

BUTLER NATIONAL CORP
Form 10-Q
December 14, 2018

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, 2018**

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.)

19920 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 14, 2018 was 64,237,185 shares.

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BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****BUTLER NATIONAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

As of October 31, 2018 and April 30, 2018

(in thousands except per share data)

| | October 31, 2018 (unaudited) | April 30, 2018 |
|---|------------------------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 8,972 | \$7,353 |
| Accounts receivable | 4,268 | 3,107 |
| Income tax receivable, net | - | 219 |
| Inventories | | |
| Parts and raw materials | 6,187 | 5,858 |
| Work in process | 1,349 | 1,234 |
| Finished goods | 24 | 27 |
| Total inventory net of allowances | 7,560 | 7,119 |
| Prepaid expenses and other current assets | 1,259 | 978 |
| Total current assets | 22,059 | 18,776 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land and building | 5,268 | 5,232 |
| Aircraft | 6,157 | 6,157 |
| Machinery and equipment | 3,978 | 3,922 |
| Office furniture and fixtures | 6,854 | 6,658 |
| Leasehold improvements | 4,032 | 4,032 |
| | 26,289 | 26,001 |
| Accumulated depreciation | (16,249) | (15,725) |
| Total property, plant and equipment | 10,040 | 10,276 |
| SUPPLEMENTAL TYPE CERTIFICATES (net of accumulated amortization of \$5,606 at October 31, 2018 and \$5,164 at April 30, 2018) | 6,196 | 6,597 |
| OTHER ASSETS: | | |
| Deferred tax asset | 193 | 193 |
| Other assets (net of accumulated amortization of \$8,757 at October 31, 2018 and \$8,213 at April 30, 2018) | 5,045 | 5,589 |

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| | | |
|--|-----------|----------|
| Total other assets | 5,238 | 5,782 |
| Total assets | \$ 43,533 | \$41,431 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Promissory notes | \$ 670 | \$2,387 |
| Current maturities of long-term debt | 1,498 | 1,612 |
| Accounts payable | 1,935 | 2,215 |
| Customer deposits | 2,425 | 1,396 |
| Gaming facility mandated payment | 1,235 | 1,219 |
| Compensation and compensated absences | 1,803 | 1,439 |
| Income taxes payable | 501 | - |
| Other current liabilities | 291 | 162 |
| Total current liabilities | 10,358 | 10,430 |
| LONG-TERM DEBT, NET OF CURRENT MATURITIES | 1,040 | 1,735 |
| Total liabilities | 11,398 | 12,165 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Butler National Corporation's 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 66,196,854 and outstanding 64,237,185 shares at October 31, 2018 and issued 66,196,854 and outstanding 64,743,317 shares at April 30, 2018 | 662 | 662 |
| Capital contributed in excess of par | 14,231 | 14,231 |
| Treasury stock at cost, 1,959,669 shares at October 31, 2018 and 1,453,537 at April 30, 2018 | (1,101) | (951) |
| Retained earnings | 12,290 | 10,060 |
| Total stockholders' equity Butler National Corporation | 26,082 | 24,002 |
| Noncontrolling interest in BHCMC, LLC | 6,053 | 5,264 |
| Total stockholders' equity | 32,135 | 29,266 |
| Total liabilities and stockholders' equity | \$ 43,533 | \$41,431 |

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, 2018 AND 2017

(in thousands, except per share data)

(unaudited)

| | THREE MONTHS ENDED | | |
|--|-----------------------|---------|---|
| | October 31, 2018 | 2017 | |
| REVENUE: | | | |
| Professional Services | \$7,858 | \$7,342 | |
| Aerospace Products | 7,439 | 3,814 | |
| Total revenue | 15,297 | 11,156 | |
| COSTS AND EXPENSES: | | | |
| Cost of Professional Services | 4,926 | 4,763 | |
| Cost of Aerospace Products | 4,331 | 2,800 | |
| Marketing and advertising | 1,060 | 956 | |
| Employee benefits | 481 | 459 | |
| Depreciation and amortization | 395 | 500 | |
| General, administrative and other | 2,286 | 1,361 | |
| Total costs and expenses | 13,479 | 10,839 | |
| OPERATING INCOME | 1,818 | 317 | |
| OTHER INCOME (EXPENSE): | | | |
| Interest expense | (55 |) (81 |) |
| Refund of sales/use tax | 1,330 | - | |
| Total other income (expense) | 1,275 | (81 |) |
| INCOME BEFORE INCOME TAXES | 3,093 | 236 | |
| PROVISION FOR INCOME TAXES | | | |
| Deferred income tax expense | - | - | |
| Provision for income taxes | 637 | 47 | |
| NET INCOME | 2,456 | 189 | |
| Net income attributable to noncontrolling interest in BHCMC, LLC | (735 |) (105 |) |
| NET INCOME ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION | \$1,721 | \$84 | |

