

MATTHEW 25 FUND, INC

ANNUAL REPORT

December 31, 2007

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 19.18% in 2007. Our Fund has gained 243.22% from its inception on 10/16/95 through 12/31/2007. In other words, a \$10,000 investment at the inception of our Matthew 25 Fund would have grown to \$34,321.63. This is a compounded annual growth rate of 10.62% for a period covering 12.21 years.

Year 2007 is over and our Matthew 25 Fund's performance was poor. I used the end of the year to make some changes in our investments and I will give you an update on our portfolio later in this letter. There was a lot of fear at the end of last year and it is still present as I begin this letter on January 23, 2008. This fear has helped to lower interest rates and stock prices, but these two outcomes have increased the return potential for stocks going forward. The early part of this letter will address this.

Let us begin by looking at last year's operating earnings and this year's operating earnings estimates for the S&P 500 Index (Bottoms up Calculations from Standard & Poor's Index Services):

	<u>2007</u>	<u>2008</u>	<u>Change</u>
1 st Quarter	\$ 22.39	\$ 22.86	+ 2.10%
2 nd Quarter	\$ 24.06	\$ 24.52	+ 1.91%
3 rd Quarter	\$ 20.87	\$ 25.17	+20.60%
4 th Quarter	\$ 17.33	\$ 26.66	+53.84%
Full Year	\$ 84.65	\$ 99.21	+17.20%

Notice that earnings had already declined in the 3rd and 4th quarters of 2007 reflecting that the economy had already weakened during the second half of last year. In 2008 earnings are projected to match the first half of '07 and then improve in the 3rd and 4th quarters of '08. Remember that earnings estimates are just that – best guesses, but I believe the S&P estimates are more objective than most Wall Street estimates because they are only selling the integrity of their index.

This scenario seems reasonable to me because there will be a few months delay before the economy will show the benefits from the Federal Reserve's belated but aggressive increases in liquidity and the related decreases in interest rates. In fact, the first 1 or 2 quarters could be weaker than the above estimates but that doesn't remove the potential strengthening of the economy

later this year. I also believe that the stock market will look forward and show strength before the media reports improved economic figures.

It is hard to predict the turn in the economy or the market, but you can tell if the market is carefully or carelessly priced. This will show in its valuations on past and upcoming earnings. The S&P 500 Index closed at \$1,338.60 on 1/23/08. Therefore, we have a trailing PE Ratio of 15.81 and a forward PE Ratio of 13.49. These are great valuations. For the past 20 years ending 6/30/07 the PE Ratio on trailing earnings has averaged 22.17. This stock market is undervalued by over 28% based on the average of the past 20 years.

This stock market is also attractive in relation to its most common investment alternative, bonds. In comparing the valuation of the stocks to bonds, then the Earnings Yield is a better measure to use than the PE Ratio. (Instead of price divided by earnings = PE Ratio; it is earnings divided by price = Earnings Yield.) The Earnings Yield for the S&P 500 Index on past earnings (2007) is 6.32% and on estimated current year earnings (2008) is 7.4%. Compare this to the earnings yield on 10-Year Treasuries of 3.6%. According to research from Seeking Alpha, the earnings yields on 10-Year Treasury Notes were higher than the S&P 500 earnings yields every year from 1984 until 2003. In '03 the stock market earnings yield went higher than the bond yield. The data ended in early 2007, but the disparity between the 2008 earnings yield on stocks as compared to the earnings yield on bonds would be the highest it has been in 23 years. If the yield on 10-Year Treasuries stays stable this year, then the earnings yield on stocks could come down. If the yield on stocks went to 150% of the yield on bonds, or 5.4%, then based on last year's earnings this would value the S&P 500 at \$1,567.59. This is 17% higher than the market value as I write this letter. The market is priced very carefully.

