



THE
BERWYN
FUNDS

BERWYN FUND • BERWYN INCOME FUND • BERWYN CORNERSTONE FUND
(BERWX) (BERIX) (BERCX)

2010 FIRST QUARTER REPORT

NO LOAD MUTUAL FUNDS

Shareholder Services

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THE BERWYN FUNDS

FIRST QUARTER REPORT 2010

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BERWYN FUND
a series of *The Berwyn Funds*

FIRST QUARTER REPORT 2010

April 28, 2010

Dear Berwyn Fund Shareholder:

The Berwyn Fund's (BF's) total return for the first quarter of 2010 was 10.02 percent. This performance compared favorably with that of its reference index, the Russell 2000, which gained 8.85 percent during the three month period. Unlike this time last year, small-cap stocks outperformed large-cap stocks. For example, the Dow Jones Industrial Average (DJIA) and Standard & Poor's 500 Index (S&P 500) rose 4.82 percent and 5.39 percent, respectively, on a total return basis.

A year ago the stock market was near its bear market bottom, but since then the performance of equities has been spectacular. On a total return basis, BF, the Russell 2000, DJIA and S&P 500 gained 71.70 percent, 62.76 percent, 46.93 percent and 49.77 percent, respectively, over the past four quarters. In keeping with historical precedent, the stock market has once again demonstrated its ability to discount future corporate earnings results and "climb a wall of worry."

The cacophony of naysayers continues as of this writing in spite of the fact that the economy has made solid progress in the past year. In fact, in the fourth quarter of 2009 the economy grew at an annual rate of 5.6 percent and additional growth is expected to have occurred in the first quarter of 2010. Corporate revenues and earnings are expanding again and order backlogs suggest that this improvement will continue in the near term.

Typically, during times of crisis, investors shun small-cap stocks in favor of bonds or large-cap stocks that are perceived to be more stable. Consequently, the first quarter of last year was one of the worst performance periods for BF in its 26 year history. Subsequent to the stock market's bottoming in March of 2009, and despite the progress that has been made since then, we are frustrated that our stocks have not moved higher more quickly. In our opinion, our holdings are strong companies that have not been involved in the sub-prime financial crisis, but have nevertheless been held back by an atmosphere filled with fear and uncertainty. However, in recent weeks we have seen a positive change as the marketplace has begun to gain confidence that the recovery is sustainable and is re-evaluating the earnings potential of the companies in BF's portfolio. Most of our stocks have now "broken-out" of bottom formation chart patterns and signs of a cyclical bull market are, in our opinion, solidly in place.

As hard core value investors, we have attempted to maximize the opportunities offered by the market's volatility by being fully invested in industries and companies that, in our judgment, have the most attractive risk/reward characteristics. At the end of the quarter, the majority of the fund's assets were invested in Industrials, 26.3 percent, Information Technology, 18.2 percent, Financials, 17.1 percent, and Consumer Discretionary, 13.3 percent. The percentage held in cash for most of the quarter was less than five percent, but jumped to 8.6 percent at the end of the quarter when we sold our position in 3Com.

Our five best performing stocks for the quarter were Wabash National (1.5%)¹, up 270.9 percent, Ethan Allen (2.1%), up 54.3 percent, American Equity Investment Life (3.6%), up 43.1 percent, Stratasys (1.5%), up 41.7 percent and Vasco Data Security, (3.0%), up 31.4 percent. Of the 39 stocks in the portfolio on March 31st, nine experienced a drop in price for the quarter. The worst performing stocks were Exide Technologies (2.0%), down 19.0 percent, Graham Corp. (2.6%), down 13.0 percent, Chiquita Brands (2.5%), down 12.8 percent, Rehabcare (2.7%), down 10.38 percent and Granite Construction (2.5%), down 9.84 percent.

During the quarter we bought shares in Interdigital (0.4%), a holder of intellectual property in the wireless technology industry, and Joseph A. Bank Clothiers (2.8%), a manufacturer and retailer of men's clothing. Additional shares of AAON, Inc. (2.6%), U.S. Ecology (2.5%), Fair Isaac (2.7%), Frontier Oil (0.7%) and Vasco Data Security (3.0%) were purchased. On the sell side, we eliminated positions in Ciber Inc., Dress Barn, Ingles Markets and Plexus. As mentioned above, we sold our position in 3Com after it had received an attractive acquisition offer from Hewlett-Packard. Partial sales of American Equity Investment Life (3.6%), Exide Technologies (2.0%), Genesco (1.6%), Newpark Resources (3.3%) and Wabash National (1.5%) were executed for a variety of tactical and fundamental reasons.

