

BLUE CHIP VALUE FUND INC  
Form N-CSR  
March 09, 2006

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

**FORM N-CSR**

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

Investment Company Act file number: 811-5003

Blue Chip Value Fund, Inc.  
(Exact name of registrant as specified in charter)

1225 17<sup>th</sup> Street, 26<sup>th</sup> Floor, Denver, Colorado 80202  
(Address of principal executive offices) (Zip code)

Michael P. Malloy  
Drinker Biddle & Reath LLP  
One Logan Square  
18<sup>th</sup> & Cherry Streets  
Philadelphia, Pennsylvania 19103-6996  
(Name and address of agent for service)

Registrant's Telephone Number, including Area Code: (800) 624-4190

Date of fiscal year end: December 31

Date of reporting period: December 31, 2005

---

**Item 1 - Reports to Stockholders**

The following is a copy of the report to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1).

**Annual Report  
to Stockholders**

**December 31, 2005**

*The Investment Adviser's Commentary included in this report contains certain forward-looking statements about the factors that may affect the performance of the Fund in the future. These statements are based on Fund management's predictions and expectations concerning certain future events and their expected impact on the Fund, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the Fund. Management believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.*

---

**INVESTMENT ADVISER'S COMMENTARY**

Dear Fellow Stockholders:

The Blue Chip Value Fund experienced another solid year in 2005. The Fund's net asset value total return was 7.09%, exceeding the return of the S&P 500 by 2.21%. This marks the fifth time in the last six years that the Fund's net asset value performance has exceeded the return of the S&P 500.

Turnover in the portfolio remained fairly low, with a turnover rate of 40.96%. During the fourth quarter several trades were again made to optimize the tax treatment of the quarterly distributions. Despite the 7.09% increase in net asset value for the year, approximately 22.4% of the distribution (which is managed to equal roughly 10% of the net asset value) will be taxed and the remaining 77.6% will be treated as a non-taxable return of capital.

The Fund continued to utilize leverage in accordance with its investment policies. The use of leverage averaged 7.31% of Fund assets, and increased the return of the Fund for the year by approximately 0.64%. Over the two years of using leverage, returns have been increased by a total of approximately 1.14%

During the past year, the majority of the Fund's out performance came from healthcare and energy stocks. Within healthcare, Teva Pharmaceutical Industries Ltd, (a generic drug company) produced returns in excess of 40% as the growing demand for generic alternatives to major drugs, in our opinion, continues driving its increased cash flow. In addition, our significant holding in Pacificare Health Systems (a managed care company) continued to perform well on the strength of growing cash flow. Early in the third quarter, in recognition of this growth, United Healthcare (another managed care company) acquired Pacificare. Energy stocks in the S&P 500 performed well during the year, rising 31% partly due to strong earnings from rising oil and gas prices. Our holdings in this sector on average increased 59%, led by Marathon Oil and Transocean Inc. Marathon has significant refining and transportation assets that are earning good returns. Excess capital generated by these operations are being redeployed into significant oil holdings internationally which, we believe, provide long-term value creation opportunities. Cash flow from these developments is growing. Transocean continues to profit from the high day rates for their deepwater rigs. Utilization demand combined with very high rates for these rigs tends to produce very strong cash flows.

Edgar Filing: BLUE CHIP VALUE FUND INC - Form N-CSR

A portion of the Fund's out performance was reduced by weaker than expected stock performance in our technology and consumer staples holdings. Verisign, an internet commerce enabler, continued to produce the growth and profitability we expected in their overall business. However, we believe the market was unwilling to give them credit for the improvement, choosing instead to punish the stock for falling short in the mobile content portion of the business. We remain positive on Verisign's prospects overall, as well as for the value of its mobile content business. Our holding in Kraft Foods under performed as fundamental weakness in its business persisted. In October we sold the holding for a tax loss, and await improved visibility on fundamentals before considering Kraft again for the portfolio.

As we enter 2006, we believe that the economy remains stable, the Federal Reserve is nearing the end of its cycle of raising interest rates, and corporate earnings outlooks, while stable, are growing at a slower pace than the past several years. We continue to hold and find stocks our research shows are attractively valued relative to their ability to grow free cash flow. In addition, market pundits increasingly view the large cap stocks as attractive relative to their smaller brethren. This combination of facts leaves us optimistic about investment returns in 2006 for the Blue Chip Value Fund.

Sincerely,

Todger Anderson, CFA  
President, Blue Chip Value Fund, Inc.  
Chairman, Denver Investment Advisors LLC

**Sector Diversification in Comparison to  
S&P 500 as of December 31, 2005\***

	<b>Fund</b>	<b>S&amp;P 500</b>
Basic Materials	0.0%	2.8%
Capital Goods	7.3%	9.0%
Commercial Services	3.8%	2.4%
Communications	2.5%	5.0%
Consumer Cyclical	14.2%	12.1%
Consumer Staples	3.9%	8.6%
Energy	12.7%	9.1%
Financials	20.5%	20.2%
Medical/Healthcare	16.8%	12.9%
REITs	0.0%	0.7%
Technology	14.9%	11.8%
Transportation	2.6%	1.8%
Utilities	0.0%	3.6%
Short-Term Investments	0.8%	-

\*Sector diversification percentages are based on the Fund's total investments at market value. Sector diversification is subject to change and may not be representative of future investments.