The last scenario that needs to be considered is what if the pessimists are wrong about the economy and it has already bottomed? Then using the Standard & Poor's 2008 earnings estimates, this market has very high upside potential. How much? If the market was to go to a 4.5% earnings yield this would put the S&P 500 at a value of \$2,204.66 or around 64.7% higher than its January 23rd value. A 4.5% Earnings Yield is the same as a PE Ratio of 22.2, which is nearly identical to the average of the past 20 years. I am not trying to be Pollyannaish, but the news is so negative that I wanted to show the potential upside if earnings and valuations were to improve within reasonable ranges. And remember, if the S&P 500 were to reach \$2,200 in three years it would be an 18% average annual return before dividends. There are always risks in stock investing, but the market is so carefully priced that its upside is being neglected.

The following spreadsheet is information on the majority of our Matthew 25 Fund's holdings. These are investments that I classify as Growth or Growth/Value investments. Included in the spreadsheet are earnings estimates from First Call except for Farmer Mac*. Since there is no First Call earnings estimate for Farmer Mac, I just annualized the first 9 months earnings from 2007:

Stock	Shares	12/31/07 Market Price	Market Value	First Call 08	PE	Earnings Yield	Portfolio Weight	Avg. Earnings Yield
Advanta A	268,150	\$7.300	\$1,957,495.00	\$0.92	7.93	12.60%	0.04038	0.005089
Advanta B	65,000	\$8.070	\$524,550.00	\$0.92	8.77	11.40%	0.01082	0.001234
Farmer Mac *	351,300	\$26.320	\$9,246,216.00	\$2.48	10.61	9.42%	0.19074	0.017972
Farmer Mac A *	70,500	\$17.000	\$1,198,500.00	\$2.48	6.85	14.59%	0.02472	0.003607
TD Ameritrade	242,500	\$20.060	\$4,864,550.00	\$1.36	14.75	6.78%	0.10035	0.006803
Black&Decker Berkshire Hathaway	53,000 25	\$69.650 \$141,600.000	\$3,691,450.00 \$3,540,000.00	\$6.23 \$8,070.00	11.18 17.55	8.94% 5.70%	0.07615 0.07303	0.006811 0.004162
Cabela's	347,500	\$15.070	\$5,236,825.00	\$1.34	11.25	8.89%	0.10803	0.009606
Goldman Sachs	20,000	\$215.050	\$4,301,000.00	\$21.97	9.79	10.22%	0.08872	0.009064
Honda Motors	30,000	\$33.140	\$994,200.00	\$3.20	10.36	9.66%	0.02051	0.001980
MBIA	100,000	\$18.630	\$1,863,000.00	\$3.77	4.94	20.24%	0.03843	0.007777
McGraw Hill	20,000	\$43.810	\$876,200.00	\$3.01	14.55	6.87%	0.01807	0.001242
Polaris	157,000	\$47.770	\$7,499,890.00	\$3.40	14.05	7.12%	0.15471	0.011012
Willow Financial	189,624	\$8.390	\$1,590,945.36	\$0.53	15.83	6.32%	0.03282	0.002073
Zimmer Holdings	16,500	\$66.150	\$1,091,475.00	\$4.22	15.68	6.38%	0.02252	0.001436
	1,931,099		\$48,476,296.36				1.00000	8.99%

Our portfolio's weighted Earnings Yield is just under 9% which is higher than the market average. According to my research, several of these stocks should grow earnings above the market's average for the next few years, such as: Farmer Mac, TD Ameritrade, Berkshire, Cabela's, Goldman Sachs, McGraw Hill, Polaris and Zimmer Holdings. Black&Decker and Honda should be average growers but will assist earnings on a per share basis through their stock buybacks. Advanta, MBIA and Willow Financial need to get through the current credit crunch, which I believe they will and should be able to generate earnings growth down the line. Advanta and MBIA are selling at substantial discounts to book values and I believe offer potential returns much greater than their potential risks.

