 89,400  | 1,292,724  |                                           |         |              |

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|                                                   |         |           |  |                                          |                   |
|---------------------------------------------------|---------|-----------|--|------------------------------------------|-------------------|
| <b>Total</b> (Cost \$1,899,181)                   |         | 4,328,592 |  |                                          |                   |
|                                                   |         |           |  |                                          | 3,284,500         |
| <b>Financial Intermediaries</b> □<br><b>10.3%</b> |         |           |  |                                          |                   |
| Insurance - 8.1%                                  |         |           |  | Engineering and Construction - 2.4%      |                   |
| <b>Alleghany Corporation</b> <sup>a</sup>         | 12,546  | 3,600,702 |  | <b>Dycom Industries</b> <sup>a</sup>     | 80,000 2,240,000  |
| ProAssurance Corporation <sup>a</sup>             | 47,155  | 1,608,457 |  |                                          |                   |
| White Mountains Insurance Group                   | 3,000   | 1,530,000 |  | Industrial Distribution - 1.2%           |                   |
| Zenith National Insurance                         | 20,000  | 972,000   |  | Ritchie Bros. Auctioneers                | 40,000 1,164,400  |
|                                                   |         |           |  |                                          |                   |
|                                                   |         | 7,711,159 |  | <b>Total</b> (Cost \$3,197,443)          | 6,688,900         |
| Other Financial Intermediaries - 2.2%             |         |           |  |                                          |                   |
| <b>TSX Group</b>                                  | 60,300  | 2,141,041 |  | <b>Natural Resources</b> □ <b>19.1%</b>  |                   |
|                                                   |         |           |  | Energy Services - 9.4%                   |                   |
| <b>Total</b> (Cost \$4,756,081)                   |         | 9,852,200 |  | <b>Ensign Resource Service Group</b>     | 150,000 2,370,953 |
|                                                   |         |           |  | <b>Input/Output</b> <sup>a</sup>         | 350,000 2,901,500 |
| <b>Financial Services</b> □ <b>5.6%</b>           |         |           |  | Tesco Corporation <sup>a</sup>           | 150,000 1,213,500 |
| Information and Processing - 2.8%                 |         |           |  | <b>Trican Well Service</b> <sup>a</sup>  | 80,000 2,506,341  |
| <b>eFunds Corporation</b> <sup>a</sup>            | 150,000 | 2,625,000 |  |                                          |                   |
|                                                   |         |           |  |                                          |                   |
| Investment Management - 2.8%                      |         |           |  | Precious Metals and Mining - 9.7%        |                   |
| Gabelli Asset Management Cl. A                    | 35,000  | 1,487,500 |  | <b>Glamis Gold</b> <sup>a</sup>          | 180,000 3,155,400 |
| U.S. Global Investors Cl. A <sup>a</sup>          | 345,605 | 1,226,898 |  | <b>Goldcorp</b>                          | 180,000 2,100,600 |
|                                                   |         |           |  | <b>Hecla Mining Company</b> <sup>a</sup> | 400,000 2,280,000 |
|                                                   |         | 2,714,398 |  | Meridian Gold <sup>a</sup>               | 130,000 1,686,100 |
| <b>Total</b> (Cost \$4,222,827)                   |         | 5,339,398 |  |                                          |                   |
|                                                   |         |           |  | <b>Total</b> (Cost \$14,675,855)         | 18,214,394        |
| <b>Health</b> □ <b>14.2%</b>                      |         |           |  | <b>Technology</b> □ <b>6.2%</b>          |                   |
| Commercial Services - 3.2%                        |         |           |  | Components and Systems - 1.4%            |                   |
| <b>Bruker BioSciences</b> <sup>a</sup>            | 635,000 | 3,092,450 |  | Richardson Electronics                   | 120,000 1,329,600 |
|                                                   |         |           |  |                                          |                   |
| Drugs and Biotech - 7.1%                          |         |           |  | IT Services - 0.9%                       |                   |
| Endo Pharmaceuticals Holdings <sup>a</sup>        | 75,000  | 1,758,750 |  | Syntel                                   | 50,000 827,500    |
| <b>Lexicon Genetics</b> <sup>a</sup>              | 300,000 | 2,352,000 |  |                                          |                   |
| Myriad Genetics <sup>a</sup>                      | 60,000  | 895,200   |  | Semiconductors and Equipment - 1.8%      |                   |
| Orchid BioSciences <sup>a,b</sup>                 | 150,000 | 1,155,000 |  | <b>CEVA</b> <sup>a</sup>                 | 124,200 982,422   |
|                                                   |         |           |  | Exar Corporation <sup>a</sup>            | 50,000 733,000    |
| VIVUS <sup>a,b</sup>                              | 170,800 | 621,712   |  |                                          |                   |
|                                                   |         | 6,782,662 |  |                                          |                   |
| Medical Products and Devices - 1.9%               |         |           |  |                                          |                   |
| Arrow International                               | 60,000  | 1,795,200 |  | Software - 2.1%                          | 1,715,422         |

