

Semi-Annual Advisor's Report  
February 28, 2006

Aegis Value Fund, Inc.

*The Aegis Value Fund seeks to achieve long-term, above market returns while minimizing risk of capital loss. Our strategy is to invest in well-researched, small-cap equities trading at a fraction of their intrinsic worth. We believe the equity markets are often inefficient, and we are contrarian, bottom-up stock selectors. We generally buy stocks trading at low price-to-book and price-to-earnings ratios, a segment of the market where academic research shows historical returns to be significantly higher than the overall market. We look for indications of strong corporate governance and ethical stewardship as evidenced by high insider ownership, proper use of corporate profits including bargain-priced share repurchases, and appropriate executive salary and options levels. We tend to purchase companies when they are misunderstood, out of favor, or neglected, and hold these companies until share prices reach our estimates of intrinsic value.*

## Advisor's Report

April 13, 2006

To the shareholders of the Aegis Value Fund:

We are pleased to present the Aegis Value Fund Advisor's Report for the six months ending February 28, 2006.

Since inception of the Aegis Value Fund on May 15, 1998, performance has been strong relative to benchmark indices. The Fund has posted a cumulative gain of 200.7 percent through April 11, 2006, compared to cumulative gains of 119.3 percent in our primary small-cap benchmark, the Russell 2000 Value Index. During this period, the Russell 2000 Index of small-cap stocks posted cumulative gains of 73.6 percent, and the S&P 500 Index of large-caps posted cumulative gains of 31.1 percent.

For the six-month period ending February 28, 2006, the Aegis Value Fund posted a gain of 8.7 percent, versus a gain of 8.8 percent for the Russell 2000 Value Index. The Russell 2000 Index returned 10.2 percent, while the S&P 500 Index returned 5.9 percent. \*

While our performance compares reasonably well to these market benchmarks over the six-month period, prudent investors know that in a thorough evaluation, returns must be considered in the context of the risks incurred.

### Detailed Performance Comparison – Risk and Return

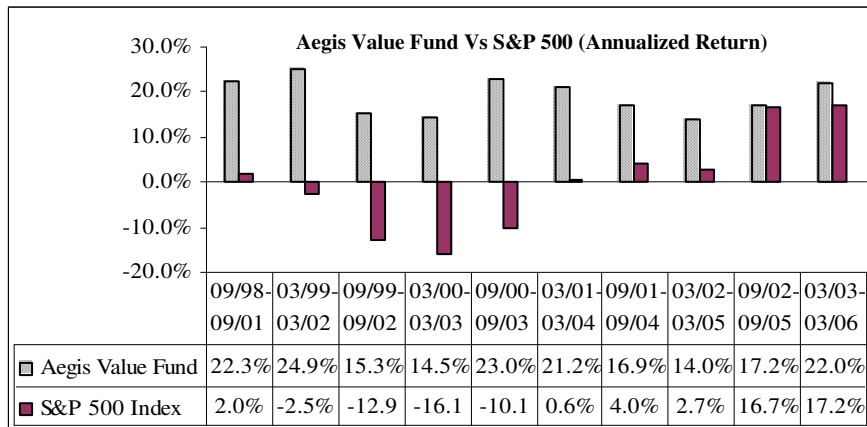
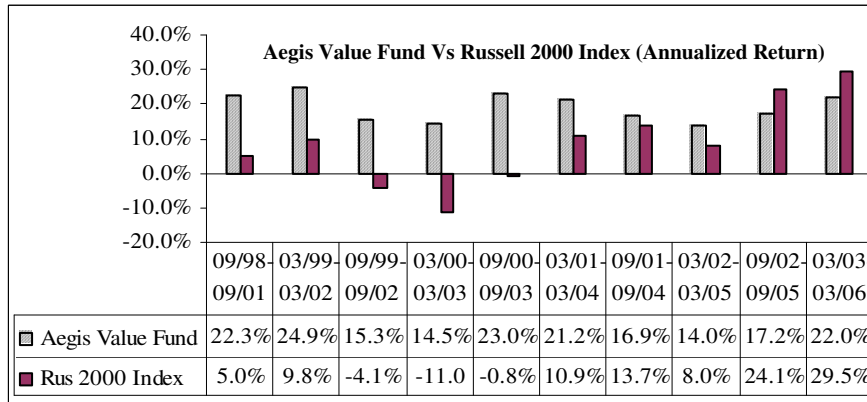
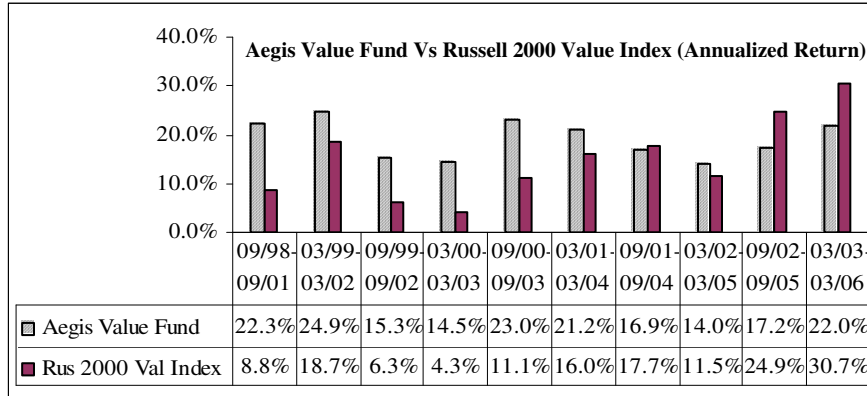
We certainly prefer to remain fully-invested in heavily discounted equities with compelling fundamentals. However, during speculative periods, when equities are not priced at levels sufficient to compensate for the commensurate investment risk, we allow ourselves to hold cash, believing it far more prudent to hold cash in anticipation of finding future bargains rather than to remain fully invested in overvalued securities. Our flexibility to hold cash gives our Fund a significant tool for risk mitigation unavailable when holding the benchmark indices, which, by definition are always fully invested, even when their holdings are quite speculatively valued.