Four of our holdings are not in the spreadsheet above. One is ASV Inc. which received a buyout offer in January for \$18 from Terex Corp. The other three I do not value on earnings but value them based on assets. These Asset Investments are Abington Bancorp, El Paso and St. Joe. Abington is a recently converted mutual savings bank selling below book and hopefully in June of 2008 will embark on a significant buyback program in order to reduce its capital and to enhance shareholder value. El Paso owns the largest natural gas pipeline system in the U.S. My calculations value its 40,000 miles of pipeline under \$400,000 per mile, and replacement costs for this pivotal energy asset is closer to \$1,000,000 per mile. The company has found a way to recognize this undervalued asset. In the 4th quarter of '07 El Paso placed 1,850 net miles of pipelines into a new publicly traded limited partnership, El Paso Pipeline Partners LP. The partnership's symbol is EPB and its total Market Value plus debt values its pipeline over \$1million per mile. El Paso should be able to enhance shareholder value by passing more of its pipeline into this partnership for cash or

additional shares of the partnership. St. Joe is a land bank of 718,000 acres in Northwest Florida. At year end St. Joe's Enterprise Value was \$3,355.4 million. This values the land at \$4,675 per acre. This land bank is unique, undervalued and should be worth much more in the long run.

This is an intimidating market. The media inundates us with talk of the "credit crisis" and "recession." I do not know when the news will become more upbeat, but I know that it will be long after the stock market has turned positive. Hopefully, this letter showed some of the upside potential in stocks at this time and the value within our portfolio. 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", written in a cursive style.

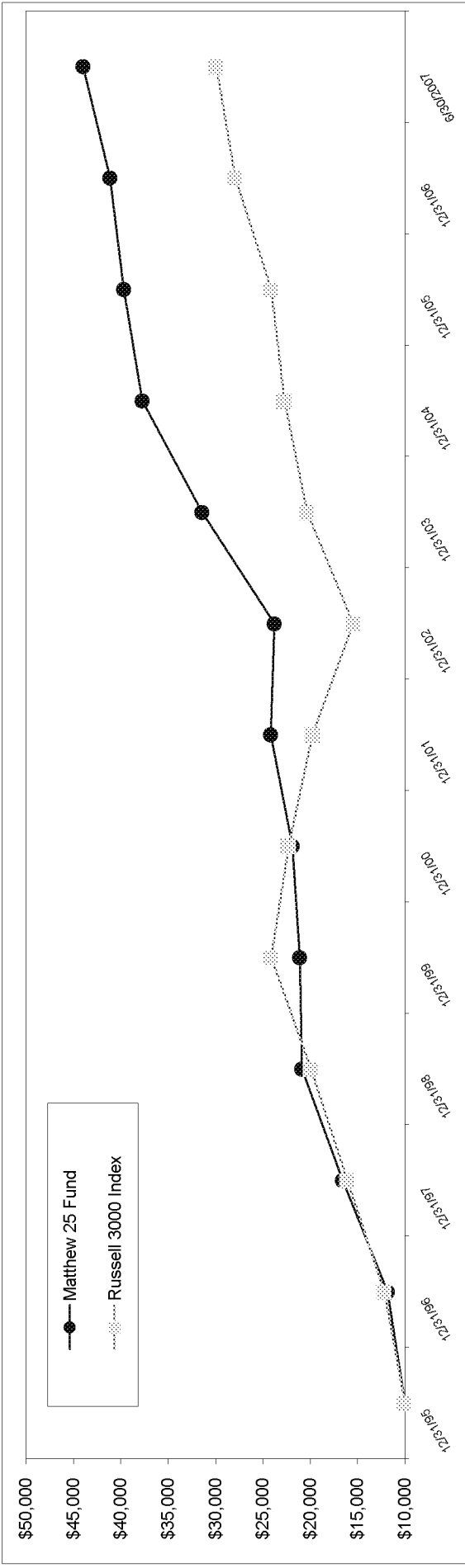
Mark Mulholland
President

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 PERFORMANCE SUMMARY

The graph below represents the changes in value for an initial \$10,000 investment in the Matthew 25 Fund from 12/31/95 to 12/31/07. These changes are then compared to a \$10,000 investment in the Russell 3000 Index, which is an index comprised of 3,000 stocks representing approximately 98% of the U.S. equities market, 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.