| | | |
|---|------------|------------|
| BASIC EARNINGS PER COMMON SHARE | \$0.03 | \$0.00 |
| WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION | 63,820,359 | 64,542,699 |
| DILUTED EARNINGS PER COMMON SHARE | \$0.03 | \$0.00 |
| WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION | 63,820,359 | 64,542,699 |

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, 2018 AND 2017

(in thousands, except per share data)

(unaudited)

| | SIX MONTHS ENDED | |
|--|---------------------|-----------|
| | October 31, 2018 | 2017 |
| REVENUE: | | |
| Professional Services | \$ 15,806 | \$ 14,781 |
| Aerospace Products | 12,895 | 8,024 |
| Total revenue | 28,701 | 22,805 |
| COSTS AND EXPENSES: | | |
| Cost of Professional Services | 9,738 | 9,596 |
| Cost of Aerospace Products | 8,461 | 5,833 |
| Marketing and advertising | 2,035 | 1,810 |
| Employee benefits | 987 | 935 |
| Depreciation and amortization | 783 | 982 |
| General, administrative and other | 3,979 | 2,686 |
| Total costs and expenses | 25,983 | 21,842 |
| OPERATING INCOME | 2,718 | 963 |
| OTHER INCOME (EXPENSE): | | |
| Interest expense | (124 |) (167 |
| Refund of sales/use tax | 1,610 | - |
| Total other income (expense) | 1,486 | (167 |
| INCOME BEFORE INCOME TAXES | 4,204 | 796 |
| PROVISION FOR INCOME TAXES | | |
| Deferred income tax expense | - | - |
| Provision for income taxes | 825 | 181 |
| NET INCOME | 3,379 | 615 |
| Net income attributable to noncontrolling interest in BHCMC, LLC | (1,149 |) (293 |
| NET INCOME ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION | \$ 2,230 | \$ 322 |
| BASIC EARNINGS PER COMMON SHARE | \$ 0.03 | \$ 0.00 |

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| | | |
|---|------------|------------|
| WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION | 64,260,774 | 64,543,127 |
| DILUTED EARNINGS PER COMMON SHARE | \$0.03 | \$0.00 |
| WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION | 64,260,774 | 64,543,127 |

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, 2018 AND 2017****(in thousands)****(unaudited)**

| | SIX MONTHS ENDED | |
|--|---------------------|---------------|
| | October 31, 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$3,379 | \$615 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 1,510 | 1,819 |
| Changes in assets and liabilities | | |
| Accounts receivable | (1,161) | 1,203 |
| Inventories | (441) | (540) |
| Prepaid expenses and other current assets | (281) | (57) |
| Income tax receivable | 219 | - |
| Accounts payable | (280) | (525) |
| Customer deposits | 1,029 | (524) |
| Accrued liabilities | 865 | (622) |
| Gaming facility mandated payment | 16 | (67) |
| Other current liabilities | 129 | 130 |
| Net cash provided by operating activities | 4,984 | 1,432 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (329) | (1,189) |
| Net cash used in investing activities | (329) | (1,189) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings of promissory notes, net | (1,717) | 347 |
| Repayments of long-term debt | (809) | (1,224) |
| Distribution to non-controlling member | (360) | (360) |
| Purchase of Common Stock | (150) | (3) |
| Net cash used in financing activities | (3,036) | (1,240) |
| NET INCREASE (DECREASE) IN CASH | 1,619 | (997) |

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| | | |
|---|---------|---------|
| CASH, beginning of period | 7,353 | 6,389 |
| CASH, end of period | \$8,972 | \$5,392 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | \$126 | \$167 |
| Income taxes paid | \$105 | \$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 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, 2018. 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, 2018 are not indicative of the results of operations that may be expected for the fiscal year ended April 30, 2019.

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.

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.

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, 2018 is 64,237,185.

3. Revenue Recognition: Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On May 1, 2018, the Company adopted Topic 606, using the modified retrospective transition method applied to those contracts which were not completed as of May 1, 2018. Results for reporting periods beginning after May 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 605. There was no adjustment to beginning accumulated deficit on May 1, 2018 due to the impact of adopting Topic 606.

