Sequoia Fund, Inc.

ANNUAL REPORT
DECEMBER 31, 2005

SEQUOIA FUND, INC.
ILLUSTRATION OF AN ASSUMED INVESTMENT OF $10,000
With Income Dividends Reinvested and Capital Gains Distributions Accepted in Shares

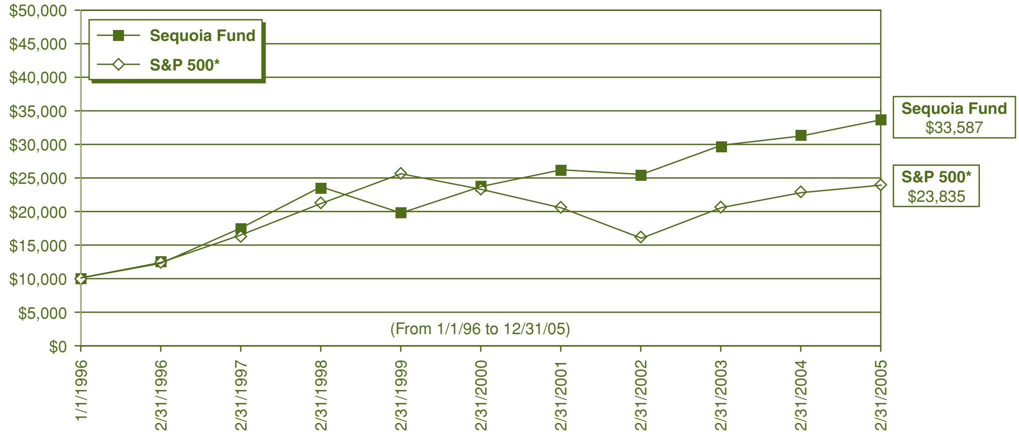
The table below covers the period from July 15, 1970 (the date Fund shares were first offered to the public) to December 31, 2005. This period was one of widely fluctuating common stock prices. The results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the Fund today.

PERIOD ENDED:	Value of Initial $10,000 Investment	Value of Cumulative Capital Gains Distributions	Value of Cumulative Reinvested Dividends	Total Value of Shares
July 15, 1970	$ 10,000	$ —	$ —	$ 10,000
May 31, 1971	11,750	—	184	11,934
May 31, 1972	12,350	706	451	13,507
May 31, 1973	9,540	1,118	584	11,242
May 31, 1974	7,530	1,696	787	10,013
May 31, 1975	9,490	2,137	1,698	13,325
May 31, 1976	12,030	2,709	2,654	17,393
May 31, 1977	15,400	3,468	3,958	22,826
Dec. 31, 1977	18,420	4,617	5,020	28,057
Dec. 31, 1978	22,270	5,872	6,629	34,771
Dec. 31, 1979	24,300	6,481	8,180	38,961
Dec. 31, 1980	25,040	8,848	10,006	43,894
Dec. 31, 1981	27,170	13,140	13,019	53,329
Dec. 31, 1982	31,960	18,450	19,510	69,920
Dec. 31, 1983	37,110	24,919	26,986	89,015
Dec. 31, 1984	39,260	33,627	32,594	105,481
Dec. 31, 1985	44,010	49,611	41,354	134,975
Dec. 31, 1986	39,290	71,954	41,783	153,027
Dec. 31, 1987	38,430	76,911	49,020	164,361
Dec. 31, 1988	38,810	87,760	55,946	182,516
Dec. 31, 1989	46,860	112,979	73,614	233,453
Dec. 31, 1990	41,940	110,013	72,633	224,586
Dec. 31, 1991	53,310	160,835	100,281	314,426
Dec. 31, 1992	56,660	174,775	112,428	343,863
Dec. 31, 1993	54,840	213,397	112,682	380,919
Dec. 31, 1994	55,590	220,943	117,100	393,633
Dec. 31, 1995	78,130	311,266	167,129	556,525
Dec. 31, 1996	88,440	397,099	191,967	677,506
Dec. 31, 1997	125,630	570,917	273,653	970,200
Dec. 31, 1998	160,700	798,314	353,183	1,312,197
Dec. 31, 1999	127,270	680,866	286,989	1,095,125
Dec. 31, 2000	122,090	903,255	289,505	1,314,850
Dec. 31, 2001	130,240	1,002,955	319,980	1,453,175
Dec. 31, 2002	126,630	976,920	311,226	1,414,776
Dec. 31, 2003	147,610	1,146,523	362,790	1,656,923
Dec. 31, 2004	154,270	1,200,687	379,159	1,734,116
Dec. 31, 2005	155,450	1,331,529	382,059	1,869,038

The total amount of capital gains distributions accepted in shares was $744,103, the total amount of dividends reinvested was $116,740.