	Yr. Ended	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	12/31/06	12/31/07
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	\$41,154	\$33,261
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	\$27,908	\$29,342



	Annual Return	Annual Return	Annual Return	Annual Return	Annual Return	Annual Return	Annual Return	Annual Return	Annual Return	Annual Return	Annual Return	Annual Return	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	12/31/06	12/31/07	12/31/07	
Matthew 25 Fund	18.68%	39.65%	25.93%	1.08%	3.62%	10.69%	(1.67)%	32.12%	20.05%	5.07%	3.79%	(19.18)%	10.53%	
Russell 3000 Index	21.82%	31.78%	24.14%	20.90%	(7.46)%	(11.46)%	(21.54)%	31.06%	11.95%	6.12%	15.72%	5.14%	9.38%	
	One Year			Three Year			Five Year			Ten Year			Twelve Year	
Matthew 25 Fund	12/31/06-12/31/07			12/31/04-12/31/07			12/31/02-12/31/07			12/31/97-12/31/07			12/31/95-12/31/07	
	(19.18)%			(4.12)%			6.93%			7.21%			10.53%	
Russell 3000 Index	5.14%			8.89%			13.63%			6.22%			9.38%	

MATTHEW 25 FUND, INC.
TOP TEN HOLDINGS & ASSET ALLOCATION
DECEMBER 31, 2007

Top Ten Holdings
(% of Net Assets)

Federal Agricultural Mortgage Corp. Class A & Class C	15.46%
Polaris Industries, Inc.	11.10%
Cabelas, Inc.	7.75%
El Paso Corporation	7.72%
Ameritrade Clearing, Inc.	7.20%
Goldman Sachs	6.37%
Black & Decker, Inc.	5.46%
Berkshire Hathaway	5.24%
ASV Inc.	4.82%
Abington Bancorp	4.80%
	<u>75.92%</u>

Asset Allocation
(% of Net Assets)

Federal & Federally Sponsored Credit Agency	15.46%
Security Brokers, Dealers & Flotation	13.57%
Misc. Transportation Equipment	11.10%
Short-Term Investments	7.79%
Misc. Shopping Goods Store	7.75%
Gas Production & Distribution	7.72%
Savings Institution	7.16%
Metalworking Machinery & Equipment	5.46%
Fire, Marine & Casualty Insurance	5.24%
Construction Machinery & Equipment	4.82%
Land Subdividers & Developers	4.20%
Personal Credit Institution	3.67%
Surety Insurance	2.76%
Orthopedic Prosthetic & Surgical Supplies	1.62%
Motor Vehicles & Passenger Car Bodies	1.47%
Book Publishing & Printing	1.30%
Other Assets less Liabilities	-1.09%
	<u>100.00%</u>

MATTHEW 25 FUND, INC.
 EXPENSE EXAMPLE
 DECEMBER 31, 2007

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, 2007 to December 31, 2007.

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 July 1, 2007	Ending Account Value December 31, 2007	Expenses Paid During Period* July 1, 2007 to December 31, 2007
Actual	\$1,000.00	\$764.92	\$5.20
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.31	\$5.96

* 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 , 2007

	<u>Number of Shares</u>	<u>Historical Cost</u>	<u>Value</u>
COMMON STOCKS -- 93.30%			
BOOK PUBLISHING & PRINTING -- 1.30%			
McGraw Hill Companies, Inc.	20,000	\$ 913,922	\$ 876,200
CONSTRUCTION MACHINERY & EQUIP -- 4.82%			
ASV Inc.*	235,000	3,396,709	3,254,750
FEDERAL & FEDERALLY SPONSORED CREDIT AGENCY -- 15.46%			
Federal Agricultural Mortgage Corp.CI. C	351,300	7,087,946	9,246,216
Federal Agricultural Mortgage Corp.CI. A	70,500	1,254,525	1,198,500
		<u>8,342,471</u>	<u>10,444,716</u>
FIRE, MARINE & CASUALTY INSURANCE -- 5.24%			
Berkshire Hathaway, Class A *	25	1,237,022	3,540,000
GAS PRODUCTION & DISTRIBUTION -- 7.72%			
El Paso Corporation	302,500	2,122,770	5,215,100
LAND SUBDIVIDERS & DEVELOPERS -- 4.20%			
St. Joe Company	80,000	3,094,039	2,840,800
METALWORKING MACHINERY & EQUIPMENT -- 5.46%			
Black & Decker, Inc.	53,000	2,078,991	3,691,450
MISC. SHOPPING GOODS STORE -- 7.75%			
Cabelas, Inc.*	347,500	6,195,774	5,236,825
MISC. TRANSPORTATION EQUIPMENT -- 11.10%			
Polaris Industries, Inc.	157,000	2,803,998	7,499,890
MOTOR VEHICLES & PASSENGER CAR BODIES -- 1.47%			
Honda Motor Co. Ltd.	30,000	1,003,463	994,200

