

BUTLER NATIONAL CORP
Form 10-Q
December 15, 2017
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **October 31, 2017**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number **0-1678**

BUTLER NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Kansas

(State or other jurisdiction of incorporation or organization)

41-0834293

(I.R.S. Employer Identification No.)

1920 West 161st Street, Olathe, Kansas 66062

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: **(913) 780-9595**

Former name, former address and former fiscal year if changed since last report:

Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)
	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

The number of shares outstanding of the Registrant's Common Stock, \$0.01 par value, as of December 8, 2017 was 64,534,943 shares.

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

	PAGE NO.
Item 1 Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets – October 31, 2017 (unaudited) and April 30, 2017 (audited)	3
Condensed Consolidated Statements of Operations - Three Months Ended October 31, 2017 and 2016	4
Condensed Consolidated Statements of Operations - Six Months Ended October 31, 2017 and 2016	5
Condensed Consolidated Statements of Cash Flows - Six Months Ended October 31, 2017 and 2016	6
Notes to Condensed Consolidated Financial Statements	7
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3 Quantitative and Qualitative Disclosures about Market Risk	20
Item 4 Controls and Procedures	20

PART II. OTHER INFORMATION

Item 1	Legal Proceedings	22
Item 1A	Risk Factors	22
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3	Defaults Upon Senior Securities	22
Item 4	Mine Safety Disclosures	22
Item 5	Other Information	22
Item 6	Exhibits	22
	Signatures	24
	Exhibit Index	25

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****BUTLER NATIONAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****As of October 31, 2017 and April 30, 2017****(in thousands except per share data)**

	October 31, 2017 (unaudited)	April 30, 2017
ASSETS		
CURRENT ASSETS:		
Cash	\$ 5,392	\$6,389
Accounts receivable	2,892	4,095
Inventories		
Raw materials	6,046	5,644
Work in process	1,319	1,174
Finished goods	32	39
Total inventory	7,397	6,857
Prepaid expenses and other current assets	1,049	994
Total current assets	16,730	18,335
PROPERTY, PLANT AND EQUIPMENT:		
Land and building	5,197	5,132
Aircraft	5,888	5,888
Machinery and equipment	3,829	3,639
Office furniture and fixtures	6,848	6,497
Leasehold improvements	4,032	4,032
	25,794	25,188
Accumulated depreciation	(15,230)	(14,506)
Total property, plant and equipment	10,564	10,682
SUPPLEMENTAL TYPE CERTIFICATES (net of accumulated amortization of \$4,754 at October 31, 2017 and \$4,345 at April 30, 2017)	6,308	6,354
OTHER ASSETS:		
Deferred tax asset	925	925
Other assets (net of accumulated amortization of \$7,590 at October 31, 2017 and \$6,904 at April 30, 2017)	6,018	6,482

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Total other assets	6,943	7,407
Total assets	\$ 40,545	\$42,778
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Promissory notes	\$ 2,951	\$2,604
Current maturities of long-term debt	1,884	2,297
Accounts payable	1,394	1,919
Customer deposits	368	892
Gaming facility mandated payment	1,160	1,227
Compensation and compensated absences	1,285	1,478
Income tax payable	160	589
Other current liabilities	259	129
Total current liabilities	9,461	11,135
LONG-TERM DEBT, NET OF CURRENT MATURITIES	2,536	3,347
Total liabilities	11,997	14,482
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$5:		
Authorized 50,000,000 shares, all classes		
Designated Classes A and B 200,000 shares		
	-	-
\$100 Class A, 9.8 %, cumulative if earned liquidation and redemption value \$100, no shares issued and		
outstanding		
\$1,000 Class B, 6 %, convertible cumulative, liquidation and redemption value \$1,000, no shares issued		
	-	-
and outstanding		
Common stock, par value \$.01: authorized 100,000,000 shares issued 65,273,896 and outstanding 64,534,943		
	652	652
shares at October 31, 2017 and issued 65,273,896 and outstanding 64,543,550 shares at April 30, 2017		
Capital contributed in excess of par	13,980	13,980
Treasury stock at cost, 738,953 shares at October 31, 2017 and 730,346 at April 30, 2017	(767)	(764)
Retained earnings	10,041	9,719
Total stockholders' equity Butler National Corporation	23,906	23,587
Noncontrolling interest in BHCMC, LLC	4,642	4,709
Total stockholders' equity	28,548	28,296
Total liabilities and stockholders' equity	\$ 40,545	\$42,778