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|                                                   |        |                   |                                                   |         |                   |
|---------------------------------------------------|--------|-------------------|---------------------------------------------------|---------|-------------------|
| Personal Care - 2.0%                              |        |                   | PLATO Learning <sup>a</sup>                       | 100,000 | 991,000           |
| Ocular Sciences <sup>a</sup>                      | 50,000 | 1,900,000         | Transaction Systems Architects Cl. A <sup>a</sup> | 50,000  | 1,076,500         |
| <b>Total</b> (Cost \$10,811,955)                  |        | <u>13,570,312</u> |                                                   |         | <u>2,067,500</u>  |
| <b>Industrial Products</b> $\square$ <b>20.0%</b> |        |                   | <b>Total</b> (Cost \$4,014,304)                   |         | <u>5,940,022</u>  |
| Building Systems and Components - 4.1%            |        |                   |                                                   |         |                   |
| <b>Simpson Manufacturing</b>                      | 70,000 | 3,928,400         | <b>TOTAL COMMON STOCKS</b>                        |         |                   |
|                                                   |        | <u></u>           | (Cost \$58,618,264)                               |         | <u>89,414,974</u> |

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**ROYCE FOCUS TRUST, INC.**

**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2004 (UNAUDITED)**

|                                                  | PRINCIPAL<br>AMOUNT | VALUE            |                                                                                                              | VALUE            |
|--------------------------------------------------|---------------------|------------------|--------------------------------------------------------------------------------------------------------------|------------------|
| <b>CORPORATE BONDS</b> $\square$ <b>3.2%</b>     |                     |                  | <b>REPURCHASE AGREEMENT</b> $\square$ <b>6.2%</b>                                                            |                  |
| E*TRADE Financial 6.00%                          |                     |                  | State Street Bank & Trust Company                                                                            |                  |
| Conv. Sub. Note due 2/1/07                       | \$ 3,000,000        | \$ 3,060,000     | 0.60% dated 6/30/04, due 7/1/04,                                                                             |                  |
| <b>TOTAL CORPORATE BONDS</b>                     |                     | <u>3,060,000</u> | maturity value \$5,910,099 (collateralized by U.S. Treasury Bonds, 7.25% due 5/15/16, valued at \$6,030,635) |                  |
| (Cost \$2,402,466)                               |                     |                  | (Cost \$5,910,000)                                                                                           | \$ 5,910,000     |
| <b>GOVERNMENT BONDS</b> $\square$ <b>6.7%</b>    |                     |                  | <b>COLLATERAL RECEIVED FOR SECURITIES LOANED</b> $\square$ <b>1.4%</b>                                       |                  |
| (Principal Amount shown in New Zealand dollars.) |                     |                  | Money Market Funds                                                                                           |                  |
| New Zealand 6.50%, due 2/15/06                   | 10,000,000          | 6,365,454        | State Street Navigator Securities Lending                                                                    |                  |
| <b>TOTAL GOVERNMENT BONDS</b>                    |                     | <u>6,365,454</u> | Prime Portfolio                                                                                              |                  |
| (Cost \$5,908,069)                               |                     |                  | (Cost \$1,328,990)                                                                                           | <u>1,328,990</u> |
|                                                  |                     | <u></u>          | <b>TOTAL INVESTMENTS</b> $\square$ <b>126.6%</b>                                                             |                  |

