



**BREAD & BUTTER**  
**FUND**

**A No Load Capital Appreciation Fund**

**BABFX**

**Annual Report**  
December 31, 2008

**Phone: (888) 476-8585**  
**(440) 922-0066**  
**[Http://www.BreadandButterFund.com](http://www.BreadandButterFund.com)**

Dear Fellow Shareholders,

The Bread & Butter Fund generated a total return of (-18.49%) with dividends reinvested and the net asset value (NAV) was \$8.42 for the year ending December 31, 2008. This compared to a return of (-37%) for the S&P 500 Index with dividends reinvested. The fund paid a dividend distribution of .03229.

Did the fund perform as expected? It does depend on the comparative benchmarks, but I did give some guidance in the Fund's first Annual Report in 2005:

*"Some of our investments may behave similar to the market in the short-term due to being included in the S & P 500 Index. Just because the Fund is buying a cheap investment does not mean it cannot go lower in price. During abrupt panics in the stock market, some of our investments may go down percentage-wise just as much or more as the Index.*

*It is my projected expectation however, that the Fund will likely outperform by a wider margin in down markets. On the other-hand, in very strong up markets, the Fund will probably under-perform and lag behind. It is my experience that this is just the nature of Contrarian/Value investing."*

Since inception October 2005, the Fund has outperformed the S&P 500 Index by a 2.98% annualized margin. For 2008, the Fund outperformed the S&P 500 Index by an 18.51% margin. The Fund's negative performance was a disappointment, but in comparison to the performance of our benchmark it has met its expectation.

Could the fund have performed better? Absolutely, but the performance of the Indices was the worse since 1937 when it dropped (-38.59%). In addition, most asset classes had significant losses which includes corporate as well as municipal bonds. The Fund did perform well on a relative basis which was due to our strict adherence to the Contrarian/Value Strategy. This projection is what I indicated in the 2005 Annual Report.

*Currently I do not believe we are being sufficiently compensated in the market, through low enough valuations to accept the risks building in the economy. Some of the risks I am referring to are the credit risk associated with a leveraged consumer, sustained high energy prices, low interest spreads between treasuries and high yield debt, record level of corporate profitability and fiscal and trade deficits that are growing. These imbalances cannot go unchecked forever. At some point an adjustment will take hold.*

Over the past three years the Fund has held larger than normal cash positions due to a lack of investments meeting the Fund's strategy. This, along with avoiding bubble areas of the market such as levered financials, helped the Fund to meet relative expectations. At the end of September 2008, the Fund had over 38% in cash. Today the cash position is about 6%. This is a good indicator of how stock values have improved markedly over this period. Currently, investors are flocking to the safety of treasury bills and money markets even though rates are near zero % returns. Investors are more concerned about the return of principal as opposed to the return on principal. This is a typical reaction by investors in times of distress.

During the year ended December 31, 2008, the Fund added to current holdings as well as purchasing new securities. The Fund added to our core positions in Berkshire Hathaway, Diageo, Loews Corp. and Philip Morris International, all at excellent valuations for long term appreciation.

Over the last six months ended December 31, 2008, the Fund purchased new positions in American National Insurance, C N A Financial Corp., Diageo PLC ADR, EnSCO International, HRP Property Trust preferreds, Manpower, Rowan Cos., StatoilHydro ASA ADR., Teekay Corp., and White Mountains Insurance. The Fund invested a large percentage of cash in two sectors: energy and small insurance companies. In the case of energy, the Fund purchased two off shore drilling rig companies, EnSCO and Rowan, at or below replacement cost. In addition, the Fund purchased StatoilHydro ASA ADR at a very favorable valuation to oil and natural gas reserves as well as giving a hedge to long term dollar depreciation. The insurance investments were purchased at a large discount to book value. Many of these insurance companies have smaller market capitalizations and are less liquid in terms of trading volume. Since these insurance companies are trading at a large discount to book value and investing mainly in investment grade corporate and municipal bonds, it was an opportune time to take advantage of the discounted bond prices. It is our belief that these insurance companies will benefit from the capital constraints within the industry, firming premiums and the lack of distressed assets in their investment portfolios. I expect these insurance company stock prices to recover to more normal price to book values over time.

