



BREAD & BUTTER
FUND

ANNUAL REPORT 2005

December 31, 2005

Bread & Butter Fund, Inc.
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This report is provided for the general information of Bread & Butter Fund shareholders. It is not authorized for distribution unless preceded or accompanied by an effective prospectus, which contains more complete information about the Fund. Please read it carefully before you invest.

Dear Fellow Shareholders,

I would like to welcome you to the first annual report for the Bread & Butter Fund, Inc. (the "Fund"). The Fund opened its door to investors on October 31, 2005. This Fund has been in the planning stage in one form or another over the past 10 years. I am very excited about the future prospects of this Fund. I will own a significant position in the Fund as well as being in the fund along with the Chairman of the Board, Don McDermott. Also my family and friends will be investing with you. In this first annual letter I will touch on a wide array of topics to better inform you about the Fund and a few basic investment fundamentals.

The Bread & Butter Fund had a return of 1.73% for the period ending December 31, 2005 against the S & P 500 Index which returned 3.42%. The Fund underperformed the index over this short time period. Reasons for this: First, the Fund invests and looks different from the S & P 500 Index, and, second, the Fund is about 57% in cash equivalents awaiting more attractive risk/reward opportunities to deploy capital.

The three largest positions in the Fund are Sun Communities, Pfizer and Time Warner. Each one of these companies has issues it faces, but in my opinion these issues are correctable. This is why the Fund was able to buy such investments at a discount to underlying value due to these issues and uncertainties.

Sun Communities is a REIT (Real Estate Investment Trust) which owns and operates 135 manufactured housing communities in eighteen states. It was purchased at a discount to its net asset value while paying over an 8% dividend that is being supported by cashflow. This REIT is our anti-housing bubble play. Right now manufactured home communities are offering tremendous value to homeowners with a cost of \$17-\$20 a sq. ft. while site built houses are usually more than triple this. As this value to price ratio is discovered by homeowners and as the site built housing market weakens, manufactured housing communities will see the economics of its business improve.

Pfizer, the largest pharmaceutical company in the world offered us a great value at the time of purchase. It was trading at an 8 year low, 12 times earnings and significant free-cashflow generation to offset patent expirations along with a 4% dividend. Although I do not think the pharmaceutical business is going to offer the rates of return of past years, I do believe at the price the Fund paid we should get a solid return over time.

Finally, Time Warner (a media/entertainment/internet conglomerate) is a company that offers tremendous value over time. Although more work is needed to tweak the portfolio of companies it owns as well as further cost containment measures it does offer good value at a low risk. Solid cashflow with world-class assets should make this company a long term keeper.

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.

I will continue to be vigilant in researching for undervalued situations which are presented by the Market. Although the Market is reasonably efficient in pricing securities, I believe at times there exist small pockets of inefficiencies. As increasing amounts of capital are invested in sector index funds, it is my hope this will lead to further stock market inefficiencies in the future as a herd-like flow of capital enters then exits certain sectors.

Investment Philosophy

As you have read in the prospectus, the Bread & Butter Fund follows a Contrarian/Value investment Philosophy. It does make sense to review it so as to reinforce its discipline.

The Contrarian/Value investment philosophy is a discipline that utilizes investor overreactions to capture inefficiencies in the market. The first step in the process is to search for securities that are in out of favor undervalued areas of the market. Usually these areas of the market are surrounded with uncertainty, controversy and pessimism. I will then focus on those securities that trade at cheap quantitative valuation measurements to freecashflow/cashflow, current as well as anticipated future levels of earnings, book value or replacement cost of assets (hidden asset values) and private market valuations.

Then a proprietary list of potential investment securities will be put through a qualitative Four Step Investment Process in order to determine its long-term investment viability. This includes a complete financial statement analysis/financial integrity of SEC documents, industry dynamics (to understand the current competitive landscape in the industry, pricing power and franchise value of products or services), management strategy (prudent operating and capital allocation decisions) and finally Analyst sentiment (which is usually dull or pessimistic toward the security)

I will intensify my interest in a security in the face of negative price action. I look at these companies as businesses not pieces of trading paper. Thus, I want to buy them cheap and keep them for the long term. This style requires discipline, patience and a longer-term time horizon to be successfully implemented and realized and, therefore I am not overly preoccupied with short-term performance numbers.

