
Matthew 25 Fund, Inc.

SEMI-ANNUAL REPORT

June 30, 2011

(Unaudited)

Matthew 25 Fund, Inc.
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.

MATTHEW 25 FUND

MANAGER'S COMMENTARY June 30, 2011 (Unaudited)

Dear Matthew 25 Fund Shareholders,

Our Fund's return for the first half of 2011 was a gain of **10.34%**. Our Matthew 25 Fund has been operating for 15½ years. A \$10,000 investment in our Fund on January 1, 1996 grew to \$42,662 by June 30, 2011. This was a **9.80%** average annual compounded return for the life of our Fund.

By the time you receive this letter our country's debt ceiling issue will have been temporarily settled. The \$512.76 and \$634.76 drops in the Dow Jones Industrial Average will hopefully prove to be temporary setbacks. As I write this letter I thought the current stock market dramas keep investors from analyzing the three major catalysts that affect the stock market. These three drivers of the stock market are **Momentum, Growth and Value**.

Momentum is the price change trend of stocks. Positive momentum in the stock market usually comes from money flowing into stocks while negative momentum is caused by outflows. The market has been volatile lately, but it has had noticeably, and for many surprisingly, positive momentum since March of 2009. The money flow that has increased stock prices must have come from institutional and professional pools of money and not from individual investors. This can best be seen from the outflow of money for Domestic Stock Funds which is a good indicator of individual actions. The following data is from ICI:

Period	Net Investment in Billions
2007	(\$47.6)
2008	(\$151.6)
2009	(\$39.5)
2010	(\$95.9)
7/20/2011	(\$24.4)

Greater than four years of net redemptions in domestic stock funds is a record that beats the previous record of 3 years ending in the early 1980's. The important lesson here has been the market's strength over the past two years in spite of these large outflows by individuals. A quote from Roger McNamee who is one of the top technology investors is apropos.

"Fear is transitory; greed is permanent."

MATTHEW 25 FUND

MANAGER'S COMMENTARY (CONTINUED)

June 30, 2011 (Unaudited)

Individual investors will eventually come back but probably after the market has hit higher values. Imagine what \$359 billion flowing back into U.S. Stock Funds could do for stock prices especially if institutions and professionals stay the course. Thus momentum has been good but could get much better.

Growth in earnings has been and is expected to continue to be positive. The following data is from Standard and Poor's research; it represents earnings for the S&P 500 Index actual and estimated:

Period	S&P Earnings
2005	\$76.45
2006	\$87.72
2007	\$82.54
2008	\$49.51
2009	\$56.86
2010	\$83.77
Est. 2011	\$99.08
Est. 2012	\$113.79

As you can see in this list, earnings peaked in 2006 but it is followed by two years of declines of 6% and 40%, respectively. This covers much of the recession. Then in 2009 net income increased 15% followed by an improvement of 47% in 2010. The projection for this year is for an 18% gain succeeded by another 15% progression in 2012. Earnings have grown enough to surpass the pre-recession peak this year and indications are for it to continue.

Value is the last component. The market spends the majority of its time between 14 and 20 Price to Earnings Ratios (P/E Ratio). In July the S&P 500 Index ranged between \$1,282.86 and \$1,356.48 so I will use the mid-point of \$1,320 for our calculations. This puts the stock market at only a 13.3 P/E Ratio for this year and 11.6 for 2012. The market would be fairly priced next year between \$1,700 and \$1,900. In fact, the average P/E Ratio from 12/31/88 to 3/31/11 according to Standard and Poor's data is 19.1 which would be a valuation of \$2,173 on the S&P 500 Index based on the earnings estimate of \$113.79. Thus the market's valuation is much better than average with very high return potential. But the higher P/E's won't come until the fear passes and more money flows back into the stock market.