Under ASC 606, revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration we expect to receive in exchange for those services. To achieve this core principal, the Company applies the following five steps:

1) Identify the contract, or contracts, with a customer

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance and (iii) the Company determines that collection of substantially all consideration for services that are transferred is probable based on the customer's intent and ability to pay the promised consideration.

2) Identification of the performance obligations in the contract

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer. Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised services, the Company must apply judgment to determine whether promised services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

3) Determination of the transaction price

The transaction price is the amount that an entity allocates to the performance obligations identified in the contract and, therefore, represents the amount of revenue recognized as those performance obligations are satisfied. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

The transaction price is the amount that an entity allocates to the performance obligations identified in the contract and, therefore, represents the amount of revenue recognized as those performance obligations are satisfied. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

4) Allocation of the transaction price to the performance obligations in the contract

Once a contract and associated performance obligations have been identified and the transaction price has been determined, ASC 606 requires an entity to allocate the transaction price to each performance obligation identified. This is generally done in proportion to the standalone selling prices of each performance obligation (i.e., on a relative standalone selling price basis). As a result, any discount within the contract generally is allocated proportionally to all of the separate performance obligations in the contract. The Company is applying the right to invoice practical expedient to recognize revenue. As a result, the entity bypasses the steps of determining the transaction price, allocating that transaction price and determining when to recognize revenue as it will recognize revenue as billed by multiplying the price assigned to the good or service, by the units.

5) Recognition of revenue when, or as, we satisfy a performance obligation

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. Control transfers either over time or at a point in time. Revenue is recognized when control of the promised services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

Aircraft modifications are performed under fixed-price contracts. Revenue from fixed-priced contracts are recognized on the percentage-of-completion method, measured by the direct labor incurred compared to total estimated direct labor.

Revenue from Avionics products are recognized when shipped. Payment for these Avionics products is due within 30 days of the invoice date after shipment. Revenue from Gaming Management and other Corporate/Professional Services is recognized as the service is rendered.

Regarding warranties and returns, our products are special order and are not suitable for return. Our products are unique upon installation and tested prior to their release to the customer and acceptance by the customer. In the rare event of a warranty claim, the claim is processed through the normal course of business and may include additional charges to the customer. In our opinion, any future warranty work would not be material to the consolidated financial statements.

Gaming revenue is the gross gaming win as reported by the Kansas Lottery casino reporting systems, less the mandated payments by and for the State of Kansas. Electronic games-slots and table games revenue is the aggregate of gaming wins and losses. Liabilities are recognized for chips and "ticket-in, ticket-out" coupons in the customers' possession, and for accruals related to anticipated payout of progressive jackpots. Progressive gaming machines, which contain base jackpots that increase at a progressive rate based on the number of coins played, are deducted from revenue as the value of jackpots increase. Food, beverage, and other revenue is recorded when the service is received and paid.

4. 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, 2018 and April 30, 2018, the estimate of obsolete inventory was \$571 and \$571 respectively.

5. Research and Development: We invested in research and development activities. The amount invested in the six months ended October 31, 2018 and 2017 was \$620 and \$720 respectively.

6. Debt: At October 31, 2018, the Company was utilizing a line of credit totaling \$5,000. The unused line at October 31, 2018 was \$4,330. 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, 2018, there was one note with an interest rate of 5.75% collateralized by aircraft security agreements totaling \$195. This note was used for the purchase and modifications of collateralized aircraft. This note matures in January 2020.

At October 31, 2018, there are three notes at a bank totaling \$126 collateralized by real estate located in Olathe, Kansas and Tempe, Arizona. The interest rates on these notes range from 3.36% to 4.46%. The due date for the notes is March 2019.

At October 31, 2018, there is one note totaling \$250 collateralized by real estate in Dodge City, Kansas. The interest rate on this note is 6.25%. This note matures in June 2019.

At October 31, 2018, there is one note collateralized by equipment with a balance of \$71. The interest rate on this note is 4.5%. This note matures in April 2022.

At October 31, 2018, there is one note at a bank totaling \$1,896 with an interest rate of 4.89%. The proceeds were used primarily to pay off obligations with BHCI (a non-controlling owner of BHCMC, LLC). This note matures in May 2020.

We are not in default of any of our notes as of October 31, 2018.

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 2019 and beyond.