|                                                 |            |            |                                                       |                      |
|-------------------------------------------------|------------|------------|-------------------------------------------------------|----------------------|
| <b>U.S. TREASURY OBLIGATIONS</b> □ <b>15.5%</b> |            |            | (Cost \$89,151,005)                                   | 120,934,498          |
| U.S. Treasury Notes                             |            |            | <b>LIABILITIES LESS CASH AND OTHER ASSETS</b> □       |                      |
| 7.25%, due 8/15/04                              | 5,000,000  | 5,036,720  | <b>(0.4)%</b>                                         | (394,513)            |
| 1.50%, due 3/31/06                              | 10,000,000 | 9,818,360  | <b>PREFERRED STOCK</b> □                              |                      |
|                                                 |            |            | <b>(26.2)%</b>                                        | (25,000,000)         |
| <b>TOTAL U.S. TREASURY OBLIGATIONS</b>          |            |            | <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> □ |                      |
| (Cost \$14,983,216)                             |            | 14,855,080 | <b>100.0%</b>                                         | <b>\$ 95,539,985</b> |

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

<sup>b</sup> A portion of these securities were on loan at June 30, 2004. Total market value of loaned securities at June 30, 2004 was \$1,319,413.

□ New additions in 2004.

**Bold indicates the Fund's largest 20 equity holdings in terms of June 30, 2004 market value.**

**INCOME TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$89,482,397. At June 30, 2004, net unrealized appreciation for all securities was \$31,452,101, consisting of aggregate gross unrealized appreciation of \$31,843,050 and aggregate gross unrealized depreciation of \$390,949. The primary differences in book and tax basis cost is the timing of the recognition of losses on securities sold and amortization of discount for book and tax purposes.

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

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## ROYCE FOCUS TRUST, INC.

|                                                                   |                      |
|-------------------------------------------------------------------|----------------------|
|                                                                   | <b>JUNE 30, 2004</b> |
| <b>STATEMENT OF ASSETS AND LIABILITIES</b>                        | <b>(UNAUDITED)</b>   |
| <b>ASSETS:</b>                                                    |                      |
| Investments at value (including collateral on loaned securities)* | \$ 115,024,498       |
| Repurchase agreement (at cost and value)                          | 5,910,000            |
| Cash                                                              | 440                  |
| Receivable for investments sold                                   | 668,309              |
| Receivable for dividends and interest                             | 448,743              |
| Prepaid expenses                                                  | 736                  |
| <b>Total Assets</b>                                               | <b>122,052,726</b>   |
| <b>LIABILITIES:</b>                                               |                      |
| Payable for collateral on loaned securities                       | 1,328,990            |
| Payable for investment advisory fee                               | 96,456               |



|                                                  |        |
|--------------------------------------------------|--------|
| Preferred dividends accrued but not yet declared | 33,333 |
| Accrued expenses                                 | 53,962 |

|                   |           |
|-------------------|-----------|
| Total Liabilities | 1,512,741 |
|-------------------|-----------|

**PREFERRED STOCK:**

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

|                       |            |
|-----------------------|------------|
| Total Preferred Stock | 25,000,000 |
|-----------------------|------------|

