

**MATTHEW 25 FUND, INC.**  
**607 WEST AVENUE**  
**JENKINTOWN, PA 19046**  
**888-M25-FUND**  
**215-884-4458**

**Part B**  
**STATEMENT OF ADDITIONAL INFORMATION**

**May 1, 2007**

This Statement of Additional Information ("SAI") is not a prospectus but should be read in conjunction with the Fund's current prospectus dated May 1, 2007.

This SAI incorporates by reference the Fund's Annual Report to Shareholders for the fiscal year ended December 31, 2006, which was filed with the Securities and Exchange Commission on March 9, 2007. To obtain a free copy of the Prospectus or Annual Report, please write or call the Fund at the address or phone number listed above.

## TABLE OF CONTENTS

Fund History.....	2
Description of the Fund and Its Investments and Risks.....	3
Objective.....	3
Security Selection Criteria.....	3
More on Risks of Specific Strategies of the Fund.....	3
(a)U.S. Government and Agency Bonds.....	3
(b)Special Situations.....	3
(c)Foreign Securities.....	4
General Risks of the Fund.....	4
Portfolio Turnover Policy.....	4
Non-diversification Policy.....	4
Additional Fund Policies.....	5
Portfolio holdings.....	5
Management of the Fund.....	6
Management Ownership of Fund.....	7
Compensation of Directors and Officers.....	8
Code of Ethics.....	9
Proxy Voting.....	9
Anti-Money Laundering Program.....	10
Principal Holders of Shares.....	10
Investment Adviser.....	11
Advisory Fees.....	12
Independent Registered Public Accounting Firm .....	12
Custodian.....	12
Portfolio Manager.....	12
Brokerage.....	13
Capitalization.....	14
Voting Rights.....	14
Purchase of Shares and Reinvestment.....	14
Initial Investment.....	14
Subsequent Purchases.....	14
Reinvestment.....	15
Fractional Shares.....	15
Purchases and Sales Through Broker Dealers.....	15
Pricing of Shares.....	15
Frequent purchase and redemption of fund shares .....	16
Tax Status.....	16
Individual Retirement Accounts (IRA's).....	17
Performance Data.....	17
Financial Statements.....	20

## **FUND HISTORY**

MATTHEW 25 FUND, INC. (also referred to as the "Fund") was incorporated in Pennsylvania on August 28, 1995. The initial seed money of \$100,000 was invested by Mark and Ann Mulholland on October 16, 1995. The Fund did not accept investments from the public until October 1996 and has operated solely as an Investment Company since inception. The Fund's registered office is in Jenkintown, Pennsylvania; mail may be addressed as follows:

Matthew 25 Fund, Inc.  
607 West Avenue  
Jenkintown, PA 19046.

Mr. Mark Mulholland is president of the Fund. He has direct responsibility for the day to day management of the Fund, continued registration, and compliance with the Securities and Exchange Commission. Mark Mulholland has a BA in Economics from Lafayette College. He became a stockbroker with on February 14, 1983. Mr. Mulholland desired to apply his investment expertise toward managing a public no-load mutual fund, and to that end approached the management of the Valley Forge Fund for advice and assistance. He desired to manage a fund with an emphasis on the pursuit of long-term capital gains. With the assistance of Bernard Klawans of the Valley Forge Fund, Mr. Mulholland formed the Matthew 25 Fund in 1995. The Fund initially used the Valley Forge Fund's Officers, Board of Directors, and Investment Adviser, with the intent to have Mr. Mulholland utilize his Investment Adviser concern and select his own Board of Directors, when he was prepared. On July 8, 1996, the first meeting of the Fund's shareholders was held to permit Matthew 25 Management Corporation to begin its duties as Adviser to the Matthew 25 Fund, Inc. and to install a new Board of Directors to oversee operations. This was done with the complete cooperation and support of all Valley Forge Fund associated personnel. Mr. Klawans and the Valley Forge Board of Directors were compensated for their services. There are no other financial arrangements or benefits, including services and/or "soft dollars", between the Valley Forge Fund and its representatives, and the Matthew 25 Fund.

## **DESCRIPTION OF THE FUND AND ITS INVESTMENTS AND RISKS**

Objective: Matthew 25 Fund, Inc. ("the Fund") is an open-ended, non-diversified, investment company that seeks long-term capital appreciation, through investments in common stocks and/or securities convertible into common stocks. Income, through dividends or interest, will be a secondary objective. The Fund's investment objective is non-fundamental and can be changed without shareholder approval.

Security Selection Criteria: Criteria used by the Adviser in recommending purchases of securities will be based on the Business Economics, Management Quality, Financial Condition and Security Price of each business.

## **MORE ON RISKS OF SPECIFIC STRATEGIES OF THE FUND:**

### **(a) U.S. Government and Agency Bonds**

The adviser does not intend to invest in U.S. government bonds on a regular basis or for long periods of time. It does wish to have the authority to do so as a defensive strategy. There may be times when the returns on such bonds may be more attractive than the returns on money market or other short-term interest accounts. Also, due to drastic price changes in the stock or bond markets, there may be times the adviser would feel that the U.S. government or agency bonds offer a better return potential and/or lower risk scenario than stocks. Besides increasing the taxable income to the Fund's shareholders, there is historical evidence that bonds provide lower total returns than stocks over the long-term. In addition, there have been periods in the past, and very likely will be in the future, when the U.S. government and its agency's bonds have generated negative total rates of return. Therefore, in the event that the Fund uses such an investment strategy, it will likely be used for a short or intermediate period.

