



BREAD & BUTTER
FUND

A No Load Capital Appreciation Fund

BABFX

Annual Report
December 31, 2015

Phone: (888) 476-8585
(440) 922-0066
BreadandButterFund.com

BREAD & BUTTER FUND

SHAREHOLDER LETTER

DECEMBER 31, 2015 (UNAUDITED)

Dear Fellow Shareholder,

The Bread & Butter Fund returned -8.59% for the 12 month period ended December 31, 2015 while the S&P 500 Index without dividends returned -0.73 % and with dividends 1.38 %. The Fund lagged its comparative index due to our holdings in technology and energy while not participating in the few over priced popular stocks that had high returns and buoyed the index. The same high flying stocks that pumped up the indices last year like Amazon, Netflix and Facebook are already down over 20% early in 2016.

The Fund remains steadfastly disciplined as cash levels have remained over 40% for an extended period of time as a residual to the lack of undervalued securities. In early 2016 the markets have continued to correct downward and more reasonable values are appearing. Hopefully the price adjustment continues so undervalued opportunities present themselves. It has been a very difficult period of time to invest as security valuations have remained elevated. Sometimes just sitting and waiting for qualified undervalued securities can be the most difficult aspect of the investment process. On top of this, cash balances are earning next to nothing. The temptation is there to just purchase some fairly valued quality companies even though the upside is unappealing and double digit returns are unrealistic. In the end it all comes down to the price you pay matters to your long term rate of return.

Over the six month period ended December 31, 2015 the main contributors to Fund performance is Tyson Foods, American Airlines and Philip Morris International. The main detractors to Fund performance was Noble Corp, Rowan and Statoil.

The Fund added new positions in US Lime and Minerals and Dawson Geophysical. US Lime and Mineral (USLM) is a manufacturer of lime and limestone products, supplying the construction, steel, environmental, oil and gas services, industrial, roof shingle and agriculture industries. The company is well diversified across industries and has moat-like characteristics due to the difficulty in opening quarries and location to end markets. The company has a history of rather stable cashflows in good and poor economic conditions. The company is well managed and shareholder friendly. At the time of purchase the company was priced under a \$200 mil enterprise value including close to \$60 mil in cash and no debt. The free cashflow yield was over 10% at the time of purchase. Free cashflow yields at this level are nearly non-existent in this market. The company has a proven history of prudent financial management and opportunistic stock purchases. A great example is comparing company stats in early 2009 to today. In early 2009 the company had approximately 6.3 mil shares outstanding and at the time of purchase the company had 5.6 mil shares, a reduction of over 11% over the period. Also over this same period, debts went from \$60 mil to \$0 while cash grew to \$60 mil. The financial performance is impressive for a boring business. The next purchase is Dawson Geophysical (DWSN) the largest seismic company in North America to the energy industry. With oil and natural gas prices stagnating at low prices, stock values of this company along with the entire energy complex has been driven down at or below 2009 crisis levels. Dawson Geophysical at the time of purchase had an enterprise value of about \$32 mil dollars and net cash of about \$45 mil with little debt. The company is led by a seasoned management team with experience navigating difficult industry conditions. The company has huge operating leverage when energy prices rebound from the current dismal levels to more marginal cost effective levels.

BREAD & BUTTER FUND

SHAREHOLDER LETTER (CONTINUED) DECEMBER 31, 2015 (UNAUDITED)