When looking at the last six-month period, our shareholders should consider that our results have been earned while keeping our investment risk exposure to levels that we believe are significantly reduced when compared to the currently high risk exposure levels in the benchmark indices. For example, while the benchmarks are always fully invested, daily cash levels in the Fund over the period averaged 24.9 percent of Fund assets. Therefore, our returns were obtained with nearly ¼ of our assets on average in short term treasury bills and thus unexposed to any market risk.

\* See performance data disclosure at the bottom of Figure 1. Aegis Value Fund's one-year, three year, five year, and since inception (5/15/1998) average annual returns for the period ending March 31, 2006 are 11.2%, 22.0%, 16.1%, and 15.2% respectively. Returns include reinvestment of dividends and capital gains. Russell 2000 Value Index one-year, three-year, five-year, and since inception (AVALX-5/15/1998) average annual returns for the period ending March 31, 2006 are 23.8%, 30.7%, 16.2%, and 10.9%. All historical performance returns shown in this shareholders' letter for the Aegis Value Fund Inc. are pre-tax returns.

**Figure 1: Aegis Value Fund Rolling 3-Year Performance Record**

	Holding Period									
	09/98-09/01	03/99-03/02	09/99-09/02	03/00-03/03	09/00-09/03	03/01-03/04	09/01-09/04	03/02-03/05	09/02-09/05	03/03-03/06
<b>Fund Avg. Daily Cash Balance (% of Assets)</b>	7.4%	14.7%	22.3%	26.1%	30.1%	37.1%	42.0%	42.9%	41.2%	40.8%



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please call us at 1-800-528-3780 to obtain performance data current to the most recent month-end.

