

MATTHEW 25 FUND, INC

ANNUAL REPORT

December 31, 2005

Matthew 25 Fund, Inc.
607 West Avenue
Jenkintown, PA 19046
1-888-M25-FUND

Fund Symbol: MXXVX
Website: www.matthew25fund.com

This report is provided for the general information of Matthew 25 Fund shareholders. It is not authorized for distribution unless preceded or accompanied by an effective prospectus, which contains more complete information about the Fund. Please read it carefully before you invest.

Dear Matthew 25 Fund Shareholders,

Our Fund was up 5.07% for the year of 2005. From its inception on 10/16/95 through 12/31/05 our Fund has gained 309.2%. In other words, a \$10,000 investment at the inception of our Matthew 25 Fund would have grown to \$40,920. This is a compounded annual growth rate of 14.78% for a little over 10 years.

In this letter I would like to briefly explain four identifying characteristics of our Fund that is usually not covered in the typical mutual fund research. We think that we have a great core group of shareholders and advisors who think and invest the way we try to run our Fund. Fortunately, we have picked up new shareholders and advisors, who may not know us as well except for our rate of return over the past years. While the SEC requires us to say that our future rates of return may not be the same as in the past, we can confidently say that our investment actions will be the same going forward as they were in the past. This is because our Fund's characteristics will remain in place unless our Board of Directors votes me out as advisor. We hope that all of our new shareholders and advisors will become core long-term owners, but as in the dating process some may choose not to stay with us. Either way we want you to make an informed choice. The following are our Fund's four pertinent traits, which I will explain in the subsequent paragraphs:

- *Advisor as an Owner/Operator*
- *Fundamental Research*
- *Long-term Investing*
- *Focus Investing*

First, I am thankful and respectful of the responsibility you give me in investing your money. One way that I try to show my faith in this duty is by placing nearly all of my family's assets along with yours. The only money that I don't have invested in our Matthew 25 Fund is my checking account. My wife, my children and I own 186,902.566 shares of our Matthew 25 Fund and any money left after bills each month is invested in our Fund. As an *Owner/Operator* every investment decision that I make for our Fund will balance two questions; "How much can we make?" versus "How much can we lose?" In other words, my research and investment process tries to balance the rewards against the risks. This balancing act may keep us from some more aggressive stocks, however, when I find an investment that I confidently feel offers high upside potential with low downside risk then we will own a high percentage of that security in our Fund. In other words, our selection may be conservative but our ownership will be aggressive.

This leads into the second trait of our Fund. Its investment process is based fully on *Fundamental Research*. Ben Graham, a great investor who is probably more famous for having taught and employed Warren Buffett, once said "Investing is most intelligent when it is most business like." As our Fund's

Advisor, I spend my time reading and evaluating the financial statements of the companies that we own, and of other companies, for both comparisons and potential new investments. This is what I call Quantitative Research and this work includes calculating a fair value range for a company's stock and on occasion, its bonds. This valuation process needs to be done not only when buying or selling a stock, but it needs to be done a few times a year while owning a stock.

I will make an initial investment based on my Quantitative Research, but I will only buildup and then stay with a position if the company and management pass my Qualitative Research. An anonymous businessman said "Business is about people and money." You can only really get to know the people behind a business by meeting them often and in different situations, reading what management writes, and listening to associates and competitors. When visiting a business it is valuable to see its plants and facilities, but meeting the people behind the doors and the financial statements is what matters most.

Our Fund's third characteristic is our Long-term investment pattern. Over the past 10 years our portfolio turnover has averaged 21%. This means on average we hold investments around 5 years in our Fund. If you dissect that number further it will show that we often hold our best rated stocks for 7 years or longer and sell our disappointments in 1 to 3 years. Our Fund has owned Berkshire Hathaway since 1996 and Advanta, MBIA, Polaris and Willow Grove Bancorp since 1998. I believe this longevity offers many advantages. First it allows me to know the businesses that we invest in better than more actively trading analysts and advisors. Second it offers significant tax benefits. And last but not least I believe long-term investing offers total-return advantages. This is because in the long-term the market is fairly efficient while in the short-term it is inefficient. Thus I try to allow our Fund to benefit from the long-term growth or improvement of the underlying business, while using the shorter-term vacillations as an opportunity to buy more shares, just sit tight or even sell depending on how great the market price diverges from the stock's fair value. This is why it is so important that we only have long-term investors in our Fund, so that we can take advantage of the inevitable swings in the market by being able to buy while most others are selling.