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

MATTHEW 25 FUND, INC.
 SCHEDULE OF INVESTMENTS IN SECURITIES (CONTINUED)
 DECEMBER 31 , 2007

	<u>Number of Shares</u>	<u>Historical Cost</u>	<u>Value</u>
ORTHOPEDIC, PROSTHETIC & SURGICAL SUPPLIES -- 1.62%			
Zimmer Holdings Inc. *	16,500	\$ 1,116,145	\$ 1,091,475
PERSONAL CREDIT INSTITUTION -- 3.67%			
Advanta Corporation, Class A	268,150	1,606,078	1,957,495
Advanta Corporation, Class B	65,000	597,804	524,550
		<u>2,203,882</u>	<u>2,482,045</u>
SAVINGS INSTITUTION -- 7.16%			
Abington Community Bancorp	345,000	2,865,475	3,243,000
Willow Financial Bancorp, Inc.	189,624	1,035,376	1,590,945
		<u>3,900,851</u>	<u>4,833,945</u>
SECURITY BROKERS, DEALERS & FLOTATION -- 13.57%			
Ameritrade Clearing, Inc. *	242,500	1,944,487	4,864,550
Goldman Sachs Group, Inc.	20,000	3,896,080	4,301,000
		<u>5,840,567</u>	<u>9,165,550</u>
SURETY INSURANCE -- 2.76%			
MBIA, Inc.	100,000	3,770,411	1,863,000
TOTAL COMMON STOCKS		<u>48,021,015</u>	<u>63,029,946</u>
SHORT-TERM INVESTMENTS -- 7.79%			
US Bank Repurchase Agreements Collateralized by US Government Agencies, 3.10%, Dated 12/31/07 Due 1/2/08	5,264,669	<u>5,264,669</u>	<u>5,264,669</u>
TOTAL INVESTMENTS -- 101.09%		\$ <u>53,285,684</u>	68,294,615
Other Assets Less Liabilities -- (1.09)%			(734,362)
NET ASSETS 100.00%			\$ <u><u>67,560,253</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
DECEMBER 31 , 2007

ASSETS

Investments in securities at value (cost \$53,285,684)	\$ 68,294,615
Cash	2,385
Receivables:	
Dividends & Interest	49,688
Fund shares sold	7,341
Other	54
TOTAL ASSETS	<u>68,354,083</u>

LIABILITIES

Payable for fund shares redeemed	64,853
Payable for securities purchased	725,474
Accrued expenses	3,428
Other Payables	75
TOTAL LIABILITIES	<u>793,830</u>

NET ASSETS: (Equivalent to \$13.89 per share based on 4,863,026 shares of capital stock outstanding 100,000,000 shares authorized, \$0.01 par value) Minimum Redemption Price Per Share $\$13.89 \times 0.98 = 13.61$ (Note 6)	<u><u>\$ 67,560,253</u></u>
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COMPOSITION OF NET ASSETS

Shares of common stock	\$ 48,630
Additional paid-in capital	52,502,692
Net unrealized appreciation of investments	<u>15,008,931</u>
NET ASSETS	<u><u>\$ 67,560,253</u></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, 2007