In **Figure 1**, we show the performance of the Aegis Value Fund against the various indices, as well as our Fund's average daily cash balance as a percentage of Fund assets for rolling 3-year periods every six months since the Fund's inception. Over the most recent 3-year period ending March 31, 2006, the Fund has returned an average of 22.0 percent, performing well on an absolute basis. On a relative basis, the Fund exceeded the S&P 500 return of 17.2 percent but lagged performance of the Russell 2000 and Russell 2000 Value small-cap indices, which delivered extraordinary 3-year returns of 29.5 percent and 30.7 percent respectively. This most recent 3-year period ending March 31, 2006 encompasses a time of nearly continuous market advancement calculated with a starting point originating from depressed market levels in early 2003 at the onset of the Iraqi conflict. The Fund's relative returns were lower than the benchmarks primarily because we thought it prudent to reduce our market exposure in light of the significant valuation run-ups occurring in so many of the small-cap stocks we were following. As a result, cash levels increased significantly, averaging 40.8 percent of Fund assets over this 3-year period.

**Figure 2: Russell 2000 Value Index Annualized and Trailing 3-Year Annualized Return Since 1981**

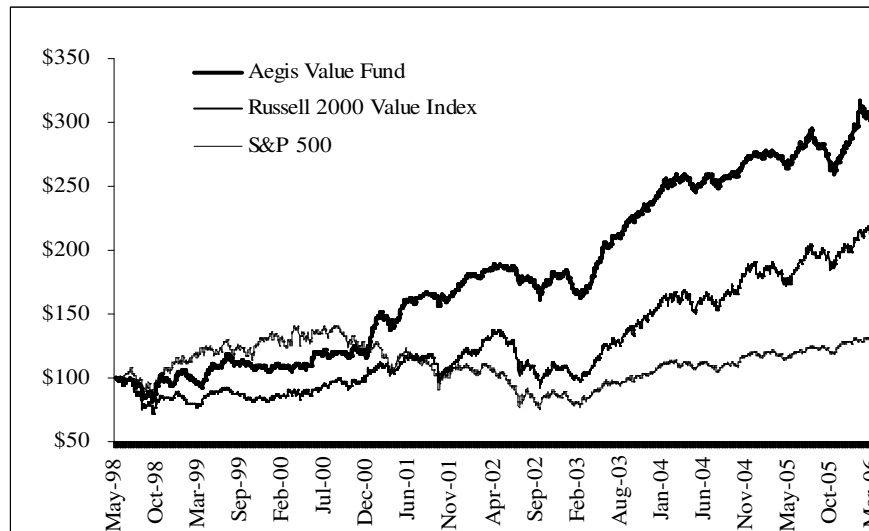
<u>Year</u>	<u>Russell 2000 Value Index</u>	
	<u>Annualized Return</u>	<u>Trailing 3-Year Annualized Return</u>
1981	14.85%	
1982	28.52%	
1983	38.64%	26.93%
1984	2.27%	22.12%
1985	31.01%	22.90%
1986	7.41%	12.89%
1987	(7.11%)	9.33%
1988	29.47%	8.90%
1989	12.43%	10.57%
1990	(21.77%)	4.42%
1991	41.70%	7.61%
1992	29.14%	12.69%
1993	23.77%	31.29%
1994	(1.54%)	16.30%
1995	25.75%	15.27%
1996	21.37%	14.53%
1997	31.78%	26.20%
1998	(6.45%)	14.36%
1999	(1.49%)	6.68%
2000	22.83%	4.21%
2001	14.02%	11.31%
2002	(11.43%)	7.44%
2003	46.03%	13.81%
2004	22.25%	16.48%
2005	4.71%	23.16%
Annualized Return (1981-2005)	14.54%	

Source: Raw data from Morningstar Principia

While with hindsight it is clear that higher returns could have been obtained by staying fully-invested over this period, it is historically clear from **Figure 2** that 3-year periods of annualized benchmark returns for small-cap value exceeding 30 percent are unusual, unpredictable, and non-sustainable. Periods of above-trend performance are often followed by periods of below-trend performance as returns regress to the mean. We know that since the beginning of 1981, the Russell 2000 Value Index exhibited negative returns in 6 of the last 25 years (the worst being a 21.8 percent loss in calendar 1990) and has had an average return of 14.5 percent over this period, so after 3 years of 30 percent average returns, we are now statistically overdue for some softer years.