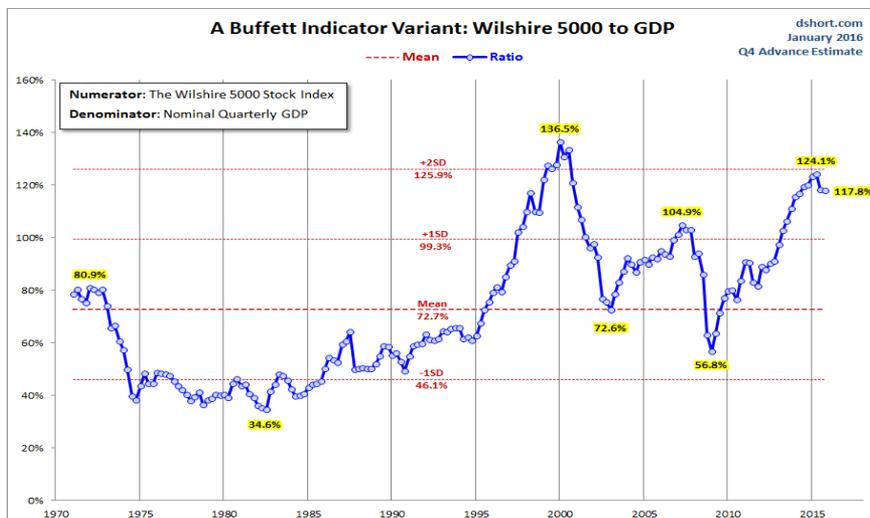
Over the six month period ended December 31, 2015 the Fund sold positions in Noble, Rowan, Statoil, GoldTrust and Horsehead Holdings mainly to harvest tax losses to offset the large capital gains taken earlier in the year.

The Fund continues to stay the course with our top five holdings in order of weighting; Berkshire Hathaway, Tyson Foods, AIG, Philip Morris International and General Motors which represents 36.03% at December 31, 2015. All the holdings except Philip Morris International are value priced. Philip Morris International is priced at the upper end of its valuation range. I am content to hold it as dollar strength has put tremendous downward pressure on earnings when measured against major currencies. It is our expectation that dollar strength will remain for a while longer, but will reverse in due time and earnings will benefit from lower dollar translation. The other four top holdings have a much smaller % of business overseas and are not subject to such a degree to currency pressures.

Some Market Observations

A number of market sectors have been hit extremely hard in recent months such as energy, industrials and transportation stocks. A number of attractively priced securities are starting to appear in these industries. I am in the process of analyzing several stocks to add to the portfolio.

Most major global indexes have reached bear market territory and are down over 20% + except the US based stock indices like the S&P 500. Below is an updated graph looking at the Wilshire 5000 to GDP ratio, which had been presented in this year semi-annual report. The chart shows valuation near historic all time highs. This data is a good gauge for market valuation and gives a historical perspective, but has not been proven to be a good short term market timing indicator. Many stock prices have been rolling over for the last 18 months and a sort of stealth market correction has been ongoing with a dwindling number of stocks holding up the index value.



BREAD & BUTTER FUND

SHAREHOLDER LETTER (CONTINUED) DECEMBER 31, 2015 (UNAUDITED)

The global economy remains in unprecedented times. It is reflective of Global Central Bank policies. Zero percent interest rate policy has now become negative interest rate policy. A number of countries in Europe and Japan have implemented this negative interest rate policy. There is talk that the US Federal Reserve will be implementing such a policy in the foreseeable future. Investors will be getting a negative return on their low risk cash investments. For some investors/savers it will force them into riskier assets to improve their yield and for other investors/savers they will be willing to accept negative returns on their money. Eventually, policy makers will have to come up with more creative solutions to get people to spend more. One can speculate as to how this may be accomplished, but to be sure policy makers will find a way to incent people to spend more even if it means sending cash directly to the people to spend.

Today are difficult times to invest capital as unorthodox monetary policies are being used to solve a highly levered global financial system. Assets prices whether it be stocks, bonds, real estate, art or collectibles are at fairly high prices. The current 10 year US treasury is yielding 1.74% and cash is close to 0% rate. Even though there are some deflationary forces in certain sectors, the things that count daily are still rising in price. With the current CPI consumer price index running slightly under 2%, investors need to outperform this over time to keep their purchasing power above water.

Thank you for your continued ownership of the Fund. The Fund is positioned well with ample liquidity to acquire undervalued securities when offered by the market. I can only take what the market offers and at times the market may not offer much value. Index funds and etf's have become quite popular today as active value managers have struggled to keep up with the more popular stocks of the day that are valued with a cheery confidence. Contrarian value investing has served investors well over the long term and I expect it to continue over time. If you have comments or suggestions please feel free to contact us at your convenience.

Respectfully Submitted,



James Potkul
President and Chief Investment Officer

The views contained in this report are those of the Fund's portfolio manager as of December 31, 2015, and may not reflect his views on the date this report is first published or anytime thereafter. The preceding examples of specific investments are included to illustrate the Fund's investment process and strategy. There can be no assurance that such investments will remain represented in the Fund's portfolios. Holdings and allocations are subject to risks and to change. The views described herein do not constitute investment advice, are not a guarantee of future performance, and are not intended as an offer or solicitation with respect to the purchase or sale of any security.

