

MATTHEW 25 FUND, INC

SEMI-ANNUAL REPORT

June 30, 2006
< unaudited >

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 down 2.35% for the first six months of 2006. From its inception on 10/16/95 through 6/30/06 our Fund has gained 299.51%. In other words, a \$10,000 investment at the inception of our Matthew 25 Fund would have grown to \$39,951. This is a compounded annual growth rate of 13.79% for a period covering 10.71 years.

For the past year and a half the stock market has been volatile and I am sure disheartening for many of you. I hope this letter may give you reasons to be optimistic about the market's and our Matthew 25 Fund's potential returns.

The first reason is that this market is cheap. The PE of the S&P 500 is right now 14.7 (\$1,271.48/ \$86.51). This is the same PE as in 1994. The return on the market from 12/31/94 until 6/30/96 was 11.03% compounded. This period includes the third worst bear market in U.S history. The average PE Ratio for the S&P 500 since 1935 is 15.68 and its average return is 11.80%. Because we are below the average PE, the stock market could provide above average returns, or greater than 11.8%, for the next several years.

There is evidence of this undervaluation of the market in the news. Mergers and Acquisitions (M&A) in the U.S. were euphoric in the first half of this year with \$702 billion in announced deals. This is up 23% over the same period last year. (Thomson Financial, Mergers & Acquisition Review 2nd Quarter 2006, <http://banker.thomsonib.com>) This year the first and third largest deals ever done in the U.S. have been announced. These are HCA and Kinder Morgan, respectively. These two and other deals are being done for cash by private equity investors. Data from mergermarket, the M&A Intelligence and Research Services show that Private Equity firms bought 180 North American companies for \$135.1 billion in the first half of 2006. Cash deals are not only evidence of the intrinsic undervaluation of many stocks; it is my second reason that this market will get momentum based on simple supply and demand. Every time a stock is bought for cash that means there is less stock in the stock market and more money available to buy the remaining stocks. This was one impetus that drove the stock market in the 1980's.

The third reason that this market should begin to move is the growth in earnings. S&P 500 earnings peaked in 2000 at \$56.13. Then the following year the earnings declined to \$38.85. Since 2001, earnings have risen every year and are expected to be \$86.51 this year. Earnings have grown at a compounded rate of 17.36% per year for the past 5 years and is on pace to be 54% higher than the peak of the last bull market. This rate of growth is 2.5 to 3 times higher than the long-term growth of earnings, so it will probably grow more slowly but still grow. Remember this earnings growth has occurred in spite of rising oil prices and the Fed increasing short-term interest rates 17 times.

The above reasons, very good values, strong growth and high buyout activity, are why I became very bullish on the general stock market during 2005. Now, I would like to update you on our Matthew 25 Fund's investments by reviewing our largest holdings and introducing you to our new investments.

Federal Agricultural Mortgage Corp. is more commonly known as Farmer Mac (AGM). This stock is at a nice stage. Its business momentum is strong. This can be seen by the increase in the AGM's total portfolio that it guarantees. At year end, AGM insured or held \$5.45 billion in agricultural mortgages. By July, AGM had announced \$1.9 billion in new loans it will guarantee. If you subtract around \$300 million in loan run-off, then AGM's total portfolio should be around \$7 billion. That's an increase of 29%. This portfolio increase will increase guarantee fees to AGM and if managed well, should increase earnings per share. AGM is an attractive investment because its stock is cheap and its business appears to be growing. Therefore, it has the potential for returns higher than its growth alone. Let me give you a potential scenario. In 2005, AGM's GAAP earnings were \$2.39, which currently gives AGM a below average PE Ratio of 11.5. If earnings per share can grow 15% on average over three years to \$3.63 in 2008 and the PE goes to a market average ratio of 15.6, then the stock would sell for \$56.70 in three years. Based on the current price of \$27.25 and a dividend of \$0.40, this scenario offers a potential return of over 28% a year over the next 3 years. Of course this scenario may not occur, but the potential is there and the recent increase in AGM's portfolio gives me hope.