### **(b) Special Situation Investments**

The Fund may invest in special situations, such as the fixed income securities of a company in default. These securities would include secured or unsecured bonds, and preferred stocks. These defaults occur when a company misses a payment on its fixed income securities and may be under protection of Chapter 11 bankruptcy proceedings. Such investments, when made, are consistent with the Fund's goal of long-term capital appreciation, and satisfy the adviser's criteria of market price sufficiently below estimated fair value. Such investments should be seen as an equity substitute and not as a standard fixed income investment. These securities are considered more risky than investments in companies with higher credit ratings, and may be less liquid. The adviser will select defaulted stocks and bonds of companies he believes will survive, and successfully restructure its defaulted securities, so that the value of these fixed income securities may increase in price as a result of such restructuring. Further deterioration in the operating business of the company in default or an incorrect valuation by the adviser may lead to a loss of money for these special situation investments.

The securities of company's in default appear to be very risky, however, its securities may offer very low long-term price risk, with high reward potential. An example would be a viable operating company, with too much debt so that it is forced to file for Chapter 11 Protection in order to restructure its excessive debt load. Through its research, the adviser feels the debt will only receive 10 cents on the dollar, however, some of its debt, in the form of public bonds, trades at 2-5 cents on the dollar. Depending on the confidence of its analysis and its estimation of the length of time for reorganization, the adviser may wish to invest in the defaulted bonds. Such special situation investments may have large spreads in the buy and sell price of its securities due to low liquidity and thus, may be more expensive to trade than a more liquid security.

These investments are made for a specific price target, therefore, if achieved, will be sold, increasing the portfolio turnover. This turnover may increase the fund's costs due to the costs of selling, and potential taxes for the Fund's shareholders. There is greater time risk in these securities because the upside values are usually limited, to face value or less, therefore the rate of return declines the longer it takes for restructuring or receipt of back payments.

(c) Foreign securities

The Fund will usually limit its foreign investments to foreign companies that trade on U.S. exchanges or over the counter markets. Such companies will comply and register with the U.S. Securities and Exchange Commission. There may be less public information about a foreign company and the adviser may not be able to understand the company as well as a domestic company due to language and cultural barriers. Foreign investments may have added risks due to currency rates, expropriation, confiscating taxes, or political instability.

**GENERAL RISKS OF THE FUND:**

As stock prices may fluctuate, so may the Fund's share price fluctuate within a wide range, so that an investor could lose money over a period of time. Since the Fund invests a higher percentage of assets in fewer holdings than the average stock fund does, the Fund is subject to the risk of underperformance, due to weakness in one or a few of its stocks.

Risks associated with the Fund's performance will be those due to broad market declines and business risks from difficulties which occur to particular companies while in the Fund's portfolio. It must be realized, as is true of almost all securities, there can be no assurance that the Fund will obtain its ongoing objective of capital appreciation.

Portfolio Turnover Policy: The Fund does not propose to purchase securities for short-term trading in the ordinary course of operations. Accordingly, it is expected that the annual turnover rate will not exceed 50%, wherein turnover is computed by dividing the lesser of the Fund's total purchases or sales of securities within the period of the average monthly portfolio value of the Fund during such period. High portfolio turnover involves correspondingly greater expenses to the Fund, including brokerage commissions and other transaction costs on the sale of securities and reinvestments in other securities. Such sales also may result in adverse tax consequences to the Fund's shareholders. The trading costs and tax effects associated with portfolio turnover may adversely affect the Fund's performance. The portfolio turnover rates for the Matthew 25 Fund for the two years ended December 31, 2006 and 2005 were 28.54% and 19.48%, respectively. There may be times when management deems it advisable to substantially alter the composition of the portfolio, in which event, the portfolio turnover rate might exceed 50%; this would only result from special circumstances and not from the Fund's normal operations.

Non-diversification Policy: The Fund is classified as non-diversified, which means that it may invest a relatively high percentage of its assets in the obligations of a limited number of issuers. The Fund, therefore, may be more susceptible than a more widely diversified fund to any single, economic, political, or regulatory occurrence. The policy of the Fund, in the hope of achieving its objective as stated above, is, therefore, one of selective investments rather than broad diversification. The Fund seeks only enough diversification for adequate representation among what it considers to be the best performing securities and to maintain its federal non-taxable status under Sub-Chapter M of the Internal Revenue Code.

### **ADDITIONAL FUND POLICIES**

By-laws of the Fund provide the following fundamental investment restrictions; The Fund may not, except by the approval of a majority of the outstanding shares; i.e. a) 67% or more of the voting securities present at a duly called meeting, if the holders of more than 50% of the outstanding voting securities are present or represented by proxy, or b) of more than 50% of the outstanding voting securities, whichever is less:

- (a) Act as underwriter for securities of other issuers except insofar as the Fund may be deemed an underwriter in selling its own portfolio securities.
- (b) Borrow money or purchase securities on margin, but may obtain such short term credit as may be necessary for clearance of purchases and sales of securities for temporary or emergency purposes in an amount not exceeding 5% of the value of its total assets.
- (c) Sell securities short.
- (d) Invest in securities of other investment companies except as part of a merger, consolidation, or purchase of assets approved by the Fund's shareholders.
- (e) Invest over 25% of its assets at the time of purchase in any one industry.
- (f) Make investments in commodities, commodity contracts or real estate although the Fund may purchase and sell securities of companies that deal in real estate or interests therein.
- (g) Make loans. The purchase of a portion of a readily marketable issue of publicly distributed bonds, debentures or other debt securities will not be considered the making of a loan.
- (h) Acquire more than 10% of the securities of any class of another issuer, treating all preferred securities of an issuer as a single class and all debt securities as a single class, or acquire more than 10% of the voting securities of another issuer.
- (i) Invest in companies for the purpose of acquiring control.
- (j) The Fund may not purchase or retain securities of any issuer if those officers and directors of the Fund or its Investment Adviser owning individually more than 1/2 of 1% of any classes of security or collectively own more than 5% of such class of securities of such issuer.
- (k) Pledge, mortgage or hypothecate any of its assets.

- (l) Invest in securities, which may be subject to registration under the Securities Act of 1933 prior to sale to the public or which are not at the time of purchase readily salable.
- (m) Invest more than 5% of the total Fund assets, taken at market value at the time of purchase, in securities of companies with less than three years' continuous operation, including the operations of any predecessor.
- (n) Issue senior securities.