**Average Annual Total Returns  
as of December 31, 2005**

<b>Return</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>	<b>Inception</b>
Blue Chip Value Fund - NAV	7.09%	15.21%	3.34%	8.90%	8.56%
Blue Chip Value Fund - Market Price	3.68%	21.96%	7.02%	11.15%	9.16%
S&P 500 Index	4.88%	14.38%	0.54%	9.07%	10.60%

*Past performance is no guarantee of future results. Share prices will fluctuate, so that a share may be worth more or less than its original cost when sold. Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Rights offerings, if any, are assumed for purposes of this calculation to be fully subscribed under the terms of the rights offering. Please note that the Fund's total return shown above does not reflect the deduction of taxes that a stockholder would pay on Fund distributions or the sale of Fund shares. Current performance may be higher or lower than the total return shown above. Please visit our website at [www.blu.com](http://www.blu.com) to obtain the most recent month end returns. Generally, total investment return based on net asset value will be higher than total investment return based on market value in periods where there is an increase in the discount or a decrease in the premium of the market value to the net asset value from the beginning to the end of such periods. Conversely, total investment return based on the net asset value will be lower than total investment return based on market value in periods where there is a decrease in the discount or an increase in the premium of the market value to the net asset value from the beginning to the end of such periods.*







**DIVIDEND REINVESTMENT AND  
CASH PURCHASE PLAN**

Blue Chip Value Fund, Inc.'s (the "Fund") Dividend Reinvestment and Cash Purchase Plan offers stockholders the opportunity to reinvest dividends and capital gain distributions in additional shares of the Fund. A stockholder may also make additional cash investments under the Plan. There is no service charge for participation.

Participating stockholders will receive additional shares issued at a price equal to the net asset value per share as of the close of the New York Stock Exchange on the record date ("Net Asset Value"), unless at such time the Net Asset Value is higher than the market price of the Fund's common stock, plus brokerage commission. In this case, the Fund will attempt, generally over the next 10 business days (the "Trading Period"), to acquire shares of the Fund's common stock in the open market at a price plus brokerage commission which is less than the Net Asset Value. In the event that prior to the time such acquisition is completed, the market price of such common stock plus commission equals or exceeds the Net Asset Value, or in the event that such market purchases are unable to be completed by the end of the Trading Period, then the balance of the distribution shall be completed by issuing additional shares at Net Asset Value.

Participating stockholders may also make additional cash investments (minimum \$50 and maximum \$10,000 per month) by check or money order (or by wire for a \$10 fee) to acquire additional shares of the Fund. Please note, however, that these additional shares will be purchased at market value plus brokerage commission (without regard to net asset value) per share.

A stockholder owning a minimum of 50 shares may join the Plan by sending an Enrollment Form to the Plan Agent at Mellon Investor Services, LLC, 480 Washington Blvd., Jersey City, NJ 07310.

The automatic reinvestment of dividends and distributions will not relieve participants of any income taxes that may be payable (or required to be withheld) on dividends or distributions, even though the stockholder does not receive the cash. Participants must own at least 50 shares at all times.

A stockholder may elect to withdraw from the Plan at any time on 15-days' prior written notice, and receive future dividends and distributions in cash. There is no penalty for withdrawal from the Plan and stockholders who have withdrawn from the Plan may rejoin in the future.

## Edgar Filing: BLUE CHIP VALUE FUND INC - Form N-CSR

The Fund may amend the Plan at any time upon 30-days prior notice to participants.

Additional information about the Plan may be obtained from Blue Chip Value Fund, Inc. by writing to 1225 17th Street, 26th Floor, Denver, CO 80202, by telephone at (800) 624-4190 or by visiting us at [www.blu.com](http://www.blu.com).

If your shares are registered with a broker, you may still be able to participate in the Fund's Dividend Reinvestment Plan. Please contact your broker about how to participate and to inquire if there are any fees which may be charged by the broker to your account.

### STOCKHOLDER DISTRIBUTION INFORMATION

Certain tax information regarding Blue Chip Value Fund, Inc. is required to be provided to stockholders based upon the Fund's income and distributions to the stockholders for the calendar year ended December 31, 2005.

The Board of Directors of Blue Chip Value Fund, Inc. voted to pay 2.5% of the Fund's net asset value on a quarterly basis in accordance with the Fund's distribution policy. The following table summarizes the final sources of such distributions:

	<b>Net Investment Income</b>	<b>Short-Term Capital Gain</b>	<b>Long-Term Capital Gain</b>	<b>Return of Capital</b>	<b>Total</b>
1st Quarter	\$ 0.0037	\$ 0.0059	\$ 0.0218	\$ 0.1086	\$ 0.14
2nd Quarter	\$ 0.0037	\$ 0.0059	\$ 0.0218	\$ 0.1086	\$ 0.14
3rd Quarter	\$ 0.0037	\$ 0.0059	\$ 0.0218	\$ 0.1086	\$ 0.14
4th Quarter	\$ 0.0039	\$ 0.0063	\$ 0.0234	\$ 0.1164	\$ 0.15
Total	<b>\$ 0.0150</b>	<b>\$ 0.0240</b>	<b>\$ 0.0888</b>	<b>\$ 0.4422</b>	<b>\$ 0.57</b>

The Fund notified stockholders by the end of January 2006 of amounts for use in preparing 2005 income tax returns.