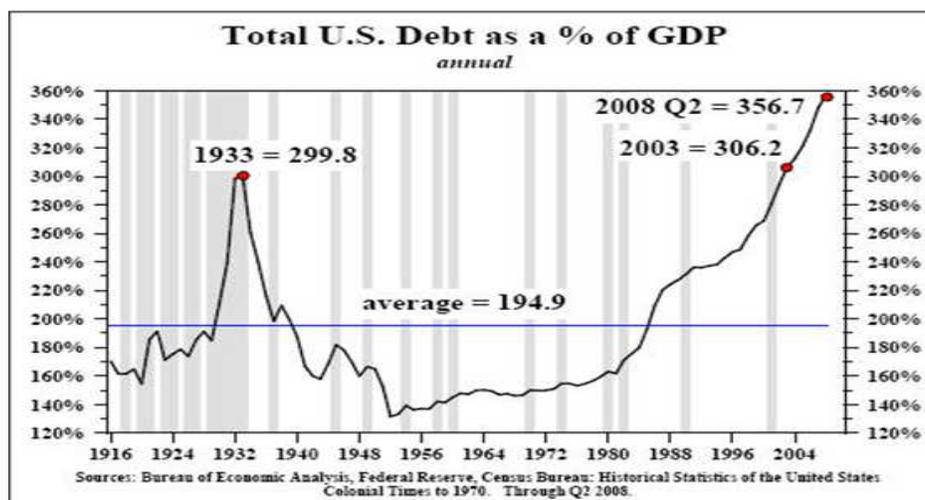
The Fund sold shares in General Electric due to the major weakness in the GE Capital divisions. This situation became evident when the commercial paper market froze up. GE responded by raising additional capital through a dilutive stock sale while refusing to cut the unrealistically high dividend in order to build capital.

For the six month period ending December 31, 2008, the key positive contributor to the Fund's return was Walmart. Conversely, the key holdings that detracted the most from the Fund's return over the same period were Conoco Philips, Encana Corp., El Paso, News Corp and Time Warner.

In applying the Fund's strategy in the current market environment, I have raised the bar and will be seeking investments meeting stricter valuation parameters. Since there will be an enormous amount of cheap quantitative investment ideas going forward, I will pay particular attention to the qualitative characteristic of industries and individual companies.

### A Few Current Market Observations

It is our belief the economy has entered a once in a lifetime set of economic conditions built in large part by the enormous expansion of debt throughout the economy over the last two decades. The economy is resetting to a lower level of demand from businesses and consumers as the deleveraging of the economy evolves over the next decade. As I mentioned in the 2007 annual report, the only period of time where total debt to GDP compared to today's excessive levels was in the early 1930's. The graph below gives a good depiction of this enormous debt expansion.



Source: [Creditwritedowns.com](http://Creditwritedowns.com)

Based on historical precedent, the stock market appears to be trading at a favorable valuation. One measurement of stock valuation I believe is a good historical representation is the Q-Ratio. The Q-Ratio is a method of estimating the fair value of the stock market defined as the total price of the market divided by the replacement cost of all its companies. Currently the Q-Ratio is trading in the mid 80's percent of its replacement cost. History has shown that current market valuation is quite attractive, but in periods of great economic distress such as the 1930's and the 1970's - early 1980's periods, the ratio has traded down to the 40% to 50% of replacement cost range. Since I believe we are in extraordinary times, it is possible that the markets could overshoot to the downside. It is difficult to predict such an outcome, but this will be a consideration when investing the Fund's assets.

Thank you for your continued support of the Bread & Butter Fund. Please do not hesitate to contact us with any questions or comments

Respectfully Submitted,  
James B. Potkul  
President – Chief Investment Officer

The discussion of Fund investments represent the views of the Fund's manager at the time of this report and are subject to change without notice. References to individual securities are for informational purposes only and should not be construed as recommendations to purchase or sell individual securities.