MATTHEW 25 FUND

MANAGER'S COMMENTARY (CONTINUED)

June 30, 2011 (Unaudited)

There is interplay among Momentum, Growth and Value. Each affects the others to some degree, but the potential coactions of these three market drivers are very attractive at this time. Growing earnings with stock prices that are below fair values will eventually bring price gains or positive momentum! This Growth/Value is why I am excited about our Matthew 25 Fund's portfolio. The following chart covers most of our holdings. These are our stocks that have published consensus growth rates and earnings estimates. The Consensus 5-years' Growth is the average annual projected growth rates from contributing Wall Street Analysts, while the 2011 and 2012 earnings estimates are the average earnings estimates from these same analysts. Our portfolio has an average projected long-term growth rate of 12.5% and a Forward P/E Ratio of 12. The growth potential is above the market's 5-years expected growth rate, but our P/E Ratio is very close to the overall market's P/E ratio. This ratio would be lower on our portfolio if I backed out the excess cash from Apple, Google and Stryker. To show you the potential rewards from this growth and value, let us assume that our portfolio's earnings do grow the 12.5% from 2012 to 2016 and in four years our portfolio's Forward P/E Ratio goes to 14. Then the portfolio's valuation would increase 87% for an average annual rate of return of 16.92%, not including dividends. This may or may not happen but the potential is there.

Company	Symbol	Price 6/30/2011	Consensus 5-years Growth	Consensus 2011 EPS Est.	Consensus 2012 EPS Est.	P/E Ratio	Forward P/E Ratio
Apple	AAPL	\$390.48	18.00%	\$27.31	\$32.01	14.3	12.2
Citigroup	C	\$41.64	7.00%	\$4.08	\$5.13	10.2	8.1
Cabelas	CAB	\$27.15	15.00%	\$2.01	\$2.29	13.5	11.9
Caterpillar	CAT	\$106.46	6.00%	\$7.03	\$9.40	15.1	11.3
El Paso	EP	\$20.20	8.00%	\$1.09	\$1.36	18.5	14.9
East West Bank	EWBC	\$20.21	9.50%	\$1.55	\$1.79	13.0	11.3
Google	GOOG	\$506.38	17.50%	\$35.16	\$42.05	14.4	12.0
Goldman Sachs	GS	\$133.09	13.00%	\$11.33	\$16.78	11.7	7.9
KKR	KKR	\$16.32	10.00%	\$1.74	\$2.16	9.4	7.6
Kansas City Southern	KSU	\$59.33	17.50%	\$2.83	\$3.48	21.0	17.0
Mastercard	MA	\$301.34	20.00%	\$17.67	\$20.84	17.1	14.5
NASDAQ	NDAQ	\$25.30	12.00%	\$2.45	\$2.79	10.3	9.1
Polaris	PII	\$111.17	14.00%	\$6.21	\$7.39	17.9	15.0
J M Smucker	SJM	\$76.44	8.00%	\$5.15	\$5.57	14.8	13.7
Stryker	SYK	\$58.69	12.00%	\$3.71	\$4.13	15.8	14.2
Average (Arithmetic Mean)			12.50%			14.5	12.0

MATTHEW 25 FUND

MANAGER'S COMMENTARY (CONTINUED)

June 30, 2011 (Unaudited)

If you are reading this letter it means you are most likely an investor with our Fund, so it is a bit like preaching to the choir. However, stay the course for if the growth continues then the money flows will come back to stocks and values should increase. If this occurs I believe that we are set up to participate with our Matthew 25 Fund better than the broad market! Please write to me or call if you have any questions about this letter or the accompanying financial statements. Thank you for allowing us to work for you.