7. Other Assets: Our other asset account includes assets of \$5,500 related to the Kansas Expanded Lottery Act Management Contract privilege fee, \$5,426 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.

8. Stock Options and Incentive Plans: At October 31, 2018 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.

9. Stock Repurchase Program

The Board of Directors approved a stock purchase program authorizing the repurchase of up to \$750 of its common stock. The timing and amount of any share repurchases will be determined by Butler National's management based on market conditions and other factors. The program is currently authorized through May 1, 2019.

The table below provides information with respect to common stock purchases by the Company through October 31, 2018.

| 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 | | | | \$ 750 |
| Quarter ended January 31, 2017 (a) | 49,920 | \$ 0.20 | 49,920 | \$ 740 |
| Quarter ended April 30, 2017 | 80,426 | \$ 0.27 | 80,426 | \$ 718 |
| Quarter ended July 31, 2017 | - | \$ - | - | \$ 718 |
| Quarter ended October 31, 2017 | 8,607 | \$ 0.30 | 8,607 | \$ 715 |
| Quarter ended January 31, 2018 (a) | 536,058 | \$ 0.26 | 536,058 | \$ 576 |
| Quarter ended April 30, 2018 (a) | 178,526 | \$ 0.25 | 178,526 | \$ 531 |
| Quarter ended July 31, 2018 (a) | 25,277 | \$ 0.26 | 25,277 | \$ 525 |
| Quarter ended October 31, 2018 (a) | 480,855 | \$ 0.30 | 480,855 | \$ 381 |
| Total | 1,359,669 | \$ 0.27 | 1,359,669 | |

(a) These shares of common stock purchased were purchased through private transactions.

10. Contingency

On December 29, 2017, BHCMC, received a ruling from the Kansas Supreme Court in the Matter of the Appeal of BHCMC, LLC d/b/a Boot Hill Casino & Resort, concerning the request for refund for sales/use taxes paid for slot machines owned by the Kansas Lottery. The Kansas Department of Revenue appealed from a Board of Tax Appeals summary decision granting a compensating use tax refund to BHCMC. The Kansas Supreme Court addressed “whether such a tax can be imposed on Boot Hill (BHCMC) for electronic gaming machines it does not—and, under the law and its management agreement with Kansas Lottery, cannot—own”. The Court ruled that “Boot Hill did not exercise a right or power incident to ownership of personal property in order to be subject to a compensating use tax for that property.” Because BHCMC has not exercised such a power or right, the Court affirmed Board of Tax Appeals' refund decision and the ruling of the Kansas Court of Appeals panel decision. Management makes no assurances related to collection of, or the timeliness of, any actions realizing any direct monetary effects, if any, of the ruling. Therefore, the Company’s accounting of these sales/use tax refunds will be recognized as other income when payment is received from the State of Kansas.

For the six months ended October 31, 2018, \$1.6 million was reported as a refund of sales/use tax, including \$1.3 million in the three months ended October 31, 2018, in the consolidated statement of operations in connection with the above ruling. In addition, \$368 was received in November of 2018.

11. Subsequent Events:

The Company evaluated its October 31, 2018 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, other than the activity described in Note 10, 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, other reports and proxy statements 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 discussed in Item 1A (Risk Factors) of the Annual Report on Form 10-K for the fiscal year ended April 30, 2018, and elsewhere herein or in other reports filed with the SEC. 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 Annual Report on Form 10-K for the fiscal year ended April 30, 2018, including the following factors:

extensive regulation across our industries;

evolving government regulations and law;

the geographic location of our casino;

customer concentration risk;

risks associated with the potential acquisition of land at the Boot Hill Casino;

industrial business cycles;

market competition;

marketability restrictions of our common stock;

stock dilution caused by the annual employer match to our 401(k) plan;

the possibility of a reverse-stock split;

executive officers are family members;

non-renewal of certain casino management contracts;

changes in regulations of financial reporting;

fluctuating fuel and energy costs;

fixed-price contracts;

development, production, testing and marketing of new products;

the stability of credit markets;

cyber-security threats;

acts of terrorism and war;

inclement weather and natural disasters;

loss of key personnel;

risks associated with international sales;

future acquisitions and investments;

change of control restrictions;

potential impairment losses;

extensive taxation;

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.

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.