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2017 AND 2016

(in thousands, except per share data)

(unaudited)

	THREE MONTHS ENDED	
	October 31, 2017	2016
REVENUE:		
Professional Services	\$7,342	\$7,722
Aerospace Products	3,814	5,091
Total revenue	11,156	12,813
COSTS AND EXPENSES:		
Cost of Professional Services	4,763	4,649
Cost of Aerospace Products	2,800	3,698
Marketing and advertising	956	1,071
Employee benefits	459	438
Depreciation and amortization	500	507
General, administrative and other	1,361	1,286
Total costs and expenses	10,839	11,649
OPERATING INCOME	317	1,164
OTHER INCOME (EXPENSE):		
Interest expense	(81)	(106)
Other income (expense), net	-	1
Total other expense	(81)	(105)
INCOME BEFORE INCOME TAXES	236	1,059
PROVISION FOR INCOME TAXES		
Deferred income tax expense	-	292
Provision for income taxes	47	-
NET INCOME	189	767
Net income attributable to noncontrolling interest in BHCMC, LLC	(105)	(248)
NET INCOME ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION	\$84	\$519

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BASIC EARNINGS PER COMMON SHARE	\$0.00	\$0.01
WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION	64,542,699	63,466,873
DILUTED EARNINGS PER COMMON SHARE	\$0.00	\$0.01
WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION	64,542,699	63,466,873

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED OCTOBER 31, 2017 AND 2016

(in thousands, except per share data)

(unaudited)

	SIX MONTHS ENDED	
	October 31, 2017	2016
REVENUE:		
Professional Services	\$ 14,781	\$ 15,206
Aerospace Products	8,024	8,996
Total revenue	22,805	24,202
COSTS AND EXPENSES:		
Cost of Professional Services	9,596	9,169
Cost of Aerospace Products	5,833	6,569
Marketing and advertising	1,810	2,083
Employee benefits	935	914
Depreciation and amortization	982	1,014
General, administrative and other	2,686	2,578
Total costs and expenses	21,842	22,327
OPERATING INCOME	963	1,875
OTHER INCOME (EXPENSE):		
Interest expense	(167) (224
Other income (expense), net	-	(18
Total other expense	(167) (242
INCOME BEFORE INCOME TAXES	796	1,633
PROVISION FOR INCOME TAXES		
Deferred income tax expense	-	418
Provision for income taxes	181	-
NET INCOME	615	1,215
Net income attributable to noncontrolling interest in BHCMC, LLC	(293) (472
NET INCOME ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION	\$ 322	\$ 743

BASIC EARNINGS PER COMMON SHARE	\$0.00	\$0.01
WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION	64,543,127	63,466,873
DILUTED EARNINGS PER COMMON SHARE	\$0.00	\$0.01
WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION	64,543,127	63,466,873

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED OCTOBER 31, 2017 AND 2016

(in thousands)

(unaudited)

	SIX MONTHS ENDED	
	October 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$615	\$1,215
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,819	1,797
Changes in assets and liabilities		
Accounts receivable	1,203	(1,654)
Inventories	(540)	356
Prepaid expenses and other current assets	(57)	(116)
Deferred tax asset	-	418
Accounts payable	(525)	(378)
Customer deposits	(524)	1,472
Accrued liabilities	(622)	(190)
Gaming facility mandated payment	(67)	(111)
Other current liabilities	130	117
Net cash provided by operating activities	1,432	2,926
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,189)	(911)
Net cash used in investing activities	(1,189)	(911)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings of promissory notes, net	347	(1,230)
Repayments of long-term debt	(1,224)	(1,360)
Distribution to non-controlling member	(360)	(360)
Purchase of Treasury Stock	(3)	-
Net cash used in financing activities	(1,240)	(2,950)
NET DECREASE IN CASH	(997)	(935)

CASH, beginning of period	6,389	7,381
CASH, end of period	\$5,392	\$6,446
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$167	\$225
Income taxes paid	\$609	\$-

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share data)

(unaudited)

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the annual report on Form 10-K for the fiscal year ended April 30, 2017. In our opinion, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three and six months ended October 31, 2017 are not indicative of the results of operations that may be expected for the fiscal year ended April 30, 2018.