Good fortune,



Mark Mulholland

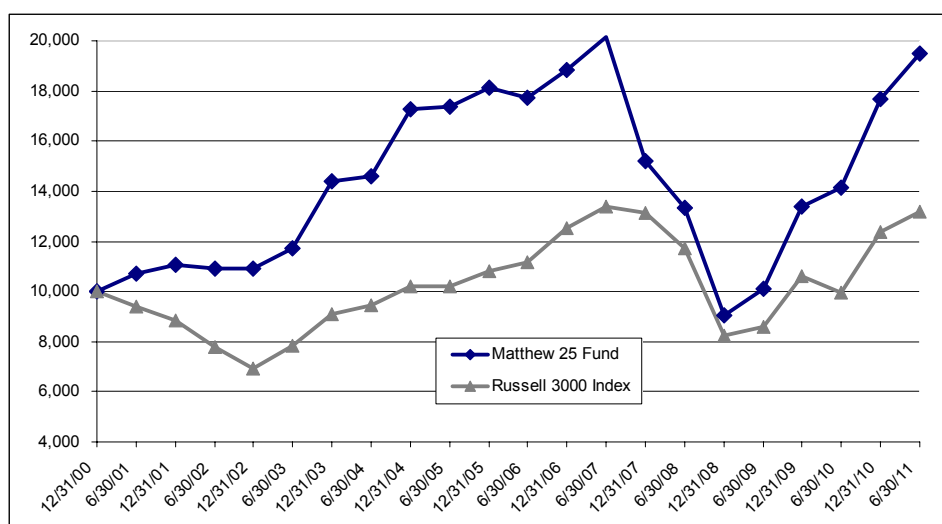
Except for any historical information, the matters discussed in this letter contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve risks and uncertainties, including 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 ILLUSTRATION June 30, 2011 (UNAUDITED)

The graph below represents the changes in value for an initial \$10,000 investment in the Matthew 25 Fund from 12/31/00 to 06/30/11. 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.

Cumulative Performance Comparison of \$10,000 Investment Since December 31, 2000*



Average Annual Total Returns For the Periods Ended June 30, 2011

	Matthew 25 Fund	Russell 3000 Index
1 Year	38.04%	32.37%
3 Year	13.57%	4.00%
5 Year	1.95%	3.35%
10 Year	6.17%	3.44%

MATTHEW 25 FUND

TOP TEN HOLDINGS & ASSET ALLOCATION June 30, 2011 (Unaudited)

Top Ten Holdings	(% of Net Assets)
Apple, Inc.	13.49%
Cabelas, Inc.	7.68%
El Paso Corp.	6.44%
Kansas City Southern	5.91%
Mastercard, Inc.	5.57%
Caterpillar, Inc.	5.52%
East West Bancorp 8% Convertible Preferred	5.23%
J.M. Smucker Co.	5.12%
Citigroup, Inc.	5.05%
Polaris Industries, Inc.	4.96%
	<hr/>
	64.97%

Asset Allocation	(% of Net Assets)
Electronic Computers	13.49%
Security Brokers, Dealers & Exchanges	8.20%
Shopping Goods Store	7.68%
Railroads, Line-Haul Operations	5.91%
Fire, Marine & Casualty Insurance	4.85%
Construction Machinery & Equipment	5.52%
Transportation Equipment	4.96%
Gas Production & Distribution	6.44%
Electric Services	3.34%
Canned Fruits, Veg & Preserves, Jams & Jellies	5.12%
Surgical & Medical Instruments & Apparatus	4.59%
Business Services	5.57%
Limited Partnerships	4.89%
Computer Programming & Data Processing	4.04%
Real Estate Investment Trusts	3.85%
National Commercial Bank	5.05%
Manufacturing, Foreign	1.13%
Preferred Stock	5.23%
Other Assets less Liabilities	0.14%
	<hr/>
	100.00%

MATTHEW 25 FUND

SCHEDULE OF INVESTMENTS June 30, 2011 (Unaudited)