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**

\$ 95,539,985

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

|                                                                                                                          |               |
|--------------------------------------------------------------------------------------------------------------------------|---------------|
| Common Stock paid-in capital □ \$0.001 par value per share; 9,828,631 shares outstanding (100,000,000 shares authorized) | \$ 49,668,899 |
| Undistributed net investment income (loss)                                                                               | 104,221       |
| Accumulated net realized gain (loss) on investments                                                                      | 16,806,005    |
| Net unrealized appreciation (depreciation) on investments                                                                | 31,783,493    |
| Quarterly and accrued distributions                                                                                      | (2,822,633)   |

|                                                                                   |               |
|-----------------------------------------------------------------------------------|---------------|
| Net Assets applicable to Common Stockholders (net asset value per share □ \$9.72) | \$ 95,539,985 |
|-----------------------------------------------------------------------------------|---------------|

|                                 |               |
|---------------------------------|---------------|
| *Investments at identified cost | \$ 83,241,005 |
|---------------------------------|---------------|

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

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**ROYCE FOCUS TRUST, INC.****STATEMENT OF OPERATIONS****SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED)****INVESTMENT INCOME:**

|                    |            |
|--------------------|------------|
| Income:            |            |
| Interest           | \$ 569,364 |
| Dividends          | 239,186    |
| Securities lending | 2,590      |

|              |         |
|--------------|---------|
| Total income | 811,140 |
|--------------|---------|

|                                                                                                                     |                     |
|---------------------------------------------------------------------------------------------------------------------|---------------------|
| Expenses:                                                                                                           |                     |
| Investment advisory fees                                                                                            | 582,431             |
| Custody and transfer agent fees                                                                                     | 41,500              |
| Stockholder reports                                                                                                 | 27,597              |
| Professional fees                                                                                                   | 17,790              |
| Directors' fees                                                                                                     | 10,232              |
| Administrative and office facilities expenses                                                                       | 5,333               |
| Other expenses                                                                                                      | 22,036              |
| <b>Total expenses</b>                                                                                               | <b>706,919</b>      |
| <b>Net investment income (loss)</b>                                                                                 | <b>104,221</b>      |
| <b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>                                                          |                     |
| Net realized gain (loss) on investments                                                                             | 13,954,356          |
| Net change in unrealized appreciation (depreciation) on investments                                                 | (4,105,089)         |
| <b>Net realized and unrealized gain (loss) on investments</b>                                                       | <b>9,849,267</b>    |
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM INVESTMENT OPERATIONS</b>                                   | <b>9,953,488</b>    |
| <b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>                                                                      | <b>(750,000)</b>    |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>\$ 9,203,488</b> |

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

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## ROYCE FOCUS TRUST, INC.

### STATEMENTS OF CHANGES IN NET ASSETS

|                               | Six months ended<br>June 30, 2004<br>(unaudited) | Year ended<br>December 31,<br>2003 |
|-------------------------------|--------------------------------------------------|------------------------------------|
| <b>INVESTMENT OPERATIONS:</b> |                                                  |                                    |
| Net investment income (loss)  | \$ 104,221<br>13,954,356                         | \$ 735,458<br>8,288,351            |

|                                                                     |             |            |
|---------------------------------------------------------------------|-------------|------------|
| Net realized gain (loss) on investments                             |             |            |
| Net change in unrealized appreciation (depreciation) on investments | (4,105,089) | 24,687,435 |

|                                                                            |           |            |
|----------------------------------------------------------------------------|-----------|------------|
| Net increase (decrease) in net assets resulting from investment operations | 9,953,488 | 33,711,244 |
|----------------------------------------------------------------------------|-----------|------------|

**DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:**

|                                  |           |             |
|----------------------------------|-----------|-------------|
| Net investment income            | □         | (153,283)   |
| Net realized gain on investments | □         | (1,355,105) |
| Quarterly distributions*         | (750,000) | (221)       |

|                                               |           |             |
|-----------------------------------------------|-----------|-------------|
| Total distributions to Preferred Stockholders | (750,000) | (1,508,609) |
|-----------------------------------------------|-----------|-------------|

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

|  |           |            |
|--|-----------|------------|
|  | 9,203,488 | 32,202,635 |
|--|-----------|------------|