No adjustment has been made for any taxes payable by shareholders on capital gain distributions, dividends reinvested in shares or sale of Fund shares.

Comparison of a change in value of a $10,000 Investment in Sequoia Fund and the S&P 500 Index*



* The S&P 500 Index is an unmanaged, capitalization-weighted index of the common stocks of 500 major US corporations.

The information presented for the Fund assumes reinvestment of dividends and capital gains distributions and does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Past performance is not indicative of future results.

To the Shareholders of Sequoia Fund, Inc.

Dear Shareholder:

Sequoia Fund's results for the quarter and year ended December 31, 2005 appear below along with comparable results for the market indexes:

To December 31, 2005	Sequoia Fund	Dow Jones Industrials	Standard & Poor's 500
Fourth Quarter	9.02%	2.06%	2.09%
1 Year	7.78%	1.72%	4.91%
5 Years (Annualized)	7.29%	2.01%	0.54%
10 Years (Annualized)	12.88%	9.76%	9.07%

The S&P 500 Index is an unmanaged, capitalization-weighted index of the common stocks of 500 major US corporations. The Dow Jones Industrial Average is an unmanaged, price-weighted index of 30 actively traded blue chip stocks. The performance data quoted represents past performance and assumes reinvestment of dividends. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Sincerely,

Richard T. Cunniff
Vice Chairman
February 23, 2006

Robert D. Goldfarb
President

David M. Poppe
Executive Vice President

THE RUANE, CUNNIFF & GOLDFARB INC./SEQUOIA FUND, INC. ANNUAL INVESTOR DAY WILL BE HELD AT 10A.M., NEW YORK CITY TIME, ON FRIDAY, MAY 19, 2006 AT THE ST. REGIS HOTEL, 20th FLOOR, TWO EAST 55TH STREET, NEW YORK, NEW YORK 10022.

Management's Discussion of Fund Performance

The total return for Sequoia Fund was 7.78% for 2005, including the reinvestment of dividends. This compares to the 4.91% return of the S&P 500. As it has been for many years, our investment philosophy is to make concentrated commitments of capital in a limited number of companies that have superior long-term economic prospects and that sell at what we believe are attractive prices. Because Sequoia is deliberately not representative of the overall market, in any given year the performance of the Fund will often vary significantly from that of the commonly cited indexes.

The table below shows the stock price performance of the Fund's major positions for 2005:

Position	% of assets 12/31/04	Price Change	% of assets 12/31/05
Berkshire Hathaway	35.2%	0.8%	33.8%
Progressive Corp.	12.6%	37.6%	17.4%
Mohawk Industries	8.4%	–4.7%	8.0%
TJX	8.0%	–7.6%	7.4%
Fastenal	3.6%	27.3%	4.4%
Expeditors International	2.8%	20.8%	3.4%
Top six positions	70.6%		74.4%

We're less concerned with the annual movement in share prices than we are with the earnings progress exhibited by our holdings. If earnings grow, the stock price eventually follows.

As of this writing Berkshire Hathaway had not yet reported fourth quarter and full year 2005 earnings. However, Berkshire's earnings were likely down from 2004, due to an estimated $3.4 billion of large insurance losses stemming from the three major hurricanes that hit US landfall during the year. Even after this year's losses, we believe that underwriting profits at Berkshire's supercat operations will still most likely average out to about 25% of premiums over the cycle since 1990.

For most of the rest of Berkshire's operations, 2005 was a relatively strong year. GEICO's combined ratio was likely below 90, even after hurricane losses. And premiums and policies in force were likely up more than 12%, several times the industry growth. Through nine months, organic earnings of Berkshire Hathaway's wholly owned non-insurance businesses grew at high single digit rates, good performance for these operations. The building products unit turned in particularly strong results, thanks to the residential housing boom and a recovery in commercial construction. Other strong contributors to earnings growth included Clayton Homes and the leasing operations.

Berkshire deployed over $7 billion in acquisitions of whole companies and purchases of publicly traded stocks in 2005. It completed deals to buy a recreational vehicle manufacturer, a professional liability insurer, and a nylon carpet fiber operation for an estimated combined $1.9 billion. Through nine months, Berkshire purchased a net $5.2 billion worth of common stocks, with new stakes in Anheuser-Busch and Wal-Mart and additions to its Procter and Gamble and Wells Fargo positions accounting for the lion's share of the growth. In addition, Berkshire's 81%-owned subsidiary, Midamerican, negotiated an agreement to spend about $5 billion to purchase the equity of a large utility company operating in several Western states. That deal is scheduled to close by the end of March, 2006.