## **PORTFOLIO HOLDINGS**

The Fund is required to include a schedule of portfolio holdings in its annual and semi-annual reports to its shareholders. These reports are sent to shareholders within 60 days of the end of the second and fourth fiscal quarters and are filed with the Securities and Exchange Commission (the "SEC") on Form N-CSR. The Fund is also required to file a schedule of portfolio holdings with the SEC on Form N-Q within 60 days of the end of the first and third fiscal quarters. The Fund will provide a copy of the complete schedule of portfolio holdings as filed with the SEC, upon request. This policy is applied uniformly to all requesters, without regard to the type of requesting investor (i.e., regardless of whether the requester is an individual or institutional investor). The Fund's President or Chief Compliance Officer are authorized to release the Fund's portfolio according to the schedule above. The Board of Directors and Management of the Fund have determined that the above portfolio release policy is in the best interest of the Fund's shareholders. Additionally, any conflicts of interest with regards to this policy are appropriately addressed by the Board and Fund management. The Board of Directors is involved in the oversight of the portfolio release policy.

## **MANAGEMENT OF THE FUND**

The business of the Fund is managed under the direction of its Board of Directors and Officers. The Board of Directors selects and approves the investment adviser and any officers necessary to conduct the business of the Fund. The Board of Directors and Officers, when acting in such capacities, shall not be subject to any personal liability except for his or her own bad faith, willful misfeasance, gross negligence or reckless disregard of his or her duties. The following table shows the officers and directors with their ages, addresses, positions at the Fund, principal occupations during the past five years, and any other Directorships held by the Director or Officer. The Directors and Officers are elected on an annual basis, and each of the Directors have served in their current positions since July 8, 1996.

## INDEPENDENT DIRECTORS

<b>Name and Fund Position</b>	<b>Age</b>	<b>Principal Occupation Past Five Years</b>	<b>Other Directorships Held by Director</b>
Philip J. Cinelli, D.O. Director	47	Physician in Family Practice, Bangor, PA	None
Samuel B. Clement Director	48	Stockbroker Securities America (Brokerage Firm) Berwyn, PA	None
Linda Guendelsberger, MST Director and Secretary	47	CPA and Partner Fishbein & Co P.C. (Accounting Firm) Horsham, PA	None
Scott A. Satell Director	44	Principal, BPI (Manufacturer's Rep) Bala Cynwyd, PA	None

## INTERESTED DIRECTORS

<b>Name and Fund Position</b>	<b>Age</b>	<b>Principal Occupation Past Five Years</b>	<b>Other Directorships Held by Director</b>
Steven D. Buck, Esq.* Director	47	Attorney and Partner Stevens & Lee (Law Firm) Reading, PA	None
Mark Mulholland* Director and President	47	President Matthew 25 Fund Matthew 25 Management Corp. Stockbroker Boenning & Scattergood Jenkintown, PA	None

*\* Directors of the Fund who would be considered "interested persons" as defined by the Investment Company Act of 1940. Mark Mulholland is an interested person insofar as he is President and owner of the Fund's Investment Adviser. Mr. Buck*

*is not an independent director as long as he or his law firm provides legal advice to the Fund for compensation.*

*Lesley A. Buck, age 40, is the Chief Compliance Officer of the Matthew 25 Fund and is the sister of Steven D. Buck, Director of Matthew 25 Fund. There is no economic relationship between Ms. Buck and her brother.*

## **OFFICERS WHO ARE NOT DIRECTORS**

<b>Name and Fund Position</b>	<b>Age</b>	<b>Principal Occupation Past Five Years</b>
Lesley A. Buck, MEd. CCO	40	Operations Officer and Chief Compliance Officer Matthew 25 Fund and Matthew 25 Management Corp. Jenkintown, PA
Ann Mulholland, MST Treasurer	48	Treasurer Matthew 25 Fund Jenkintown, PA

Management Ownership: Directors and Officers of the Fund and their ownership of the Fund, as of December 31, 2006, are as follows:

<b>Name</b>	<b>Fund Shares Owned 12/31/06</b>	<b>Dollar Range of Equity Ownership of Fund 12/31/06</b>	<b>Percent of class</b>
Lesley A. Buck, MEd Chief Compliance Officer	9,260.010	\$100,001-\$500,000	0.17%
Philip J. Cinelli, D.O Director	23,997.610	\$100,001-\$500,000	0.43%
Samuel B. Clement Director	2,385.538	\$10,001 - \$50,000	0.04%
Linda Guendelsberger, MST Director and Secretary	16,250.847	\$100,001-\$500,000	0.29%

Ann Mulholland Treasurer	198,483.575**	Over \$1,000,000	3.57%
Scott A. Satell Director	17,312.204	\$100,001-\$500,000	0.31%
Steven D. Buck, Esq.* Director	17,132.831	\$100,001-\$500,000	0.31%
Mark Mulholland* Director and President	198,483.575 **	Over \$1,000,000	3.57%

*\* Directors of the Fund who would be considered "interested persons" as defined by the Investment Company Act of 1940. Mark Mulholland is an interested person insofar as he is President and owner of the Fund's Investment Adviser. Mr. Buck is not an independent director as long as he or his law firm provide legal advice to the Fund for compensation. Additionally, Mr. Buck's sister Lesley Buck is the Chief Compliance Officer of the Matthew 25 Fund.*

*\*\* Mark & Ann Mulholland, who are spouses, own 168,060.450 shares jointly, 3,112.869 in custodial accounts for their children, 2,147.090 in Ann's IRA, 12,540.789 in Mark's IRA, and 12,622.377 in Mark's 401k.*

*Neither the Directors who are "not interested" persons of the Fund, as that term is defined in the 1940 Act, nor members of their immediate family, own securities beneficially or of record in Matthew 25 Management Corp. - the Investment Adviser, or any affiliate of Matthew 25 Management Corp.*

*Neither the Directors who are "not interested" persons of the Fund, as that term is defined in the 1940 Act, nor members of their immediate family, have conducted any transactions, or series of transactions, in which the amount involved exceeds \$60,000 and to which the Fund or the Investment Adviser, or any of their affiliates, were a party.*

## **COMMITTEES**

The Registrant's entire Board of Directors acts as the audit committee. The Board of Directors has determined that the Registrant has at least two financial experts serving on its Board.