Our Commitment

To ensure our shareholders that we will be working diligently on your behalf, the Board of Directors and I have made the following commitment:

- The Fund Adviser will function as an Independent Investment Adviser. The Fund's Manager, James B. Potkul (age 42) is committed to the Fund for the long-term.
- The President and Portfolio Manager along with the independent Chairman of the Board own a significant stake in the Fund. We will invest with our investors.
- The Adviser will adhere to a disciplined Contrarian/Value Investment Strategy by buying out of favor securities whose true value is yet to be appreciated. We will avoid fads and speculative behavior as performed by following a herd mentality.
- The Fund will be managed in a tax sensitive manner by minimizing transactions and asset turnover.
- The Adviser and the Board will work diligently at every opportunity to lower Fund expenses overtime as asset levels grow.
- The Fund will only seek long-term investors while discouraging short-term speculators and market timers that would be in opposition to our Contrarian/Value Strategy.
- The Fund's Adviser will be proactive in dealing with corporations by defending the rights of investors when necessary as it relates to individual securities that are being held in the Fund.

The Ground Rules

Investors should be committed for at least 5 years in the Fund. I consider 5 years a minimum time frame to determine whether the Fund is performing or not.

The benchmark I have chosen seems most fitting; it is the S & P 500 Index. This Index gives a broad diversity of the largest corporations in America. A good example of this index put into real world numbers is the Vanguard 500 Index Fund, which has some drag due to transactions and to fund expenses. I may use this fund to compare returns over time.

You should not judge the performance of the Fund on a monthly, quarterly or yearly basis. Sometimes the Fund's performance will be out of sync with the general indices. In order for the fund to outperform the index overtime, it will have to look different from the index. This means the Fund may be more heavily weighted in a few securities or sectors that offer promising investment opportunities. However, this can lead to short-term underperformance until the perceived undervalued securities are recognized and are priced accordingly.

The Fund is not in the business of predicting the general movement of the stock market. I feel predicting short-term price fluctuations are very difficult, if not impossible to do consistently. Therefore, I will spend my time looking for promising individual securities in the market.

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 underperform and lag behind. It is my experience that this is just the nature of Contrarian/Value investing.

Investor Mistakes

My experience over the years has shown that investors invest on the basis of emotion rather than on the basis of following a disciplined investment strategy. A fairly recent study done by Dalbar Inc. shows that the average mutual fund had an average annual return of 14% per year from 1984-2000, but the average mutual fund investor in those same funds experienced only a 5% average annual return. A difference of 9%, I consider to be significant when investment compounding is taken into account.

Why did this happen? Simply put, it is because investors chased performance by buying funds that had experienced above average past performance. The sad conclusion of the story is when investors would sell out of those funds when performance weakened. So in essence, they bought high and sold low. It's that simple.

A great example of this activity occurred in the 1999-2000 time period when technology, internet and large growth funds attracted the bulk of the assets only to be disappointed in coming years with sour performance. The herd-like investors flowed in at or near the top while many exited at or near the bottom. If you could develop a counter-emotional investment discipline, by making it a habit of adding to investments at moments of greatest pessimism in the market, you will most probably be rewarded over time.

This is why I have such conviction for the Contrarian/Value investment philosophy which our Fund will be following. It keeps you from chasing fads and speculative behavior while keeping a balance between pessimism and greed.

Compound Interest

This basic concept of compounding interest should be understood by all investors. The concept is based on TVM or the time value of money. I have presented a chart, which tracks a one-time investment over the short and long-term at various growth rates. Familiarize yourself with this concept to better understand the benefits of investing early and compounding over time.

Shown below are the values of a \$50,000 investment compounded over various time periods.

	<u>4%</u>	<u>8%</u>	<u>12%</u>	<u>16%</u>
10 years	\$74,012	\$107,946	\$155,292	\$220,572
20 years	\$109,556	\$233,047	\$482,315	\$973,038
30 years	\$162,169	\$503,133	\$1,497,996	\$4,292,494

As you can see, by starting early you can take advantage of time and compounding interest. In order to maximize the concept of compounding interest it is important to establish a disciplined saving and investment program as soon as possible.

When I look back at this report in later years, I hope to have maximized the Fund's objectives and in the process fulfill a personal goal. I am convinced that the Fund follows a sound investment discipline, has Directors in place that are honest and committed to the success of this Fund and finally a portfolio manager who is eager and determined to compete with some of the best managers in the marketplace. I look forward to the challenge and the responsibility to grow your assets.

Respectfully Submitted,

James B. Potkul
President/Portfolio Manager

Except for any historical information, the matters discussed in this letter contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve risks and uncertainties, including activities, events or developments that the Advisor expects, believes or anticipates will or may occur in the future. A number of factors could cause actual results to differ from those indicated in the forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties. Readers are cautioned that such statements are not guarantees of future performance and actual results may differ materially from those set forth in the forward-looking statements. The Advisor undertakes no obligation to publicly update or revise forward-looking statements whether as a result of new information or otherwise.