Berkshire still had over $41 billion in cash on its balance sheet as of last September, up $1 billion from year end. However, increasing short term interest rates through 2005 gave Berkshire's investment income a natural lift last year and will do so again in 2006.

Progressive managed well through market conditions that were tougher than those of the year before. The auto insurance industry entered a down cycle in 2005, and competition increased during the year, which put downward pressure on prices. Growth in written premiums at Progressive slowed and its profit margins narrowed. Profitability was also affected by the Gulf storms, which hit states where Progressive has disproportionately high market shares. When 2005 closed, Progressive's combined ratio had increased three percentage points. Even with that jump, however, the insurer finished the year with a still excellent combined ratio of 88. And while the company's net income fell 15%, share repurchases provided an updraft. Earnings per share slipped only 9%, resulting in far and away the second-best year in the company's history.

Earnings growth at Mohawk Industries, the country's largest flooring business, suffered from continual increases in raw material costs during the year. Not only did oil prices climb throughout the year, disruptions caused by the Gulf storms further restricted the supply of Mohawk's raw materials. Inevitably, the company's profit margins contracted. Management moved quickly to raise prices to recover its increased costs, but it takes several months for price increases to show up on the bottom line. Last fall, Mohawk closed on its largest acquisition to date when it purchased Unilin, a privately-owned manufacturer of laminate flooring, for about $2.6 billion. While the market for broadloom carpet grows slowly, the demand for laminate flooring has been increasing at double-digit rates in the US. Unilin, which has both proprietary technology and an excellent brand name, positions Mohawk well to capture a large share of this growing market. We expect the acquisition to be accretive to Mohawk's earnings in 2006.

TJX struggled early in 2005, but regained its footing as the year wore on. Last fall, the founder and chairman of TJX, Ben Cammarata, returned as interim CEO. He quickly closed a failing Internet retail venture and vowed to slow the pace of expansion at other new store concepts. The company refocused its efforts on its best businesses, its core off-price apparel retailing formats. Holiday sales were strong. and the company finished the year on a vigorous note. Earnings per share were up 24%.

Revenue and profits at the fifth and sixth largest positions in the Fund grew at excellent rates in 2005. Sales at Fastenal rose by 23%, better than three times the rate of growth of its largest competitor, and earnings per share jumped 27%. Credit the hard-work ethic and frugal spirit of this unusual company for that performance as much as a strengthening industrial economy. Expeditors International, now the sixth-largest position in the Fund due in significant part to its high rate of growth, generated a 17% rise in net revenue. Earnings per share leaped 39%. This performance reflects both the company's unusually strong competitive culture and its well-established presence in the trade lanes between the Far East and the US, where growth was unusually strong.

During the year, the Fund sold its investments in Ethan Allen, Harley Davidson, Mercantile Bankshares, Petsmart, and the remainder of its position in Fifth Third Bancorp. We initiated positions in International Game Technology and Porsche AG.

At the end of the year, Sequoia was 95.2% invested in stocks, compared to 90.8% a year earlier. In both years, the remainder of Sequoia's assets was held in cash and cash equivalents.

Shareholder Expense Example

As a shareholder of the Fund, you incur ongoing costs, including management fees and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period (July 1, 2005 to December 31, 2005).

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and will not help you determine the relative total costs of owning different funds.

	Beginning Account Value July 1, 2005	Ending Account Value December 31, 2005	Expenses Paid During Period* July 1, 2005 to December 31, 2005
Actual	$1,000	$1,083.90	$5.25
Hypothetical (5% return per year before expenses)	$1,000	$1,020.16	$5.09

** Expenses are equal to the Fund's annualized expense ratio of 1.00%, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

SEQUOIA FUND, INC.
Schedule of Investments
December 31, 2005

COMMON STOCKS (93.23%)