Polaris Industries (PII) has slipped in earnings. This year earnings will be down after rising the past 9 years at a 12.7% growth rate. The primary reason is the rise in gas prices. I believe that they may start growing again in 2007. First Call, which collects analysts' estimates, gives PII an annual growth rate of 10% over the next 5 years. PII currently has a PE of 12 so I still like its long-term potential. While we wait, I love how management treats shareholders. In the first 6 months the company had spent \$83.8 million in stock buybacks and dividends. Divided by the 40.5 million shares outstanding, this is equivalent to \$4.14 per share on an annual basis. This is an economic return to shareholders of over 10% at current prices. This is a great company that treats its shareholders well.

Black & Decker Corp. (BDK) earnings should be up around 6% this year, not so bad after increasing 23% last year. The stock has declined in price this year probably in sympathy with the home builder stocks. I feel very good about the stock's long-term potential. First Call has BDK's annual growth for the next 5 years at 10% and yet the stock is currently at a PE of only 9.5. I believe that this is the cheapest, major brand stock in the market. Besides doing a good job running its business, management also treats shareholders well. The company has bought back 4.1 million shares in the first half of 2006 with its ample free cash flow. Based on year end shares of 77.4 million, this buyback rate would cut the shares in half in less than 5 years. This would double the intrinsic value of our investment without any improvement in BDK's business. In addition, in this environment of mergers and acquisitions, I believe that BDK could be a potential

takeover target. This is because it is greatly undervalued, owns major brands, has a clean balance sheet, does not have a large owner to act as a deterrent and its market capitalization is only around \$5 billion. Barring a major decline in BDK's business, we should receive strong returns on this investment.

There are two common adages that can be applied to investing. The first is "Out with the old and in with the new." And the second is "No pain, no gain." In this downturn I was able to sell three holdings at relatively good prices. Boykin Lodging (BOY) received a takeover offer so it provided enough liquidity and price to cash out. AC Moore (ACMR) had fundamental changes that I did not like, but fortunately, the price had risen because of a buyout of its main competitor, so it was sold. Ocean Shore Holding (OSHC) simply became liquid at a fair price so I took advantage of this. The proceeds from these investments were placed into three great companies. All three of our new investments I have followed for some time, and they have dropped in price so that we have an opportunity to gain from their future appreciation, which I believe will come. Thus some old holdings have been replaced with new and better investments. Even though I don't like the pain of this market I am optimistic about the long-term capital gains potential from these new opportunities.

Cabela's Inc. (CAB) is one of the strongest brands in specialty retailing. CAB has a three-pronged approach to being the "World's Foremost Outfitter" in hunting, fishing and outdoor gear. The foundation of the business is its world-famous catalog and mail-order business. CAB operates 14 popular destination stores. Its internet site is a natural development to its leading catalog business. CAB started its business in 1961 and went public with its stock on 6/25/04. It was a hot offering but overpriced at the time. Its business growth and its decline in price caught my eye. I have purchased a full 5% position in our fund at an average cost of \$17.67. CAB's sales are up 14% and net income is up 26% so far in 2006. In spite of this growth our shares were purchased at 14.1 PE for this year and around a 12.25 PE for 2007. This investment I classify as value and growth.

St. Joe Company (JOE) is a 70 year company established by the DuPont family as a paper business. Starting in 1996 it divested itself of its paper business, railroad and equity in Florida East Coast Industries. Now it is a land bank of Florida real estate owning 838,000 acres in the northwest area of the state. This area is larger than the State of Rhode Island. It includes 338,000 acres within 10 miles of Gulf of Mexico Coastline, 160 miles of Gulf frontage and includes 6 miles of beaches. This stock sold for \$85 a year ago and I believe it is worth more than that. I am still buying shares for our Fund and our average cost is \$44.23. If you match the debt to its commercial properties, then the total market value at our price is around \$3.3 billion. This is valuing the land at less than \$4,000 per acre. This is a very unique value investment.