Mr. Mark Mulholland and Ms. Linda Guendelsberger are the Board's financial experts. Mr. Mulholland is an "interested" director, and Ms. Guendelsberger is an "independent" director.

The Audit Committee meets once a year, or more often as required, in conjunction with meetings of the Board of Directors. The Audit Committee oversees and monitors the Fund's internal accounting and control structure, its auditing function and its financial reporting process. The Audit Committee recommends the appointment of auditors for the Fund. The Audit Committee also reviews audit plans, fees, and other material arrangements with respect to the engagement of auditors, including permissible non-audit services performed. It reviews the qualifications of the auditor's key personnel involved in the foregoing activities and monitors the auditor's independence. During the fiscal year ended December 31, 2006, the Audit Committee held one meeting.

### **COMPENSATION OF DIRECTORS**

Each director, except Mark Mulholland, was paid a flat fee of \$2,000 plus \$375 per meeting attended, in shares of the Matthew 25 Fund in 2006. The Fund intends to pay the same compensation in 2007. Mark Mulholland will receive benefit from the investment advisory fees payable to Matthew 25 Management Corp. and, therefore, will not be eligible to receive directors' fees or salary as president as long as his firm acts as the Investment Adviser.

<b>Name</b>	<b>Aggregate Compensation From Fund</b>	<b>Pension or Retirement Benefits From Fund</b>	<b>Total Compensation From Fund</b>
Philip J. Cinelli, D.O Director	\$3,875.00	\$0	\$3,875.00
Samuel B. Clement Director	\$3,125.00	\$0	\$3,125.00
Linda Guendelsberger, MST Director and Secretary	\$3,875.00	\$0	\$3,875.00
Ann Mulholland Treasurer	\$0	\$0	\$0.00
Scott A. Satell Director	\$3,875.00	\$0	\$3,875.00
Steven D. Buck, Esq.* Director	\$3,875.00	\$0	\$3,875.00
Mark Mulholland * Director and President	\$0	\$0	\$0.00

*\* Directors of the Fund who would be considered "interested persons" as defined by the Investment Company Act of 1940. Mark Mulholland is an interested person insofar as he is President and owner of the Fund's Investment Adviser. Mr. Buck is not an independent director as long as he or his law firm provide legal advice to the Fund for compensation. Additionally, Mr. Buck's sister Lesley Buck is the Chief Compliance Officer of the Matthew 25 Fund.*

## **CODE OF ETHICS**

Both the Fund and the Fund's Investment Adviser have adopted Codes of Ethics under rule 17j-1 of the Investment Company Act. These Code of Ethics describe rules and regulations for applicable personnel regarding personal investments in securities held within the Fund's portfolio. These Code of Ethics are on file with, and available from, the Securities and Exchange Commission.

## **PROXY VOTING**

The Adviser provides a voice on behalf of shareholders of the Fund. The Adviser views the proxy voting process as an integral part of the relationship with the Fund. The Fund's Board of Directors has delegated its authority to vote Fund proxies to the Adviser, subject to the Fund's proxy voting policies. It is the Adviser's policy to vote all proxies received by the Fund within a reasonable amount of time of receipt. Upon receiving each proxy the Adviser will review the issues presented and make a decision to vote for, against or abstain on each of the issues presented in accordance with the proxy voting guidelines that it has adopted. The Adviser will consider information from a variety of sources in evaluating the issues presented in a proxy. The Adviser will pay particular attention to two primary areas:

- (1) Accountability - Suitable procedures implemented to ensure that management of a company is accountable to its board of directors and its board accountable to shareholders;
- (2) Alignment of Management and Shareholder Interests - the management and board of directors share goals and mutual interest in the benefit of the company's shareholders.

In certain instances, a conflict of interest may exist between the Investment Adviser and the Matthew 25 Fund regarding certain proxy proposals. In such cases, the Adviser is committed to resolving the conflict in the best interest of the Matthew 25 Fund before he votes the proxy in question. Accordingly, if a conflict of interest exists, Mr. Mulholland will consult at least two Matthew 25 Fund Board Members to discuss the voting of the proxy.

The Adviser's duty is to vote in the best interests of the Fund's shareholders. The actual voting records relating to portfolio securities during the most recent 12 month period ended June 30 (starting with the year ending June 30, 2004) will be available without charge, upon request by calling toll-free,

1-888-M25-FUND or by accessing the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, a copy of the Fund's proxy voting policy and procedures are also available by calling 1-888-M25-FUND.

### **ANTI-MONEY LAUNDERING PROGRAM**

The Fund has established an Anti-Money Laundering Compliance Program as required by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT ACT"). To ensure compliance with this law, the Fund's Program provides for the development of internal practices, procedures and controls, designation of anti-money laundering compliance officers, an ongoing training program and an independent audit function to determine the effectiveness of the Program.

Procedures to implement the Program include, but are not limited to, determining that the Fund has established proper-anti-money laundering procedures, reporting suspicious and/or fraudulent activity and a complete and thorough review of all new opening account applications. The Fund will not transact business with any person or entity whose identity cannot be adequately verified under the provisions of the USA PATRIOT Act.

### **PRINCIPAL HOLDERS OF SECURITIES**

Major Shareholders: As of December 31, 2006, shareholders on record who own 5% or more of the outstanding shares of the Fund are as follows:

<b>Name ownership</b>	<b>Address</b>	<b>Percentage</b>
R. Neff	Radnor, Pennsylvania	13.05%
Charles Schwab & CO. For the benefit of their customers	San Francisco, California	9.82%
National Financial Services Corp. For the benefit of their customers	New York, New York	7.65%

As of December 31, 2006, all Directors and Officers of the Fund, as a group, owned 284,822.615 shares or 5.12% of the Fund's outstanding shares.