**DISTRIBUTIONS TO COMMON STOCKHOLDERS:**

|                                  |             |             |
|----------------------------------|-------------|-------------|
| Net investment income            | □           | (582,175)   |
| Net realized gain on investments | □           | (5,147,260) |
| Quarterly distributions*         | (2,039,300) | □           |

|                                            |             |             |
|--------------------------------------------|-------------|-------------|
| Total distributions to Common Stockholders | (2,039,300) | (5,729,435) |
|--------------------------------------------|-------------|-------------|

**CAPITAL STOCK TRANSACTIONS:**

|                                                      |           |           |
|------------------------------------------------------|-----------|-----------|
| Offering costs from issuance of Preferred Stock      | □         | (984,000) |
| Reinvestment of distributions to Common Stockholders | 1,363,719 | 3,566,912 |

|                                  |           |           |
|----------------------------------|-----------|-----------|
| Total capital stock transactions | 1,363,719 | 2,582,912 |
|----------------------------------|-----------|-----------|

|                                                                   |           |            |
|-------------------------------------------------------------------|-----------|------------|
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON</b> | 8,527,907 | 29,056,112 |
|-------------------------------------------------------------------|-----------|------------|

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

|                                                                                         |               |               |
|-----------------------------------------------------------------------------------------|---------------|---------------|
| Beginning of period                                                                     | 87,012,078    | 57,955,966    |
| End of period<br>(including net<br>investment income<br>(loss) of \$104,221 in<br>2004) | \$ 95,539,985 | \$ 87,012,078 |

\*To be allocated to net investment income and capital gains at year end.

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

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**ROYCE FOCUS TRUST, INC.**
**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.

|                                                              | Six months ended<br>June 30, 2004<br>(unaudited) | Years ended December 31, |         |         |         |         |
|--------------------------------------------------------------|--------------------------------------------------|--------------------------|---------|---------|---------|---------|
|                                                              |                                                  | 2003                     | 2002    | 2001    | 2000    | 1999    |
| <b>NET ASSET VALUE,<br/>BEGINNING OF<br/>PERIOD</b>          | \$ 9.00                                          | \$ 6.27                  | \$ 7.28 | \$ 6.77 | \$ 5.94 | \$ 5.63 |
| <b>INVESTMENT<br/>OPERATIONS:</b>                            |                                                  |                          |         |         |         |         |
| Net investment income<br>(loss)                              | 0.01                                             | 0.08                     | (0.01)  | 0.05    | 0.12    | 0.08    |
| Net realized and<br>unrealized gain (loss)<br>on investments | 1.01                                             | 3.57                     | (0.74)  | 0.79    | 1.26    | 0.58    |
| Total investment<br>operations                               | 1.02                                             | 3.65                     | (0.75)  | 0.84    | 1.38    | 0.66    |
| <b>DISTRIBUTIONS TO<br/>PREFERRED<br/>STOCKHOLDERS:</b>      |                                                  |                          |         |         |         |         |