Certain reclassifications within the condensed financial statement captions have been made to maintain consistency in presentation between years. These reclassifications have no impact on the reported results of operations. Financial amounts are in thousands of dollars except per share amounts.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The standard is effective for annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period and early adoption permitted for reporting periods beginning after December 15, 2016. The standard will supersede existing revenue recognition guidance, including industry-specific guidance, and will provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The standard requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The provisions of this new guidance are effective as of the beginning of the Company’s first quarter of fiscal year 2019. The Company is currently evaluating the transition method to be used and the potential impact of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 requires expanded disclosures about the nature and terms of lease agreements and is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

2. Net Income Per Share: Butler National Corporation ("the Company") follows ASC 260 that requires the reporting of both basic and diluted earnings per share. Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with ASC 260, any anti-dilutive effects on net earnings per share are excluded. The number of potential common shares as of October 31, 2017 is 64,534,943.

3. Inventories: Inventories are priced at the lower of cost, determined on a first-in, first-out basis, or market. Inventories include material, labor and factory overhead required in the production of our products.

Inventory obsolescence is examined on a regular basis. When determining our estimate of obsolescence we consider inventory that has been inactive for five years or longer and the probability of using that inventory in future production. The obsolete inventory generally consists of Falcon and Learjet parts and electrical components. At October 31, 2017 and April 30, 2017, the estimate of obsolete inventory was \$1,177 and \$1,177 respectively.

4. Research and Development: We invested in research and development activities. The amount invested in the six months ended October 31, 2017 and 2016 was \$720 and \$717 respectively.

5. Debt: At October 31, 2017, the Company has a line of credit totaling \$5,000. The unused line at October 31, 2017 was \$2,049. These funds were primarily used for the purchase of inventories and aircraft modification Supplemental Type Certificate ("STC") development costs for modifications and avionics. The line of credit is due on demand and is collateralized by the first and second positions on all assets of the Company.

At October 31, 2017, there is one note collateralized by an aircraft security agreement with a balance of \$342. This note was used for the purchase and modifications of collateralized aircraft.

There are three notes at a bank totaling \$422 for real estate located in Olathe, Kansas and Tempe, Arizona. The due date for the notes is March 2019.

One note totaling \$267 remains for real estate purchased in Dodge City, Kansas and matures in June 2019.

At October 31, 2017, there is one note for equipment with a balance of \$88. This note matures in April 2022.

BHCMC arranged to acquire additional gaming machines for ownership by the Kansas Lottery. The balance of these financed payables is \$282.

One note secured by all of the BNSC assets and compensation due under the State Management contract totals \$3,019 and matures in May 2020. The proceeds were used primarily to retire obligations with BHCI (a non-controlling owner of BHCMC, LLC).

We are not in default of any of our notes as of October 31, 2017.

We believe that our current banks will provide the necessary capital for our business operations. However, we continue to maintain contact with other banks that have an interest in funding our working capital needs to continue our growth in operations in 2018 and beyond.

6. Other Assets: Our other asset account includes assets of \$5,500 related to the Kansas Expanded Lottery Act Management Contract privilege fee, \$5,232 of gaming equipment we were required to pay for ownership by the State of Kansas Lottery, and JET autopilot intellectual property of \$1,417 and miscellaneous other assets of \$1,459. BHCMC expects the \$5,500 privilege fee to have a value over the remaining life of the Management Contract with the State of Kansas which will end in December 2024. There is no assurance of the Management Contract renewal. The Managers Certificate asset for use of gaming equipment is being amortized over a period of three years based on the estimated useful life of gaming equipment. The JET intellectual property is being amortized over a period of 15 years.

7. Stock Options and Incentive Plans: At October 31, 2017 we had no outstanding stock options.

In November 2016, the shareholders approved and adopted the Butler National Corporation 2016 Equity Incentive Plan. The maximum number of shares of common stock that may be issued under the Plan is 12.5 million. No equity awards have been made under the plan.