## **INVESTMENT ADVISER**

**Matthew 25 Management Corporation**  
**607 West Avenue**  
**Jenkintown, PA 19046**

The Matthew 25 Management Corp. is the Investment Adviser to the Fund and has continued to provide this service since July 8, 1996. Mr. Mark Mulholland is the sole director and president of the Investment Adviser as well as serving as president of the Fund. As president of the investment adviser he has direct responsibility for the day-to-day management of the Fund's investment portfolio.

The current advisory agreement will continue on a year-to-year basis provided that approval is voted at least annually by the Fund's Board of Directors or by majority vote of the outstanding voting securities of the Fund, but in either event; it must also be approved by a majority of the Fund's directors, who are neither parties to the agreement, nor interested persons as defined in the Investment Company Act of 1940. For the annual review of the Investment Advisory Agreement, the Board of Directors receives information relating to 1) the terms and conditions of the agreement, including the nature of the services to be provided to the Fund by the Adviser, 2) investment performance information 3) cost of services to the Fund and profitability of the Advisor and 4) economies of scale with respect to the management of the Fund.

Under the Agreement, the Matthew 25 Management Corp., the Adviser, will have full discretion and responsibility for the investment decisions in the Fund. The Agreement may be terminated at any time, without payment of any penalty, by the Board of Directors or by vote of a majority of the outstanding voting securities of the Fund, on not more than 60 days written notice to the Matthew 25 Management Corp. In the event of its assignment, the Agreement will terminate automatically. For these services the Fund has agreed to pay to Matthew 25 Management Corp. a fee of 1% per year on the average net assets of the Fund.

All fees are computed and accrued on the daily closing net asset value of the Fund and are payable monthly. The Investment Adviser would forgo sufficient fees to hold the total expenses of the Fund to less than 2% of the first \$10 million in averaged assets and 1.5% of the next \$20 million. The Board of Directors selected these ratios because they are believed to meet the most restrictive state requirements.

Pursuant to its contract with the Fund, the investment adviser is required to pay all costs of travel and materials required in its research; this is so that the adviser may fulfill its duty to buy, sell and hold securities, that the adviser deems to best satisfy the Fund's investment requirements. The adviser is to pay the salaries of the Fund's officers, directors or employees who are

employees of the investment adviser. The Fund pays the expenses to operate as a Registered Investment Company, including but not limited to the following:

- audit fees
- bookkeeping and record maintenance
- brokerage commissions
- custodian fees
- directors' fees
- insurance
- interest
- legal fees
- operating its offices
- registration and compliance
- taxes
- transfer agent fees

Advisory Fees: The advisory fees to the current adviser, for the last three years, are as follows:

<b>YEAR</b>	<b>ADVISORY FEE</b>	<b>AMOUNT WAIVED</b>	<b>NET ADVISORY FEE</b>
2004	\$ 693,753	\$ 0	\$ 693,753
2005	\$ 969,455	\$ 0	\$ 969,455
2006	\$1,059,537	\$ 0	\$1,059,537

## **OTHER SERVICE PROVIDERS**

### **TRANSFER AGENT**

The Fund acts as its own transfer agent.

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The firm of Sanville & Company, 1514 Old York Road, Abington, PA 19001, has been selected as Independent Registered Public Accounting Firm for the Fund for the past seven years ended December 31, 2006. Sanville & Company performs an annual audit of the Fund's financial statements. Sanville & Company also issues a report on the processing of shareholder transactions by the Fund's Transfer Agent.

### **CUSTODIAN**

U.S. Bank, N.A., 425 Walnut Street, 6th Floor, Cincinnati, OH 45202 has been selected to act as Custodian of the Fund's investments. The custodian safe keeps the portfolio securities and investments, collects income, disburses funds as instructed, and maintains records in connection with its duties.

## **PORTFOLIO MANAGER**

Matthew 25 Management Corp. is the sole Adviser to the Matthew 25 Fund, and Mark Mulholland is the sole portfolio manager. Mr. Mulholland's compensation is paid by the Management Corp., and is set forth by the owners and directors of the Matthew 25 Management Corp. Because Mr. Mulholland and his wife are the sole owners of the Adviser, his salary is determined by the Adviser's profitability. Mr. Mulholland's income will likely be affected by appreciation and depreciation of the portfolio's securities, as well as the purchase and redemption of shares by the Fund's shareholders. These actions affect the net assets of the Fund and thus the advisory fees paid to the adviser.

Mr. Mulholland is not a portfolio manager for any other accounts. However, Mr. Mulholland is a stockbroker with Boenning & Scattergood, Inc.

As of December 31, 2006 Mark Mulholland (and his wife) beneficially owns 198,483.575 shares or \$3,630,264.59 of the Matthew 25 Fund.

## **BROKERAGE**

The Fund requires all brokers to effect transactions of portfolio securities in such a manner as to get prompt execution of the orders at the most favorable price. The Fund will place all orders for purchases and sales of its portfolio securities through the Fund's President who is answerable to the Fund's Board of Directors. In accordance with Rule 17E-1, if the Fund's President is also a registered representative of a New York Stock Exchange or NASDAQ Member Firm, he may place orders through his concern at as low commission rates as possible but never to exceed rates that are higher than would be available through any other national brokerage firm. The Directors will review each transaction when a commission is generated at a brokerage firm that is affiliated with the Fund's President or Adviser and determine if the commission paid appears reasonable. In the event that the Board determines that any or all of the commissions paid are higher than what they determine as reasonable, then the Board will reduce the fees paid to the Adviser by an amount equal to the commissions deemed unreasonable. This review must be done at least quarterly. The Fund's President may select other brokers whom in addition to meeting the primary requirements of execution and price, have furnished statistical or other factual information and services, which, in the opinion of management, are helpful or necessary to the Fund's normal operations. No effort will be made in any given circumstances to determine the value of these services or the amount they might have reduced adviser expenses.