Shares		Value (Note 1)
	AUTO & HOME SUPPLY STORES (1.52%)	
1,699,998	O'Reilly Automotive Inc.*	$ 54,416,936
	CASUALTY INSURANCE (17.35%)	
5,310,152	Progressive Corporation — Ohio	620,119,551
	CHEMICAL DIAGNOSTIC SUBSTANCES (3.08%)	
1,529,015	IDEXX Laboratories Inc*	110,058,500
	COMPUTER PROGRAMMING SERVICES (1.85%)	
2,088,597	GTECH Holdings Corporation	66,292,069
	DIVERSIFIED COMPANIES (33.79%)	
13,625	Berkshire Hathaway Inc. Class A*	1,207,447,500
163	Berkshire Hathaway Inc. Class B*	478,486
		1,207,925,986
	ELECTRONIC COMPUTER MANUFACTURING (2.28%)	
2,648,247	International Game Technology	81,513,043
	FREIGHT TRANSPORTATION (3.36%)	
1,776,610	Expeditors International of Washington, Inc.	119,938,941
	INDUSTRIAL & CONSTRUCTION SUPPLIES (4.44%)	
4,054,341	Fastenal Company	158,889,624
	INSURANCE AGENTS & BROKERS (2.47%)	
2,888,952	Brown & Brown Inc.	88,228,594
	MEDICAL & HOSPITAL EQUIPMENT (0.11%)	
120,097	Patterson Companies Inc.*	4,011,240
	PROCESS CONTROL INSTRUMENTS (0.60%)	
384,157	Danaher Corporation	21,428,277
	RETAILING (14.41%)	
39,804	Costco Wholesale Corporation	1,969,104
1,145,775	Tiffany & Company	43,871,725
11,412,756	TJX Companies, Inc.	265,118,322
2,359,424	Wal-Mart Stores Inc	110,421,043
2,120,091	Walgreen Company	93,835,228
		515,215,422

Shares		Value (Note 1)
	TEXTILE - CARPETS (7.97%)	
3,274,506	Mohawk Industries Inc.†*	$ 284,816,531
	TOTAL COMMON STOCKS (COST $1,077,216,753)	$3,332,854,714
	PREFERRED STOCKS (1.91%)	
	AUTOMOTIVE MANUFACTURING (1.91%)	
95,045	Porsche AG — Preferred (Germany)	68,292,779
	TOTAL PREFERRED STOCKS (COST $67,942,737)	$ 68,292,779
Principal Amount		
	U.S. GOVERNMENT OBLIGATIONS (4.86%)	
$174,200,000	U.S. Treasury Bills due 2/6/2006	173,632,253
	TOTAL U.S. GOVERNMENT OBLIGATIONS (Cost $173,632,253)	173,632,253
	TOTAL INVESTMENTS (100%)†† (Cost $1,318,791,743)	$3,574,779,746

†† The cost for federal income tax purposes is identical.
* Non-income producing.
† Refer to Note 7.

SEQUOIA FUND, INC.
Statement of Assets and Liabilities
December 31, 2005

ASSETS:

Investments in securities, at value (cost $1,318,791,743) (Note 1)	$3,574,779,746
Cash on deposit with custodian	347,492
Receivable for capital stock sold	757,941
Dividends receivable	959,188
Other assets	34,005
Total assets	3,576,878,372

LIABILITIES:

Payable for capital stock repurchased	391,206
Accrued investment advisory fee	3,013,834
Accrued other expenses	161,993
Total liabilities	3,567,033
Net assets applicable to 22,986,340 shares of capital stock outstanding (Note 4)	$3,573,311,339
Net asset value, offering price and redemption price per share	$155.45

The accompanying notes form an integral part of these Financial Statements.

SEQUOIA FUND, INC.
Statement of Operations
Year Ended December 31, 2005

INVESTMENT INCOME:	
Income:	
Dividends:	
Unaffiliated companies, net of $32,209 of foreign tax withheld	$ 9,822,939
Affiliated companies (Note 7)	802,615
Interest	8,703,394
Other income	40,170
Total income	19,369,118
Expenses:	
Investment advisory fee (Note 2)	36,448,117
Legal and auditing fees	125,717
Stockholder servicing agent fees	462,745
Custodian fees	80,000
Directors fees and expenses (Note 6)	244,950
Other	148,571
Total expenses	37,510,100
Less expenses reimbursed by Investment Adviser (Note 2)	912,000
Net expenses	36,598,100
Net investment (loss)	(17,228,982)
REALIZED AND UNREALIZED GAIN / (LOSS) ON INVESTMENTS:	
Realized gain on investments:	
Unaffiliated companies	357,662,429
Affiliated companies (Note 7)	21,234,848
Foreign currency transactions	1,486
Net realized gain on investments and foreign currencies	$ 378,898,763
Net (decrease) in unrealized appreciation on investments	(89,974,201)
Net realized and unrealized gain on investments and foreign currencies	288,924,562
Increase in net assets from operations	$ 271,695,580

The accompanying notes form an integral part of these Financial Statements.