8. Stock Repurchase Program

In December 2016, the Board of Directors approved a stock purchase program authorizing the repurchase of up to \$500 of its common stock. The timing and amount of any share repurchases will be determined by the Company's management based on market conditions and other factors. The program is currently authorized through May 1, 2018.

The table below provides information with respect to common stock purchases by the Company through October 31, 2017.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
Program authorization				\$ 500
Quarter ended January 31, 2017 (a)	49,920	\$ 0.20	49,920	\$ 490
Quarter ended April 30, 2017	80,426	\$ 0.27	80,426	\$ 468
Quarter ended July 31, 2017	0	\$ 0.00	0	\$ 468
Quarter ended October 31, 2017	8,607	\$ 0.30	8,607	\$ 465
Total	138,953	\$ 0.25	138,953	
(a)	49,920 shares of common stock purchased were purchased through a private transaction			

9. Subsequent Events:

The Company evaluated its October 31, 2017 financial statements for subsequent events through the filing date of this report. The Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THROUGHOUT THIS ITEM 2 ALL NON TABULAR FINANCIAL RESULTS ARE PRESENTED IN THOUSANDS OF U.S. DOLLARS EXCEPT WHERE MILLIONS OF DOLLARS IS INDICATED.

Forward-Looking Statements

Statements made in this report, filed with the Securities and Exchange Commission, communications to stockholders, press releases, and oral statements made by representatives of the Company that are not historical in nature, or that state the Company or management intentions, hopes, beliefs, expectations or predictions of the future, may constitute "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements can often be identified by the use of forward-looking terminology, such as "could," "should," "will," "intended," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," "plan," "guidance" or "estimate" or the negative of these words, variations thereof or similar expressions. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties, and assumptions. It is important to note that any such performance and actual results, financial condition or business, could differ materially from those expressed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth in Item 1A. (Risk Factors) of this Quarterly Report on Form 10-Q, and Item 1A. (Risk Factors) to the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2017 and reference to the Cautionary Statements filed by us as Exhibit 99 to the most recent Annual Report on Form 10-K. Other unforeseen factors not identified herein could also have such an effect. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results, financial condition or business over time.

The forward-looking statements in this report are only predictions and actual events or results may differ materially. In evaluating such statements, a number of risks, uncertainties and other factors could cause actual results, performance, financial condition, cash flows, prospects and opportunities to differ materially from those expressed in, or implied by, the forward-looking statements. These risks, uncertainties and other factors include those set forth in Item 1A (Risk Factors) of the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2017 and the Cautionary Statements filed by us as Exhibit 99 to the most recent Annual Report on Form 10-K, including the following factors:

- the impact of general economic trends on the Company's business;
- sensitivity of demand related to changes in the U.S. dollar to foreign currency exchange rates;
- the deferral or termination of programs or contracts for convenience by customers;
- market acceptance of the Company's Aerospace Products and or other planned products or product enhancements;
- increased fuel and energy costs and the downward pressure on demand for our aircraft business;

the ability to gain and maintain regulatory approval of existing products and services and receive regulatory approval of new businesses and products;
the actions of regulatory, legislative, executive or judicial decisions of the federal, state or local level with regard to our business and the impact of any such actions;
failure to retain/recruit key personnel;
the availability of government funding to vendors and customers;
any delays in receiving components from third party suppliers;
the competitive environment;
the bankruptcy or insolvency of one or more key customers or vendors;
new product offerings from competitors;
protection of intellectual property rights;
the ability to service, supply or visit the international market;
acts of terrorism and war and other uncontrollable events;
joint ventures and other arrangements;
low priced penny-stock regulations;
general governance features;
United States and other country defense spending cuts;
our estimated effective income tax rates; estimated tax benefits; and merits of our tax position;
potential future acquisitions;
changes in laws, including increased tax rates, smoking bans, regulations or accounting standards, third-party relations and approvals, and decisions, disciplines and fines of courts, regulators and governmental bodies;
the ability to timely and cost-effectively integrate companies that we acquire into our operations;
construction factors, including delays, increased costs of labor and materials, availability of labor and materials, zoning issues, environmental restrictions, soil and water conditions, weather and other hazards, site access matters and building permit issues;
litigation outcomes and judicial and governmental body actions, including gaming legislative action, referenda, regulatory disciplinary actions and fines and taxation;
access to insurance on reasonable terms for our assets;
cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations;
as a supplier of military and other equipment to the U.S. Government, we are subject to unusual risks, such as the right of the U.S. Government contractor to terminate contracts for convenience and to conduct audits and investigations of our operations and performance;
our reputation and ability to do business may be impacted by the improper conduct of employees, vendors, agents or business partners;
changes in legislation or government regulations or policies can have a significant impact on our results of operations;
and
other factors disclosed from time to time in the Company's filings with the Securities and Exchange Commission.