BREAD & BUTTER FUND

TOP TEN HOLDINGS & ASSET ALLOCATION DECEMBER 31, 2015 (UNAUDITED)

Top Ten Holdings

(% of Net Assets)

| | |
|-------------------------------------|-------------|
| Berkshire Hathaway, Inc. - Class B | 9.85% |
| Tyson Foods, Inc. - Class A | 7.58% |
| American International Group, Inc. | 6.61% |
| Philip Morris International, Inc. | 6.25% |
| General Motors Co. | 5.74% |
| Yahoo, Inc. | 4.73% |
| Johnson & Johnson | 2.92% |
| Chipmos Technologies Bermuda Ltd. | 2.81% |
| United States Lime & Minerals, Inc. | 2.34% |
| Micron Technology, Inc. | 2.01% |
| | <hr/> |
| | 50.84% |
| | <hr/> <hr/> |

Asset Allocation

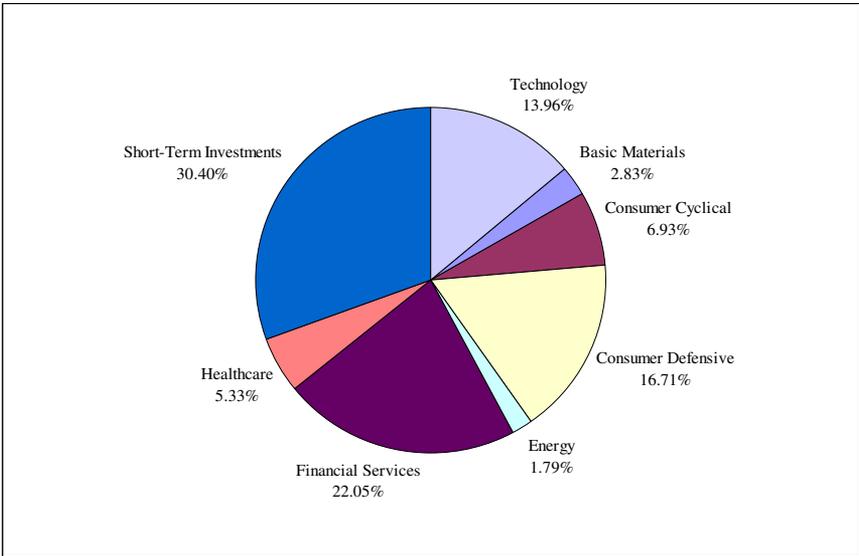
(% of Net Assets)

| | |
|--|-------------|
| Short-Term Investments | 25.16% |
| Diversified Holding Cos. | 9.85% |
| Consumer Products | 7.74% |
| Meat Packing Plants | 7.58% |
| Semiconductors & Related Devices | 6.83% |
| Insurance | 6.61% |
| Motor Vehicles & Passenger Car Bodies | 5.74% |
| Services Computer Integrated Systems Design | 4.73% |
| Healthcare Pharmaceutical | 2.92% |
| Mining & Quarrying of Nonmetallic Minerals (Non-Fuels) | 2.34% |
| National Commercial Banks | 1.79% |
| Oil & Gas Field Exploration Services | 1.47% |
| Assets in Excess of Liabilities, Net | 17.24% |
| | <hr/> |
| | 100.00% |
| | <hr/> <hr/> |