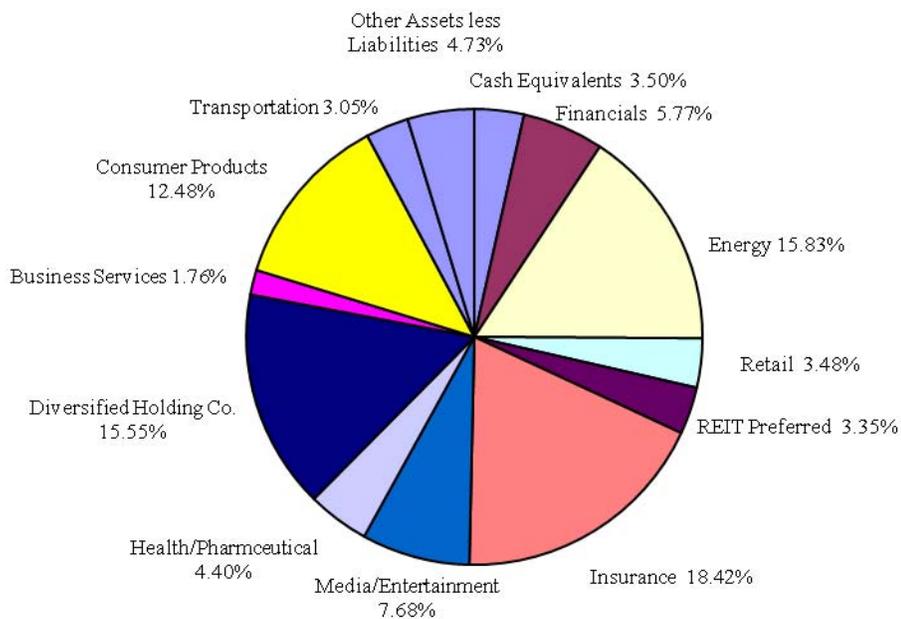
# BREAD & BUTTER FUND, INC.

\*Top Ten Holdings and Asset Allocation  
December 31, 2008

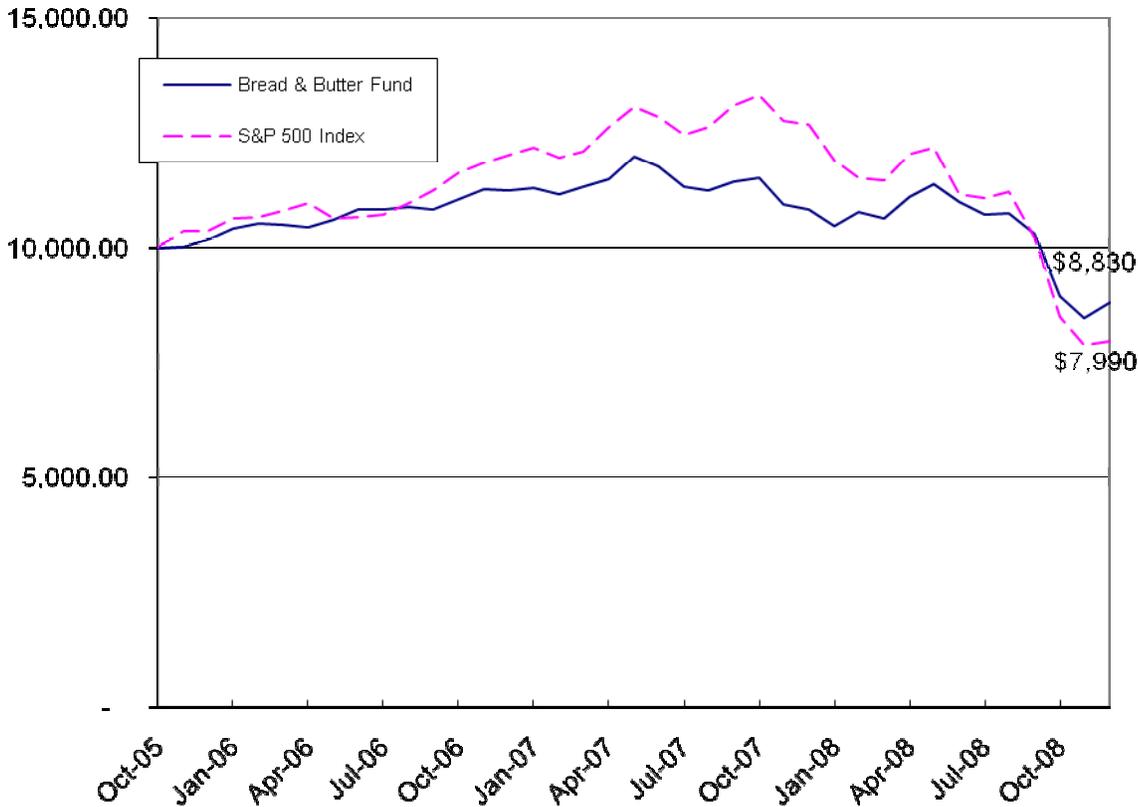
Top Ten holdings (% of Net Assets)		Asset Allocation % of Net Assets)	
=====		=====	
Loews Corp.	10.23%	Insurance	18.42%
Philip Morris Int'l	7.20%	Energy	15.83%
Berkshire Hathaway B	5.32%	Diversified Holding Co	15.55%
Diageo PLC ADR	5.28%	Consumer Products	12.48%
Montpelier RE Holdings	5.21%	Media/Entertainment	7.68%
Time Warner	5.20%	Financial/Banking	5.77%
Rowan Companies Inc.	4.93%	Healthcare/Pharmaceutical	4.40%
Pfizer Inc.	4.40%	Retail	3.48%
Mercer Insurance Group	3.92%	REIT Preferreds	3.35%
Mitsubishi UFJ Fncl ADR	3.85%	Transportation	3.05%
	=====	Business Services	1.76%
	55.54%	Short-Term Investments	3.50%
		Other assets	
		Less liabilities, net	4.73%
			=====
			100.00%