A.S.V. Inc. (ASVI) manufactures the posi-Tracks undercarriage technology used for equipment in construction, landscaping and farming. ASVI sold as high as \$34 in March of this year, but the market weakness has driven this stock

down. In fact, as I write this letter, I have purchased shares at \$15. This price is a 13.5 PE Ratio for a company that increased sales 35% and net income 24% in the first half of 2006, and First Call gives ASVI a 25% annual growth rate for the next 5 years. This innovative company has strong patent protection and has solid backing with Caterpillar Inc., which owns 21% of ASVI's stock. I am still buying shares and hope to have a 5% position in our Fund shortly. This is an aggressive growth stock at very good valuation with a PEG Ratio (PE/Growth Rate) of 0.54 when a buy made below a 1.00 PEG Ratio is considered a bargain for growth stocks.

This is a tough market that we are experiencing, and with the market and news so negative it is difficult to see the upside. Hopefully, this letter will help you to see the potential in the general market and our stockholdings. This decline will delay the start but not the next bull market's coming. I have and will continue to buy more shares of our Matthew 25 Fund for my family, because I believe for every dollar invested today we will have much more than a dollar in market value in the not too distant future. Please call me for any questions that you may have and thank you for allowing us to work for you.

Good fortune to you,

A handwritten signature in black ink, appearing to read 'Mark', with a long horizontal flourish extending to the right.