BREAD & BUTTER FUND

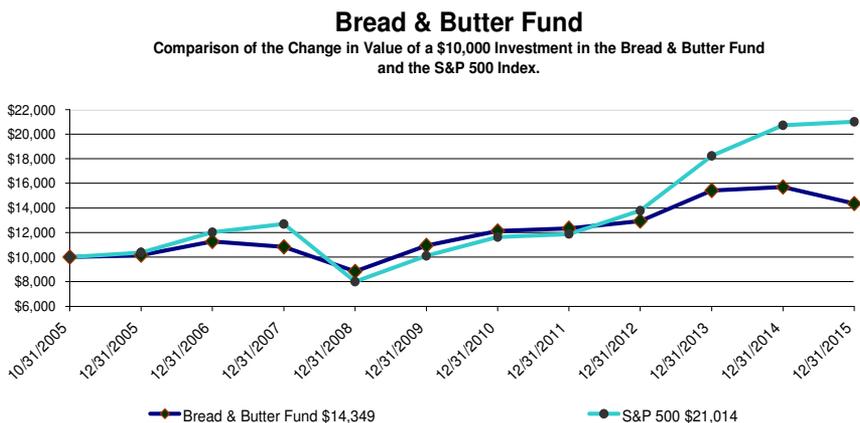
PORTFOLIO ILLUSTRATION DECEMBER 31, 2015 (UNAUDITED)

The following chart gives a visual breakdown of the Fund by the industry sectors the underlying securities represent as a percentage of the portfolio of investments. Sectors are based on Morningstar® classifications.



BREAD & BUTTER FUND

PERFORMANCE ILLUSTRATION DECEMBER 31, 2015 (UNAUDITED)



Average Annual Total Returns (a) (for periods ended December 31, 2015)

| | 1 Year | 5 Year | 10 Year | Since Inception |
|--|---------|--------|---------|-----------------|
| Bread & Butter Fund * | (8.59)% | 3.42% | 3.50% | 3.62% |
| S&P 500 (with dividends reinvested) ** | 1.38% | 12.57% | 7.31% | 7.58% |
| S&P 500 (without dividends reinvested) | (0.73)% | 10.20% | 5.06% | 5.70% |

(a) The total returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

* Initial public offering of shares was October 31, 2005.

**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 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.

This chart assumes an initial investment of \$10,000 made on October 31, 2005. Past performance doesn't guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, maybe worth more or less than their original cost. All returns reflect reinvested dividends but do not reflect the impact of taxes.

Current performance may be higher or lower than the performance quoted.

BREAD & BUTTER FUND

SCHEDULE OF INVESTMENTS
DECEMBER 31, 2015

| <u>Shares</u> | <u>Value</u> |
|---|----------------|
| COMMON STOCKS - 57.60% | |
| Consumer Products - 7.74% | |
| 15,000 22nd Century Group, Inc. * | \$ 21,000 |
| 1,000 Philip Morris International, Inc. | 87,900 |
| | 108,900 |
| Diversified Holding Cos. - 9.85% | |
| 1,050 Berkshire Hathaway, Inc. - Class B * | 138,558 |
| Healthcare-Pharmaceutical - 2.92% | |
| 400 Johnson & Johnson | 41,088 |
| Insurance - 6.61% | |
| 1,500 American International Group, Inc. | 92,955 |
| Meat Packing Plants - 7.58% | |
| 2,000 Tyson Foods, Inc. - Class A | 106,660 |
| Mining & Quarrying of Nonmetallic Minerals (Non-Fuels) - 2.34% | |
| 600 United States Lime & Minerals, Inc. | 32,976 |
| Motor Vehicles & Passenger Car Bodies - 5.74% | |
| 2,373 General Motors Co. | 80,706 |
| National Commercial Banks - 1.79% | |
| 1,500 Bank of America Corp. | 25,245 |
| Oil & Gas Field Exploration Services - 1.47% | |
| 6,000 Dawson Geophysical Co. * | 20,760 |
| Semiconductors & Related Devices - 6.83% | |
| 2,000 Chipmos Technologies Bermuda Ltd. (Taiwan) | 39,600 |
| 2,000 Micron Technology, Inc. * | 28,320 |
| 2,000 Tower Semiconductor Ltd. (Israel) * | 28,120 |
| | 96,040 |
| Services-Computer Integrated Systems Design - 4.73% | |
| 2,000 Yahoo, Inc. * | 66,520 |
| | 66,520 |
| TOTAL COMMON STOCKS (Cost \$456,172) - 57.60% | 810,408 |

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

BREAD & BUTTER FUND

SCHEDULE OF INVESTMENTS (CONTINUED)
DECEMBER 31, 2015

| <u>Shares</u> | <u>Value</u> |
|--|---------------------|
| SHORT TERM INVESTMENTS - 25.16% | |
| 354,013 Fidelity Institutional Treasury Only Money Market - Class I 0.06% ** | \$ 354,013 |
| TOTAL SHORT-TERM INVESTMENTS (Cost \$354,013) - 25.16% | <u>354,013</u> |
| TOTAL INVESTMENTS (Cost \$810,185) - 82.76% | 1,164,421 |
| OTHER ASSETS IN EXCESS OF LIABILITIES, NET - 17.24% | <u>242,654</u> |
| NET ASSETS - 100.00% | <u>\$ 1,407,075</u> |

** Variable rate security; the coupon rate shown represents the yield at December 31, 2015.
The accompanying notes are an integral part of these financial statements.