SEQUOIA FUND, INC.
Statements of Changes in Net Assets

	Year Ended December 31, 2005	Year Ended December 31, 2004
INCREASE (DECREASE) IN NET ASSETS:		
From operations:		
Net investment (loss)	$ (17,228,982)	$ (14,191,740)
Net realized gain on investments and foreign currencies	378,898,763	296,769,132
Net increase / (decrease) in unrealized appreciation	(89,974,201)	(106,708,915)
Net increase / (decrease) in net assets from operations	271,695,580	175,868,477
Distributions to shareholders from:		
Net investment income	—	—
Net realized gains	(245,091,727)	(5,637,360)
Capital share transactions (Note 4)	(225,675,415)	(371,435,383)
Total increase / (decrease)	(199,071,562)	(201,204,266)
NET ASSETS:		
Beginning of year	3,772,382,901	3,973,587,167
End of year	$3,573,311,339	$3,772,382,901
NET ASSETS CONSIST OF:		
Capital (par value and paid in surplus)	$1,316,344,778	$1,347,326,752
Undistributed net realized gains (Note 5)	978,558	79,093,945
Unrealized appreciation	2,255,988,003	2,345,962,204
Total Net Assets	$3,573,311,339	$3,772,382,901

The accompanying notes form an integral part of these Financial Statements.

SEQUOIA FUND, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES:

Sequoia Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, open-end management investment company. The investment objective of the Fund is growth of capital from investments primarily in common stocks and securities convertible into or exchangeable for common stock. The following is a summary of significant accounting policies, consistently followed by the Fund in the preparation of its financial statements.

A. *Valuation of investments:* Investments are carried at market value or at fair value as determined by the Board of Directors. Securities traded on a national securities exchange or on a foreign exchange are valued at the last reported sales price on the principal exchange on which the security is listed on the last business day of the period; securities traded in the over-the-counter market are valued in accordance with NASDAQ Official Closing Price on the last business day of the period; listed securities and securities traded in the over-the-counter market for which no sale was reported on that date are valued at the mean between the last reported bid and asked prices; U.S. Treasury Bills with remaining maturities of 60 days or less are valued at their amortized cost. U.S. Treasury Bills that when purchased have a remaining maturity in excess of sixty days are stated at their discounted value based upon the mean between the bid and asked discount rates until the sixtieth day prior to maturity, at which point they are valued at amortized cost.

   Foreign currencies: Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of foreign portfolio securities are translated into U.S. dollars at the rates of exchange prevailing when such securities are acquired or sold. Income and expenses are translated into U.S. dollars at the rates of exchange prevailing when accrued. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from the sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

B. *Accounting for investments:* Investment transactions are accounted for on the trade date and dividend income is recorded on the ex-dividend date. Interest income is accrued as earned. Premiums and discounts on fixed income securities are amortized over the life of the respective security. The net realized gain or loss on security transactions is determined for accounting and tax purposes on the specific identification basis.

C. *Federal income taxes:* It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its stockholders. Therefore, no federal income tax provision is required.

D. *Use of estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

E. *General:* Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend date.

NOTE 2—INVESTMENT ADVISORY CONTRACTS AND PAYMENTS TO INTERESTED PERSONS:

The Fund retains Ruane, Cunniff & Goldfarb Inc. as its investment adviser. Ruane, Cunniff & Goldfarb Inc. (the "Investment Adviser") provides the Fund with investment advice, administrative services and facilities.

Under the terms of the Advisory Agreement, the Investment Adviser receives a management fee equal to 1% per annum of the Fund's average daily net asset values. This percentage will not increase or decrease in relation to increases or decreases in the net asset value of the Fund. Under the Advisory Agreement, the Investment Adviser is obligated to reimburse the Fund for the amount, if any, by which the operating expenses of the Fund (including the investment advisory fee) in any year exceed the sum of 1-1/2% of the average daily net asset values of the Fund during such year up to a maximum of $30,000,000, plus 1% of the average daily net asset values in excess of $30,000,000. The expenses incurred by the Fund exceeded the percentage limitation during the year ended December 31, 2005 and the Investment Adviser reimbursed the Fund $912,000. Such reimbursement is not subject to recoupment by the Investment Adviser.

For the year ended December 31, 2005, there were no amounts accrued or paid to interested persons, including officers and directors, other than advisory fees of $36,448,117 to Ruane, Cunniff & Goldfarb Inc. and brokerage commissions of $338,214 to Ruane, Cunniff & Goldfarb LLC., the Fund's distributor. Certain officers of the Fund are also officers of the Investment Adviser and the Fund's distributor. Ruane, Cunniff & Goldfarb LLC received no compensation from the Fund on the sale of the Fund's capital shares during the year ended December 31, 2005.