Although it is tempting to opine about the future direction of the economy and the stock market, it is probably more worthwhile to remind our shareholders of our commitment to growing your assets through value investing. Over the ten years ended 3/31/10, the major domestic stock indices have either been down or provided meager single digit returns. However, shareholders of BF have experienced an average annual compounded double digit return for this ten year period. As 2010 progresses, we will continue to be watchful for unusual long-term opportunities while attempting to limit the overall risk in BF's portfolio.

Thank you for your confidence and support.

Sincerely yours,

The Killen Group, Inc.

The Killen Group

¹ The numbers in parentheses following each company mentioned reflect the percentage of the Fund's net assets comprised of such securities as of 3/31/10.

Fund Performance for Periods Ended 3/31/10
(Average Annual Total Returns)

	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>
Berwyn Fund	71.70%	3.50%	10.97%

Past performance is not a guarantee of future results. The investment return and the principal value of an investment in BF will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. Current month end data is available at www.theberwynfunds.com.

The total and net expense ratios for Berwyn Fund for the year ended 12/31/09 were 1.31%. Returns for Berwyn Fund are net of all expenses, advisory fees and commission charges and include the reinvestment of BF's dividends. All index returns listed herein also include the reinvestment of dividends. Current month end data is available at www.theberwynfunds.com.

Investing in any mutual fund involves risk, including the risk that you may lose all or part of the money you invest. The Berwyn Fund is a non-diversified fund which may present greater risks than investing in a diversified fund. The fund invests in equity securities which carry the potential for unpredictable drops in value and periods of lackluster performance. The Fund typically invests in securities that are considered undervalued by the Advisor. This may result in the Fund being invested in lesser-known companies or those currently out of favor with other investors. There is the chance these securities remain out of favor or not generally recognized by the market. In addition, the Fund invests primarily in small capitalization companies. Small capitalization companies are generally more volatile and less liquid than larger capitalization companies. For additional information on these risks and other related risks (non-principal), please review the full prospectus.

An investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The Fund's prospectus contains this and other information about the Fund and should be read before investing. The Fund's prospectus may be obtained by downloading it from the Fund's web site or by calling 1-800-992-6757.

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BERWYN INCOME FUND

a series of *The Berwyn Funds*

FIRST QUARTER REPORT 2010

April 28, 2010

Dear Berwyn Income Fund Shareholder:

The total return to shareholders of the Berwyn Income Fund (BIF) for 2010's first quarter was 3.21 percent. Net asset value increased from \$12.77 on December 31st, 2009 to \$13.05 on March 31st, 2010. A quarterly dividend of \$0.13 was paid from net investment income versus \$0.15 paid in last year's first quarter. Several factors have led to a decline in the fund's dividends over the past few quarters, namely, lower market yields as the Federal Reserve has lowered short-term interest rates and confidence has returned to the credit markets; a higher allocation of the fund's assets to equities, resulting in a lower allocation to bonds; management's unwillingness at this time to accept higher levels of risk to attain higher yields and an above average cash position.

During this year's first quarter, the equity and corporate bond markets continued their torrid runs that began approximately twelve months earlier in 2009's first quarter. High yield bonds, in particular, again rallied nearly as much as many stock indices as investors' appetite for higher yielding securities has not, to this point, been satisfied. BIF's first quarter return of 3.21 percent was more than double the return for one of our primary fixed income benchmarks, the Citigroup Broad Investment Grade Index (up 1.54 percent), but lower than our other fixed income benchmark, the Merrill Lynch High Yield Index II (up 4.82 percent). BIF outperformed its third reference index, the Lipper Income Fund Index, which recorded a quarterly total return of 2.84 percent. The Lipper Income Fund Index is the only reference index containing an equity component.

BIF has the ability to invest in a number of different market sectors. Its asset allocation and long-term performance result primarily from management's bottom up research process and individual security selection. We conduct our research security by security, attempting to add value by identifying stocks and bonds that we believe are undervalued. We do not rely on identifying big picture or "top-down" trends, nor do we attempt to forecast the direction of interest rates or the popular stock indices. Rather, BIF's positioning is the result of our ongoing search for value, always weighing potential risk versus potential reward, and the relative values of the different asset classes, within our investment universe. Nevertheless, we do weigh the potential "top-down" risks that may affect our individual securities and the portfolio as a whole. Although we recognize the potential impact of both rising and falling interest rates, the cyclicity of earnings, changing market valuations and other factors that may impact security prices, we believe it has been our bottom-up research process that has helped BIF to weather many of the major top-down risks experienced in the "bubbles" of the past decade.