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|                                                                                                                     |                |                |                |                |                |                |
|---------------------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net investment income                                                                                               | □              | (0.02)         | (0.03)         | (0.04)         | (0.03)         | (0.01)         |
| Net realized gain on investments                                                                                    | □              | (0.14)         | (0.13)         | (0.13)         | (0.14)         | (0.17)         |
| Quarterly distributions*                                                                                            | (0.08)         | □              | □              | □              | □              | □              |
| <b>Total distributions to Preferred Stockholders</b>                                                                | <b>(0.08)</b>  | <b>(0.16)</b>  | <b>(0.16)</b>  | <b>(0.17)</b>  | <b>(0.17)</b>  | <b>(0.18)</b>  |
| <b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM INVESTMENT OPERATIONS</b> | <b>0.94</b>    | <b>3.49</b>    | <b>(0.91)</b>  | <b>0.67</b>    | <b>1.21</b>    | <b>0.48</b>    |
| <b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>                                                                        |                |                |                |                |                |                |
| Net investment income                                                                                               | □              | (0.06)         | (0.02)         | (0.03)         | (0.06)         | (0.01)         |
| Net realized gain on investments                                                                                    | □              | (0.56)         | (0.07)         | (0.11)         | (0.28)         | (0.14)         |
| Quarterly distributions*                                                                                            | (0.21)         | □              | □              | □              | □              | □              |
| <b>Total distributions to Common Stockholders</b>                                                                   | <b>(0.21)</b>  | <b>(0.62)</b>  | <b>(0.09)</b>  | <b>(0.14)</b>  | <b>(0.34)</b>  | <b>(0.15)</b>  |
| <b>CAPITAL STOCK TRANSACTIONS:</b>                                                                                  |                |                |                |                |                |                |
| Effect of Preferred Stock Offering                                                                                  | □              | (0.11)         | □              | □              | □              | □              |
| Effect of reinvestment of distributions by Common Stockholders                                                      | (0.01)         | (0.03)         | (0.01)         | (0.02)         | (0.04)         | (0.02)         |
| <b>Total capital stock transactions</b>                                                                             | <b>(0.01)</b>  | <b>(0.14)</b>  | <b>(0.01)</b>  | <b>(0.02)</b>  | <b>(0.04)</b>  | <b>(0.02)</b>  |
| <b>NET ASSET VALUE, END OF PERIOD</b>                                                                               | <b>\$ 9.72</b> | <b>\$ 9.00</b> | <b>\$ 6.27</b> | <b>\$ 7.28</b> | <b>\$ 6.77</b> | <b>\$ 5.94</b> |
| <b>MARKET VALUE, END OF PERIOD</b>                                                                                  | <b>\$ 8.71</b> | <b>\$ 8.48</b> | <b>\$ 5.56</b> | <b>\$ 6.65</b> | <b>\$ 5.69</b> | <b>\$ 4.72</b> |
| <b>TOTAL RETURN (a):</b>                                                                                            |                |                |                |                |                |                |
| Market Value                                                                                                        | 5.2%***        | 64.0%          | (15.1)%        | 19.7%          | 27.9%          | (0.3)%         |
| Net Asset Value                                                                                                     | 10.6%***       | 54.3%          | (12.5)%        | 10.0%          | 20.9%          | 8.7%           |
| <b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>                                        |                |                |                |                |                |                |
| Total expenses (b,c)                                                                                                | 1.54%**        | 1.57%          | 1.88%          | 1.47%          | 1.44%          | 1.51%          |
| Management fee expense                                                                                              | 1.27%**        | 1.14%          | 1.13%          | 1.11%          | 1.00%          | 1.00%          |
| Other operating expenses                                                                                            | 0.27%**        | 0.43%          | 0.75%          | 0.36%          | 0.44%          | 0.51%          |
| Net investment income (loss)                                                                                        | 0.23%**        | 1.07%          | (0.16)%        | 0.70%          | 1.93%          | 1.47%          |
| <b>SUPPLEMENTAL DATA:</b>                                                                                           |                |                |                |                |                |                |
| Net Assets Applicable to Common Stockholders,                                                                       | \$ 95,540      | \$ 87,012      | \$ 57,956      | \$ 66,654      | \$ 60,933      | \$ 51,003      |

|                                                                    |           |           |           |           |           |           |
|--------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| End of Period (in thousands)                                       |           |           |           |           |           |           |
| Liquidation Value of Preferred Stock, End of Period (in thousands) | \$ 25,000 | \$ 25,000 | \$ 20,000 | \$ 20,000 | \$ 20,000 | \$ 20,000 |
| Portfolio Turnover Rate                                            | 24%       | 49%       | 61%       | 54%       | 69%       | 60%       |
| <b>PREFERRED STOCK:</b>                                            |           |           |           |           |           |           |
| Total shares outstanding                                           | 1,000,000 | 1,000,000 | 800,000   | 800,000   | 800,000   | 800,000   |
| Asset coverage per share                                           | \$ 120.54 | \$ 112.01 | \$ 97.44  | \$ 108.32 | \$ 101.17 | \$ 88.75  |
| Liquidation preference per share                                   | \$ 25.00  | \$ 25.00  | \$ 25.00  | \$ 25.00  | \$ 25.00  | \$ 25.00  |
| Average market value per share (d):                                |           |           |           |           |           |           |
| 6.00% Cumulative                                                   | \$ 24.86  | \$ 25.45  | \$ 25.64  | \$ 25.09  | \$ 22.23  | \$ 24.00  |
| 7.45% Cumulative                                                   |           |           |           |           |           |           |