In October 2005, the Advisory Agreement was terminated as a result of its assignment due to the death of a control person of the Investment Adviser, under the provisions of the Advisory Agreement and as required by the 1940 Act. The Fund's Board of Directors approved an interim advisory contract between the Fund and the Investment Adviser with substantially identical terms of the Advisory Agreement. On December 12, 2005, the Board of Directors approved a new investment advisory contract between the Fund and the Investment Adviser effective March 1, 2006, subject to stockholder approval, with substantially identical terms of the Advisory Agreement.

NOTE 3—PORTFOLIO TRANSACTIONS:

The aggregate cost of purchases and the proceeds from the sales of securities, excluding U.S. government obligations, for the year ended December 31, 2005 were $268,212,483 and $570,660,120, respectively. Included in proceeds of sales is $296,818,473 representing the value of securities distributed as in-kind payment of redemptions, resulting in realized gains of $211,919,666.

At December 31, 2005 the aggregate gross unrealized appreciation and depreciation of securities for federal income tax purposes were $2,257,949,727 and $1,961,724, respectively.

NOTE 4—CAPITAL STOCK:

At December 31, 2005 there were 100,000,000 shares of $.10 par value capital stock authorized. Transactions in capital stock were as follows:

	2005		2004	
	Shares	**Amount**	**Shares**	**Amount**
Shares sold	676,222	$ 103,672,116	937,018	$ 142,174,969
Shares issued to stockholders on reinvestment of:				
Net investment income	—	—	—	—
Net realized gain on investments	1,281,840	198,753,650	31,351	4,737,104
	1,958,062	302,425,766	968,369	146,912,073
Shares repurchased	3,424,141	528,101,181	3,435,889	518,347,456
Net (decrease)	(1,466,079)	$(225,675,415)	(2,467,520)	$(371,435,383)

NOTE 5—DISTRIBUTIONS TO SHAREHOLDERS:

Distributions to shareholders are determined in accordance with federal tax regulations and may differ from those determined for financial statement purposes. To the extent these differences are permanent such amounts are reclassified within the capital accounts based on federal tax regulations. During the year ended December 31, 2005 permanent differences primarily due to a net investment loss not deductible for tax purposes and realized gains on redemptions in kind not recognized for tax purposes resulted in a net decrease in net accumulated investment loss of $17,228,982 and undistributed net realized gains of $211,922,423 with a corresponding increase in paid in surplus of $194,693,441. These reclassifications had no effect on net assets.

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

	2005	2004
Distributions paid from:		
Ordinary income	$ —	$ —
Long-term capital gains	245,091,727	5,637,360
Total distributions	$245,091,727	$5,637,360

As of December 31, 2005, the components of distributable earnings on a tax basis were as follows:

Undistributed long-term gain	$ 978,558
Unrealized appreciation	2,255,988,003
	$2,256,966,561

NOTE 6—DIRECTORS FEES AND EXPENSES:

Directors who are not deemed “interested persons” receive fees of $6,000 per quarter and $2,500 for each meeting attended, and are reimbursed for travel and other out-of-pocket disbursements incurred in connection with attending directors meetings. The total of such fees and expenses paid by the Fund to these directors for the year ended December 31, 2005 was $244,950.

NOTE 7—AFFILIATED COMPANIES:

Portfolio companies 5% or more of whose outstanding voting securities are held by the Fund are defined in the Investment Company Act of 1940 as "affiliated companies." As of December 31, 2004, the Fund held two investments which were affiliated companies as defined above. The summary of transactions for each affiliate during the year ended December 31, 2005 is provided below:

	Purchases		Sales		Realized	Dividend
Affiliate	Shares	Cost	Shares	Cost	Gain	Income
Ethan Allen Interiors, Inc.. .	—	—	1,855,059	$48,080,846	$13,836,830	$802,615
Mohawk Industries Inc. . . .	—	—	180,741	$ 8,122,356	7,398,018	—
					$21,234,848	$802,615

As of December 31, 2005, the Fund had no investments in companies that would be deemed to be affiliated companies.