\*Portfolio holdings are subject to change and are not recommendations of individual stocks.

**The Following chart gives a visual breakdown of the Bread & Butter Fund by the industry sectors the underlying securities represent as a % of the net assets of the fund as of 12/31/2008**



**Bread & Butter Fund vs S&P 500 Index  
Based on \$10,000 Initial Investment  
For the period 10/31/2005-12/31/2008**



**Average Annual Rate of Return (%)  
For the period ended December 31, 2008**

	<u>1 year</u>	<u>3 year</u>	<u>Since inception (10/31/2005)</u>
<b>Bread &amp; Butter Fund*</b>	(18.49%)	(4.61%)	(3.85%)
<b>S&amp;P 500 Index**</b>	(37.00%)	(8.35%)	(6.83%)

The performance information shown represents past performance and should not be interpreted as indicative of the Fund's future performance. Return and share price will fluctuate so that shares when redeemed may be worth more or less than the original cost. The returns shown do not reflect taxes that a shareholder would pay on fund distributions or on redemption of Fund shares. For performance information current to the most recent month please visit our website at [www.breadandbutterfund.com](http://www.breadandbutterfund.com) or call 1-888-476-8585 or 440-922-0066.

\*this chart assumes an initial investment of \$10,000 made on 10/31/2005 (commencement of operations). Total return is based on the net change in NAV and assumes reinvestment of all dividends and all other distributions.

\*\*The Standard & Poor's 500 Index ("S&P 500") is a market value-weighted index, representing the aggregate market value of the common equity of the 500 stocks primarily traded on the New York Stock Exchange. The S&P 500 is a widely recognized, unmanaged index of common stock prices. The figures for the S&P 500 reflect all dividends reinvested but do not reflect any deductions for fees, expenses or taxes.

BREAD & BUTTER FUND, INC.  
SCHEDULE OF INVESTMENTS IN SECURITIES  
December 31, 2008

	Shares -----	Historical Cost -----	Value -----
COMMON STOCKS - 91.77 %			
Diversified Holding Cos. - 15.55%			
-----			
Berkshire Hathaway Cl B*	16	\$ 46,720	\$ 51,424
Loews Corp.	3,500	116,833	98,875
		-----	-----
		163,553	150,299
Business Services - 1.76%			
-----			
Manpower Inc. (France)	500	21,352	16,995
		-----	-----
		21,352	16,995
Consumer Products - 12.48%			
-----			
Diageo PLC ADR	900	56,426	51,066
Philip Morris International	1,600	73,258	69,616
		-----	-----
		129,684	120,682
Energy - 15.83 %			
-----			
ConocoPhillips	550	32,619	28,490
El Paso Corporation	3,500	32,875	27,405
EnCana Corp. (Canada)	400	26,497	18,592
EnSCO International Inc.	500	13,842	14,195
Rowan Companies Inc.	3,000	71,848	47,700
StatoilHydro ADR	1,000	15,987	16,660
		-----	-----
		193,668	153,042
Financials/Banking - 5.77 %			
-----			
American Express	1,000	42,742	18,550
Mitsubishi UFJ Financial ADRF (Japan)	6,000	65,075	37,260
		-----	-----
		107,817	55,810
Healthcare-Pharmaceutical - 4.40 %			
-----			
Pfizer Incorporated	2,400	50,588	42,504
		-----	-----
		50,588	42,504

Insurance - 18.42 %

American National Insurance	500	\$ 37,420	\$ 36,865
C N A Financial Corp.	2,000	35,485	32,880
Mercer Insurance Group	3,000	54,042	37,920
Montpelier RE Holdings	3,000	49,414	50,370
White Mountains Insurance	75	29,557	20,033
		-----	-----
		205,918	178,068