BREAD & BUTTER FUND, INC.
Top Ten Holdings and Asset Allocation
December 31, 2005

<u>Top Ten holdings</u> <u>(% of Net Assets)</u>		<u>Asset Allocation</u> <u>(% of Net Assets)</u>	
Sun Communities Inc.	11.02%	Real Estate (REITs)	11.02%
Pfizer Incorporated	7.86%	Media/Entertainment	8.39%
Time Warner Inc.	4.90%	Pharmaceuticals	7.86%
Central Parking Corp.	3.85%	Business Services	7.48%
Cendant Corp.	3.63%	Oil & Gas – Pipelines	3.57%
El Paso Corporation	3.57%	Telecommunications	3.49%
News Corp. Ltd. Cl B	3.50%	Short-term Investments	57.77%
IDT Corp.	<u>3.49%</u>	Other Assets	
		Less liabilities, net	<u>0.42%</u>
	<u>41.81%</u>		<u>100.00%</u>

BREAD & BUTTER FUND, INC.
PERFORMANCE SUMMARY

The graph below represents the changes in value for an initial \$10,000 investment in the Bread & Butter Fund from October 31, 2005 to December 31, 2005. These changes are then compared to a \$10,000 investment in the S&P 500 Index, which is an index comprised of 500 stocks, for the same period. The Fund's returns include the reinvestment of all dividends, but do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemptions of fund shares. Past performance is not predictive of future performance. Investment return and principal value will fluctuate, so that your shares, when redeemed, may be worth more or less than the original cost.

October 31 2005 to December 31, 2005

Bread & Butter Fund	1.73%	\$10,000	\$10,173
S&P 500 Index	3.42%	\$10,000	\$10,342

BREAD & BUTTER FUND, INC.
Expenses
December 31, 2005

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 two-month period of October 31, 2005(commencement of investment operations) to December 31, 2005.

Actual Expense

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 our 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 the 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 October 31, 2005	Ending Account Value December 31, 2005	Expenses Paid During Period* October 31, 2005 to December 31, 2005
Actual	\$1,000.00	\$1,017.33	\$ 2.40
Hypothetical 5% return before expenses)	\$1,000.00	\$1,006.12	\$ 2.39

*Expenses are equal to the Fund's annualized expense ratio of 1.40%, multiplied by the average account value over the period, multiplied by 62 days/365 days [number of days in most that the Fund has been offered for sale - year/365 [or 366] (to reflect the short period).

BREAD & BUTTER FUND, INC.
SCHEDULE OF INVESTMENTS IN SECURITIES
DECEMBER 31, 2005

	<u>Shares</u>	<u>Historical Cost</u>	<u>Value</u>
<u>COMMON STOCKS - 41.81%</u>			
<u>Business Services - 7.48%</u>			
Cendant Corp.	1,500	\$24,850	\$25,875
Central Parking	2,000	28,184	27,440
		-----	-----
		53,034	53,315
 <u>Media/Entertainment - 8.39%</u>			
News Corp. Ltd. B	1,500	23,785	24,915
Time Warner Inc.	2,000	36,065	34,880
		-----	-----
		59,850	59,795
 <u>Oil & Gas - Pipelines - 3.57%</u>			
El Paso Corporation	2,090	23,124	25,515
		-----	-----
		23,124	25,414
 <u>Pharmaceutical - 7.86%</u>			
Pfizer Incorporated	2,400	50,588	55,969
		-----	-----
		50,588	55,969
 <u>Real Estate (REITs) - 11.02%</u>			
Sun Communities Inc.	2,500	76,285	78,500
		-----	-----
		76,285	78,500
 <u>Telecommunications - 3.49%</u>			
IDT Corp*	2,150	26,025	24,854
		-----	-----
		26,025	24,854
 TOTAL COMMON STOCKS		 288,906	 297,846
		-----	-----

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

BREAD & BUTTER FUND, INC. (Continued)
 SCHEDULE OF INVESTMENTS IN SECURITIES
 DECEMBER 31, 2005

SHORT TERM INVESTMENTS - 57.77%

Schwab Value Advantage	411,547	411,547	411,547
Money Market Fund		-----	-----
TOTAL SHORT-TERM INVESTMENTS		411,547	411,547
		-----	-----
TOTAL INVESTMENTS		\$700,453	709,393
		-----	-----
OTHER ASSETS AND LIABILITIES - 0.42%			2,970

NET ASSETS - 100.00%			\$712,363

*Non-income producing during the year.