BREAD & BUTTER FUND

STATEMENT OF ASSETS AND LIABILITIES DECEMBER 31, 2015

| | |
|--|---------------------|
| Assets: | |
| Investments in Securities, at Value (Cost \$810,185) | \$ 1,164,421 |
| Cash | 244,030 |
| Receivables: | |
| Dividends and Interest | 1,032 |
| Total Assets | <u>1,409,483</u> |
| Liabilities: | |
| Due to Adviser | 1,204 |
| Accrued Expenses | 1,204 |
| Total Liabilities | <u>2,408</u> |
| Net Assets | <u>\$ 1,407,075</u> |
| Net Assets Consist of: | |
| Capital Stock | \$ 109 |
| Paid In Capital | 1,052,730 |
| Unrealized Appreciation in Value of Investments | 354,236 |
| Net Assets, for 109,400 Shares Outstanding | <u>\$ 1,407,075</u> |
| Net Asset Value Per Share | <u>\$ 12.86</u> |

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

BREAD & BUTTER FUND

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2015

| | |
|---|---------------------|
| Investment Income: | |
| Dividends (net of \$162 of foreign tax withheld) | \$ 13,936 |
| Interest | 128 |
| Total Investment Income | <u>14,064</u> |
| Expenses: | |
| Advisory | 15,381 |
| Transfer Agent | 6,000 |
| Custody | 3,600 |
| Professional | 10,500 |
| Insurance | 406 |
| Registration | 2,747 |
| Quote and Fees | 3,500 |
| Software | 250 |
| State & Local Taxes | 500 |
| Printing & Postage | 566 |
| Other Expenses | 659 |
| Total Expenses | <u>44,109</u> |
| Less fees waived and expenses reimbursed by Advisor | <u>(13,347)</u> |
| Net Expenses | <u>30,762</u> |
| Net Investment Loss | <u>(16,698)</u> |
| Realized and Unrealized Gain (Loss) on Investments: | |
| Realized Gain on Investments | 42,046 |
| Net Change in Unrealized Appreciation (Depreciation) on Investments | <u>(167,273)</u> |
| Realized and Unrealized Loss on Investments | <u>(125,227)</u> |
| Net Decrease in Net Assets Resulting from Operations | <u>\$ (141,925)</u> |

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

BREAD & BUTTER FUND

STATEMENTS OF CHANGES IN NET ASSETS

| | Years Ended | |
|--|--------------------|--------------------|
| | <u>12/31/2015</u> | <u>12/31/2014</u> |
| Increase (Decrease) in Net Assets From Operations: | | |
| Net Investment Loss | \$ (16,698) | \$ (16,689) |
| Realized Gain on Investments | 42,046 | 77,873 |
| Unrealized Appreciation (Depreciation) on Investments | <u>(167,273)</u> | <u>(30,702)</u> |
| Net Increase (Decrease) in Net Assets Resulting from Operations | <u>(141,925)</u> | <u>30,482</u> |
| Distributions to Shareholders: | | |
| Net Investment Income | - | - |
| Realized Gains | <u>(42,046)</u> | <u>(37,911)</u> |
| Total Distributions Paid to Shareholders | <u>(42,046)</u> | <u>(37,911)</u> |
| Capital Share Transactions | <u>(79,078)</u> | <u>(571)</u> |
| Total Decrease in Net Assets | (263,049) | (8,000) |
| Net Assets: | | |
| Beginning of Year | <u>1,670,124</u> | <u>1,678,124</u> |
| End of Year (Including Undistributed Net Investment Loss of \$-, and \$-, respectively) | <u>\$1,407,075</u> | <u>\$1,670,124</u> |