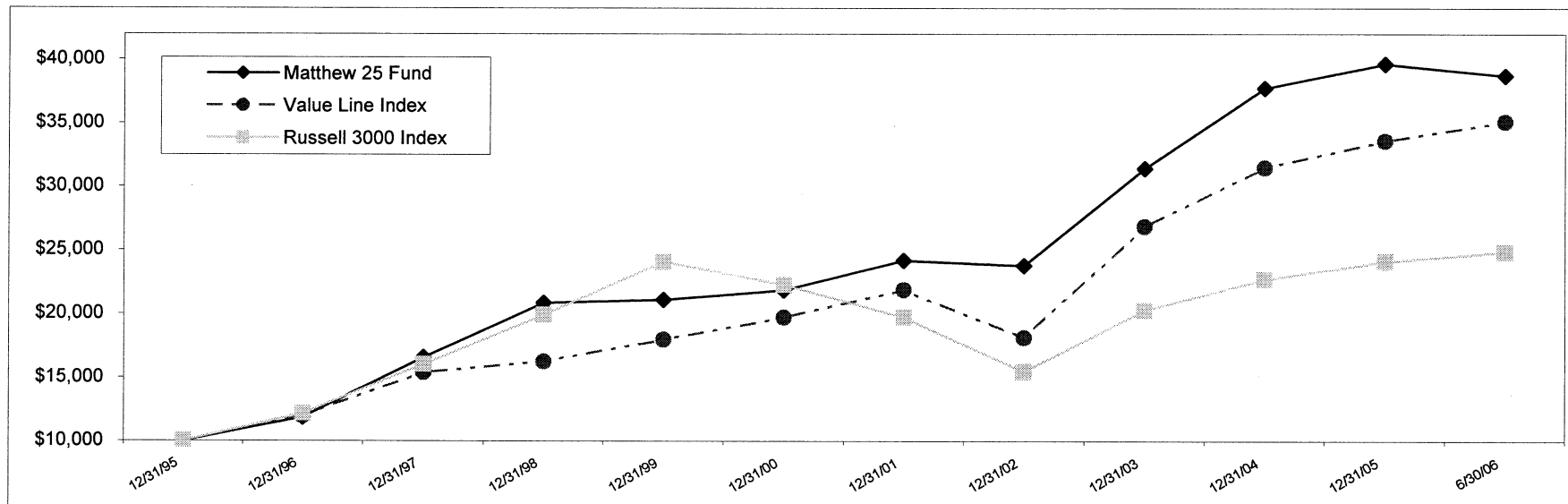
Mark Mulholland
President

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 6/30/06. These changes are then compared to a \$10,000 investment in the Value Line Index, which is an index comprised of 1,665 stocks, and the Russell 3000 Index, which is an index comprised of 3,000 stocks for the same period. The Russell 3000 Index is being used as a comparison because it is more widely recognized and includes broader market coverage than the Value Line Index. 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. <u>12/31/95</u>	Yr. Ended <u>12/31/96</u>	Yr. Ended <u>12/31/97</u>	Yr. Ended <u>12/31/98</u>	Yr. Ended <u>12/31/99</u>	Yr. Ended <u>12/31/00</u>	Yr. Ended <u>12/31/01</u>	Yr. Ended <u>12/31/02</u>	Yr. Ended <u>12/31/03</u>	Yr. Ended <u>12/31/04</u>	Yr. Ended <u>12/31/05</u>	6 Mo. Ended <u>6/30/06</u>
Matthew 25 Fund	\$10,000	\$11,868	\$16,574	\$20,871	\$21,097	\$21,860	\$24,197	\$23,793	\$31,435	\$37,738	\$39,652	\$38,720
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	\$35,135
Russell 3000 Index	\$10,000	\$12,182	\$16,053	\$19,929	\$24,094	\$22,296	\$19,741	\$15,489	\$20,300	\$22,726	\$24,117	\$24,896



	Annual Return <u>12/31/96</u>	Annual Return <u>12/31/97</u>	Annual Return <u>12/31/98</u>	Annual Return <u>12/31/99</u>	Annual Return <u>12/31/00</u>	Annual Return <u>12/31/01</u>	Annual Return <u>12/31/02</u>	Annual Return <u>12/31/03</u>	Annual Return <u>12/31/04</u>	Annual Return <u>12/31/05</u>	Six Months <u>6/30/06</u>
Matthew 25 Fund	18.68%	39.65%	25.93%	1.08%	3.62%	10.69%	(1.67)%	32.12%	20.05%	5.07%	(2.35%)
Value Line Index	19.78%	28.45%	5.82%	10.56%	9.65%	10.88%	(17.11)%	48.06%	17.23%	6.73%	4.55%
Russell 3000 Index	21.82%	31.78%	24.14%	20.90%	(7.46)%	(11.46)%	(21.54)%	31.06%	11.95%	6.12%	3.23%

	One Year <u>6/30/05-6/30/06</u>	Three Year <u>6/30/03-6/30/06</u>	Five Year <u>6/30/01-6/30/06</u>	Ten Year <u>6/30/96-6/30/06</u>
Matthew 25 Fund	1.95%	14.70%	10.56%	13.85%
Value Line Index	11.83%	17.91%	9.88%	12.31%
Russell 3000 Index	9.56%	12.56%	3.53%	8.52%

MATTHEW 25 FUND, INC.
TOP TEN HOLDINGS & ASSET ALLOCATION
JUNE 30, 2006

Top Ten Holdings
(% of Net Assets)

Federal Agricultural Mortgage Corp. Class A & Class C	19.00%
Polaris Industries, Inc.	12.43%
Black & Decker, Inc.	10.51%
MBIA, Inc.	7.94%
Advanta Corporation, Class A	6.68%
El Paso Corporation	6.07%
Cabelas, Inc.	5.50%
First Data Corp.	4.94%
Career Education Corp.	3.90%
Berkshire Hathaway	3.08%
	<hr/>
	80.05%

Asset Allocation
(% of Net Assets)

Federal & Federally Sponsored Credit Agency	19.00%
Misc. Transportation Equipment	12.43%
Metalworking Machinery & Equipment	10.51%
Surety Insurance	7.94%
Personal Credit Institution	6.68%
Gas Production & Distribution	6.07%
Misc. Shopping Goods Store	5.69%
Savings Institution	5.46%
Finance Services	4.94%
Security Brokers, Dealers & Flotation	4.90%
Educational Services	3.90%
Fire, Marine & Casualty Insurance	3.08%
Land Subdividers & Developers	2.52%
Malt Beverages	2.17%
Electric Utilities	2.10%
Racing & Track Operations	1.07%
Construction Machinery & Equip	0.99%
Short-Term Investment (Money Market Fund)	0.97%
Other Assets less Liabilities	(0.42)%
	<hr/>
	100.00%

MATTHEW 25 FUND, INC.
EXPENSE EXAMPLE
JUNE 30, 2006

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 January 1, 2006 to June 30, 2006.