INVESTMENT INCOME:	
Dividends	\$ 1,374,520
Interest	44,633
Other income	<u>2,390</u>
 TOTAL INVESTMENT INCOME	 <u>1,421,543</u>
EXPENSES:	
Investment advisory fee (Note 2)	923,649
Directors' fees and expenses	20,351
Office expense	19,538
Registration and compliance	17,808
Custodian fees	16,615
Professional fees	15,000
Shareholder reporting	13,814
State and local taxes	13,623
Insurance	13,500
Software	9,220
Postage and printing	6,770
Bank fees	6,461
Telephone	3,037
IRA expense	<u>2,807</u>
 TOTAL EXPENSES	 <u>1,082,193</u>
 NET INVESTMENT INCOME	 <u>339,350</u>
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS	
Net realized gain from investments	4,994,885
Net change in unrealized appreciation of investments	<u>(22,201,948)</u>
Net realized and unrealized gain (loss) from investments	<u>(17,207,063)</u>
 NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	 \$ <u><u>(16,867,713)</u></u>

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

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

	Years ended	
	<u>12/31/07</u>	<u>12/31/06</u>
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS:		
Net investment income	\$ 339,350	\$ 1,433,629
Net realized gain from investments	4,994,885	164,354
Unrealized appreciation (depreciation) on investments	<u>(22,201,948)</u>	<u>1,834,051</u>
 NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	 <u>(16,867,713)</u>	 <u>3,432,034</u>
 DISTRIBUTIONS TO SHAREHOLDERS		
From net investment income	(376,678)	(1,380,226)
From realized gains	<u>(5,057,468)</u>	<u>(103,971)</u>
TOTAL DISTRIBUTIONS	(5,434,146)	(1,484,197)
 CAPITAL SHARE TRANSACTIONS (Note 4)	 <u>(11,865,778)</u>	 <u>(9,163,224)</u>
 TOTAL DECREASE	 (34,167,637)	 (7,215,387)
 NET ASSETS, BEGINNING OF PERIOD	 <u>101,727,890</u>	 <u>108,943,277</u>
 NET ASSETS, END OF PERIOD (including \$0 and \$37,328 of undistributed net investment income)	 <u>\$ 67,560,253</u>	 <u>\$ 101,727,890</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:

	Year ended				
	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
Net asset value, Beginning of period.....	18.29	\$17.88	\$17.22	\$14.72	\$11.68
Income from investment operations					
Net investment income (1).....	0.07	0.24	0.05	0.13	0.00
Net gains (loss) on investments both realized and unrealized.....	<u>(3.39)</u>	<u>0.44</u>	<u>0.82</u>	<u>2.82</u>	<u>3.74</u>
Total from investment operations.....	<u>(3.32)</u>	<u>0.68</u>	<u>0.87</u>	<u>2.95</u>	<u>3.74</u>
Less distributions					
From net investment income.....	(0.08)	(0.25)	(0.05)	(0.13)	0.00
From realized gains.....	(1.00)	(0.02)	(0.16)	(0.32)	(0.69)
From return of capital	0.00	0.00	0.00	0.00	(0.01)
Total distributions.....	<u>(1.08)</u>	<u>(0.27)</u>	<u>(0.21)</u>	<u>(0.45)</u>	<u>(0.70)</u>
Net asset value, End of period.....	\$13.89	\$18.29	\$17.88	\$17.22	\$14.72
Total return (2).....	(19.18)%	3.79%	5.07%	20.05%	32.12%
Net assets, end of period (000's omitted).....	\$67,560	\$101,728	\$108,943	\$92,011	\$60,001
Ratio of expenses, to average net assets.....	1.17%	1.15%	1.17%	1.19%	1.23%
Ratio of net investment income, to average assets.....	0.37%	1.35%	0.33%	1.00%	(0.01)%
Portfolio turnover rate.....	18.86%	28.54%	19.48%	12.46%	23.52%

(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 , 2007

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.