With most major equity indexes up approximately 50 percent over the trailing year and many high yield bonds up nearly 60 percent, it has become more difficult to find value in the markets. In our opinion, many securities in the fixed income universe are fairly

valued or overvalued. As a consequence, BIF's fixed income portfolio has a higher than normal cash position and a relatively short duration. As prices have rallied and yields have fallen dramatically for both high yield and investment grade corporate bonds, we have found attractive yields in equities and convertible securities that we believe still have upside potential. At the end of the quarter, BIF was 28.5 percent invested in dividend paying common stocks and 13.5 percent invested in convertible bonds. With 10.4 percent in cash at 3/31/10, the remaining 47.6 percent of the Fund was invested primarily in traditional bonds with a small component in preferred stocks.

While we continue to allocate a significant portion of our fixed income investments to high yield bonds, the recent strength of the new issue high yield market, while making financial news headlines, has not produced quality investment candidates for BIF. Junk rated companies have sold over \$80 billion of bonds this year, the fastest pace on record. The restoration of confidence in the nation's credit markets, coupled with investor demand for income, has allowed many companies to use this "window" to refinance their debt at attractive interest rates. When we consider a high yield bond for purchase in BIF, we not only analyze company-specific financial ratios and trends, but we attempt to determine if the issuing company has the ability to fund its debt obligations with internally generated free cash flow and, more subjectively, if it has the corporate will to do so. In other words, is management "debt-aware?" In our opinion, many investors have been enticed by high yield bond issuers because they can now refinance their debt. While the availability of credit to refinance is a positive sign that the markets have healed, it should not be the primary rationale for purchasing these securities. One of the reasons BIF performed relatively well during the recent credit crisis was that many of its holdings did not need to access the capital markets, but funded their operations from internally generated free cash flow.

The principal reason that high yield bonds have performed so well in the past year, and the primary reason we continue to hold a significant position in this sector, is the positive rebound in earnings experienced by many companies. Reduced operating costs have resulted in improved operating leverage and higher operating profits on modest top line gains. Our current portfolio positioning implies that we believe there is potential for this improving earnings situation to continue, particularly benefiting our high yield investments.

During the quarter, we established several new stock positions, including one of our largest weighted holdings, Washington Post Company (1.5%)¹. Despite its long-standing role as a standard bearer in the newspaper industry, today Washington Post is more of an education company, with 58 percent of its 2009 revenues and the majority of its profits generated through its education segment, Kaplan. This business has very attractive margins and returns on capital and the company's dividend appears to be sustainable. Another new holding, Eagle Materials Inc. (0.7%), is an example of a company in an out-of-favor industry that we believe could trade at much higher levels if its top line normalizes in the future. Eagle Materials makes gypsum wallboard and cement. It is the low cost producer of gypsum wallboard in its markets, which gives it a competitive advantage, especially during cyclical troughs.

¹ The numbers in parentheses following each company mentioned reflect the percentage of the Fund's net assets comprised of such securities as of 3/31/10.

In the fixed income portfolio we also established several new positions during the quarter. Our largest purchase was SanDisk Corp (2.8%) convertible bonds due in 2013. SanDisk is a leading maker of storage technology used in many consumer electronics products, such as cell phones, digital cameras, camcorders and laptop computers. The company, which recently suffered through a very sharp decline in demand, has bounced back strongly and has a balance sheet with more cash than debt. These short maturity bonds were yielding close to 6 percent at the time of purchase and have upside potential if the common stock rallies.

Part of our focus on attaining a positive risk/reward balance in the fund involves trimming or selling securities trading at levels that we believe to be overvalued, including both high yield and investment grade bonds. Many of our bonds have rallied strongly and have, in our judgment, little remaining upside potential. We sold, or trimmed, a total of twelve bond positions for this reason during the quarter.

BIF currently has more exposure to stocks and other equity sensitive investments than in the past few years. To limit overall portfolio risk, we have a higher than normal cash balance, low duration (a measure of interest rate risk) relative to our fixed income benchmarks and maintain a balanced, diversified portfolio from an economic sector standpoint. We are not relying on any one theme or sector to add value, but on what we believe to be the quality of the securities we have selected and our assessment of their valuations.