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

BREAD & BUTTER FUND, INC.
Statement of Assets and Liabilities
December 31, 2005

Assets

Investments in securities, at value (cost \$700,453)	\$709,393
Cash	2,856
Dividends and Interest receivable	114

Total Assets	712,363

Liabilities

Accrued Expenses	-

Net Assets	712,363

Composition of Net Assets:

Common Stock, at \$.001 par value	70
Paid in Capital	703,353
Net unrealized appreciation of securities	8,940

Net Assets (equivalent to \$10.15 per share based On 70,209 shares outstanding) (Note 4)	\$712,363

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

BREAD & BUTTER FUND, INC
Statement of Operations
For the period from October 31, 2005 (commencement of investment
operations) to December 31, 2005

Investment Income	
Dividends	\$2,991

Total Income	2,991

Expenses	
Investment Advisory Fee (Note 2)	970
Audit	6,000
Insurance	1,250
Registration Fees	2,000
Software	650

Total Expenses	10,870
Less, fees waived and expenses reimbursed By adviser (Note 2)	(9,512)

Net expenses	1,358
Net Investment Income	1,633

Realized and Unrealized Gain (Loss) from Investments	
Net realized gain on investment securities	-
Net increase in unrealized appreciation on Investment securities	8,940

Net realized and unrealized gain (loss) from investments	8,940

Net increase (decrease in net assets resulting From operations	\$10,573

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

BREAD & BUTTER FUND, INC.
Statement of Changes in Net Assets
For the period from October 31, 2005 (commencement of investment
operation) to December 31, 2005

Increase (decrease) in net assets from operations	
Net investment income	\$ 1,633
Net realized gain from investment transactions	-
Unrealized appreciation (depreciation) of Investment securities	8,940

Net increase (decrease) in net assets resulting From operations	10,573
Distributions to shareholders	(1,633)
Share transactions (Note 4)	603,423

Total increase in net assets	612,363
Net Assets	
Beginning of year	100,000

End of year	\$712,363

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

	2005*
<hr/>	
PER SHARE DATA:	
<hr/>	
Net Asset Value, Beginning of Year	\$10.00
<hr/>	
Income from Investment Operations:	
Net Investment Income	.02
Net Realized and Unrealized Gain on investments	.15

Total Income (Loss) From Investment Operations	.17
<hr/>	
Less Distributions	(.02)
<hr/>	
Net Asset value, End of Year	\$10.15
<hr/>	
Total Return	1.73%
<hr/>	
Ratios and Supplemental Data:	
Net Assets, End of Year	\$712,363
Ratio of Expenses, after reimbursement To Average Net Assets	1.40% a
Ratio of Expenses, before reimbursement To Average Net Assets	11.21% a
Ratio of Net Investment Income to Average Net Assets	1.68% a
Portfolio Turnover Rate (%)	0.00%
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a = annualized

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

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, it had no operations prior to that date other than matters relating to its organizational matters and the sale of 10,000 shares to James B. Potkul, who is affiliated with the Adviser, as it's President/Chief Investment Office and Principal. 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.

BREAD & BUTTER FUND, INC.
Notes to Financial Statement (Continued)
December 31, 2005

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.

BREAD & BUTTER FUND, INC.
Notes to Financial Statement (Continued)
December 31, 2005

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 \$970 accrued to the Adviser for the period from October 31, 2005 (commencement of investment operations) to December 31, 2005. For that period the Adviser reimbursed the Fund \$9,512 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 year ended December 31, 2005 were \$288,906 and none respectively.

At December 31, 2005 net unrealized appreciation for Federal income tax purposes aggregated \$8,940 of which \$12,041 related to unrealized appreciation of securities and \$3,101 related to unrealized depreciation of securities. The cost of investments at December 31, 2005 for Federal income tax purposes was \$288,906, excluding short-term investments.

4. CAPITAL SHARE TRANSACTIONS

As of December 31, 2005, there were 100,000,000 shares of \$.001 per value capital stock authorized. The total par value and paid-in capital totaled \$703,423. Transactions in capital stock were as follows for the years ended:

	December 31, 2005	
	Shares	Amount
Shares Sold	60,048	\$601,790
Shares issued in Reinvestment of dividends	161	\$1,633
Shares Redeemed	-	-
	-----	-----
Net Increase/(decrease)	60,209	\$603,423

BREAD & BUTTER FUND, INC.
Notes to Financial Statement (Continued)
December 31, 2005

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.