Now for our fourth, but possibly the most important characteristic of our Matthew 25 Fund and that is *Focus Investing*. You and I invest in the Matthew 25 Fund because we hope that it will provide above average returns based on average or below average risks. Well if I have looked at a large universe of stock investments, have done solid fundamental research, have carefully estimated the risks and rewards of an investment, then I should make a meaningful ownership commitment in that company's stock and follow the investment closely. Our portfolio should not include every stock or even every stock that I like a little, but it should be an All-Star Team of the best investment ideas that I can find. Remember that the greatest wealth is created by Focus Investing. Also remember that diversification does not increase return, it just reduces risk. The only question is what is the right amount of diversification? Whitney Tilson wrote

an interesting article called *Focus Investing* (Motley Fools, 2004) where he references great research on this diversification issue that may be found in Joel Greenblatt's book, *You Can Be a Stock Market Genius* (Fireside, 1999), pgs. 20 - 21. Greenblatt calculates a portfolio's correlation to the market based on the number of different holdings as you can see in the following statistics:

- Owning 2 stocks eliminates 46% of nonmarket risk of owning 1 stock
- 4 stocks eliminates 72% of the risk
- 8 stocks eliminates 81% of the risk
- 16 stocks eliminates 93% of the risk
- 32 stocks eliminates 96% of the risk
- 500 stocks eliminates 99% of the risk

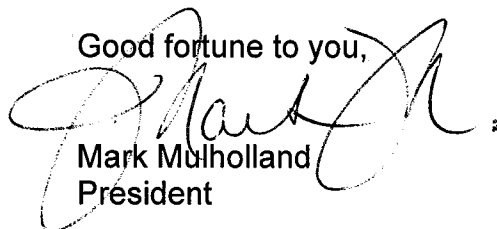
I try to keep our Fund between 15 and 22 holdings so that we receive 93% of the risk reduction from diversifying, but can still receive the benefit of a meaningful gain from any one or more of our holdings.

This is a good segue to grading our holdings as I try to do at least annually for you. The *Schedule of Investments in Securities*, within the financial statements, will show you the stocks that we own within our Fund. It also shows the value of each stock and the profit or loss of this ownership from purchase date until year-end 2005. In the table below I have listed our stocks and follow it with a grade for the four categories I evaluate in my research. The grades are the same as in academia, with an "A" for outstanding, a "B" for very good, a "C" for average, a "D" for poor, and an "F" for failure.

<u>Security</u>	<u>Business</u>	<u>Management</u>	<u>Financial</u>	<u>Price</u>
Abington Bancorp	C	A	A	A
AC Moore Arts & Crafts	B	A	A	A
Advanta Inc	C	A	C	B
Farmer Mac	A	B+	A	A
Alexander & Baldwin	B	C	B	C
Ameritrade	B	A	A	D
Black & Decker	A	A	A	A
Boykin Lodging Co.	B	B+	B	C

<u>Security</u>	<u>Business</u>	<u>Management</u>	<u>Financial</u>	<u>Price</u>
Berkshire Hathaway	A	A+	A	B
Career Education	B	C	A	A
El Paso Corp.	B	B	C	C
First Data	B	A	A	C
MBIA Inc.	A	A	A	A
Ocean Shore Holding	C	C	A	A
Pacific Gas & Electric Pref.	C	B	B	C
Polaris Ind.	A	A	A	A
Molson Coors Brewing	A	B	A	B
Willow Grove Bancorp	B	A	B	B

Hopefully, this letter gives you more insight into our Fund, its characteristics and our portfolio. Please take time to read our financial statements and call or write me if you have any questions. As always, thank you for allowing us to work for you.