Shares/Principal Amount	Historical Cost	Market Value	% of Net Assets
COMMON STOCKS			
Business Services			
11,600 Mastercard, Inc.	\$2,456,450	\$3,495,545	5.57%
Canned Fruits, Veg & Preserves, Jams & Jellies			
42,000 J.M. Smucker Co.	\$2,003,274	\$3,210,480	5.12%
Computer Programming & Data Processing			
5,000 Google, Inc. Class A *	\$2,142,490	\$2,531,900	4.04%
Construction Machinery & Equipment			
32,500 Caterpillar, Inc.	\$1,132,895	\$3,459,950	5.52%
Electric Services			
47,500 FirstEnergy Corp.	\$1,582,435	\$2,097,125	3.34%
Electronic Computers			
25,200 Apple, Inc. *	\$3,800,139	\$8,458,882	13.49%
Fire, Marine & Casualty Insurance			
20 Berkshire Hathaway, Class A *	\$961,486	\$2,322,100	3.70%
42,500 Penn Millers Holding Corp. *	\$430,832	\$718,675	1.15%
Total Fire, Marine & Casualty Insurance	\$1,392,318	\$3,040,775	4.85%
Gas Production & Distribution			
200,000 El Paso Corp.	\$1,419,012	\$4,040,000	6.44%
Manufacturing, Foreign			
110,000 BYD Company, Ltd. ADR (China) *	\$1,350,571	\$708,400	1.13%
National Commercial Bank			
76,000 Citigroup, Inc.	\$3,549,501	\$3,164,640	5.05%
Railroads, Line-Haul Operations			
62,500 Kansas City Southern *	\$884,125	\$3,708,125	5.91%

*Non-Income producing securities during the period.

ADR - American Depositary Receipt

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

MATTHEW 25 FUND

SCHEDULE OF INVESTMENTS (CONTINUED) June 30, 2011 (Unaudited)

Shares/Principal Amount	Historical Cost	Market Value	% of Net Assets
Real Estate Investment Trusts			
206,000 Brandywine Realty Trust	\$1,938,055	\$2,387,540	3.81%
1,100 Weyerhaeuser Co.	\$23,534	\$24,046	0.04%
Total Real Estate Investment Trusts	\$1,961,589	\$2,411,586	3.85%
Security Brokers, Dealers & Exchanges			
22,500 Goldman Sachs Group, Inc.	\$2,763,144	\$2,994,525	4.77%
85,000 Nasdaq OMX Group, Inc. *	\$1,844,544	\$2,150,500	3.43%
Total Security Brokers, Dealers & Exchanges	\$4,607,688	\$5,145,025	8.20%
Shopping Goods Store			
177,500 Cabelas, Inc. Class A *	\$2,061,513	\$4,819,125	7.68%
Surgical & Medical Instruments & Apparatus			
49,000 Stryker Corp.	\$1,985,943	\$2,875,810	4.59%
Transportation Equipment			
28,000 Polaris Industries, Inc.	\$651,422	\$3,112,760	4.96%
Total Common Stocks	\$32,981,365	\$56,280,128	89.74%
LIMITED PARTNERSHIPS			
188,000 KKR Private Equity Inv., L.P.	\$2,159,041	\$3,068,160	4.89%
PREFERRED STOCKS			
2,317 East West Bancorp 8% Convertible Preferred	\$2,247,629	\$3,278,555	5.23%
Total Investments	\$37,388,035	\$62,626,843	99.86%
Other Assets in Excess of Liabilities		\$88,741	0.14%
Net Assets		\$62,715,584	100.00%

*Non-Income producing securities during the period.
The accompanying notes are an integral part of these financial statements.

MATTHEW 25 FUND

SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2011 (Unaudited)

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in the three broad levels listed below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.

Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an active market, price for similar instruments, interest rates, prepayment speeds, yield curves, default rates and similar data.

Level 3 - Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Fund's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following is a summary of inputs used as of June 30, 2011 in valuing the Fund's investments carried at value:

Investments in Securities	Level 1	Level 2	Level 3	Total
Common Stocks	\$56,280,128	--	--	\$56,280,128
Limited Partnership	\$3,068,160	--	--	\$3,068,160
Preferred Stock	--	\$3,278,555	--	\$3,278,555
	<u>\$59,348,288</u>	<u>\$3,278,555</u>	<u>--</u>	<u>\$62,626,843</u>

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

MATTHEW 25 FUND

STATEMENT OF ASSETS AND LIABILITIES June 30, 2011 (Unaudited)