Media/Entertainment - 7.68%

News Corp. Ltd. B	2,500	37,502	23,950
Time Warner Inc.	5,000	91,646	50,300
		-----	-----
		129,148	74,250

REIT Preferreds - 3.35%

HRPT Ppty Prf B	1,000	12,009	12,350
HRPT Ppty Prf D	2,000	16,409	20,000
		-----	-----
		28,418	32,350

Retail - 3.48 %

Walmart Stores Inc	600	25,750	33,636
		-----	-----
		25,750	33,636

Transportation - 3.05%

Teekay Corp.	1,500	22,187	29,475
		-----	-----
		22,187	29,475

TOTAL COMMON STOCKS

1,078,083                      887,111

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SHORT-TERM INVESTMENTS - 3.50 %

Schwab Treasury Money Market	33,846	33,846	33,846
		-----	-----

TOTAL SHORT-TERM INVESTMENTS

33,846                      33,846

-----

TOTAL INVESTMENTS

\$1,111,929                      920,957

=====

OTHER ASSETS AND LIABILITIES - 4.73 %

45,699

-----

NET ASSETS - 100.00%

\$ 966,656

=====

\*Non-income producing for the period.  
The accompanying notes are an integral part of these financial statements.

BREAD & BUTTER FUND, INC.  
Statement of Assets and Liabilities  
December 31, 2008

Assets

Investments in Securities, at value (cost \$1,111,929)	\$ 920,957
Cash	23,567
Receivable for Securities sold	20,323
Dividends and Receivable	1,809
	-----

Total Assets	966,656
--------------	---------

Liabilities

Accrued Expenses	-
	-----

Net Assets	966,656
	-----

Composition of Net Assets:

Common Stock, at \$.001 par value	115
Paid in Capital	1,179,035
Undistributed net investment income	270
Accumulated net realized loss on investments	(21,792)
Net unrealized depreciation of securities	(190,972)
	-----

Net Assets (equivalent to \$8.42 per share based on 114,763 shares outstanding) (Note 4)	\$ 966,656
	=====

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

BREAD & BUTTER FUND, INC  
Statement of Operations  
For the year ended December 31, 2008

Investment Income	
Dividends - Money Funds	\$ 4,653
Dividends (A)(B)	14,836
	-----
Total Income	19,489
	-----
Expenses	
Investment Advisory Fee (Note 2)	11,091
Professional Fees	10,800
Software	4,695
Registration Fees	2,360
Legal Services	500
Insurance	542
Taxes	520
Postage and Printing	46
Director Fees	44
	-----
Total Expenses	30,598
Less, fees waived and expenses reimbursed by adviser (Note 2)	(15,071)
	-----
Net Expenses	15,527
Net Investment Income	3,962
	-----
Realized and Unrealized Gain (Loss) from Investments	
Net realized gain (loss) on investment securities	(21,792)
Net decrease in unrealized depreciation on Investment securities	(199,830)
	-----
Net realized and unrealized gain (loss) from investments	(221,622)
	-----
Net increase (decrease) in net assets resulting From operations	\$(217,660)
	-----

(A) Net of foreign withholding taxes of \$179  
(B) Net of Return of Capital Dividend of \$2,890

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

BREAD & BUTTER FUND, INC.  
 Statements of Changes in Net Assets

	For the years ended	
	Dec 31, 2008	Dec 31, 2007
	-----	-----
<b>Increase (Decrease) in net assets from operations</b>		
Net investment income	\$ 3,962	\$ 12,708
Net realized gain(loss)from investment transactions	(21,792)	4,206
Capital gain distributions from portfolio companies	-	800
Unrealized appreciation (depreciation) of Investment securities	(199,830)	(73,374)
	-----	-----
Net increase (decrease) in net assets resulting from operations	(217,660)	(55,660)
Distributions to shareholders from;		
Net Investment Income	( 3,692)	(12,708)
Capital Gains	-	( 4,475)
Tax return of capital distribution	-	( 8,661)
	-----	-----
Total Distributions	( 3,692)	(25,844)
	-----	-----
Capital Share transactions (Note 4)	36,817	266,183
	-----	-----
Total increase(decrease)in net assets	(184,535)	184,679
Net Assets		
Beginning of period (including undistributed Net investment income of \$270, and \$0 respectively)	1,151,191	966,512
	-----	-----
End of year period	\$ 966,656	\$1,151,191
	=====	=====

The accompanying notes are an integral part of these financial statements

BREAD & BUTTER FUND, INC.