NOTE 8—FINANCIAL HIGHLIGHTS:

	Year Ended December 31,				
	2005	2004	2003	2002	2001
Per Share Operating Performance (for a share outstanding throughout each year)					
Net asset value, beginning of year.	$ 154.27	$ 147.61	$ 126.63	$ 130.24	$ 122.09
Income from investment operations:					
Net investment (loss)/income	(0.75)	(0.58)	(0.62)	(0.41)	0.97
Net realized and unrealized gains (losses) on investments.	12.57	7.45	22.21	(3.03)	11.52
Total from investment operations	11.82	6.87	21.59	(3.44)	12.49
Less distributions:					
Dividends from net investment income.	(0.00)	(0.00)	(0.00)	(0.01)	(0.97)
Distributions from net realized gains.	(10.64)	(0.21)	(0.61)	(0.16)	(3.37)
Total distributions	(10.64)	(0.21)	(0.61)	(0.17)	(4.34)
Net asset value, end of year	$ 155.45	$ 154.27	$ 147.61	$ 126.63	$ 130.24
Total Return	7.78%	4.66%	17.12%	–2.64%	10.52%
Ratios/Supplemental data					
Net assets, end of year (in millions).	$3,573.3	$3,772.4	$3,973.6	$3,905.1	$4,230.1
Ratio to average net assets:					
Expenses.	1.0%	1.0%	1.0%	1.0%	1.0%
Net investment income (loss)	–0.5%	–0.4%	–0.5%	–0.3%	0.8%
Portfolio turnover rate	8%	6%	3%	8%	7%

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Sequoia Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Sequoia Fund, Inc. (the "Fund") at December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2005 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
February 17, 2006

Information about Sequoia Fund Officers and Directors:

The SAI includes additional information about Fund directors and is available, without charge, upon request. You may call toll-free 1-800-686-6884 to request the SAI.

Name, Age, and Address	Position Held with Fund	Term of Office and Length of Time Served	Principal Occupation during Past 5 Years	Other Directorships Held by Director
Richard T. Cunniff, 82 767 Fifth Avenue New York, NY 10153	Vice Chairman & Director	Term — 1 Year & Length of Time served — 35 Years	Vice Chairman & Director of Ruane, Cunniff & Goldfarb Inc.	Sturm, Ruger & Company, Inc.
Robert D. Goldfarb, 61 767 Fifth Avenue New York, NY 10153	President & Director	Term — 1 Year & Length of Time served — 27 Years	Chairman & Director of Ruane, Cunniff & Goldfarb Inc.	None
David M. Poppe, 41 767 Fifth Avenue New York, NY 10153	Executive Vice President & Director	Term — 1 Year & Length of Time served — 3 Years	President & Director of Ruane, Cunniff & Goldfarb Inc.	None
Joseph Quinones, Jr., 60 767 Fifth Avenue New York, NY 10153	Vice President, Secretary, Treasurer & Chief Compliance Officer	Term — 1 Year & Length of Time served — 10 Years	Vice President, Secretary, Treasurer & Chief Compliance Officer of Ruane, Cunniff & Goldfarb Inc.	None
Francis P. Matthews, 83 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 33 Years	Retired	None
C. William Neuhauser, 79 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 31 Years	Retired	None
Robert L. Swiggett, 83 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 35 Years	Retired	None
Sharon Osberg, 56 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 2 Years	Consultant Internet Mobile Technology	None
Roger Lowenstein, 51 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 7 Years	Writer major Financial and News Publications	None
Vinod Ahooja, 54 767 Fifth Avenue New York, NY 10153	Director	Term — 1 Year & Length of Time served — 5 Years	Retired	None

APPROVAL OF ADVISORY CONTRACT

The previous advisory contract between Sequoia Fund, Inc. (the "Corporation") and Ruane, Cunniff & Goldfarb Inc. (Adviser) terminated in early October 2005 as a result of its assignment due to the death of Mr. William J. Ruane, a control person of the Adviser. On October 14, 2005, the Board of Directors of the Corporation, including a majority of the independent directors, considered and approved an interim advisory contract between the Corporation and the Adviser at a special meeting convened for that purpose.

At a meeting held on December 12, 2005, the Board of Directors of the Corporation, including a majority of the independent directors, evaluated and approved a new advisory contract between the Corporation and the Adviser that would replace the interim advisory contract. In order for this new contract to take effect, stockholders of the Corporation must approve the contract. A stockholders' meeting is scheduled for February 24, 2006. A proxy statement describing the reason for the stockholders' meeting and soliciting proxies for the meeting was sent to stockholders on or about December 22, 2005.

Board Considerations in Approving the Advisory Contract

In approving the advisory contract, the directors considered all information they deemed reasonably necessary to evaluate the terms of the contract. The directors focused on the nature and quality of the services provided by the Adviser and the reasonableness of the fees charged for those services.