Assets	
Investment in securities at market value (cost \$37,388,035)	\$ 62,626,843
Cash	155,603
Receivables:	
Fund shares purchased	100
Dividends and interest	10,770
Total Assets	<u>62,793,316</u>
Liabilities	
Payables:	
Fund shares redeemed	11,349
Accrued Management fees	49,577
Accrued expenses	16,806
Total Liabilities	<u>77,732</u>
Net Assets (Equivalent to \$17.18 per share based on 3,651,480 shares of capital stock outstanding, 100,000,000 shares authorized, \$0.01 par value)	
Minimum redemption price per share \$17.18 x 0.98 = 16.84 (Note 6)	<u>\$ 62,715,584</u>
Composition of Net Assets	
Shares of common stock	\$ 36,515
Additional paid-in capital	39,103,106
Net unrealized appreciation of investments	25,238,808
Undistributed net investment income	61,275
Accumulated net realized loss on investments	<u>(1,724,120)</u>
Net Assets	<u>\$ 62,715,584</u>

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

MATTHEW 25 FUND

STATEMENT OF OPERATIONS For the six months ended June 30, 2011 (Unaudited)

Investment Income	
Dividends	\$ 412,964
Interest	5,696
Total Investment Income	<u>418,660</u>
Expenses	
Management fees (Note 3)	302,256
Insurance	11,000
Professional fees	6,854
Office expenses	5,984
Custodian fees	4,612
Transfer agent fees	4,283
Postage and printing	4,112
Compliance Officer fees	3,390
Directors' fees and expenses	3,304
Registration fees	3,280
State & Local Taxes	1,960
Miscellaneous	1,885
Bank fees	1,867
Shareholder reporting	1,547
IRA expense	1,304
Telephone expense	1,115
Total Expenses	<u>358,753</u>
Net Investment Income	<u>59,907</u>
Realized and Unrealized Gain (Loss) from Investments	
Net realized gain from investments	3,410,732
Net change in unrealized appreciation of investments	2,336,470
Net realized and unrealized gain from investments	<u>5,747,202</u>
Net increase in net assets resulting from operations	<u>\$ 5,807,109</u>

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

MATTHEW 25 FUND

STATEMENTS OF CHANGES IN NET ASSETS

	(Unaudited)	
	Six Months	Year Ended
	Ended	Year Ended
	6/30/2011	12/31/10
Increase (Decrease) in Net Assets From Operations		
Net investment income	\$ 59,907	\$ 156,283
Net realized gain from investments	3,410,732	3,845,063
Unrealized appreciation on investments	2,336,470	9,605,468
Net increase in assets resulting from operations	<u>5,807,109</u>	<u>13,606,814</u>
Distributions to Shareholders		
From net investment income	---	(154,916)
From realized gains	---	---
Total distributions	<u>---</u>	<u>(154,916)</u>
Capital Share Transactions (Note 5)	<u>708,040</u>	<u>174,576</u>
Total Increase in Net Assets	6,515,149	13,626,474
Net Assets at Beginning of Period	<u>56,200,435</u>	<u>42,573,961</u>
Net Assets at End of Period (includes undistributed net investment income of \$61,275 and \$1,368, respectively)	<u>\$62,715,584</u>	<u>\$56,200,435</u>

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

MATTHEW 25 FUND

FINANCIAL HIGHLIGHTS

Selected data for a share outstanding throughout the period:

	(Unaudited)					
	Six Months Ended 6/30/2011	12/31/10	12/31/09	Years Ended		
		12/31/08	12/31/07	12/31/06		
Net Asset Value -						
Beginning of Period	\$ 15.57	\$ 11.83	\$ 8.08	\$ 13.89	\$ 18.29	\$ 17.88
Net Investment Income (1)	0.02	0.04	0.12	0.16	0.07	0.24
Net Gains or (Losses) on Investments (realized and unrealized)	1.59	3.74	3.75	(5.79)	(3.39)	0.44
Total from Investment Operations	1.61	3.78	3.87	(5.63)	(3.32)	0.68
Less Distributions						
From net investment income	0.00	(0.04)	(0.12)	(0.18)	(0.08)	(0.25)
From realized gains	0.00	0.00	0.00	0.00	(1.00)	(0.02)
Total Distributions	0.00	(0.04)	(0.12)	(0.18)	(1.08)	(0.27)
Net Asset Value -						
End of Period	\$ 17.18	\$ 15.57	\$ 11.83	\$ 8.08	\$ 13.89	\$ 18.29
Total Return (2)	10.34%	31.97%	47.89%	(40.44)%	(19.18)%	3.79%
Net Assets - End of Period (000's omitted)	\$ 62,716	\$56,200	\$42,574	\$ 31,387	\$ 67,560	\$101,728
Ratio of Expenses to Average Net Assets	1.19% (3)	1.21%	1.25%	1.24%	1.17%	1.15%
Ratio of Net Investment Income to Average Net Assets	0.20% (3)	0.32%	1.24%	2.60%	0.37%	1.35%
Portfolio Turnover Rate	11.49%	26.59%	34.36%	73.21%	18.86%	28.54%

(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

(3) Annualized

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

MATTHEW 25 FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 (Unaudited)

NOTE 1 - 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 Fund's objective is to seek long-term capital appreciation. Income is a secondary objective.

NOTE 2 - *Summary of Significant Accounting Policies*

The following is a summary of the significant accounting policies followed by the Fund. These policies are in conformity with accounting principal 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.

In addition, Generally Accepted Accounting Principles ("GAAP") requires management of the Fund to analyze all open tax years, fiscal years 2007-2010, as defined by IRS statute of limitations for all major industries, including federal tax authorities and certain state tax authorities. As of and during the year ended December 30, 2010, the Fund did not have a liability for any unrecognized tax benefits. The Fund has no examination in progress and is not aware of any tax positions for which it is reasonably possible that the total tax amounts of unrecognized tax benefits will significantly change in the next twelve months.

MATTHEW 25 FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 (Unaudited)

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.

Subsequent Event

Management has evaluated subsequent events through the date the financial statements were issued and has determined no such events requiring disclosure.

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.

NOTE 3 - *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.

MATTHEW 25 FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 (Unaudited)

The management fee for the period ended June 30, 2011, as computed pursuant to the investment advisory agreement, totaled \$302,256. The management fee is the only revenue for The Matthew 25 Management Corp., and the Advisor's expenses are paid out of this revenue. At June 30, 2011 the Fund owed the Advisor \$49,577 in advisory fees.

Mr. Mark Mulholland is the sole director of The Advisor and is also the President of the Fund. In addition, Mr. Mulholland is a broker at Boenning & Scattergood Inc. During the six months ended June 30, 2011, 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 4 - Investments

For the period ended June 30, 2011, purchases and sales of investment securities other than short-term investments aggregated \$7,887,476 and \$7,012,340, respectively.

NOTE 5 - Capital Share Transactions

As of June 30, 2010 there were 100,000,000 shares of \$.01 per value capital stock authorized. The total par value and paid-in capital totaled \$39,139,621. Transactions in capital stock were as follows:

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Shares sold	198,106	\$3,322,125	268,553	\$ 3,807,537
Shares reinvested	-	-	9,117	142,862
Shares redeemed	<u>(155,368)</u>	<u>(2,614,085)</u>	<u>(266,251)</u>	<u>(3,775,823)</u>
Net increase	<u>42,738</u>	<u>\$ 708,040</u>	<u>11,419</u>	<u>\$ 174,576</u>

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 six months ended June 30, 2011 the Fund received \$2,971 in redemption fees that was reclassified to paid-in capital.