Financial Highlights

For share of capital stock outstanding throughout the period

	2008	2007	2006	2005*
PER SHARE DATA:				
Net Asset Value, Beginning of period	\$10.37	\$11.03	\$10.15	\$10.00
Income from Investment Operations:				
Net Investment Income **	.04	.13	.14	.02
Net Realized and Unrealized Gain(Loss) On investments	(1.96)	(.55)	.95	.15
	-----	-----	-----	-----
Total From Investment Operations	(1.92)	(.42)	1.09	.17
Distributions from:				
Net Investment Income	(0.03)	(.12)	(.14)	(.02)
Realized gains	-	(.04)	-	-
Return of capital	-	(.08)	(.07)	-
Net Asset value, End of period	\$ 8.42	\$10.37	\$11.03	\$10.15
Total Return ***	(-18.49%)	(3.83%)	10.73%	1.73%
Ratios and Supplemental Data:				
Net Assets, End of Year	\$966,656	\$1,151,191	\$966,512	\$712,363
Ratio of Expenses, after reimbursement To Average Net Assets	1.40%	1.40%	1.40%	1.40% <sup>a</sup>
Ratio of Expenses, before reimbursement To Average Net Assets	2.75%	2.69%	3.22%	11.21% <sup>a</sup>
Ratio of Net Investment Income to Average Net Assets	0.33%	1.19%	1.46%	1.68% <sup>a</sup>
Portfolio Turnover Rate (%)	59.66%	18.09%	5.33%	0.00%

a = annualized

\*For the period from October 31, 2005 (commencement of investment operations)  
to December 31, 2005

\*\* Per share net investment income has been determined on the basis of average shares  
outstanding during the period.

\*\*\* Assumes reinvestment of dividends.

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: The Bread & Butter Fund, Inc. (the "Fund"), is an open-end, no-load, non-diversified regulated investment company that was incorporated in the state of New Jersey on March 2, 2004. The Fund commenced investment operations October 31, 2005. The Fund is authorized to issue 100,000,000 shares of \$.001 par value capital stock.

The Fund's investment objective is to seek long-term capital appreciation primarily by investing in securities that Potkul Capital Management LLC (the "Adviser") believes are undervalued. The Fund is a "non-diversified" portfolio, which means it can invest in fewer securities at any one time than diversified portfolios.

Security Valuations: Equity securities generally are valued by using market quotations, but may be valued on the basis of prices furnished by a pricing service when the Advisor believes such prices accurately reflect the fair market value of such securities. Securities that are traded on any stock exchange or on the NASDAQ over-the-counter market are generally valued by the pricing service at the last quoted sale price. Lacking a last sale price, an equity security is generally valued by the pricing service at its last bid price, except for short positions, for which the last quoted asked price is used. When market quotations are not readily available, when the Advisor determines that the market quotation or the price provided by the pricing service does not accurately reflect the current market value, or when restricted or illiquid securities are being valued, such securities are 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 Adviser the responsibility for determining fair value prices, subject to review by the Board of Directors.

Fixed income securities generally are valued by using market quotations, but may be valued on the basis of prices furnished by a pricing service when the Adviser believes such prices accurately reflect the fair market value of such securities. A pricing service utilizes electronic data processing techniques based on yield spreads relating to securities with similar characteristics to determine prices for normal institutional-size trading units of debt securities without regard to sale or bid prices. If the Adviser decides that a price provided by the pricing service does not accurately reflect the fair market value of the securities, when prices are not readily available from a pricing service, or when restricted or illiquid securities are being valued, securities are valued at fair value as determined in good faith by the Adviser, subject to review of the Board of Directors. Short term investments in fixed income securities with maturities of less than 60 days when acquired, or which subsequently are within 60 days of maturity, are valued by using the amortized cost method of valuation, which the Board has determined will represent fair value.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency: Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

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 realized capital gains and net investment income, if any, at year-end. Distributions will be recorded on ex-dividend date.

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. Discounts and premiums are amortized, over the useful lives of the respective securities. Withholding taxes on foreign dividends will be provided for in accordance with the Fund's understanding of the applicable country's tax rules and rates.

Use of 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 for operations during the reporting. Actual results could differ from these estimates.