In closing, we would like to thank you for investing in the Berwyn Income Fund. We are grateful for the opportunity to manage your assets and we hope to reward your trust in the years ahead.

Very truly yours,

The Killen Group, Inc.

The Killen Group

**Long Term Fund Performance as of 3/31/10
(Average Annual Total Returns)**

	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>
Berwyn Income Fund	33.60%	7.84%	8.98%

Past performance is not a guarantee of future results. The investment return and the principal value of an investment in BIF will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. Current month end data is available at www.theberwynfunds.com.

The total and net expense ratios for Berwyn Income Fund for the year ended 12/31/09 were 0.70%. Returns for Berwyn Income Fund are net of all expenses, advisory fees and commission charges and include the reinvestment of BIF's dividends. All index returns listed herein also include the reinvestment of dividends.

Investing in any mutual fund involves risk, including the risk that you may lose all or part of the money you invest. The Berwyn Income Fund invests in both fixed-income and equity securities. The Fund's investments in fixed-income securities are subject to such risks as: interest rate risk; call risk; default risk; high-yield (junk bond) risk; and unrated bond risk. The Fund also invests in equity securities which carry the potential for unpredictable drops in value and periods of lackluster performance. For additional information on these risks and other related risks (non-principal), please review the full prospectus.

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This report is intended solely for the use and information of shareholders in BIF. It is not an offering to sell shares in BIF. Such an offering is made by prospectus only. A prospectus for BIF may be obtained by calling the Fund at 1-800-992-6757 or at www.theberwynfunds.com. An investor should obtain a prospectus and read it carefully before investing. Shares of the Fund are eligible for sale in all fifty states. The Berwyn Funds are distributed by Ultimus Fund Distributors, LLC.

BERWYN CORNERSTONE FUND

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FIRST QUARTER REPORT 2010

April 28, 2010

Dear Berwyn Cornerstone Fund Shareholder:

During the first quarter, a strong quarter for the stock market, Berwyn Cornerstone Fund's (BCF's) net asset value increased from \$12.44 on December 31st, 2009 to \$13.03 on March 31st, 2010. This increase translated to a total return of 4.74 percent. The primary benchmarks for the fund, the S&P 500 and the S&P Midcap 400, returned 5.39 percent and 9.09 percent, respectively. The main factor causing BCF's underperformance in the quarter was the fund's Health Care exposure, which declined slightly less than 4.00 percent while the relevant sector benchmark was up almost 3.50 percent.

During the first quarter of 2010, the financial markets saw a continuation of the trends in place at the end of 2009. Corporate earnings for the fourth quarter were, in most cases, stronger than expected and improving economic data continued to signal an economic recovery. These favorable conditions contributed to gains in most sectors of the stock market. Consumer and corporate confidence have both been slowly rebuilding over the past twelve months as the economy first stabilized and then began to expand.

As we have discussed previously, most companies downsized their operations in the first half of 2009 to match lower demand and rebuild profit margins. This led to improved corporate profitability last summer which has allowed stock prices to move higher, defying the dire forecasts of late 2008 and early 2009. With consumer confidence slowly improving, many companies have experienced growth in top line revenues over the winter months and into early spring. The more cyclical areas of the economy, such as technology spending, consumer spending and industrial manufacturing, have seen an improvement in overall demand.

With the economic outlook improving, it was not surprising that the two strongest sectors in BCF during the first quarter were Financials and Consumer Discretionary, with the fund posting strong double digit gains in both. The fund's performance was broad based in both sectors with most of its holdings showing gains. Top performers included Aeropostale (3.6%)¹ and Ethan Allen (1.0%) in the Consumer Discretionary sector and New York Community Bancorp (3.0%) and Unum Group (4.3%) in the Financials sector.

As mentioned at the beginning of our letter, Health Care was the major source of underperformance for BCF in the quarter, with most holdings in this sector posting minor losses. The worst performers were Glaxosmithkline PLC (2.9%), Pfizer Inc. (3.0%), Abbott Laboratories (2.2%) and Astrazeneca PLC (2.6%). As can be seen, in the Health Care sector we own mostly large pharmaceutical stocks. The market continues to put very low valuation multiples on these companies. The reason for these low multiples is concern that revenues could shrink over time, either from patent expirations or the recently enacted government health care bill. Our opinion is that these companies have strong franchises

¹ The numbers in parentheses following each company mentioned reflect the percentage of the Fund's net assets comprised of such securities as of 3/31/10.

with very good free cash flow. They have tremendous flexibility to either reinvest this cash in their businesses, pay dividends or repurchase stock. Combining their ability to generate free cash flow with the market's low valuation assumptions creates, in our judgment, compelling values. Despite their relative underperformance in the first quarter, we believe these companies will provide the fund attractive long term total returns.