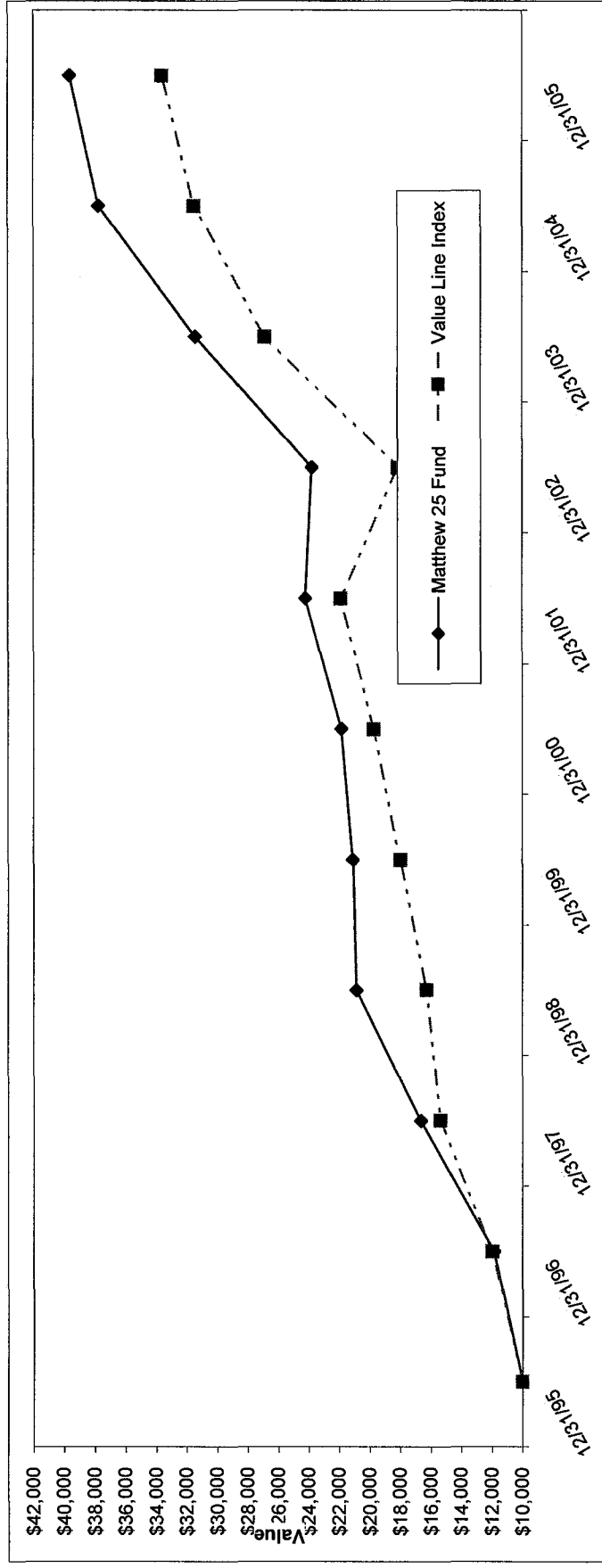
Good fortune to you,

 Mark Mulholland
 President

Except for any historical information, the matters discussed in this letter contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve risks and uncertainties, including activities, events or developments that the Advisor expects, believes or anticipates will or may occur in the future. A number of factors could cause actual results to differ from those indicated in the forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties. Readers are cautioned that such statements are not guarantees of future performance and actual results may differ materially from those set forth in the forward-looking statements. The Advisor undertakes no obligation to publicly update or revise forward-looking statements whether as a result of new information or otherwise.

MATTHEW 25 FUND, INC. PERFORMANCE SUMMARY

The graph below represents the changes in value for an initial \$10,000 investment in the Matthew 25 Fund from 1995 to 2005. These changes are then compared to a \$10,000 investment in the Value Line Index, which is an index comprised of 1,665 stocks, for the same period. The Fund's returns include the reinvestment of all dividends, but do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. Past performance is not predictive of future performance. Investment return and principal value will fluctuate, so that your shares, when redeemed, may be worth more or less than the original cost.

	Incep.	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended	Yr. Ended
	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/05
Matthew 25 Fund	\$10,000	\$11,868	\$16,658	\$20,871	\$21,097	\$21,860	\$24,197	\$23,793	\$31,435	\$37,738	\$39,652	\$39,652
Value Line Index	\$10,000	\$11,978	\$15,386	\$16,281	\$18,000	\$19,738	\$21,885	\$18,140	\$26,859	\$31,487	\$33,606	\$33,606



	Annual Return	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Matthew 25 Fund	18.68%	39.65%	25.93%	1.08%	3.62%	10.69%	(1.67)%	32.12%	20.05%	5.07%	6.73%
Value Line Index	19.78%	28.45%	5.82%	10.56%	9.65%	10.88%	(17.11)%	48.06%	17.23%	6.73%	