In managing your hard-earned capital, our primary objective is to obtain strong absolute returns while mitigating damage and preserving capital if by chance we are presented with a rapidly deteriorating investment environment. Additionally, when managing assets in an open-ended mutual fund structure subject to material investor redemptions on short notice, shareholders are better served in an unsettled investment environment when managers maintain higher levels of liquidity. Often, we've found the environment for investing new capital significantly improving just as shareholders are taking money out of the Fund. In these periods, having "dry powder" to both meet redemptions and make new investments can be quite valuable. Historically, our most optimal purchases were made during periods when we were experiencing high shareholder redemption activity. As can be seen from **Figure 3**, our strategy has worked well over the long-run, which includes a few periods of market decline.

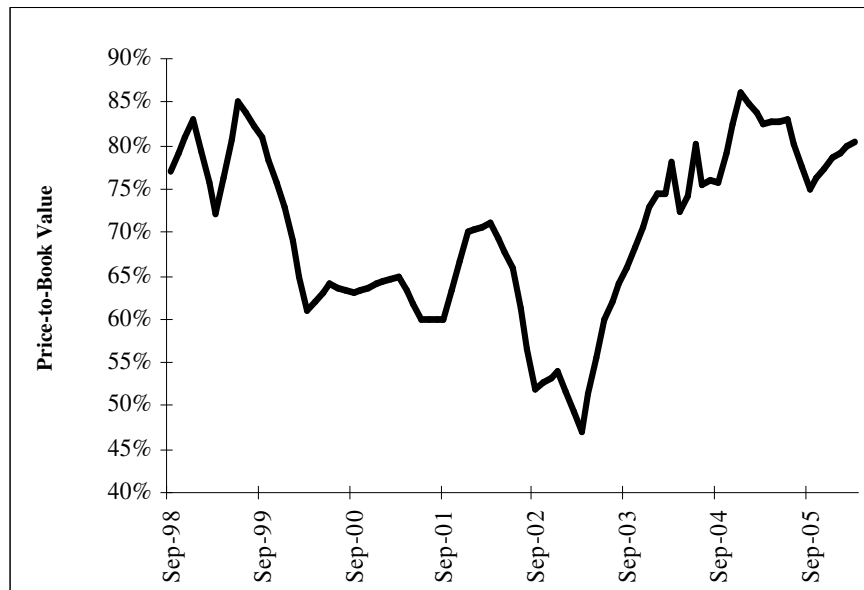
**Figure 3: Aegis Value Fund, Russell 2000 Value, and S&P 500 Index \***  
(Growth of \$100)



\* See performance data disclosure at the bottom of Figure 1

As many of you know, in addition to holding cash during periods when bargains are scarce, we further seek to mitigate risk vis-à-vis the indices by restricting our purchases to companies that are already trading at low valuation multiples, with the belief that low purchase multiples will tend to protect us from the severe valuation compression that can occur during periods of market uncertainty. As can be seen in **Figure 4**, stocks in the Aegis Value Fund currently trade at an average price-to-book level of approximately 0.8 times, and for the life of the Fund, these stocks have consistently traded at less than 0.9 times book value. On average, stocks in the Fund are at a significant discount to those in the Russell 2000 Value Index, which traded at an average price-to-book value ratio of 2.0 times as of March 31, 2006. Stocks in the broader Russell 2000 Index were even higher, at 2.6 times book value. We believe investors in these indices, because of the high valuation levels being paid upon their purchase, are exposed to much higher degrees of risk than our own investors. Most other mutual funds in our small-cap value universe are also potentially exposed to higher levels of valuation risk. As can be seen in **Figure 5**, of the many mutual funds classified by Morningstar as small-cap value, the majority trade at significantly higher levels of price-to-book value than Aegis.