(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 1.21%, 1.20%, 1.43%, 1.11%, 1.05% and 1.06% for the periods ended June 30, 2004 and December 31, 2003, 2002, 2001, 2000 and 1999, 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%, 1.69%, 1.81% and 1.93%, for the periods ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively.

(d) The average of month-end market values during the period that the preferred stock was outstanding.

\* To be allocated to net investment income and capital gains at year end.

\*\* Annualized.

\*\*\* Not annualized.

## ROYCE FOCUS TRUST, INC.

### NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

#### 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 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 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 the 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 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 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 enters into repurchase agreements with respect to its portfolio securities solely with State Street Bank and Trust Company ("SSB&T"), the custodian of its assets. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held by SSB&T 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 SSB&T, including possible delays or restrictions upon the ability of the Fund to dispose of the underlying securities.

**ROYCE FOCUS TRUST, INC.****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)****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 is invested temporarily by the custodian. The collateral is equal to at least 100% of the current market value of the loaned securities.

**Capital Stock:**

The Fund issued 155,253 and 432,353 shares of Common Stock as reinvestment of distributions by Common Stockholders for the six months ended June 30, 2004 and the year ended December 31, 2003, respectively.

On October 20, 2003, the Fund redeemed all (800,000 shares) of its then outstanding 7.45% Cumulative Preferred Stock at the redemption price of \$25.00 per share, plus accumulated and unpaid dividends through the redemption date of \$0.14486 per share. On October 17, 2003, the Fund received net proceeds of \$24,212,500 (after underwriting discounts of \$787,500 and before estimated offering expenses of \$196,500) from the public offering of 1,000,000 shares of 6.00% Cumulative Preferred Stock. Commencing October 17, 2008 and thereafter, the Fund, at its option, may redeem the 6.00% Cumulative Preferred Stock, in whole or in part, at the redemption price.

At June 30, 2004, 1,000,000 shares of the 6.00% Cumulative Preferred Stock were outstanding. 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 Preferred Stock.

Under Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities, preferred securities that are redeemable for cash or other assets are 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. Subject to the guidance of the EITF, the Fund's Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements.



### 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 dividend rate.

For the six months ended June 30, 2004 the Fund accrued and paid Royce advisory fees totaling \$582,431.

### Purchases and Sales of Investment Securities:

For the six months ended June 30, 2004, the cost of purchases and proceeds from sales of investment securities, other than short-term securities, amounted to \$31,135,525 and \$25,121,300, respectively.

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## POSTSCRIPT

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### □WHAT DOES IT TAKE... TO BE THE BEST?□

We hear this question a lot, usually in the dramatic, reverential tone of television commercial voiceovers touting everything from cars, Olympic athletes, laundry detergent, chocolate bars, even mutual fund companies. The question, which is almost never answered directly, is followed by the recitation of words such as □commitment... discipline... honesty... integrity,□ etc. It's always a stirring presentation, with beautifully filmed images designed to evoke a given company's ceaseless devotion to excellence.

The financial press has its own go at the same idea. Each year, various media outlets provide lists of □The Best Funds for the Current Bull/Bear Market,□ □10 Funds to Help You Thrive in 2005's Economy,□ □Want to Retire at 40? These Funds Will Help You Get There in Style□ and, of course, the annual □The Year's Best Mutual Funds□ pieces. We have long since resigned ourselves to the inevitability of such features, and, truth be told, we never have a problem when a Royce-managed portfolio makes an appearance on any list with the word □best□ in it (unless, of course, it was □Best Funds to Dump Right Now□). Our point, however, has less to do with the proliferation of lists designed to show who's the best as it does with the question of how □best□ is defined and delineated.