	One Year	Three Year	Five Year	Ten Year
	12/31/04-12/31/05	12/31/02-12/31/05	12/31/00-12/31/05	12/31/95-12/31/05
Matthew 25 Fund	5.07%	18.56%	12.65%	14.77%
Value Line Index	6.73%	22.82%	11.23%	12.89%

MATTHEW 25 FUND, INC.
TOP TEN HOLDINGS & ASSET ALLOCATION
DECEMBER 31, 2005

Top Ten Holdings
(% of Net Assets)

Federal Agricultural Mortgage Corp. Class A & Class C	18.74%
Polaris Industries, Inc.	14.56%
MBIA, Inc.	9.56%
Black & Decker, Inc.	7.70%
Ameritrade Clearing, Inc.	7.31%
Advanta Corporation, Class A	6.04%
Boykin Lodging	5.70%
El Paso Corporation	4.83%
First Data Corp.	4.65%
AC Moore, Inc.	4.11%
	<hr/> 83.20%

Asset Allocation
(% of Net Assets)

Federal & Federally Sponsored Credit Agency	18.74%
Misc. Transportation Equipment	14.56%
Surety Insurance	9.56%
Metalworking Machinery & Equipment	7.70%
Security Brokers, Dealers & Flotation	7.31%
Personal Credit Institution	6.04%
Real Estate Investment Trust	5.70%
Savings Institution	5.16%
Gas Production & Distribution	4.83%
Finance Services	4.65%
Misc. Shopping Goods Store	4.11%
Malt Beverages	3.12%
Fire, Marine & Casualty Insurance	2.93%
Electric Utilities	2.42%
Water Transportation	1.84%
Educational Services	0.93%
Other Assets less Liabilities	0.40%
	<hr/> 100.00%

**MATTHEW 25 FUND, INC.
EXPENSE EXAMPLE
DECEMBER 31, 2005**

As a shareholder of the Fund, you incur two types of costs: (1) direct costs, such as IRA fees and (2) indirect costs, including management fees and other Fund operating 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 six-month period of 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. IRAs with less than \$5,000 may be charged \$14 annually for IRA Custodian Fees at the discretion of the Fund's Management or Directors. This \$14 fee is not reflected in the table below.

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 expenses 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 the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any direct costs, such as IRA fees. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if IRA fees were included your costs would be higher.

	Beginning Account Value July 1, 2005	Ending Account Value December 31, 2005	Expenses Paid During Period* July 1, 2005 to December 31, 2005
Actual	\$1,000.00	\$1,044.10	\$6.03
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.31	\$5.95

* Expenses are equal to the Fund's annualized expense ratio of 1.17%, multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

MATTHEW 25 FUND, INC.
SCHEDULE OF INVESTMENTS IN SECURITIES
DECEMBER 31, 2005

	<u>Number of Shares</u>	<u>Historical Cost</u>	<u>Value</u>
COMMON STOCKS -- 97.18%			
EDUCATIONAL SERVICES -- 0.93%			
Career Education Corp.*	30,000	\$ 1,064,019	\$ 1,011,600
FEDERAL & FEDERALLY SPONSORED			
CREDIT AGENCY -- 18.74%			
Federal Agricultural Mortgage Corp.Cl. C	662,900	15,298,335	19,840,597
Federal Agricultural Mortgage Corp.Cl. A	26,000	427,637	570,700
		<u>15,725,972</u>	<u>20,411,297</u>
FINANCE SERVICES -- 4.65%			
First Data Corp.	117,700	4,293,362	5,062,277
FIRE, MARINE & CASUALTY INSURANCE -- 2.93%			
Berkshire Hathaway, Class A *	36	2,045,480	3,190,320
GAS PRODUCTION & DISTRIBUTION -- 4.83%			
EI Paso Corporation	432,500	3,134,470	5,259,200
MALT BEVERAGES -- 3.12%			
Molson Coors Brewing Co.	20,500	1,312,092	1,373,295
Molson Coors Brewing Co. Class A	30,400	2,004,886	2,025,248
		<u>3,316,978</u>	<u>3,398,543</u>
METALWORKING MACHINERY & EQUIPMENT -- 7.70%			
Black & Decker, Inc.	96,500	5,367,115	8,391,640
MISC. SHOPPING GOODS STORE -- 4.11%			
AC Moore, Inc.*	308,140	5,716,582	4,483,437
MISC. TRANSPORTATION EQUIPMENT -- 14.56%			
Polaris Industries, Inc.	316,000	8,253,618	15,863,200
PERSONAL CREDIT INSTITUTION -- 6.04%			
Advanta Corporation, Class A	218,300	2,089,929	6,577,379
REAL ESTATE INVESTMENT TRUST -- 5.70%			
Boykin Lodging *	508,300	4,352,294	6,211,426

The accompanying notes are an integral part of these financial statements.