Other than as set forth above, the Fund has no fixed policy, formula, method or criteria which it uses in allocating brokerage business to brokers furnishing these materials and services. The Board of Directors will evaluate and review the reasonableness of brokerage commissions paid to brokers not affiliated with the President or Adviser at least semiannually.

Mark Mulholland is a stockbroker with Boenning & Scattergood, Inc. and has been since July 8, 1996. The following table shows the commissions paid, by the Fund, to Boenning & Scattergood for the most recent five fiscal years.

<b>YEAR</b>	<b>BOENNING &amp; SCATTERGOOD COMMISSIONS</b>
2002	\$ 24,972
2003	\$ 7,233
2004	\$ 153
2005	\$ 150
2006	\$ 182

The total brokerage commissions paid in 2006 equaled \$9,294. The commissions for 2003, 2004, 2005 and 2006 are significantly lower than previous years because in the third quarter of 2003, the Adviser began placing the Fund's trades through Ameritrade Clearing, Inc.'s online trading service. The following table details all commissions paid for the most recent five fiscal years.

<b>Year</b>	<b>Total Commissions</b>	<b>Commissions Paid to Boenning &amp; Scattergood</b>	<b>Percentage of Commissions Paid to Boenning &amp; S.</b>	<b>Percentage of Trade Amounts Made Paid Through Boenning &amp; S.</b>
-----	-----	-----	-----	-----
2002	\$24,972	\$24,972	100%	100%
2003	\$ 8,145	\$ 7,233	88.8%	69.3%
2004	\$ 5,967	\$ 153	2.6%	1.3%
2005	\$ 7,810	\$ 150	1.9%	0.6%
2006	\$ 9,294	\$ 182	2.0%	0.4%

Since 2003, the Adviser has been placing the vast majority of the Fund's trades through Ameritrade Clearing Inc.'s online trading service. Beginning in May 2004, The Fund has owned shares of Ameritrade Clearing Inc. in its portfolio. As of December 31, 2006 the Fund owned 327,500 shares (\$5,298,950 market value) of Ameritrade Clearing's common stock. This holding in Ameritrade represents 0.055% of Ameritrade's shares outstanding as of January 26, 2007.

## **CAPITALIZATION**

**Description of Common Stock:** The authorized capitalization of the Fund consists of 100,000,000 shares of common stock. The par value per share is set at \$0.01 and each share has equal dividend, distribution and liquidation rights. There are no conversion or pre-emptive rights applicable to any shares of the Fund. All shares issued are fully paid and non-accessible.

**Voting Rights:** Each holder of the Fund's common stock has one vote for each share held and fractional shares will have an equivalent fractional vote.

Voting rights are non-cumulative, which means that the holders of a majority of shares of common stock can elect all directors of the Fund if they so choose, and the holders of the remaining shares will not be able to elect any person as a director.

## **PURCHASE OF SHARES AND REINVESTMENTS**

The offering price of the shares offered by the Fund is at the Net Asset Value per share ("NAV") next determined after receipt of the purchase order, by the Fund. The Fund reserves the right, at its sole discretion, to terminate the offering of its shares made by this Prospectus at any time and to reject purchase applications when, in the judgment of management such termination or rejection is in the best interests of the Fund.

**Initial Investments:** Initial purchase of shares of the Fund may be made only by application submitted to the Fund with a check, money order or transfer wire made payable to the Matthew 25 Fund, or through a brokerage firm or other financial institution that has agreed to sell the Fund's shares. For the convenience of investors, a Share Purchase Application form is provided with the Prospectus, as well as Form W-9. A signed Form W-9 is necessary to avoid mandatory withholding of Federal Taxes from dividends, distributions and redemptions. The minimum initial purchase, of shares, is \$10,000; less may be accepted under special circumstances. The Fund is eligible for sale in most states. There will be no solicitation of other states' residents as potential shareholders until registration under the Blue Sky or Notification Laws of such states have been met.

In compliance with the USA Patriot Act of 2001, please note that the Fund will verify certain information on your account application as part of the Fund's Anti-Money Laundering Program. As requested on the application, you should supply your full name, date of birth, social security number and permanent street address. Mailing addresses containing a P.O. Box will not be accepted.

**Subsequent Purchases:** Subsequent purchases may be made by mail or by phone and are due and payable three business days after the purchase date. The minimum is \$100, but less may be accepted under special circumstances.

**Automatic Investment Plan:** The Automatic Investment Plan allows shareholders to purchase Fund shares on at least a monthly basis. Investments are made by authorizing the Fund to automatically deduct a dollar amount from the shareholders bank or money market account, and invest that dollar amount in Fund shares. To participate in this program, an Automatic Investing Form (which is available by contacting the Fund) must be completed and signed.

**Reinvestments:** The Fund will automatically retain and reinvest dividends and capital gain distributions. Reinvestment, for the shareholder, will be at net

asset value on the close of business on the distribution date. A Shareholder may at any time, by letter or forms supplied by the Fund, direct the Fund to pay the dividends and/or capital gains distributions to the shareholder in cash.

Fractional Shares: Shares will be issued up to three decimal places.

#### Investments Made Through Financial Services Agents:

If you invest through a financial services agent (rather than directly with the Fund), the policies and fees may be different than those described here.

Financial advisers, financial supermarkets and other financial services agents may charge transaction and other fees and may set different minimum investments or limitations on buying or selling shares. Consult a representative of your financial services agent if you have any questions. Your financial services agent is responsible for transmitting your orders in a timely manner.

#### Purchases and Sales Through Broker Dealers:

The Fund has authorized one or more brokers to accept on its behalf purchase and redemption orders. Such brokers are authorized to designate other intermediaries to accept purchase and redemption orders on the Fund's behalf. The Fund will be deemed to have received a purchase or redemption order when an authorized broker or, if applicable, a broker's authorized designee, accepts the order. Customer orders will be priced at the Fund's NAV next computed after an authorized broker accepts them, or the broker's authorized designee.