100% of the distributions paid from net investment income and short-term capital gain qualify for the corporate dividends received deduction and meet the requirements of the tax rules regarding qualified dividend income. In addition, none of the distributions from net investment income include income derived from U.S. Treasury obligations. There were no assets invested in direct U.S. Government Obligations as of December 31, 2005.

**HOW TO OBTAIN A COPY OF THE FUND'S PROXY VOTING POLICIES AND RECORDS**

A description of the policies and procedures that are used by the Fund's investment adviser to vote proxies relating to the Fund's portfolio securities is available (1) without charge, upon request, by calling (800) 624-4190; (2) on the Fund's website at [www.blu.com](http://www.blu.com) and (3) on the Fund's Form N-CSR which is available on the U.S. Securities and Exchange Commission ("SEC") website at [www.sec.gov](http://www.sec.gov).

Information regarding how the Fund's investment adviser voted proxies relating to the Fund's portfolio securities during the most recent 12-month period ended June 30 is available, (1) without charge, upon request by calling (800) 624-4190; (2) on the Fund's website at [www.blu.com](http://www.blu.com) and (3) on the SEC website at [www.sec.gov](http://www.sec.gov).

**QUARTERLY PORTFOLIO HOLDINGS**

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. In addition, the Fund's complete schedule of portfolio holdings for the first and third quarters of each fiscal year is available on the Fund's website at [www.blu.com](http://www.blu.com).

**SEND US YOUR E-MAIL ADDRESS**

If you would like to receive monthly portfolio composition and characteristic updates, press releases and financial reports electronically as soon as they are available, please send an e-mail to [blu@denveria.com](mailto:blu@denveria.com) and include your name and e-mail address. You will still receive paper copies of any required communications and reports in the mail. This service is completely voluntary and you can cancel at any time by contacting us via e-mail at [blu@denveria.com](mailto:blu@denveria.com) or toll-free at 1-800-624-4190.

**INFORMATION ON THE DIRECTORS AND OFFICERS OF THE FUND**

The list below provides certain information about the identity and business experience of the directors and officers of the Fund. The Fund's Statement of Additional Information includes additional information about the Fund's directors, and may be obtained from the Fund free of charge by calling 1-800-624-4190.

***INTERESTED DIRECTORS\****

**TODGER ANDERSON, CFA1**

Age: 61

**Position(s) Held with the Fund:**

*President and Director*

**Term of Office<sup>2</sup> and Length of Time Served:**

President since 1987. Director from 1988 to 1995 and since 1998. Term as Director expires in 2007.

**Principal Occupations During the Past Five Years:**

Chairman, Denver Investment Advisors LLC (since 2004);

President, Westcore Funds (since 2005);

President, Denver Investment Advisors LLC and

predecessor organizations (1983-2004);

Portfolio Manager, Westcore MIDCO Growth Fund

(1986-2005);

Portfolio Co-Manager, Westcore Select Fund (2001-2005).

**Number of Portfolios in Fund Complex<sup>3</sup>**

**Overseen by Director:** One

**Other Directorships<sup>4</sup> Held by Director:** Fischer Imaging Corporation

The Fund's President has certified to the New York Stock Exchange that, as of June 3, 2005, he was not aware of any violation by the Fund of the applicable NYSE Corporate Governance listing standards. In addition, the Fund has filed certifications of its principal executive officer and principal financial officer as exhibits to its reports on Form N-CSR filed with the Securities and Exchange Commission relating to the quality of the disclosures contained in such reports.

**KENNETH V. PENLAND, CFA1**

Age: 63

**Position(s) Held with the Fund:**

*Chairman of the Board and Director*

**Term of Office<sup>2</sup> and Length of Time Served:**

Chairman of the Board and Director since 1987. Term as Director expires in 2006.

**Principal Occupations During the Past Five Years:**

Chairman, Denver Investment Advisors LLC and predecessor organizations (1983-2001);

President, Westcore Funds (1995-2001)

Trustee, Westcore Funds (2001-2005).

**Number of Portfolios in Fund Complex<sup>3</sup>**

**Overseen by Director:** One

**Other Directorships<sup>4</sup> Held by Director:** None

***INDEPENDENT DIRECTORS***

**RICHARD C. SCHULTE1**

Age: 61

**Position(s) Held with the Fund:**

*Director*

**Term of Office<sup>2</sup> and Length of Time Served:**

Director since 1987. Term expires in 2008.

**Principal Occupations During the Past Five Years:**

Private Investor;