MATTHEW 25 FUND, INC.
 SCHEDULE OF INVESTMENTS IN SECURITIES (CONTINUED)
 DECEMBER 31, 2005

	<u>Number of Shares</u>	<u>Historical Cost</u>	<u>Value</u>
SAVINGS INSTITUTION -- 5.16%			
Abington Community Bancorp	137,500	\$ 1,615,157	\$ 1,783,375
Ocean Shore Holding Co. *	133,500	1,431,033	1,537,920
Willow Grove Bancorp, Inc.	152,500	<u>689,243</u>	<u>2,302,750</u>
		<u>3,735,433</u>	<u>5,624,045</u>
SECURITY BROKERS, DEALERS & FLOTATION -- 7.31%			
Ameritrade Clearing, Inc. *	332,000	3,779,762	7,968,000
SURETY INSURANCE -- 9.56%			
MBIA, Inc.	173,100	7,696,434	10,413,696
WATER TRANSPORTATION -- 1.84%			
Alexander & Baldwin	37,000	<u>813,331</u>	<u>2,006,880</u>
TOTAL COMMON STOCKS		<u>71,384,779</u>	<u>105,872,940</u>
PREFERRED STOCKS -- 2.42%			
ELECTRIC UTILITIES -- 2.42%			
Pacific G&E Corp. 6% Preferred	101,500	<u>1,745,258</u>	<u>2,633,925</u>
SHORT-TERM INVESTMENTS -- 0.27%			
Dreyfus Treasury Prime Fund Class B	292,993	<u>292,993</u>	<u>292,993</u>
TOTAL INVESTMENTS -- 99.87%		<u>\$ 73,423,030</u>	108,799,858
Other Assets Less Liabilities -- 0.13%			143,419
NET ASSETS 100.00%			<u>\$ 108,943,277</u>

*Non-income producing security during the period.

The accompanying notes are an integral part of these financial statements.

MATTHEW 25 FUND, INC.
 STATEMENT OF ASSETS AND LIABILITIES
 DECEMBER 31, 2005

ASSETS

Investments in securities at value (cost \$73,423,030)	\$ 108,799,858
Cash	27,501
Receivables:	
Fund shares sold	78,015
Dividends	72,830
Interest	1,121
TOTAL ASSETS	<u>108,979,325</u>

LIABILITIES

Payable for fund shares redeemed	27,055
Accrued expenses	8,993
TOTAL LIABILITIES	<u>36,048</u>

NET ASSETS: (Equivalent to \$17.88 per share based on 6,094,430 shares of capital stock outstanding 100,000,000 shares authorized, \$0.01 par value)	<u>\$ 108,943,277</u>
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COMPOSITION OF NET ASSETS

Shares of common stock	\$ 60,944
Additional paid-in capital	73,505,505
Net unrealized appreciation of investments	<u>35,376,828</u>
NET ASSETS	<u>\$ 108,943,277</u>

The accompanying notes are an integral part of these financial statements.

MATTHEW 25 FUND, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

INVESTMENT INCOME:

Dividends	\$ 1,445,907
Interest	<u>12,353</u>
TOTAL INVESTMENT INCOME	<u>1,458,260</u>

EXPENSES:

Investment advisory fee (Note 2)	969,455
Registration and compliance	23,491
Shareholder reporting	20,781
Office expense	18,765
Custodian fees	17,156
Directors' fees and expenses	15,669
Insurance	14,653
Audit	13,509
Postage and printing	12,859
Software	7,703
State and local taxes	6,930
Bank fees	6,440
IRA expense	4,579
Telephone	3,573
Legal fees	<u>1,035</u>
TOTAL EXPENSES	<u>1,136,598</u>

NET INVESTMENT INCOME	<u>321,662</u>
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REALIZED AND UNREALIZED GAIN FROM INVESTMENTS (Note 6)

Net realized gain from investments	971,100
Net increase in unrealized appreciation of investments	<u>3,856,392</u>
Net realized and unrealized gain from investments	<u><u>4,827,492</u></u>

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u><u>\$ 5,149,154</u></u>
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The accompanying notes are an integral part of these financial statements.