## **OFFERING PRICE**

### **NET ASSET VALUE CALCULATION**

The Net Asset Value (NAV) of the Fund's shares is determined as of the close of business of the New York Stock Exchange ("NYSE") for each business day of which the NYSE is open (presently 4:00 PM Monday through Friday). This, of course, is exclusive of any and all legal holidays the NYSE so honors by being closed for the day. The NAV of the Fund is determined by dividing the market values of its securities, plus any cash and other assets, less all liabilities excluding par and surplus capital, by the number of shares outstanding. The market values, for securities listed on a national or regional exchange or on the National Association of Securities Dealers Automated Quotation (NASDAQ) market, are determined by the closing prices on the securities' primary market. Exchange or NASDAQ securities that have not recently traded are valued at the last bid price in the securities' primary market. Short-term paper (debt obligations that mature in less than a year) are valued at amortized cost that approximates market value. The Fund may use fair value pricing only when market prices are unavailable.

An example of how the Fund calculated its offering price per share as of December 31, 2006 is as follows:

Net Assets  
----- = Net Asset Value (NAV) per share  
Shares Outstanding

101,727,890  
----- = 18.29  
5,563,377

### **REDEMPTION IN KIND**

The Fund intends to make payments for redemptions in cash, however, the Fund reserves the right to make payments in kind.

### **FREQUENT PURCHASE AND REDEMPTION OF FUND SHARES**

The Fund is intended for use as a long-term investment vehicle. Long-term, as defined by management, is at least three years. The Fund is not intended to provide a means of speculating on short-term market movements. Frequent short-term trades by investors have the potential to make the Fund more difficult to manage efficiently, could impose additional brokerage or administrative costs on the Fund, may create unplanned tax burdens for some shareholders, and may dilute the value of Fund shares held by long-term investors. The Fund does not have any arrangements with any person to permit frequent purchases and redemptions of their shares. The Fund encourages long-term investing, and if a shareholder redeems shares, the Fund may take reasonable action in response, up to and including the limitation, suspension, or termination of a shareholder's purchase privileges. It may not be feasible for the Fund to prevent or detect every potential instance of short-term trading.

The Board of Directors has adopted these policies and procedures with respect to frequent purchases and redemptions of Fund shares by Fund shareholders. To discourage short-term trades by investors, and to compensate the Fund for costs that may be imposed by such trades, the Fund will impose a redemption fee of 2.00% of the total redemption amount (calculated at market value) if you sell your shares after holding them for 365 days or less. The redemption fee is paid directly to the Fund and is designed to offset transaction costs and to protect the Fund's long-term shareholders. The Fund will use the "first-in, first-out" (FIFO) method to determine the 365 day holding period. The redemption fee does not apply to any shares purchased before January 1, 2006, or to shares purchased through reinvested distributions. The Fund reserves the right to waive redemption fees for certain accounts that have proven to be long-term shareholders.

The Fund reserves the right to reject any purchase at any time.

## **TAX STATUS**

Under provisions of the Internal Revenue Code of 1986 as amended, the Fund, by paying out substantially all of its investment income and realized capital gains, has been and intends to continue to be relieved of federal income tax on the amounts distributed to shareholders. In order to qualify as a "regulated investment company" under Internal Revenue Code, at least 90% of the Fund's income must be derived from dividends, interest and gains from securities transactions and no more than 50% of the Fund's assets may be in security holdings that exceed 5% of the total assets of the Fund at the time of purchase.

Recently enacted tax legislation generally provides for a maximum tax rate for individual taxpayers of 15% on long-term capital gains from sales and on certain qualifying dividend income. Distribution properly designated by the Fund as representing the excess of net long-term capital gains over net short-term capital loss are taxable to the shareholder as long-term capital gains, regardless of the length of time Fund shares have been held. Dividends from net income will be made annually or more frequently at the discretion of the Fund's Board of Directors. Dividends received shortly after purchase of shares by an investor will have the effect of reducing the per share net asset value of his shares by the amount of such dividends or distributions and, although in effect a return of capital, are subject to federal income taxes.

The Fund is required by federal law to withhold a percentage of reportable payments (which may include dividends, capital gains, distributions and redemptions) paid to shareholders who have not complied with IRS regulations. In order to avoid this withholding requirement, you must certify on tax Form W-9 supplied by the Fund that your Social Security or Taxpayer Identification Number provided is correct and that you are not currently subject to back-up withholding, or that you are exempt from back-up withholding.

**Individual Retirement Account:** Persons who earn compensation and their spouses may establish Individual Retirement Accounts (IRA) using Fund shares. Annual contributions may or may not be tax deductible from gross income. Qualification and deduction of contributions should be determined after consulting a tax adviser. Earnings within the IRA are reinvested and are tax-deferred until withdrawals begin. You may begin to make non-penalty withdrawals as early as age 59 1/2 or as late as age 70 1/2. Individuals may use the Fund for contributions to a traditional IRA, Roth IRA, Simplified Employee Pension (SEP) IRA, Simple IRA, or Education IRA.

U.S. Treasury Regulations require a Disclosure Statement. This Statement

describes the general provisions of the IRA and is forwarded to all prospective IRA shareholders. There is an annual fee of \$14.00 charged by the IRA Custodian, U.S. Bank, N.A. The Fund will pay the annual fee for accounts with a value of at least \$10,000. Accounts below \$10,000 in market value may be charged the \$14.00 fee. This will be decided on an annual basis by the Fund's President or Directors. When the Fund pays the annual fees it will be part of the IRA expenses for the Fund. If the fees are charged to the IRA owners then the owner will have the option of paying the fee directly or withdrawing the fee from their IRA.