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

BREAD & BUTTER FUND

FINANCIAL HIGHLIGHTS

Selected data for a share outstanding throughout the period.

| | Years Ended | | | | |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| | <u>12/31/ 2015</u> | <u>12/31/ 2014</u> | <u>12/31/ 2013</u> | <u>12/31/ 2012</u> | <u>12/31/ 2011</u> |
| Net Asset Value, at Beginning of Period | \$ 14.50 | \$ 14.57 | \$ 12.22 | \$ 11.67 | \$ 11.46 |
| Income From Investment Operations: | | | | | |
| Net Investment Income (Loss) * | (0.15) | (0.15) | (0.09) | (0.03) | (0.05) |
| Net Gain (Loss) on Securities (Realized and Unrealized) | (1.09) | 0.42 | 2.44 | 0.58 | 0.26 |
| Total from Investment Operations | (1.24) | 0.27 | 2.35 | 0.55 | 0.21 |
| Distributions: | | | | | |
| Net Investment Income | - | - | - | - | - |
| Realized Gains | (0.40) | (0.34) | - | - | - |
| Total Distributions | (0.40) | (0.34) | - | - | - |
| Net Asset Value, at End of Period | \$ 12.86 | \$ 14.50 | \$ 14.57 | \$ 12.22 | \$ 11.67 |
| Total Return ** | (8.59)% | 1.82% | 19.23% | 4.71% | 1.83% |
| Net Assets at End of Period (Thousands) | \$ 1,407 | \$ 1,670 | \$ 1,678 | \$ 1,423 | \$ 1,396 |
| Ratio of Expenses to Average Net Assets | | | | | |
| Before Waivers | 2.87% | 2.69% | 2.88% | 3.00% | 2.91% |
| After Waivers | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Ratio of Net Investment Loss to Average Net Assets | | | | | |
| After Waivers | (1.09)% | (0.99)% | (0.66)% | (0.22)% | (0.43)% |
| Portfolio Turnover | 16.05% | 11.33% | 19.90% | 30.28% | 36.63% |

* Per share net investment income (loss) 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.

BREAD & BUTTER FUND

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 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 \$0.001 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.

The following is a summary of the significant accounting policies followed by the Fund in the preparation of its financial statements. The Fund is an investment company that follows the accounting and reporting guidance of Accounting Standards Codification Topic 946 applicable to investment companies.

Security Valuation: All investments in securities are recorded at their estimated fair value, as described in Note 4.

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.

In addition, GAAP requires management of the Fund to analyze all open tax years, fiscal years 2012-2014, as defined by IRS statute of limitations for all major industries,

BREAD & BUTTER FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

including federal tax authorities and certain state tax authorities. As of and during the year ended December 31, 2015, 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.

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 U.S. generally accepted accounting principles ("GAAP") 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.

Reclassifications: In accordance with GAAP, the Fund recorded a permanent book/tax difference of \$16,698 from net investment loss to paid-in-capital. This reclassification has no impact on the net asset value of the Fund and is designed generally to present undistributed income and net realized gains on a tax basis, which is considered to be more informative to shareholders.

Subsequent Events - Management has evaluated the impact of all subsequent events through the date the financial statements were issued and has determined that there were no subsequent events requiring recognition or disclosure in these financial statements.

NOTE 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 2.00%. The Adviser has contractually agreed through May 30, 2016 to reimburse the Fund for expenses that exceed 2.00% per year of the averaged total net assets of the Fund. The Fund does not consider "Acquired Fund Fees and Expenses" to be fund operating expenses subject to the 2.00% limit. The Fund will not refund the Adviser for these reimbursements. The Fund will bear its own operating expenses which will include director's fees, legal and accounting fees, interest, taxes,

BREAD & BUTTER FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

brokerage commissions, bookkeeping and record maintenance, operating its office, transfer agent and custodian fees. For the year ended December 31, 2015, the Adviser earned \$15,381 pursuant to the advisory agreement. The Adviser waived \$13,347 in advisory fees for the year ended December 31, 2015. At December 31, 2015, the Fund owed the Adviser \$1,204 for management fees.

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.