MATTHEW 25 FUND, INC.
 STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended Dec. 31 2005	Year Ended Dec. 31 2004
INCREASE IN NET ASSETS FROM OPERATIONS:		
Net Investment income	\$ 321,662	\$ 695,594
Net realized gain from investments	971,100	1,635,057
Unrealized appreciation on investments	<u>3,856,392</u>	<u>11,705,936</u>
 NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	 5,149,154	 14,036,587
 DISTRIBUTIONS TO SHAREHOLDERS	 (1,292,763)	 (2,330,651)
 CAPITAL SHARE TRANSACTIONS (Note 4)	 <u>13,075,707</u>	 <u>20,303,769</u>
 TOTAL INCREASE	 16,932,098	 32,009,705
 NET ASSETS, BEGINNING OF YEAR	 <u>92,011,179</u>	 <u>60,001,474</u>
 NET ASSETS, END OF YEAR	 <u>\$ 108,943,277</u>	 <u>\$ 92,011,179</u>

The accompanying notes are an integral part of these financial statements.

MATTHEW 25 FUND, INC.

FINANCIAL HIGHLIGHTS AND RELATED RATIOS / SUPPLEMENTAL DATA

For a Share Outstanding Throughout the Period Ending:

	Years ended				
	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
Net asset value, Beginning of period.....	\$17.22	\$14.72	\$11.68	\$11.97	\$10.90
Income from investment operations					
Net investment income (1).....	0.05	0.13	0.00	0.09	0.00
Net gains (loss) on investments both realized and unrealized.....	<u>0.82</u>	<u>2.82</u>	<u>3.74</u>	<u>(0.29)</u>	<u>1.17</u>
Total from investment operations.....	0.87	2.95	3.74	(0.20)	1.17
Less distributions.....	(0.21)	(0.45)	(0.69)	(0.09)	(0.10)
Return of capital distribution.....	<u>0.00</u>	<u>0.00</u>	<u>(0.01)</u>	<u>0.00</u>	<u>0.00</u>
Total distributions.....	(0.21)	(0.45)	(0.70)	(0.09)	(0.10)
Net asset value, End of period.....	\$17.88	\$17.22	\$14.72	\$11.68	\$11.97
Total return (2)	5.07%	20.05%	32.12%	(1.67)%	10.69%
Net assets, end of period (000's omitted).....	\$108,943	\$92,011	\$60,001	\$41,899	\$35,621
Ratio of expenses, to average net assets.....	1.17%	1.19%	1.23%	1.24%	1.23%
Ratio of net investment income, to average assets.....	0.33%	1.00%	(0.01)%	0.85%	0.04%
Portfolio turnover rate.....	19.48%	12.46%	23.52%	38.68%	26.42%

(1) Per share net investment income has been determined on the average number of shares outstanding during the period.

(2) Total return assumes reinvestment of dividends.

The accompanying notes are an integral part of these financial statements.

MATTHEW 25 FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - *Summary of Significant Accounting Policies*

Nature of Operations

Matthew 25 Fund, Inc. ("the Fund") was incorporated on August 28, 1995 in Pennsylvania and commenced operations on October 16, 1995. The Fund is registered as an open-end, non-diversified management investment company under the Investment Company Act of 1940, and its shares are registered under the Securities Act of 1933. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. These policies are in conformity with accounting principles generally accepted in The United States of America.

Security Valuations

Equity securities are valued by using market quotations. Securities that are traded on any stock exchange or on the NASDAQ over-the-counter market are valued at the last quoted sale price. Lacking a last sale price, an equity security is generally valued at its last bid price. When market quotations are not readily available, or when the Advisor determines that the market quotation does not accurately reflect the current market value, or when restricted or illiquid securities are being valued, such securities may be valued as determined in good faith by the Board of Directors. The Board has adopted guidelines for good faith pricing, and has delegated to the Advisor the responsibility for determining fair value prices, subject to review by the Board of Directors.

Federal Income Taxes

The Fund's policy is to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its shareholders. Therefore, no federal income tax provision is required.

Distributions to Shareholders

The Fund intends to distribute to its shareholders substantially all of its net investment income, if any, and net realized capital gains, if any, at year end.