The directors' evaluation of the quality of the Adviser's services took into account written analyses of the profitability of the Corporation and the Corporation's performance under the Adviser's management. The directors noted that the Corporation over short-term periods, specifically the 3-month, 9-month and 1-year periods ended September 30, 2005, underperformed as compared to the Standard & Poor's Composite 500® Index (the "S&P Index") and the Dow Jones Industrial Average ("DJIA"). The directors noted, however, that the Corporation performed well over longer periods of time as compared to the S&P Index and DJIA.

The directors also reviewed the Corporation's performance in light of reports provided periodically by the Adviser in meetings with the Corporation's audit committee. And, the directors considered the Corporation's performance in light of the Adviser's compliance with investment policies and legal and regulatory requirements.

The directors examined the fees to be paid to the Adviser under the contract and the Corporation's overall expense ratios. They noted that under the contract the Adviser would reimburse the Corporation for the amount, if any, by which the operating expenses of the Corporation exceeds the sum of 1-1/2% of the average daily net assets up to $30,000,000 plus 1.00% of the average daily net assets in excess of $30,000,000. They also took into consideration the fact that the Corporation is closed to new investors. The directors determined that the fees were reasonable in light of the services provided by the Adviser and the fees charged by other advisers to similar funds offering similar services.

The directors considered that Mr. Robert D. Goldfarb and Mr. David M. Poppe would co-manage the Corporation. The directors further considered the Adviser's representation that it had no current plans to change the manner in which it managed the Corporation and the Adviser's assurances that it would continue to (i) have the expertise and resources necessary to provide the advisory and administrative services required by the Corporation and (ii) implement and refine its internal control and compliance program for the Corporation.

The directors considered other benefits to the Adviser as a result of its relationship with the Corporation. The directors noted that Ruane, Cunniff & Goldfarb LLC, a wholly-owned subsidiary of the Adviser, serves as the

Corporation's principal underwriter. The directors also reviewed the aggregate commissions paid to Ruane, Cunniff & Goldfarb LLC for executing securities transactions for the Corporation.

In evaluating the aforementioned considerations, the directors did not identify any single factor as all-important or controlling in their evaluation of the contract. The directors, including the independent directors, concluded that the terms of the contract were fair and reasonable and that the Adviser's fees are reasonable in light of the services provided to the Corporation and the benefits received by the Adviser. Based upon such conclusions, the directors, including a majority of the independent directors, approved the contract and recommended that it be presented to stockholders for their approval at the meeting of stockholders to be held on February 24, 2006.

Other information

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. Form N-Q is available on the SEC's web site at http://www.sec.gov. The Fund's Form N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. For information regarding the operation of the SEC's Public Reference Room, call 1-800-SEC-0330. For a complete list of the Fund's portfolio holdings, view the most recent quarterly, semiannual or annual report on Sequoia Fund's web site at http://www.sequoiafund.com/fund_reports.htm.

You may obtain a description of the Fund's proxy voting policies and procedures, and information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, without charge. Visit Sequoia Fund's web site at www.sequoiafund.com and use the "Shareholder Information" link to obtain all proxy information. This information may also be obtained from the Securities and Exchange Commission's web site at www.sec.gov.

SEQUOIA FUND, INC.
767 Fifth Avenue, Suite 4701
New York, New York 10153-4798
Website: www.sequoiafund.com

DIRECTORS

Richard T. Cunniff
Robert D. Goldfarb
David M. Poppe
Vinod Ahooja
Roger Lowenstein
Francis P. Matthews
C. William Neuhauser
Sharon Osberg
Robert L. Swiggett

OFFICERS

Richard T. Cunniff	— *Vice Chairman*
Robert D. Goldfarb	— *President*
David M. Poppe	— *Executive Vice President*
Joseph Quinones, Jr.	— *Vice President, Secretary, Treasurer & Chief Compliance Officer*

INVESTMENT ADVISER

Ruane, Cunniff & Goldfarb Inc.
767 Fifth Avenue, Suite 4701
New York, New York 10153-4798

DISTRIBUTOR

Ruane, Cunniff & Goldfarb LLC
767 Fifth Avenue, Suite 4701
New York, New York 10153-4798

CUSTODIAN

The Bank of New York
MF Custody Administration Department
One Wall Street, 25th Floor
New York, New York 10286

REGISTRAR AND SHAREHOLDER SERVICING AGENT

DST Systems, Inc.
P.O. Box 219477
Kansas City, Missouri 64121

LEGAL COUNSEL

Seward & Kissel
One Battery Park Plaza
New York, New York 10004

This report has been prepared for the information of shareholders of Sequoia Fund, Inc.