In the mutual fund world, more often than not we see what in our view is a responsible attempt to weigh various factors □ long-term historical returns, asset class, investment approach, overall risk factors and current market conditions □ and use them to create a list of top performers. As useful as these stories are, and as valuable as the accompanying graphs and tables can be, we still feel a bit uneasy about the use of the term □best.□ It's not that a fund with a superb performance record over a three-year or longer period isn't worthy of mention; it's just that an honorific such as □best□ seems likely to inspire unreasonable expectations from prospective investors. Then there is the issue of timing. Many mutual funds experience the same cyclical ups and downs as individual stocks, so that by the time a portfolio or company makes a □This Year's Best□ list, it may not be a particularly wise investment. Sometimes, □This Year's Best□ may really be referring to last year's, three years ago's or last market cycle's, and the savvy move might be for an investor to look elsewhere.

Even more problematic are the stories that do not take all (or even more than one or two) of these criteria into account. The upshot is a piece that provides a list of a bunch of mutual funds that have done well year-to-date or for one year prior to publication, posting or broadcast. This makes it virtually impossible for a prospective shareholder to weigh the various benefits and risks of making an investment in any fund on such a list. More importantly, the implicit point is that shareholders need not trouble themselves over such apparently insignificant issues as market cycle performance, long-term returns, risk or investment style □ issues that we think are absolutely critical in evaluating any mutual fund's track record.

As long as short-term performance is strong, such stories suggest, why worry about anything else?

Well, we worry quite a bit... about everything *other* than short-term performance. Our security selection process is driven by the idea that we need to know as much as possible about the companies whose stock we own. Developing knowledge about these companies helps us to reduce the risk of losing money, and not losing money is as important to us as making it. We manage small-cap portfolios with strong long-term returns and lower risk over full market cycle periods.

When and if that effort puts us on a "Best" list, we'll be pleased. When it doesn't, which could be often, we won't worry. In a business full of terrific funds and talented managers, there's room for plenty to be the "best," however one chooses to define it.

## The Royce Funds

1414 AVENUE OF THE AMERICAS □ NEW YORK, NY 10019

*(l-r) Whitney George, Buzz Zaino, Chuck Royce,  
Jack Fockler, Charlie Dreifus*

### WEALTH OF EXPERIENCE

With approximately \$17.2 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 25 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 nine assistant portfolio managers and analysts, and five 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 affiliates currently have approximately **\$70 million** invested in The Royce Funds.

#### GENERAL INFORMATION

*Additional Report Copies*  
(800) 221-4268

#### EQUI SERVE

*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, Transactions or Account Inquiries*  
(800) 33-ROYCE (337-6923)

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

CE-SA-0604

**Item 2: Code(s) of Ethics - Not applicable to this semi-annual 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 - Not applicable to this semi-annual report.**

**Item 5: Audit Committee of Listed Registrants**  Not applicable to this semi-annual report.

**Item 6: Schedule of Investments**  See Item 1.

**Item 7: Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies - Not applicable to this semi-annual report.**

**Item 8: Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchases**  None.

**Item 9: Submission of Matters to a Vote of Security Holders**  None.

**Item 10: 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 Controls. There were no significant changes in Registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

**Item 11: Exhibits attached hereto. (Attach certifications as exhibits)**

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.**

**BY:** /s/ Charles M. Royce

**Charles M. Royce**

**President**

Date: August 27, 2004

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.**

**ROYCE VALUE TRUST, INC.**

**BY:** /s/ Charles M.  
Royce

**BY:** /s/ John D. Diederich

**Charles M.**

**Royce**

**President**

**John D. Diederich**

**Chief Financial Officer**

Date: August 27,  
2004

Date: August 27, 2004

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