## **PERFORMANCE DATA**

The Fund's total returns are based on the overall dollar or percentage change in value of a hypothetical investment in the Fund, assuming all dividends and distributions are reinvested. Average annual total return reflects the hypothetical annually compounded return that would have produced the same cumulative total return if the Fund's performance had been constant over the entire period presented. Because average annual total returns tend to smooth out variations in a Fund's returns, investors should recognize that they are not the same as actual year-by-year returns. Average annual return is based on historical earnings and is not intended to indicate future performance.

For the purpose of quoting and comparing the performance of a Fund to that of other mutual funds and to other relevant market indices in advertisements, performance will be stated in terms of average annual total return. Under regulations adopted by the Securities and Exchange Commission, the Fund's average annual total return quotations are calculated according to the formula below.

In calculating the ending redeemable value, all dividends and distributions by the Fund are assumed to have been reinvested at net asset value as described in the Prospectus on the reinvestment dates during the period. Additionally, redemption of shares is assumed to occur at the end of each applicable time period.

### **Average Annual Total Return**

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$$P(1+T)^n = ERV$$

WHERE:

P = a hypothetical initial payment of \$1,000

T = average annual total return

n = number of years

ERV = ending redeemable value of a hypothetical \$1,000

payment made at the beginning of the 1-, 5-, or 10-year periods at the end of the 1-, 5-, or 10-year periods (or fractional portion).

<b>Period</b>	<b>Average Annual Initial Purchase</b>	<b>Ending Return</b>	<b>Redeemable Value 12/31/2006</b>
1 Year 12/31/05-12/31/06	\$1,000	3.79%	\$1,038
5 Years 12/31/01-12/31/06	\$1,000	11.20%	\$1,700
10 Years 12/31/96-12/31/06	\$1,000	13.24%	\$3,467

After tax returns are calculated using historical highest federal tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an individual investor's tax situation and may differ from those shown. After tax returns are not relevant to investors who hold fund shares through tax-deferred arrangements such as 401(k) plans or IRA's. As with all mutual funds, past results are not an indication of future performance.

### **Average Annual Total Return (After Taxes on Distributions)**

The average annual total return (after taxes on distributions) is computed by finding the average annual compounded rates of return over the periods that would equate the initial amount invested to the ending value, according to the following formula:

$$P(1+T)^n = ATV$$

D

WHERE:

- P = a hypothetical initial payment of \$1,000  
 T = average annual total return(after taxes on distributions)  
 n = number of years  
 ATV = ending value of a hypothetical \$1,000  
 D payment made at the beginning of the 1-, 5-, or 10-year periods at the end of the 1-, 5-, or 10-year periods (or fractional portion), after taxes on fund distributions but not after taxes on redemption.

<b>Period</b>	<b>Average Annual Initial Purchase</b>	<b>Ending Redeemable Return</b>	<b>Value 12/31/2006</b>
1 Year 12/31/05-12/31/06	\$1,000	3.57%	\$1,036
5 Years 12/31/01-12/31/06	\$1,000	10.82%	\$1,671
10 Years 12/31/96-12/31/06	\$1,000	12.94%	\$3,375

After tax returns are calculated using historical highest federal tax rates and do not reflect the impact of state and local taxes. Actual after tax returns depend on an individual investor's tax situation and may differ from those shown. After tax returns are not relevant to investors who hold fund shares through tax-deferred arrangements such as 401(k) plans or IRA's. As with all mutual funds, past results are not an indication of future performance.

### **Average Annual Total Return (After Taxes on Distributions and Redemptions)**

The average annual total return (after taxes on distributions and sale of fund shares) is computed by finding the average annual compounded rates of return over the periods that would equate the initial amount invested to the ending value, according to the following formula:

$$P(1+T)^n = ATV$$

## DR

### WHERE:

P = a hypothetical initial payment of \$1,000

T = average annual total return (after taxes on distributions and redemption)

n = number of years

ATV = ending value of a hypothetical \$1,000

DR = payment made at the beginning of the 1-, 5-, or 10-year periods at the end of the 1-, 5-, or 10-year periods (or fractional portion), after taxes on fund distributions and redemption.

<b>Period</b>	<b>Average Annual Initial Purchase</b>	<b>Ending Redeemable Return</b>	<b>Value 12/31/2006</b>
1 Year 12/31/05-12/31/06	\$1,000	2.78%	\$1,028
5 Years 12/31/01-12/31/06	\$1,000	9.66%	\$1,586
10 Years 12/31/96-12/31/06	\$1,000	11.72%	\$3,028

After tax returns are calculated using historical highest federal tax rates and do not reflect the impact of state and local taxes. Actual after tax returns depend on an individual investor's tax situation and may differ from those shown. After tax returns are not relevant to investors who hold fund shares through tax-deferred arrangements such as 401(k) plans or IRA's. As with all mutual funds, past results are not an indication of future performance.

From time to time, quotations of the Fund's performance may be included in advertisements, sales literature or reports to shareholders or prospective investors. The Fund may also compare its performance figures to the performance of unmanaged indices which may assume reinvestment of dividends or interest but generally do not reflect deductions for administrative and management costs. Examples include, but are not limited to, the Value Line Index, the Dow Jones Industrial Average, the Consumer Price Index, Standard & Poor's 500 Composite Price Index (the "S&P 500"), the various NASDAQ indices, and the Russell 3000. In addition, the Fund may compare its performance to the performance of broad groups of mutual funds with similar investment goals, as tracked by independent organizations such as Investment Company Data, Inc., Lipper Analytical Services,

Inc., CDA Investment Technologies, Inc., Morningstar, Inc., Ibbotsen Associates, Value Line Mutual Fund Survey, and other independent organizations. Also, the Fund may refer to its ratings and related analysis supporting the ratings from these or other independent organizations.

## **FINANCIAL STATEMENTS**

The Financial Statements and Independent Auditor's Report required to be included in the Statement of Additional Information are incorporated herein by reference to the Fund's Annual Report to Shareholders for the fiscal year ended December 31, 2006. The Fund will provide the Annual Report without charge at written or telephone request.