Other

The Fund follows industry practice and records security transactions on the trade date. The specific identification method is used for determining gains or losses for financial statements and income tax purposes. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

MATTHEW 25 FUND, INC.
 NOTES TO FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2005

NOTE 2 - Investment Advisory Agreement and Other Related Party Transactions

The Fund has an investment advisory agreement with The Matthew 25 Management Corporation, (The Advisor) whereby The Advisor receives a fee of 1% per year on the net assets of the Fund. All fees are computed on the average daily closing net asset value of the Fund and are payable monthly. The Advisor has agreed to decrease the investment advisory fee or, if necessary, to reimburse the Fund if and to the extent that the Fund's aggregate annual operating expenses exceed 2.0% of the first \$10,000,000 and 1.5% of the next \$20,000,000. There was no reimbursement of expenses for the year ended December 31, 2005.

The management fee for 2005, as computed pursuant to the investment advisory agreement, totaled \$969,455.

Mr. Mark Mulholland is the sole director and officer of The Advisor and is also the President of the Fund. In addition, Mr. Mulholland is a broker at Boenning & Scattergood Inc. During the year ended December 31, 2005, the Fund paid brokerage commissions of \$150 to Boenning & Scattergood Inc. of which Mr. Mulholland received compensation totaling \$0. Boenning & Scattergood Inc. is not otherwise associated with Matthew 25 Fund, Inc. or The Advisor and is not responsible for any of the investment advice rendered to the Fund by The Advisor or Mr. Mulholland.

NOTE 3 - Investments

For the year ended December 31, 2005, purchases and sales of investment securities other than short-term investments aggregated \$32,089,150 and \$18,836,046 respectively. At December 31, 2005, the gross unrealized appreciation for all securities totaled \$36,662,392 and the gross unrealized depreciation for all securities totaled \$1,285,564 or a net unrealized appreciation of \$35,376,828. The aggregate cost of securities for federal income tax purposes at December 31, 2005 was \$73,423,030, including short-term investments.

NOTE 4 - Capital Share Transactions

As of December 31, 2005 there were 100,000,000 shares of \$.01 per value capital stock authorized. The total par value and paid-in capital totaled \$73,566,449. Transactions in capital stock were as follows:

	Year Ended December 31, 2005		Year Ended December 31, 2004	
	Shares	Amount	Shares	Amount
Shares sold	1,630,710	\$ 27,720,711	1,489,112	\$ 23,399,607
Shares issued in reinvestment of dividends	69,676	1,256,260	131,915	2,276,856
Shares redeemed	(948,747)	(15,901,264)	(353,285)	(5,372,694)
Net Increase	<u>751,639</u>	<u>\$ 13,075,707</u>	<u>1,267,742</u>	<u>\$ 20,303,769</u>

NOTE 5 - Distributions to Shareholders

On December 28, 2005, a distribution of \$0.05 per share aggregating \$321,662 was paid to shareholders of record on this same date from net investment income.

On December 28, 2005, a distribution of \$0.16 per share aggregating \$971,100 was paid to shareholders of record on this same date from net long-term capital gains.

MATTHEW 25 FUND, INC.
 NOTES TO FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2005

NOTE 6 - *Federal Income Taxes*

Income and long-term capital gain distributions are determined in accordance with Federal income tax regulations, which may differ from accounting principles generally accepted in the United States. As of December 31, 2005, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$	0
Undistributed long-term capital gain	\$	0
Unrealized appreciation	\$	35,376,828

The tax character of distributions paid during the years ended December 31, 2005 and 2004 are as follows:

		<u>2005</u>		<u>2004</u>
Ordinary income	\$	321,662	\$	695,594
Long-term capital gain	\$	971,100	\$	1,635,057
Return of capital distribution	\$	0	\$	0

NOTE 7 - *Lease Commitments*

The Fund leases office space under a lease that expires February of 2007. Rent expense was \$12,113 for the year ended December 31, 2005. Minimum lease payments over the course of the term of the lease are as follows:

2006	\$	11,965
2007	\$	1,994

ADDITIONAL INFORMATION

PROXY VOTING GUIDELINES

Matthew 25 Management Corp., the Fund's Advisor, is responsible for exercising the voting rights associated with the securities held by the Fund. A description of the policies and procedures used by the Advisor in fulfilling this responsibility is available without charge, upon request, by calling 1-888-M25-FUND.