2. INVESTMENT ADVISORY AGREEMENT

The Fund has an investment advisory agreement with the Adviser to furnish investment advisory and certain other management services to the Fund. The Fund will pay the Adviser a monthly fee based on the Fund's average daily net assets at the annual rate of 1.00%. The Adviser will absorb all expenses of the Fund so that the Fund's total expense ratio is equal to or less than 2 % of the first \$10 million in net assets and less than 1.5% of the next \$20 million of net assets per year. This expense cap shall remain in effect in perpetuity and can only be terminated by the Fund. The Fund will bear its own operating expenses which will include director's fees, legal and accounting fees, interest, taxes, brokerage commissions, bookkeeping and record maintenance, operating its office, transfer agent and custodian fees. The Adviser will serve as the Fund's transfer agent at no cost to the Fund except for out of pocket expenses. A management fee of \$11,091 accrued to the Advisor for the year ended December 31, 2008. For the year ended December 31, 2008, the Advisor reimbursed the Fund \$15,071 for expenses in excess of 1.4% of the average annual net assets. The 1.4% expense cap was voluntary on the part of the Adviser.

James B. Potkul is the President and Chief Investment and Compliance Officer of the Fund. Mr. Potkul is also the President/Chief Investment Officer and Principal of the Adviser.

3. INVESTMENT TRANSACTIONS

Purchases and sales of investment securities (excluding short-term securities) for the period ended December 31, 2008 were \$679,234 and \$460,308 respectively.

At December 31, 2008 net unrealized depreciation for Federal income tax purposes aggregated \$190,972 of which \$25,793 related to unrealized appreciation of securities and \$216,765 related to unrealized depreciation of securities. The cost of investments at December 31, 2008 for Federal income tax purposes was \$1,078,083 excluding short-term investments.

4. CAPITAL SHARE TRANSACTIONS

As of December 31, 2008, there were 100,000,000 shares of \$.001 per value capital stock authorized. The total par value and paid-in capital totaled \$1,179,150. Transactions in capital stock were as follows for the years ended December 31, 2008 and December 31, 2007:

4. CAPITAL SHARE TRANSACTIONS (Continued)

	December 31, 2008		December 31, 2007	
	Shares	Amount	Shares	Amount
Shares Sold	3,747	\$ 38,125	24,640	\$281,381
Shares issued in Reinvestment of dividends	438	3,692	2,492	25,844
Shares Redeemed	(478)	(5,000)	(3,674)	(41,042)
Net Increase	3,707	\$ 36,817	23,458	\$266,183

5. 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.

For Federal income tax purposes, the cost of investment in securities owned at December 31, 2008 was \$1,111,929 including short-term investments. As of December 31, 2008 the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$ 270
Accumulated net realized losses from investments	\$( 21,792)
Unrealized depreciation	\$(190,972)

The Fund paid a net investment income distribution of \$.032 per share to shareholders of record on December 31, 2008, for a total distribution of \$3,692. The tax character of the distribution paid was as follows:

Ordinary Income \$3,692

The Fund has an accumulated loss carryover as of December 31, 2008 of \$21,792 which will expire December 31, 2016.

6. FAIR VALUE MEASUREMENT

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a framework for measuring fair value, and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's own assumptions about the assumptions

that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Each investment is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

- \* Level 1 - quoted prices in active markets for identical investments.
- \* Level 2 - other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- \* Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The following table summarizes the valuation of the Fund's investments by the above fair value hierarchy levels as of December 31, 2008:

Level	Investments in Securities	Other Financial Instruments *
-----	-----	-----
Level 1	\$920,957	\$ 0
Level 2	0	0
Level 3	0	0
	-----	-----
Total	\$920,957	\$ 0
	=====	=====

\* Other financial instruments are derivative instruments not reflected in the Portfolio of Investments, such as futures forwards and swap contracts, which are valued at the unrealized appreciation / depreciation on the instrument

7. ACCOUNTING FOR UNCERTAINTY OF INCOME TAXES

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 that 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 50 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.

8. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued the Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires enhanced disclosures about the Fund's derivative and hedging activities, including how such activities are accounted for and their effect on the Fund's financial position, performance and cash flows. Management is currently evaluating the impact the adoption of SFAS 161 will have on the Fund's financial statements and related disclosures.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors  
of Bread & Butter Fund, Inc.

We have audited the accompanying statement of assets and liabilities of the Bread & Butter Fund, Inc., (the "Fund") including the schedule of investments, as of December 31, 2008 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 the three years in the period then ended and for the period from October 31, 2005 (commencement of investment operations) to December 31, 2005. 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 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, 2008, 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 the Bread & Butter Fund, Inc. as of December 31, 2008 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 the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America.

Abington, Pennsylvania  
February 21, 2009



BREAD & BUTTER FUND, INC.