NOTE 3. INVESTMENT TRANSACTIONS

Purchases and sales of investment securities (excluding short-term securities) for the year ended December 31, 2015 were \$146,547 and \$278,328, respectively.

NOTE 4. SECURITIES VALUATIONS

Processes and Structure

The Fund's Board of Directors has adopted guidelines for valuing securities including in circumstances in which market quotes are not readily available and has delegated to the Adviser the responsibility for determining fair value prices, subject to review by the Board of Directors.

Hierarchy of Fair Value Inputs

The Fund utilizes various methods to measure the fair value of most of its investments on a recurring basis. GAAP establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The three levels of inputs are as follows:

- *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 inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.
- *Level 3.* Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Fund's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the

BREAD & BUTTER FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Value Measurements

A description of the valuation techniques applied to the Fund's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Equity securities (common stocks). Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, and valuation adjustments are not applied, they are categorized in level 1 of the fair value hierarchy. Certain foreign securities may be fair valued using a pricing service that considers the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments such as American Depositary Receipts, financial futures, Exchange Traded Funds, and the movement of the certain indexes of securities based on a statistical analysis of the historical relationship and that are categorized in level 2. Preferred stock and other equities traded on inactive markets or valued by reference to similar instruments are also categorized in level 2.

The following table summarizes the inputs used to value the Fund's assets measured at fair value as of December 31, 2015:

| <i>Categories</i> | Financial Instruments – Assets | | | |
|-----------------------|---------------------------------------|-----------------------|-----------------------|--------------------------|
| | <u><i>Level 1</i></u> | <u><i>Level 2</i></u> | <u><i>Level 3</i></u> | <u><i>Fair Value</i></u> |
| Common Stocks * | \$ 810,408 | \$ - | \$ - | \$ 810,408 |
| Short-Term Investment | <u>354,013</u> | <u>-</u> | <u>-</u> | <u>354,013</u> |
| | <u>\$ 1,164,421</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,164,421</u> |

* Industry classifications for these categories are detailed on the Fund's Schedule of Investments.

The Fund did not hold any Level 3 assets during the year ended December 31, 2015. The Fund did not hold any derivative instruments at any time during the year ended December 31, 2015. There were no significant transfers into or out of Level 1 or Level 2 during the period. It is the Fund's policy to recognize transfers into and out of Level 1 and Level 2 at the end of the reporting period.

BREAD & BUTTER FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

NOTE 5. CAPITAL SHARE TRANSACTIONS

As of December 31, 2015, there were 100,000,000 shares of \$0.001 per value capital stock authorized. The total par value and paid-in capital totaled \$1,052,839. Transactions in capital stock were as follows for the years ended December 31, 2015 and 2014:

| | <u>December 31, 2015</u> | | <u>December 31, 2014</u> | |
|---------------------------|--------------------------|--------------------|--------------------------|-----------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Shares</u> | <u>Amount</u> |
| Shares sold | 2,365 | \$ 32,978 | 624 | \$ 9,247 |
| Shares reinvested | 3,257 | 42,046 | 2,496 | 36,392 |
| Shares redeemed | <u>(11,385)</u> | <u>(154,102)</u> | <u>(3,104)</u> | <u>(46,210)</u> |
| Total increase (decrease) | <u>(5,763)</u> | <u>\$ (79,078)</u> | <u>16</u> | <u>\$ (571)</u> |

NOTE 6. TAX MATTERS

The Fund's distributable earnings on a tax basis are determined only at the end of each fiscal year. As of December 31, 2015, the Fund's most recent fiscal year-end, the components of distributable earnings on a tax basis were as follows:

| | |
|-----------------------------------|-------------------|
| Unrealized Appreciation | \$ 354,236 |
| Undistributed Realized Gains | - |
| Undistributed Ordinary Income | - |
| Total Distributable Earnings, Net | \$ <u>354,236</u> |

As of December 31, 2015, the tax basis components of unrealized appreciation (depreciation) and cost of investment securities were as follows:

| | |
|---|-------------------|
| Gross unrealized appreciation on investment securities | \$ 356,146 |
| Gross unrealized depreciation on investment securities | <u>(1,910)</u> |
| Net unrealized depreciation on investment securities | \$ <u>354,236</u> |
| Tax Cost of investment securities, including short-term investments | \$ <u>810,185</u> |

On December 30, 2015, the Fund paid a long-term capital gain distribution of \$0.3961 per share to shareholders on December 29, 2015 for a total distribution of \$42,046.