**Figure 4: Historical Price-to-Book Value - Aegis Value Fund**

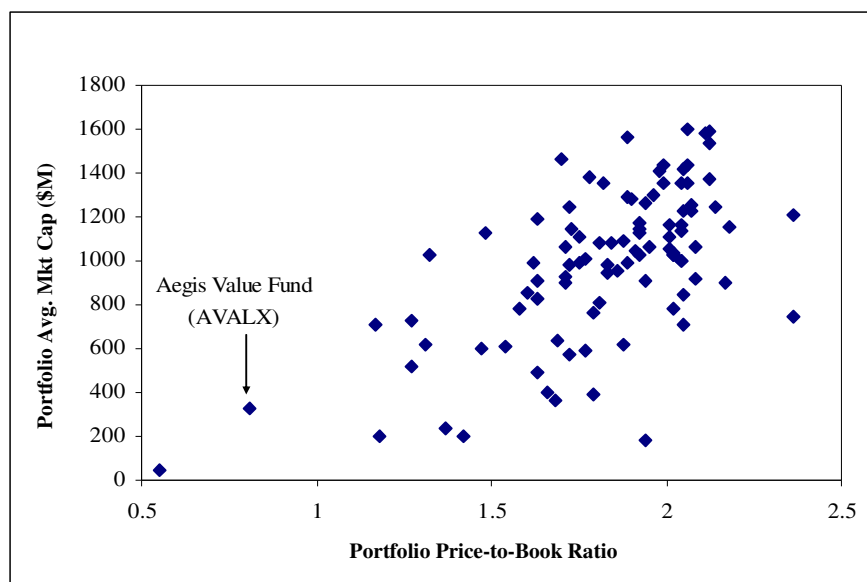


Source: Aegis Financial Corp.

### The Investment Environment

After 3 years of significant price gains, the market remains generally picked-over. While most pockets of undervaluation and inefficiencies that do exist in the market are often rapidly filled with today's burgeoning investor liquidity, we

**Figure 5: Aegis Trades Among Lowest Price-to-Book Value Funds in Morningstar's Small-Value Universe**



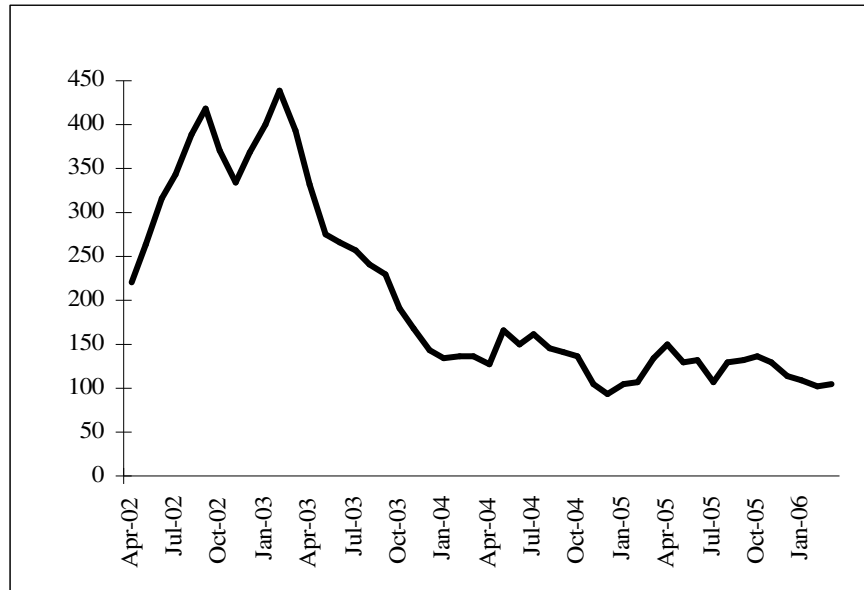
Source: Morningstar, Aegis Financial Corporation

continue to work diligently to uncover and exploit new investment opportunities. Since we last reported to you, the number of stocks on our watchlist of stocks with market value of greater than \$70 million and priced at less than tangible book value has declined from 132 as of September 30 to 104 as of April 7, 2006. As can be seen in **Figure 6**, these figures are well beneath the 438 on our watchlist in March of 2003. While we have not tracked any numeric measure of the financial strength of companies on our watchlist over time, our view is that the quality of the prospects on the list has deteriorated since March of 2003. We continue to stand ready to take advantage of movement along any of the potential fault-lines in the economy, whether it be the potential demise of the housing bubble and the overly debt-burdened domestic consumer, or spiking energy prices and increasing inflation, or systemic risks to the financial system caused by dollar weakness or extreme financial leverage.