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 \$10,000 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 January 1, 2006	Ending Account Value June 30, 2006	Expenses Paid During Period* January 1, 2006 to June 30, 2006
Actual	\$1,000.00	\$976.50	\$5.83
Hypothetical (5% return before expenses)	\$1,000.00	\$1,018.90	\$5.96

* Expenses are equal to the Fund's annualized expense ratio of 1.19%, multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

MATTHEW 25 FUND, INC.
SCHEDULE OF INVESTMENTS IN SECURITIES
JUNE 30 , 2006
<unaudited>

	<u>Number of Shares</u>	<u>Historical Cost</u>	<u>Value</u>
COMMON STOCKS -- 97.35%			
CONSTRUCTION MACHINERY & EQUIP -- 0.99%			
ASV Inc.*	46,000	\$ 982,002	\$ 1,059,840
EDUCATIONAL SERVICES -- 3.90%			
Career Education Corp.*	140,000	4,834,442	4,184,600
FEDERAL & FEDERALLY SPONSORED CREDIT AGENCY -- 19.00%			
Federal Agricultural Mortgage Corp.Cl. C	702,500	16,343,590	19,459,250
Federal Agricultural Mortgage Corp.Cl. A	49,500	867,852	915,750
		<u>17,211,442</u>	<u>20,375,000</u>
FINANCE SERVICES -- 4.94%			
First Data Corp.	117,700	4,293,362	5,301,208
FIRE, MARINE & CASUALTY INSURANCE -- 3.08%			
Berkshire Hathaway, Class A *	36	2,045,480	3,299,760
GAS PRODUCTION & DISTRIBUTION -- 6.07%			
El Paso Corporation	434,100	3,204,662	6,511,500
LAND SUBDIVIDERS & DEVELOPERS -- 2.52%			
St. Joe Company	58,000	2,535,497	2,699,320
MALT BEVERAGES -- 2.17%			
Molson Coors Brewing Co. Class A	33,700	2,213,419	2,325,300
METALWORKING MACHINERY & EQUIPMENT -- 10.51%			
Black & Decker, Inc.	133,500	8,521,744	11,275,410
MISC. SHOPPING GOODS STORE -- 5.69%			
AC Moore, Inc.*	12,256	139,210	199,895
Cabelas, Inc.*	306,500	5,429,360	5,903,190
		<u>5,568,570</u>	<u>6,103,085</u>
MISC. TRANSPORTATION EQUIPMENT -- 12.43%			
Polaris Industries, Inc.	307,800	7,767,997	13,327,740

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

MATTHEW 25 FUND, INC.
SCHEDULE OF INVESTMENTS IN SECURITIES (CONTINUED)
JUNE 30 , 2006
<unaudited>

	<u>Number of Shares</u>	<u>Historical Cost</u>	<u>Value</u>
PERSONAL CREDIT INSTITUTION -- 6.68%			
Advanta Corporation, Class A	218,300	\$ 2,089,929	\$ 7,158,057
RACING & TRACK OPERATIONS -- 1.07%			
International Speedway Cl. A	15,000	742,894	695,550
International Speedway Cl. B	9,750	479,676	452,400
		<u>1,222,570</u>	<u>1,147,950</u>
SAVINGS INSTITUTION -- 5.46%			
Abington Community Bancorp	124,300	1,450,163	1,862,014
Ocean Shore Holding Co. *	125,000	1,333,363	1,565,000
Willow Grove Bancorp, Inc.	152,500	689,243	2,426,275
		<u>3,472,769</u>	<u>5,853,289</u>
SECURITY BROKERS, DEALERS & FLOTATION -- 4.90%			
Ameritrade Clearing, Inc. *	355,000	4,183,388	5,257,550
SURETY INSURANCE -- 7.94%			
MBIA, Inc.	145,500	<u>6,071,024</u>	<u>8,519,025</u>
TOTAL COMMON STOCKS		<u>76,218,297</u>	<u>104,398,634</u>
PREFERRED STOCKS -- 2.10%			
ELECTRIC UTILITIES -- 2.10%			
Pacific G&E Corp. 6% Preferred	91,300	<u>1,490,668</u>	<u>2,255,110</u>
SHORT-TERM INVESTMENTS -- 0.97%			
Dreyfus Treasury Prime Fund Class B	1,040,082	<u>1,040,082</u>	<u>1,040,082</u>
TOTAL INVESTMENTS -- 100.42%		\$ <u>78,749,047</u>	107,693,826
Other Assets Less Liabilities -- (0.42)%			<u>(456,334)</u>
NET ASSETS 100.00%			\$ <u><u>107,237,492</u></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
JUNE 30 , 2006
<unaudited>