On December 30, 2014, the Fund paid a long-term capital gain distribution of \$0.3366 per share to shareholders on December 29, 2014 for a total distribution of \$37,911.

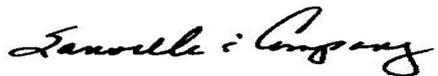
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2015 and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities and cash owned as of December 31, 2015, by correspondence with the custodian. 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, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.



Abington, Pennsylvania
February 20, 2016

BREAD & BUTTER FUND

EXPENSE ILLUSTRATION

DECEMBER 31, 2015 (UNAUDITED)

Expense Example

As a shareholder of the Bread & Butter Fund, you incur ongoing costs which typically consist of management fees and other Fund 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 period, July 1, 2015 through December 31, 2015.

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.

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 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 this 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.

| | Beginning Account Value | Ending Account Value | Expenses Paid During the Period* |
|--|------------------------------------|---------------------------------|---|
| | <u>July 1, 2015</u> | <u>December 31, 2015</u> | <u>July 1, 2015 through December 31, 2015</u> |
| Actual | \$1,000.00 | \$979.64 | \$9.98 |
| Hypothetical (5% Annual Return before expenses) | \$1,000.00 | \$1,015.12 | \$10.16 |

* Expenses are equal to the Fund's annualized expense ratio of 2.00%, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).

BREAD & BUTTER FUND

DIRECTORS AND OFFICERS DECEMBER 31, 2015 (UNAUDITED)

DIRECTORS AND OFFICERS

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.

The following table provides information regarding each Fund who is not an "interested person" of the Fund, as defined in the Investment Company Act of 1940.

| Name, Age, Address ^(a) | Position, Term & Length of Time Served with the Fund | Principal Occupations During Past 5 Years and Current Directorships |
|-----------------------------------|---|---|
| Donald J. McDermott Age: 85 | Director, Chairman of the Board 1 Year 10 Years | Retired Professor at Essex County College |
| Frank J. Figurski Age: 52 | Director 1 Year 10 Years | Global Systems Engineer, Sanofi-Aventis Inc.; Systems Analyst, Atlantic Health System |
| Theodore J. Moskala Age: 51 | Director 1 Year 10 Years | President of Nittany Management, Inc. |

The following table provides information regarding each Director who is an "interested person" of the Fund, as defined in the Investment Company Act of 1940, and each officer of the Fund.

| Name, Age, Address ^(a) | Position, Term and Length of Time Served with the Fund | Principal Occupations During Past 5 Years and Current Directorships |
|-----------------------------------|--|--|
| Jeffrey E. Potkul Age: 49 | Director, Secretary 1 Year 10 Years | Director – Healthcare Economics Policy & Reimbursement at Medtronic Plc.; Manager – Health Economics & Reimbursement Ethicon/Johnson & Johnson |

^(a) 3633 Hill Road, Parsippany, NJ 07054.

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.

The Directors received no fees for the year ended December 31, 2015.

BREAD & BUTTER FUND

ADDITIONAL INFORMATION

DECEMBER 31, 2015 (UNAUDITED)

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 for the most recent 12 month period ended June 30, 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 Fund's website <http://www.breadandbutterfund.com> or at 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.

SHAREHOLDER MEETING

At the Annual meeting June 20, 2015, shareholders of record dated May 4, 2015 voted to unanimously elect the four board of director nominees and the registered public accounting firm until the next annual meeting.

Investment Adviser

Potkul Capital Management, LLC.
3633 Hill Road 3rd Flr.
Parsippany, NJ 07054

Transfer Agent

Mutual Shareholder Services, LLC
8000 Town Centre Drive, Suite 400
Broadview Heights, OH 44147

Custodian

The Huntington National Bank
7 Easton Oval
Columbus, Ohio 43219

Independent Registered Public Accounting Firm

Sanville & Company
1514 Old York Road
Abington, PA 19001

This report is provided for the general information of the shareholders of Bread & Butter Fund. This report is not intended for distribution to prospective investors in the Fund, unless preceded or accompanied by an effective prospectus.