We have two separate reporting segments: Aerospace Products and Professional Services. Aerospace Products and Professional Services do not share the same customers and suppliers and have substantially distinct businesses. The Aerospace Products operating segment provides products and services in the aerospace industry. Companies in Aerospace Products derive their revenue from system design, engineering, manufacturing, integration, installation, repairing, overhauling, servicing and distribution of aerostructures, avionics, aircraft components, accessories, subassemblies and systems. The Professional Services operating segment provides services in the gaming industry. Professional Services companies manage a gaming and entertainment facility and provide architectural and engineering services. These reporting segments operate through various subsidiaries and affiliates listed in the Company's fiscal year 2018 Annual Report on Form 10-K.

Aerospace Products. The Aerospace Products segment includes the manufacture, sale and service of electronic equipment and systems and technologies to enhance and support products related to aircraft. Additionally, we also operate several Federal Aviation Administration (the "FAA") Repair Stations. Companies in Aerospace Products concentrate on Learjets, Beechcraft King Air, Cessna turbine engine, Cessna multi-engine piston and Dassault Falcon 20 aircraft. Specifically, the design, distribution and support for products for older aircraft, or "Classic" aircraft are areas of focus for companies in Aerospace Products.

Products. The products that the companies within this group design, engineer, manufacture, integrate, install, repair and service include:

| | |
|--|--|
| Aerial surveillance products | GARMIN GTN Global Position System Navigator with Communication Transceiver |
| Aerodynamic enhancement products | J.E.T autopilot products |
| Airspeed and altimeter systems | Load sharing systems and switching equipment |
| Avcon Fins | Noise suppression systems |
| ADS-B systems | Rate gyroscopes |
| Conversion of passenger configurations to cargo | Replacement vertical accelerometers |
| Cargo/sensor carrying pods | Transient suppression devices |
| Electronic navigation instruments, radios and transponders | Attitude heading reference systems |

Modifications. The companies in Aerospace Products have authority pursuant to Supplemental Type Certificates (“STCs”) and Parts Manufacturer Approval (“PMA”), issued by the Federal Aviation Administration, to build required parts and subassemblies and to make applicable installations. Companies in Aerospace Products perform modifications in the aviation industry including:

| | |
|--|--------------------------------------|
| Aerial photograph capabilities | Extended tip fuel tanks |
| Aerodynamic improvements | Radar systems |
| Avionics systems | Reduced vertical separation minimums |
| Cargo doors | Special mission modifications |
| Conversion from passenger to freighter configuration | Stability enhancements |
| Extended doors | Traffic collision avoidance systems |

Special Mission Electronics. We supply defense-related, commercial off-the-shelf products to various commercial entities and government agencies and subcontractors in order to update or extend the useful life of aircraft with older components and technology. These products include:

| | |
|--|--|
| Cabling | HangFire Override Modules |
| Electronic control systems | Test equipment |
| Gun Control Units for Apache and Blackhawk helicopters | Gun Control Units for land and sea based military vehicles |

Professional Services. The Professional Services segment includes the management of gaming facilities and related dining and entertainment facilities in Kansas and Oklahoma. We currently manage a gaming and entertainment facility. Boot Hill Casino and Resort features approximately 640 slot machines and 20 table games. Companies in Professional Services also provide licensed architectural services, including commercial and industrial building design, and engineering services.

Boot Hill. BNSC, via BHCMC, LLC (“BHCMC”), a company in Professional Services, has managed The Boot Hill Casino and Resort Conference Center in Dodge City, Kansas (“Boot Hill”) since 2009 pursuant to the Lottery Gaming Facility Management Contract, by and among BNSC, BHCMC and the Kansas Lottery, originally dated December 8, 2009, as subsequently amended (“Boot Hill Agreement”). As required by Kansas law, all games, gaming equipment and gaming operations at Boot Hill are owned and operated by the Kansas Lottery.

The Stables. Since 1998, Butler National Service Corporation, a company in Professional Services and our wholly-owned subsidiary, has managed a Modoc Tribe of Oklahoma owned casino known as The Stables Casino in Miami, Oklahoma (“The Stables”) pursuant to the Stables Management Agreement originally dated December 12, 1996 and approved by the NIGC on January 14, 1997 as subsequently amended (the “Stables Agreement”). Under the terms of the Stables Agreement, BNSC receives twenty percent (20%) of the net profits from The Stables. The Stables Agreement expired on September 30, 2018, and was not renewed.

Architectural and Engineering Services. Companies in Professional Services provide licensed architectural, including commercial and industrial building design, and engineering services.