QUARTERLY FILING OF PORTFOLIO HOLDINGS

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

ADDITIONAL INFORMATION (Continued)

INITIAL APPROVAL OF INVESTMENT ADVISORY AGREEMENT

At an in-person meeting held on October 20, 2005, the Board of Directors, including a majority of Directors that are not "interested" persons of the Fund (as the term is defined in the 1940 Act), re-approved the Advisory Agreement based upon its review of the qualitative and quantitative information provided by the Investment Advisor. The Directors considered, among other things, the following information regarding the Investment Advisor.

NATURE, EXTENT AND QUALITY OF SERVICES PROVIDED BY THE INVESTMENT ADVISOR

The Directors reviewed the nature, quality and scope of current and anticipated services provided by the Investment Advisor under the Advisory Agreement. This includes portfolio management, supervision of Fund operations and compliance and regulatory matters.

INVESTMENT PERFORMANCE

The Directors reviewed the performance of the Fund, as compared to other mutual funds and market benchmarks. This review focused on the long-term performance of the Fund.

COST OF SERVICES TO THE FUND AND PROFITABILITY OF ADVISOR

The Directors considered the Fund's management fee and total expense ratio relative to industry averages. The Directors determined that the Advisor is operating profitably, is viable and should remain as an ongoing entity.

ECONOMIES OF SCALE

The Directors considered information regarding economies of scale with respect to the management of the Fund. The Directors noted that as the Fund has grown, the expense ratio has been decreasing.

CONCLUSIONS

Based on the above review and discussions, the Directors concluded that it is in the best interest of the Fund and its shareholders to approve the Advisory Agreement.

ADDITIONAL INFORMATION (Continued)
BOARD OF DIRECTORS INFORMATION
 Matthew 25 Fund
 December 31, 2005

The business and affairs of the Fund are managed under the direction of the Fund's Board of Directors. Information pertaining to the Directors of the Fund are set forth below. The Fund's SAI includes additional information about the Fund's Directors, and is available without charge, by calling 1-888-M25-FUND. Each director may be contacted by writing to the director c/o Matthew 25 Fund, 607 West Avenue, Jenkintown, PA 19046

INDEPENDENT DIRECTORS

Name and Age	Position with Fund	Term of Office and Length of Time Served	Principle Occupation During Last Five Years	Other Directorships
Philip J. Cinelli, D.O. Age 45	Director	1 year with election held annually He has been a Director since 1996	Physician in Family Practice	Not a director for any other public companies
Samuel B. Clement Age 47	Director	1 year with election held annually He has been a Director since 1996	Stockbroker with Securities of America	Not a director for any other public companies
Linda Guendelsberger Age 46	Director Secretary of Fund	1 year with election held annually She has been a Director since 1996	CPA and Shareholder with Fishbein & Co.	Not a director for any other public companies
Scott Satell Age 42	Director	1 year with election held annually He has been a Director since 1996	Manufacturer's Representative with BPI Ltd.	Not a director for any other public companies
INTERESTED DIRECTORS				
Steven D. Buck, Esq. Age 45	Director	1 year with election held annually He has been a Director since 1996	Attorney and Shareholder with Stevens & Lee	Not a director for any other public companies
Mark Mulholland Age 46	Director President of Fund	1 year with election held annually He has been a Director since 1996	President of Matthew 25 Fund President of Matthew 25 Management Corp. Stockbroker with Boenning & Scattergood	Not a director for any other public companies

Mr. Buck and Mr. Mulholland are Directors of the Fund and are considered "interested persons" as defined by the Investment Company Act of 1940. Mr. 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. Additionally, Mr. Buck's sister Lesley Buck, is the Operations Officer of Matthew 25 Management Corp.

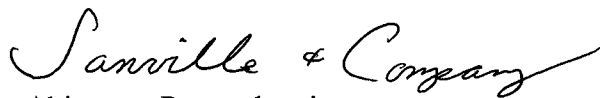
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Matthew 25 Fund, Inc.
Jenkintown, Pennsylvania

We have audited the accompanying statement of assets and liabilities of Matthew 25 Fund, Inc. (the "Fund"), including the schedule of investments, as of December 31, 2005, and the related statement of operations for the year then ended, the statements of changes in 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. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits 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 and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2005, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Matthew 25 Fund, Inc. as of 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.



Abington, Pennsylvania
February 8, 2006