#### View From The Trenches

In spite of the difficult investment environment, we purchased \$32.3 million of stocks over the 6 months ending February 28, 2006 at good prices. The largest of our new purchases was an \$8.6 million investment made in CF Industries. This \$930 million market cap company is active in the domestic production, transportation and storage of nitrogen and phosphate fertilizers. The debt-free company, which we purchased at a slight premium to tangible book value and at approximately 4 times trailing EBITDA (pre-tax, pre-interest operating cash flow), has recently converted to a for-profit corporation from its previous existence as a

**Figure 6: Number of Securities Selling at or Below Tangible Book Value  
(Greater than \$70 Million Market Cap)**



Source: Aegis Financial Corporation and Stock Investor Pro Stock Screener

farm supply cooperative. CF was trading at depressed multiples as domestic natural gas prices spiked in the wake of the hurricanes in the Gulf of Mexico. Natural gas can account for as much as 90 percent of the cost of nitrogen fertilizer production. The potential for nitrogen fertilizer imports from countries with low-cost gas also had created fears that the domestic industry would lose business. We believe that investors are failing to appreciate both the positive impact of the domestic industry consolidation and rationalization that has occurred over the past few years, as well as the potential demutualization benefits available to the new shareholders of CF as the company becomes oriented towards profit-maximization. We also believe that CF's nitrogen distribution infrastructure is a significantly misunderstood and undervalued asset to the company. Natural gas costs have declined since our recent purchases and we believe the company is well positioned to generate significant cash over the next few years as the possibility of ethanol demand-based corn price increases drives additional fertilizer demand.

In addition to CF Industries and other new stock purchases, we added significantly to certain existing holdings.

We liquidated some very successful investments in the 6 months ending February 28, 2006. We sold \$118.5 million of equities realizing capital gains of \$67.0 million and lowering the Fund's risk profile with the exit from holdings that we had concluded were fully-valued. Our largest sale during the period was a reduc-

tion in our holdings of Ryerson Inc., whereby we sold \$29.7 million of our shares, realizing a gain of \$15.7 million. We continue to maintain a scaled-back position in Ryerson shares. We sold completely out of Andersons, recognizing gains of \$11.0 million on proceeds of \$14.3 million. In addition, we sold \$11.8 million of equity in Luby's, realizing a gain of \$9.8 million. Rounding out our largest sales was a complete disposition of \$10.5 million of Hanover Insurance Group (formerly Allmerica Financial), realizing a gain of \$8.7 million.

Our position in Sea Containers, a stock which we highlighted in our last report to you as having declined in value, has continued to drag on our results. Recent news flow from the company has been highly negative, with pre-tax write-downs in its Ferry Division that were significantly in excess of our estimates. In addition, Sea Container's rail subsidiary GNER has become embroiled in a serious legal dispute over the English government Office of Rail Regulation's infringement on its recently purchased franchise rights to the East Coast Main Line. A recent investor conference call with a new CEO showed a high level of investor confusion over the financial condition of the company. After a thorough re-examination of all tangible publicly available financial data and management comments, and in light of the new negative disclosures, we conclude that a reasonable estimation of liquidation value for Sea Containers is still well in excess of the current share price of \$7. While the company certainly faces challenges in completing asset sales and restructuring its balance sheet, we believe the potential reward of this investment position justifies the risk we are taking. Sea Containers currently represents 3.06 percent of our assets.

The decline in our position in Sea Containers has negatively impacted cumulative Fund performance since its purchase by approximately 2.5 percent. While we want to be informative with our shareholders about our struggles as well as our successes, we caution our investors not to draw too much of an overall conclusion from any particular investment. Sea Container is among the most troublesome positions we've recently had in our diversified portfolio and our thesis has not yet fully played out.

#### Fund Administrative Changes

Cash levels at the Fund have also been impacted by approximately \$224.7 million of net redemptions over the 6 months ending February 28, 2006. Asset levels in the Fund have declined from a high of over \$800 million in November 2004 when the Fund was closed to \$453.5 million today. Given that cash levels have declined to under 20 percent of assets, and in light of continuing outflows, the Board of Directors of the Aegis Value Fund voted to re-open the Fund to all outside investors effective March 15, 2006.