MATTHEW 25 FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 (Unaudited)

NOTE 7 – Tax Matters

As of June 30, 2011, the tax basis components of distributable earnings, unrealized appreciation (depreciation) and cost of investment securities were as follows:

Federal tax cost of investments, including short-term investments \$ 37,388,035

Gross tax unrealized appreciation on investments	\$ 26,265,840
Gross tax unrealized depreciation on investments	<u>(1,027,032)</u>
Net tax unrealized appreciation	<u>\$ 25,238,808</u>

The Fund's tax basis capital gains and losses are determined only at the end of each fiscal year. For tax purposes, at December 31, 2010, the following represents the tax basis capital gains and losses:

Undistributed ordinary income		<u>\$ 1,368</u>
Capital loss carry-forwards +	2016	\$ (2,293,247)
	2017	<u>(2,841,605)</u>
Accumulated realized losses		<u>\$ (5,134,852)</u>

+ The capital loss carry-forwards will be used to offset any capital gains realized by the Funds in future years through the expiration dates. The Fund will not make distributions from capital gains while a capital loss carry-forward remains.

The Regulated Investment Company Modernization Act of 2010 generally allows capital losses incurred in a taxable year beginning after December 22, 2010 (post-enactment year) to be carried forward for an unlimited period to the extent not utilized. However, any capital loss carry-forward generated in a post-enactment year must be carried forward to offset subsequent year net capital gains before any capital loss carry-forward from a pre-enactment year can be used. This may increase the risk that a capital loss generated in a pre-enactment year will expire unutilized.

MATTHEW 25 FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 (Unaudited)

The tax character of distributions paid during the years ended December 31, 2010 and 2009 are as follows:

	<u>2009</u>	<u>2010</u>
Ordinary income	\$ 154,916	\$ 429,863

NOTE 8 - *Lease Commitments*

The Fund leases office space under an agreement that expires April of 2012. Rent expense was \$4,350 for the six months ended June 30, 2011. Minimum lease payments over the course of the agreement are as follows:

2011	\$8,700
2012	\$2,900

NOTE 9 - *New Accounting Pronouncement*

In May 2011 the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS)". ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose additional information for fair value measurements categorized within Level 3 of the fair value hierarchy. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. Management is currently evaluating the implications of ASU No. 2011-04 and its impact on the financial statements.

MATTHEW 25 FUND

EXPENSE EXAMPLE June 30, 2011 (Unaudited)

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, 2011 to June 30, 2011.

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 \$8 annually for IRA Custodian Fees at the discretion of the Fund's Management or Directors. This \$8 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, 2011	Ending Account Value June 30, 2011	Expenses Paid During Period* January 1, 2011 to June 30, 2011
Actual	\$1,000.00	\$1,103.40	\$6.21
Hypothetical (5% retur before expenses)	\$1,000.00	\$1,018.89	\$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.

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ADDITIONAL INFORMATION JUNE 30, 2011 (Unaudited)

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.

MATTHEW 25 FUND

BOARD OF DIRECTORS INFORMATION June 30, 2011 (UNAUDITED)

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, P.O. Box 2479 Jenkintown, PA 19046.

<u>Name and Age</u>	<u>Position with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principle Occupation During Last Five Years</u>	<u>Other Directorships</u>
INDEPENDENT DIRECTORS				
Philip J. Cinelli, D.O. Age 51	Director	1 year with election held annually. He has been a Director since 1996.	Physician in Family Practice	None
Samuel B. Clement Age 53	Director	1 year with election held annually. He has been a Director since 1996.	Stockbroker with Securities of America	None
Linda Guendelsberger Age 51	Director Secretary of Fund	1 year with election held annually. She has been a Director since 1996.	Partner Weiser Mazars LLP	None
Scott Satell Age 48	Director	1 year with election held annually. He has been a Director since 1996.	Manufacturer's Representative with BPI Ltd.	None
INTERESTED DIRECTORS				
Steven D. Buck, Esq. Age 51	Director	1 year with election held annually. He has been a Director since 1996.	Attorney and Shareholder with Stevens & Lee	None
Mark Mulholland Age 51	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	None

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 an interested person 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.