ASSETS

Investments in securities at value (cost \$78,749,047)	\$ 107,693,826
Cash	4,394
Receivables:	
Dividends	69,531
TOTAL ASSETS	<u>107,767,751</u>

LIABILITIES

Payable for securities purchased	351,154
Payable for fund shares redeemed	54,388
Accrued expenses	124,717
TOTAL LIABILITIES	<u>530,259</u>

NET ASSETS: (Equivalent to \$17.46 per share based on 6,141,791 shares of capital stock outstanding 100,000,000 shares authorized, \$0.01 par value)	\$ <u>107,237,492</u>
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COMPOSITION OF NET ASSETS

Shares of common stock	\$ 61,418
Additional paid-in capital	74,416,290
Net unrealized appreciation of investments	28,944,779
Undistributed net investment income	2,176,126
Undistributed net realized gain on investments	<u>1,638,879</u>
NET ASSETS	\$ <u>107,237,492</u>

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

MATTHEW 25 FUND, INC.
STATEMENT OF OPERATIONS
FOR THE PERIOD ENDED JUNE 30, 2006
<unaudited>

INVESTMENT INCOME:

Dividends	\$ 2,816,630
Interest	12,289
Other income (Note 5)	<u>3,589</u>

TOTAL INVESTMENT INCOME	<u>2,832,508</u>
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EXPENSES:

Investment advisory fee (Note 2)	546,984
Shareholder reporting	14,334
Office expense	14,277
Registration and compliance	14,052
Insurance	13,670
Postage and printing	10,982
Custodian fees	9,719
Directors' fees and expenses	7,410
Audit	7,000
State and local taxes	5,750
Software	4,992
Bank fees	3,030
IRA expense	2,375
Telephone	1,690
Legal fees	<u>116</u>

TOTAL EXPENSES	<u>656,381</u>
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NET INVESTMENT INCOME	<u>2,176,127</u>
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REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS (Note 6)

Net realized gain from investments	1,638,879
Net change in unrealized appreciation of investments	<u>(6,432,049)</u>
Net realized and unrealized gain (loss) from investments	<u>(4,793,170)</u>

NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ <u><u>(2,617,043)</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

	<unaudited> Six Months Ended June 30 2006	Year Ended Dec. 31 2005
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS:		
Net Investment income	\$ 2,176,127	\$ 321,662
Net realized gain from investments	1,638,879	971,100
Unrealized appreciation (depreciation) on investments	<u>(6,432,049)</u>	<u>3,856,392</u>
 NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	 (2,617,043)	 5,149,154
 DISTRIBUTIONS TO SHAREHOLDERS	 -	 (1,292,763)
 CAPITAL SHARE TRANSACTIONS (Note 4)	 <u>911,258</u>	 <u>13,075,707</u>
 TOTAL INCREASE (DECREASE)	 (1,705,785)	 16,932,098
 NET ASSETS, BEGINNING OF PERIOD	 <u>108,943,277</u>	 <u>92,011,179</u>
 NET ASSETS, END OF PERIOD	 <u>\$ 107,237,492</u>	 <u>\$ 108,943,277</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:

	<unaudited> Six Months Ended		Year ended			
	6/30/06	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
Net asset value, Beginning of period.....	17.88	\$17.22	\$14.72	\$11.68	\$11.97	\$10.90
Income from investment operations						
Net investment income (1).....	0.35	0.05	0.13	0.00	0.09	0.00
Net gains (loss) on investments both realized and unrealized.....	<u>(0.77)</u>	<u>0.82</u>	<u>2.82</u>	<u>3.74</u>	<u>(0.29)</u>	<u>1.17</u>
Total from investment operations.....	<u>(0.42)</u>	<u>0.87</u>	<u>2.95</u>	<u>3.74</u>	<u>(0.20)</u>	<u>1.17</u>
Less distributions.....	0.00	(0.21)	(0.45)	(0.69)	(0.09)	(0.10)
Return of capital distribution.....	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(0.01)</u>	<u>0.00</u>	<u>0.00</u>
Total distributions.....	<u>0.00</u>	<u>(0.21)</u>	<u>(0.45)</u>	<u>(0.70)</u>	<u>(0.09)</u>	<u>(0.10)</u>
Net asset value, End of period.....	17.46	\$17.88	\$17.22	\$14.72	\$11.68	\$11.97
Total return (2).....	(2.35)%	5.07%	20.05%	32.12%	(1.67)%	10.69%
Net assets, end of period (000's omitted).....	\$107,237	\$108,943	\$92,011	\$60,001	\$41,899	\$35,621
Ratio of expenses, to average net assets.....	0.59%	1.17%	1.19%	1.23%	1.24%	1.23%
Ratio of net investment income, to average assets.....	1.97%	0.33%	1.00%	(0.01)%	0.85%	0.04%
Portfolio turnover rate.....	16.29%	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
JUNE 30 , 2006
<unaudited>

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)
JUNE 30 , 2006
<unaudited>

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.

The management fee for the first six months of 2006, as computed pursuant to the investment advisory agreement, totaled \$546,984.

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 period ended June 30, 2006, the Fund paid brokerage commissions of \$0 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 period ended June 30, 2006, purchases and sales of investment securities other than short-term investments aggregated \$20,852,451 and \$17,912,402 respectively. At June 30, 2006, the gross unrealized appreciation for all securities totaled \$29,669,241 and the gross unrealized depreciation for all securities totaled \$724,462 or a net unrealized appreciation of \$28,944,779. The aggregate cost of securities for federal income tax purposes at June 30, 2006 was \$78,749,047, including short-term investments.

NOTE 4 - Capital Share Transactions

As of June 30, 2006 there were 100,000,000 shares of \$.01 per value capital stock authorized. The total par value and paid-in capital totaled \$74,477,708. Transactions in capital stock were as follows:

	Six Months Ended June 30, 2006		Year Ended December 31, 2005	
	Shares	Amount	Shares	Amount
Shares sold	487,630	\$ 8,802,698	1,630,710	\$ 27,720,711
Shares issued in reinvestment of dividends	-	-	69,676	1,256,260
Shares redeemed	(440,269)	(7,891,440)	(948,747)	(15,901,264)
Net Increase	<u>47,361</u>	<u>\$ 911,258</u>	<u>751,639</u>	<u>\$ 13,075,707</u>

NOTE 5 - Redemption Fee

To discourage short-term trades by investors, and to compensate the fund for costs that may be incurred by such trades, the Fund will impose a redemption fee of 2% of the total redemption amount (calculated at market value) if shares are held for 365 days or less. The redemption fee does not apply to shares purchased before January 1, 2006 or to shares purchased through reinvested distributions. For the six months ended June 30, 2006, the Fund received \$3,589 in redemption fees.

MATTHEW 25 FUND, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30 , 2006
<unaudited>

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 June 30, 2006, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$	2,176,126
Undistributed long-term capital gain	\$	1,638,879
Unrealized appreciation	\$	28,944,779

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 \$6,946 for the six months ended June 30, 2006. Minimum lease payments over the course of the term of the lease are as follows:

2006	\$	12,108
2007	\$	2,037

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)

BOARD OF DIRECTORS INFORMATION

Matthew 25 Fund

June 30, 2006

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 46	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 48	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 43	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 46	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 Chief Compliance Officer of Matthew 25 Fund.