As always, our strategy during the first quarter sought to maintain attractively valued investments in BCF's portfolio even as the stock market continued to move higher. This led to greater than normal purchases and sales during the period. Looking back, the past eighteen months have seen a dramatic reversal in the market, with the lows of late 2008/early 2009 being replaced by a strong rally that has lasted through the most recent quarter. As the market declined during the dark days of the recession, we applied our value philosophy and used our cash reserves to purchase companies that we believed offered compelling values. The rally that started in March, 2009, gained strength in the second half of 2009 and has continued into the first quarter of 2010. Consequently, we have become sellers of several of our holdings as they have reached what we consider to be fully priced levels. We have reinvested the proceeds from these sales, buying five new stocks during the first three months of 2010 as well as adding to some of our underweighted holdings. This "reloading" of BCF, replacing stocks that have rallied with ones offering better appreciation potential, was our top priority during the first quarter as we worked to maintain the fund's upside potential.

The major transactions resulting from the fund's "reloading" during the quarter follow. New positions were added in Aeropostale, Inc. (3.6%), Dun & Bradstreet Corp. (3.0%), Jacobs Engineering Group (3.3%), L-3 Communications (1.5%) and Washington Post Co. (3.3%). Stock positions that were completely sold from the Fund included Gentex Corp., Hillenbrand, Inc., and T. Rowe Price Group, Inc. In addition, a number of stock positions were either reduced, or increased, as market prices fluctuated during the quarter and we acted opportunistically.

This heavier than normal turnover is a reflection of how much the market has rallied and is not a change in our long-term investment philosophy. From the dramatic lows of early last year to the recent highs of the past quarter, it has not taken long for many companies to move from being underpriced to fully or, in some cases, overpriced. Going forward, we would expect the turnover in the fund to settle down, but we will continue to seek the right balance between prudent profit-taking and new security purchases.

The ability of several important, emerging economies, such as those of Brazil, China and India, to gather economic strength in the past year should assist in maintaining the uptrend being experienced here in the U.S. Consequently, we believe there will be more opportunities as we utilize our value approach to make prudent long-term investments for our shareholders while maintaining a measured approach to the risks in the market. We appreciate your support and look forward to reporting on our results in the second quarter.

Very truly yours,

The Killen Group, Inc.

The Killen Group

**Fund Performance for Periods Ended 3/31/10
(Average Annual Total Returns)**

	<u>One Year</u>	<u>Five Year</u>	<u>From Inception (5/01/02)</u>
Berwyn Cornerstone Fund	53.44%	3.76%	5.76%

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The total and net expense ratios for Berwyn Cornerstone Fund for the year ended 12/31/09 were 2.78% and 2.00%, respectively. The Killen Group, Inc. (the Advisor) has contractually agreed to waive all, or a portion of, its management fee in order to limit the Berwyn Cornerstone Fund's ratio of expenses to average net assets to 2.00%. In addition, the Advisor has voluntarily decided to reimburse other operating expenses of the Fund to the extent necessary to maintain a ratio of expenses to average net assets of 2.00%. The Advisor may, however, discontinue reimbursement of these expenses at any time.

Returns for Berwyn Cornerstone Fund are net of all expenses, advisory fees and commission charges and include the reinvestment of BCF's dividends. All index returns listed herein also include the reinvestment of dividends. Current month end data is available at www.theberwynfunds.com.

Investing in any mutual fund involves risk, including the risk that you may lose all or part of the money you invest. The Berwyn Cornerstone Fund is a non-diversified fund which may present greater risks than investing in a diversified fund. The Fund invests in equity securities which carry the potential for unpredictable drops in value and periods of lackluster performance. The Fund typically invests in securities that are considered undervalued by the Advisor. This may result in the Fund being invested in lesser-known companies or those out of favor with other investors. There is the chance these securities remain out of favor or generally recognized by the market. The Fund's investments in fixed-income securities are subject to such risks as: interest rate risk; call risk; default risk; high-yield (junk bond) risk; and unrated bond risk. For additional information on these risks and other related risks (non-principal), please review the full prospectus.

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