Except as expressly required by the federal securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this report. Results of operations in any past period should not be considered indicative of the results to be expected for future periods. Fluctuations in operating results may also result in fluctuations in the price of the Company's common stock.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Form 10-Q. The Company does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events, circumstances or changes in expectations after the date of this Form

10-Q, or to reflect the occurrence of unanticipated events. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A of the Securities Act of 1933, as amended (the "Securities Act") and 21E of the Securities Exchange Act of 1934 as amended.

Investors should also be aware that while the Company, from time to time, communicates with securities analysts; it is against its policy to disclose any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are **not** the responsibility of Butler National Corporation.

Management Overview

Management is focused on increasing long-term shareholder value from increased cash generation, earnings growth, and prudently managing capital expenditures. We plan to do this by continuing to drive increased revenue from product and service innovations, strategic acquisitions, and targeted marketing programs.

Our revenue is primarily derived from two very different business segments; Aerospace Products and Professional Services. These segments operate through various Butler National subsidiaries and affiliates listed in the Company's fiscal year 2017 annual report on Form 10-K.

Aerospace Products

Aerospace Products derives its revenue by designing system integration, engineering, manufacturing, installing, servicing, and repairing products for classic and current production aircraft. These products include JET autopilot service and repairs, Avcon provisions and system integration for special mission equipment installations, Butler Avionics equipment sales and installation, and Butler National electronic controls and safety equipment manufacture and sales. Aerospace customers range in size from owners and operators of small single engine airplanes to owners and operators of large commercial and military aircraft. Aerospace Products are sold to and serviced for customers located in many countries of the world.

Aerospace is the legacy part of the Butler National business. Organized over 57 years ago, this business is based upon design engineering and installation innovations to enhance and support products related to airplanes and ground support equipment. These new products included: in the 1960's, aircraft electronic load sharing and system switching equipment, a number of airplane electronic navigation instruments, radios and transponders; in the 1970's, ground based VOR navigation equipment sold worldwide and GPS equipment as we know it today in civilian use; in the 1980's, special mission modifications to business jets for aerial surveillance and conversion of passenger configurations to cargo; in the 1990's, classic aviation support of aging airplanes with enhanced protection of electrical systems through transient suppression devices (TSD), control electronics for military weapon systems and improved aerodynamic control products (Avcon Fins) allowing stability at higher gross weights for additional special mission applications; in the 2000's, improved accuracy of the airspeed and altimeter systems to allow less vertical separation between flying airplanes (RVSM) and acquisition of the JET autopilot product line to support and replace aged electronic equipment in the classic fleet of Learjet airplanes; and in the 2010's, the acquisition of Butler Avionics to provide additional classic airplane support by retrofit of avionics from the past 40 years to modern state of the art equipment for sale worldwide using FAA supplemental type certification (STC). Aerospace is preparing for the 2020's through the development and certification of ADS-B systems in support of the FAA "NextGen" update of the Air Traffic Control system in the United States and many other countries.

Aerospace continues to be a focus for new product design and development. Butler National received FAA approvals of a number of products: Butler National's newly redesigned rate gyroscope for Learjets; the replacement vertical accelerometer safety device that resolves obsolescence as a key component of the legacy Learjet stall warning systems; Butler National's addition of the GARMIN GTN 650/750 Global Position System Navigator with Communication transceiver in the Learjet Model 50 series, 30 series and 20 series, Avcon's new cargo/sensor carrying pod that mounts to the bottom of a King Air aircraft, and the provisions for external stores on a Learjet Model 60 to enable it for special mission operations; and noise suppression for Learjet 20 series aircraft. We expect this segment will continue to grow in the future.