Expenses

December 31, 2008

EXPENSE EXAMPLE

As a shareholder of the Fund, you incur ongoing 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 costs with the ongoing costs of investing in other mutual funds.

This Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period July 1, 2008 to December 31, 2008.

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 at the beginning of the period, 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 "Expense Paid During Period" to estimate the expenses you paid on your account during this period.

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 expense 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 expense may not be used to estimate the actual ending account balance or expense 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 other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads), redemption fees, or exchange 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 these transactional costs were included, your costs would have been higher.

	Beginning Account Value July 1, 2008	Ending Account Value December 31, 2008	Expenses Paid During Period* July 1, 2008 to December 31, 2008
Actual	\$1,000.00	\$ 802.69	\$ 6.34
Hypothetical 5% return before expenses)	\$1,000.00	\$1,018.10	\$ 7.10

\*Expenses are equal to the Fund's annualized expense ratio of 1.40%, multiplied by the average account value over the period, multiplied by 184 days/366 days [number of days in most that the Fund has been offered for sale - year/365 [or 366] (to reflect the one-half year period)].

BREAD & BUTTER FUND, INC.  
ADDITIONAL INFORMATION  
December 31, 2008

#### PROXY VOTING GUIDELINES

Potkul Capital Management LLC., the Fund's Adviser, is responsible for exercising the voting rights associated with the securities held by the Fund. The Fund's proxy voting policies and procedures, and information regarding how the Fund voted proxies relating to portfolio securities is available without charge by calling the Fund at 1-888-476-8585, at the Fund's website <http://www.breadandbutterfund.com> or by visiting the Securities and Exchange Commission ("SEC's") website <http://www.sec.gov>.

#### 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 a meeting held on June 21, 2008, 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 Adviser.

#### 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 Adviser under the Advisory Agreement. This includes portfolio management, supervision of Fund operations and compliance and regulatory matters.

#### COST OF SERVICES TO THE FUND AND PROFITABILITY OF ADVISER

The Directors considered the Fund's management fee and total expense ratio relative to industry averages. The willingness of the Adviser to absorb initial formation expenses as well as absorbing expenses beyond contract terms has shown effort to be competitive on a fee basis.

#### 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.

BOARD OF DIRECTORS INFORMATION

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 is set forth below. The SAI includes additional information about the Fund's Directors, and is available without charge, by calling 1-888-476-8585. Each director may be contacted in writing to the director c/o Bread & Butter Fund, Inc., 3633 Hill Road, Parsippany, NJ 07054.

INTERESTED DIRECTOR

Name & Age -----	Position -----	Term/Time On Board -----	Principal Occupation During last 5 Years -----	Other Public Company Directorships -----
Jeffrey E Potkul Age 42	Director	1 Year Term 3 Years	Manager - Health Economics & Reimbursement Ethicon/Johnson & Johnson	None

INDEPENDENT DIRECTORS

Donald J McDermott Age 78	Director Chairman of the Board	1 Year Term 3 Years	Retired Professor Biology Essex County College	None
Frank J Figurski Age 45	Director	1 Year Term 3 Years	Network Administrator Celgene Corp.	None
Theodore J Moskala Age 44	Director	1 Year Term 3 Years	President Nittany Management, Inc.	None

Directors of the Fund are considered "Interested Directors" as defined in the Investment Company Act of 1940 because these individuals are related to the Fund's Investment Adviser. Jeffrey E Potkul is the brother of James B Potkul, who is the President of the Fund and of the Fund's Adviser.

**Investment Adviser**

**Potkul Capital Management, LLC.  
3633 Hill Rd. 3<sup>rd</sup> flr.  
Parsippany, NJ 07054**

**Custodian**

**Huntington National Bank  
7 Easton Oval/EA4E95  
Columbus, OH 43219**

**Transfer Agent**

**Mutual Shareholder Services, LLC.  
8000 Town Centre Dr., Suite 400  
Broadview Heights, OH 44117**

**Independent Registered Public Accounting Firm**

**Sanville & Company  
1514 Old York Road  
Abington, PA 19001**

**Legal Counsel**

**The Sourlis Law Firm  
The Galleria  
2 Bridge Avenue  
Red Bank, NJ 07701**

This report and the financial statements contained herein are submitted for the general information of shareholders and not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus. Nothing herein contained is to be considered an offer of sale or solicitation of an offer to buy shares of Bread & Butter Fund, Inc. Such offering is made only by prospectus, which includes details as to offering price and material information.