While talking about the Board, we also want to welcome David Giannini, a recent addition to the Fund's Board. An attorney and a skilled contrarian investor, David has spent the last 20 years in the institutional securities brokerage business and has developed a thorough knowledge of commodity and natural resource

areas. David has contributed to our work on investments in the past, and we respect his insights. He is a good addition to our team.

On an administrative note, the Board of Directors has approved UMB Investment Services Group, a subsidiary of the Midwestern bank that has served as our Fund's custodian, as the future provider of our Fund's accounting, transfer-agency, and shareholder services functions. In doing so, we believe we will be able to serve your needs more effectively and achieve a reduction in Fund expense of perhaps five basis points per annum which will be passed along to shareholders in the form of a lower expense ratio. We will certainly continue to be available personally for any investment-oriented questions you may have, and welcome your call.

We take our fiduciary obligation to you very seriously and will continue to work to ensure shareholders are treated properly and earn a good return on their hard-earned capital. We continue to have an overwhelming portion of our own assets invested either in the Fund, or in a similar manner, so we remain committed to our investment approach.

**Aegis Financial Corporation**

Scott L. Barbee, CFA

Managing Director, Portfolio Manager

<sup>1</sup> *Price/Book: The inverse of the capitalization-weighted average of the individual constituent Book/Price ratios. The individual company Book/Price ratio is the total common equity for the latest quarter divided by current company capitalization.*

*Note that taking the average of the individual asset P/B ratios will yield a different result. Our method is mathematically equivalent to taking the capitalization of the index and dividing by the book value of the index. This is more consistent with the spirit of the index ratio than is a capitalization-weighted average of the individual asset P/B ratios and is also a more stable quantity.*

*Aegis Value Fund ratios exclude any consideration of non-equity holdings (e.g., cash). We believe this is consistent with Morningstar, Inc. practices.*

*\* Notes: Aegis Value Fund's one-year, three year, five year, and since inception (5/15/1998) average annual returns for the period ending March 31, 2006 are 11.2%, 22.0%, 16.1%, and 15.2% respectively. Russell 2000 Value Index one-year, three-year, five-year, and since inception (AVALX-5/15/1998) average annual returns for the period ending March 31, 2006 are 23.8%, 30.7%, 16.2%, and 10.9%. All historical performance returns shown in this Advisor's Report for the Aegis Value Fund are presented on a pre-tax basis. Returns include reinvestment of income and capital gains. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value will fluctuate so that upon redemption, an investor's shares may be worth more or less than their original cost. The Fund has an annualized expense ratio of 1.41%.*

*This article refers to four stocks held by the Fund. As of February 28, 2006, the percentage of total assets of the Fund these stocks represent respectively is as follows: Sea Containers Ltd. 5.24%, Ryerson Inc. 2.38%, CF Industries Holdings, Inc. 1.94% and Luby's, Inc. 0.63%..*

*This Advisor's Report is for the information of shareholders of the Aegis Value Fund Inc. Information contained herein has been obtained from sources we believe to be reliable, but can not be guaranteed. The views of the Advisor are subject to change without notice and are not a guarantee of future results or a forecast of future events. Any recommendation made in this report may not be suitable for all investors. The Advisor's Report does not constitute a solicitation or offer to purchase or sell any securities. Its use in connection with any offering of fund shares is authorized only in the case of a concurrent or prior delivery of a prospectus. The securities of small, lesser-known companies may be more volatile than those of larger companies. In addition, investing in foreign securities involves additional risks beyond the risks of investing in U.S. securities. These risks involve economic and political considerations not typically found in U.S. markets, including currency fluctuation, political uncertainty, different financial standards and regulatory environments, and overall market and economic factors present in foreign countries. Investors should consider the Fund's investment objectives, risks, charges, and expenses. The prospectus contains this and other information about the Fund. For a prospectus that includes more complete information, please call us at (800) 528-3780, or visit our website at [www.aegisvaluefund.com](http://www.aegisvaluefund.com), where an online prospectus is available.*

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