Professional Services

Professional Services derives its revenue from (a) professional management services in the gaming industry through Butler National Service Corporation ("BNSC") and BHCMC, LLC ("BHCMC"), and (b) professional architectural, engineering and management support services.

In the early 1990's, management determined that more revenue stable business units were needed to sustain the Company. Members of the Board of Directors had contacts with several American Indian tribes and other members of the Board were associated with gaming operators in Las Vegas. After enactment of the 1988 Indian Gaming Regulatory Act ("IGRA") we reached out to various Indian tribes with land in the area to explore the opportunities for operations under IGRA. This resulted in the "Stables", an Indian owned casino on Modoc Indian land opened in September 1998 developed and managed by BNSC. The Stables Management Agreement has been available on the website maintained by the National Indian Gaming Commission ("NIGC"). The Stables Management Agreement was subsequently amended by various amendments dated April 30, 2003 (the "First Amendment"), November 30, 2006 (the "Second Amendment"), October 19, 2009 (the "Third Amendment") and September 22, 2011 (the "Fourth Amendment"). The result of the First Amendment, Second Amendment, Third Amendment and Fourth Amendment is to provide (a) that twenty (20%) of net profits from The Stables are distributed to BNSC, (b) to end per the joint venture agreement the participation of the Miami Indian tribe from the business and (c) to extend the duration of the Stables Management Agreement through September 30, 2018.

From this experience with IGRA and the success of the Indian gaming industry, we determined that the IGRA model may be applicable for state-owned gaming. We spent Butler National Corporation innovation, legal and market development funds to design and encourage the use of an Indian-owned gaming model in the State of Kansas. From these efforts, Kansas enacted the Kansas Expanded Lottery Act (KELA) in 2007 allowing four state-owned casinos to be developed in Kansas. In 2007, BNSC made application to manage a state-owned casino. In 2008, BNSC was awarded a fifteen year term to manage the Boot Hill Casino in Dodge City, Kansas pursuant to a Lottery Gaming Facility Management Contract (the "Boot Hill Casino Management Contract"). The Boot Hill Casino Management Contract was amended on December 29, 2009 (the "First Amendment to the Boot Hill Casino Management Contract") to bring the definition of "Fiscal Year" in line with the fiscal year of BNSC (May 1 to April 30). BHCMC was organized to be the manager of the Boot Hill Casino in Dodge City, Kansas. The casino opened in December 2009.

The terms of the agreement between the Kansas Lottery and BNSC/BHCMC required the completion of an addition to the Boot Hill Casino. The Phase II expansion of Boot Hill Casino began in early 2012 and was completed in January 2013. Phase II expansion of the unfinished gaming floor space built during Phase I construction and tenant improvements was funded by tenant improvement leases, gaming machine acquisitions, and casino earnings. The Phase II expansion included the interior finish of 15,000 square feet of casino shell and provided for up to 216 additional gaming machines. Part of the expansion included a breezeway connecting the Boot Hill Casino and the Dodge City special events center (United Wireless Arena). Boot Hill Casino now has approximately 650 gaming machines on the floor. Boot Hill Casino acquired the naming rights to the City of Dodge City and Ford County owned conference center connected to the casino through the breezeway. The conference center is known as the Boot Hill Casino and Resort Conference Center.

Results Overview

The six months ending October 31, 2017 revenue decreased 6% to \$22.8 million compared to \$24.2 million in the six months ending October 31, 2016. In the six months ending October 31, 2017 the professional services revenue was \$14.8 million compared to \$15.2 million in the six months ending October 31, 2016, a decrease of 3%. In the six months ending October 31, 2017 the Aerospace Products revenue was \$8.0 million compared to \$9.0 million in the six months ending October 31, 2016, a decrease of 11%.

The six months ending October 31, 2017 net income decreased to \$322 compared to a net income of \$743 in the six months ending October 31, 2016. The six months ending October 31, 2017, operating income decreased to \$1.0 million, from an operating income of \$1.9 million in the six months ending October 31, 2016.

RESULTS OF OPERATIONS

SIX MONTHS ENDING OCTOBER 31, 2017