Repurchase Agreements

In connection with transactions in repurchase agreements, it is the Fund's policy that its custodian take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the Fund may be delayed or limited.

MATTHEW 25 FUND, INC.
 NOTES TO FINANCIAL STATEMENTS (Continued)
 DECEMBER 31 , 2007

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 2007, as computed pursuant to the investment advisory agreement, totaled \$923,649.

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, 2007, 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 year ended December 31, 2007, purchases and sales of investment securities other than short-term investments aggregated \$17,005,723 and \$37,697,410 respectively. At December 31, 2007, the gross unrealized appreciation for all securities totaled \$18,471,423 and the gross unrealized depreciation for all securities totaled \$3,462,492 or a net unrealized appreciation of \$15,008,931. The aggregate cost of securities for federal income tax purposes at December 31, 2007 was \$53,285,684, including short-term investments.

NOTE 4 - *Capital Share Transactions*

As of December 31, 2007 there were 100,000,000 shares of \$.01 per value capital stock authorized. The total par value and paid-in capital totaled \$52,551,322. Transactions in capital stock were as follows:

	Year Ended December 31, 2007		Year Ended December 31, 2006	
	Shares	Amount	Shares	Amount
Shares sold	325,185	\$ 5,767,147	649,577	\$ 11,607,765
Shares issued in reinvestment of dividends	316,034	5,340,372	79,531	1,466,562
Shares redeemed	(1,341,569)	(22,973,297)	(1,260,162)	(22,237,551)
Net Decrease	<u>(700,350)</u>	<u>\$ (11,865,778)</u>	<u>(531,054)</u>	<u>\$ (9,163,224)</u>

NOTE 5 - *Distributions to Shareholders*

On September 20, 2007, a distribution of \$1.00 per share aggregating \$5,057,468 was paid to shareholders of record on this same date from net long-term capital gains.

On December 27, 2007, a distribution of \$0.08 per share aggregating \$376,678 was paid to shareholders of record on this same date from net investment income.

MATTHEW 25 FUND, INC.
 NOTES TO FINANCIAL STATEMENTS (Continued)
 DECEMBER 31 , 2007

NOTE 6 - *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 through reinvested distributions. For the year ended December 31, 2007, the Fund received \$62,403 in redemption fees that was reclassified to paid-in capital.

NOTE 7 - *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, 2007, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$	0
Undistributed realized gain	\$	0
Unrealized appreciation	\$	15,008,931

The tax character of distributions paid during the years ended December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Ordinary income	\$ 376,678	\$ 1,380,226
Long-term capital gain	\$ 5,057,468	\$ 103,971

NOTE 8 - *New Accounting Pronouncement*

The Fund adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 - Accounting for Uncertainty in Income Taxes on January 1, 2007. FASB Interpretation No. 48 requires the tax effects of certain tax positions to be recognized. These tax positions must meet a "more likely than not" standard that based on their technical merits, have a more than fifty percent likelihood of being sustained upon examination. At adoption, the financial statements must be adjusted to reflect only those tax positions that are more likely than not of being sustained. Management of the Fund does not believe that any adjustments were necessary to the financial statements at adoption.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is to be applied prospectively as of the beginning of the fiscal year in which FAS 157 is initially applied. Management is currently evaluating the application of FAS 157 to the Fund and will provide additional information in relation to FAS 157 on the Fund's semi-annual financial statements for the period ending June 30, 2008.

NOTE 9 - *Lease Commitments*

The Fund leases office space under a lease that expires February of 2009. Rent expense was \$14,064 for the year ended December 31, 2007. Minimum lease payments over the course

of the term of the lease are as follows:	2008	\$	14,400
	2009	\$	2,400

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.

APPROVAL OF INVESTMENT ADVISORY AGREEMENT

At an in-person meeting held on October 18, 2007, 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.

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, 2007

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 Statement of Additional Information 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
Phillip J. Cinelli, D.O. Age 47	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 49	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 48	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 45	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 47	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 48	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 Boening & 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.

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, 2007, 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, 2007, 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, 2007, 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 19, 2008

Saville & Company