As of December 31, 2005, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$	-
Undistributed long-term capital gain	\$	-
Unrealized appreciation	\$	8,940

The tax character of distributions paid during the years ended December 31, 2005 was ordinary income of \$1,633.

Sanville & Company
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2005 and the related statement of operations, the statement of changes in net assets and the financial highlights for 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 audit.

We conducted our audit 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, 2005, by correspondence with the custodian. 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 audit provides 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, 2005, the results of its operations, the changes in its net assets and the financial highlights for the period from October 31, 2005 (commencement of investment operations) to December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Abington, Pennsylvania
February 3, 2006

Sanville & Company

BREAD & BUTTER FUND, INC.
ADDITIONAL INFORMATION - UNAUDITED
December 31, 2005

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 meeting held on July 25, 2005, 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 Advisor 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 by writing to the director c/o Bread & Butter Fund, Inc., 3633 Hill Road, Parsippany, NJ 07054.

INTERESTED DIRECTORS & OFFICERS

Name and Age	Position with Fund	Term of Office and Length of Time Served	Principal Occupation During Last Five Years	Other Director
James B. Potkul Age 42	President, Chief Investment and Compliance Officer of Fund	1 year with election annually Served since 2005.	President and Chief Investment Office of the Adviser	No
Elaine Potkul Age 44	Secretary	1 year with election annually Served since 2005	Administration of the Adviser	No
Jeffrey Potkul Age 39	Director	1 year with election annually Served since 2005	Specialist Urology Ethicon Endo Surgery Inc. Johnson & Johnson	No

INDEPENDENT DIRECTORS

Donald McDermott Age 75	Director	1 year with election annually Served since 2005	Professor Biology Essex County College	No
Frank J. Figurski Age 43	Director	1 year with election annually Served since 2005	Senior Systems Technician HSBC Technology & Services USA Inc.	No
Theodore Moskala Age 41	Director	1 year with election annually Served since 2005	National Recovery Center Director St. Paul Travelers Corp.	No

"Interested persons" as defined in the Investment Company Act of 1940. Mr. James and Elaine Potkul are an "interested person" because of their affiliation with the Fund's Investment Adviser. Jeffrey Potkul is the brother of James Potkul.

ITEM 2. CODE OF ETHICS.

The Registrant, as of the end of the period covered by this report, has adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The registrant has not made any amendments to its code of ethics during the covered period. The registrant has not granted any waivers from any provisions of the code of ethics during the covered period.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Fund has assets of less than 1 million and has no audit committee and therefore has no audit committee financial expert. The Fund's officers and board of directors, which consists of independent directors that control 75% of the board, oversee and review all Fund reports. The current Fund auditor is Michael Baranowsky of Sanville & Company. Mr. Baranowsky conducts the various Fund audits and continues to indicate satisfaction with the Fund's internal controls, security certificate inspections, and other Fund reporting. At this time the Fund believes it has adequate supervision over its accounting procedures, practices and reporting.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The registrant has engaged its principal accountant to perform audit services. "Audit services" refer to performing an audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. "Audit-related services" refer to the assurance and related services by the principal accountant that are reasonably related to the performance of the audit. "Tax services" refer to professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. The following table details the aggregate fees billed for last fiscal years for audit fees.

	12/31/2005

Audit Fees	\$ 6,000
Audit-Related Fees	\$ 0
Tax Fees	\$ 0
All Other Fees	\$ 0

Each year, the registrant's Board of Directors recommends a principal accountant to perform audit services for the registrant. At the registrant's Annual Meeting, the shareholders vote to approve or disapprove the principal accountant recommended by the Board.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS. Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS

Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this Form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable to open-end investment companies.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not applicable to open-end investment companies.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable to open-end investment companies.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

ITEM 11. CONTROLS AND PROCEDURES.

James B. Potkul is the President of the Fund. He handles all financial matters of the Fund and has provided the internal control procedures to produce detailed and accurate reports in all financial matters involving Fund operations. James B. Potkul reports to the board of directors and the Fund's Chairman of the Board, Donald McDermott on a continuous basis. Mr. Potkul is also President and owner of the investment adviser, the Potkul Capital Management LLC. Auditors have reviewed the Internal Control exercised by the Fund during this past year and found no material weaknesses.

ITEM 12. EXHIBITS.

(a)(1) Code of Ethics - ex-99code.eth Not Applicable.

(a)(2) Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ex-99cert Filed herewith.

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ex-99.906cert Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bread & Butter Fund, Inc.

By /s/ James B. Potkul

James B. Potkul
President/Principal Financial Officer

Date 03/16/07

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ James B. Potkul

James B. Potkul
President/Principal Financial Officer

Date 03/16/07