Results Overview

The six months ending October 31, 2018 revenue increased 26% to \$28.7 million compared to \$22.8 million in the six months ending October 31, 2017. In the six months ending October 31, 2018 the professional services revenue was \$15.8 million compared to \$14.8 million in the six months ending October 31, 2017, an increase of 7%. In the six months ending October 31, 2018 the Aerospace Products revenue was \$12.9 million compared to \$8.0 million in the six months ending October 31, 2017, an increase of 61%.

The six months ending October 31, 2018 net income increased to \$2.2 million compared to a net income of \$322 in the six months ending October 31, 2017. The six months ending October 31, 2018, operating income increased to \$2.7 million, from an operating income of \$1.0 million in the six months ending October 31, 2017.

RESULTS OF OPERATIONS**SIX MONTHS ENDING OCTOBER 31, 2018 COMPARED TO SIX MONTHS ENDING OCTOBER 31, 2017**

| (dollars in thousands) | Six | | Six | | | | | |
|-----------------------------------|-----------|----------|---------|-----------|-----------|---|-----|---|
| | Months | Percent | Months | Percent | Percent | | | |
| | Ended | of Total | Ended | of Total | Change | | | |
| | October | Revenue | October | Revenue | 2017-2018 | | | |
| | 31, | | 31, | | | | | |
| | 2018 | | 2017 | | | | | |
| Revenue: | | | | | | | | |
| Professional Services | \$ 15,806 | 55 | % | \$ 14,781 | 65 | % | 7 | % |
| Aerospace Products | 12,895 | 45 | % | 8,024 | 35 | % | 61 | % |
| Total revenue | 28,701 | 100 | % | 22,805 | 100 | % | 26 | % |
| Costs and expenses: | | | | | | | | |
| Costs of Professional Services | 9,738 | 34 | % | 9,596 | 42 | % | 1 | % |
| Cost of Aerospace Products | 8,461 | 30 | % | 5,833 | 26 | % | 45 | % |
| Marketing and advertising | 2,035 | 7 | % | 1,810 | 8 | % | 12 | % |
| Employee benefits | 987 | 3 | % | 935 | 4 | % | 6 | % |
| Depreciation and amortization | 783 | 3 | % | 982 | 4 | % | -20 | % |
| General, administrative and other | 3,979 | 14 | % | 2,686 | 12 | % | 48 | % |
| Total costs and expenses | 25,983 | 91 | % | 21,842 | 96 | % | 19 | % |

| | | | | | | | | |
|------------------|---------|---|---|-------|---|---|-----|---|
| Operating income | \$2,718 | 9 | % | \$963 | 4 | % | 182 | % |
|------------------|---------|---|---|-------|---|---|-----|---|

Revenue:

Revenue increased 26% to \$28.7 million in the six months ended October 31, 2018, compared to \$22.8 million in the six months ended October 31, 2017.

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. Revenue from Professional Services increased 7% for the six months to \$15.8 million at October 31, 2018 compared to \$14.8 million at October 31, 2017.

Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 61% for the six months to \$12.9 million at October 31, 2018 compared to \$8.0 million at October 31, 2017. The increase is primarily due to an increase in aircraft modification revenue of \$2.1 million and an increase in avionics revenue of \$2.8 million.

Costs and expenses:

Costs and expenses related to Professional Services and Aerospace Products include the cost of engineering, labor, materials, equipment utilization, control systems, security and occupancy.

Costs and expenses increased 19% in the six months ended October 31, 2018 to \$26.0 million compared to \$21.8 million in the six months ended October 31, 2017. Costs and expenses were 91% of total revenue in the six months ended October 31, 2018, as compared to 96% of total revenue in the six months ended October 31, 2017.

Costs of Professional Services increased 1% in the six months ended October 31, 2018 to \$9.7 million compared to \$9.6 million in the six months ended October 31, 2017. Costs were 34% of total revenue in the six months ended October 31, 2018, as compared to 42% of total revenue in the six months ended October 31, 2017.

Costs of Aerospace Products increased by 45% in the six months ended October 31, 2018 to \$8.5 million compared to \$5.8 million for the six months ended October 31, 2017. Costs were 30% of total revenue in the six months ended October 31, 2018, as compared to 26% of total revenue in the six months ended October 31, 2017.

Marketing and advertising expenses increased by 12% in the six months ended October 31, 2018, to \$2.0 million compared to \$1.8 million in the six months ended October 31, 2017. Expenses were 7% of total revenue in the six months ended October 31, 2018, as compared to 8% of total revenue in the six months ended October 31, 2017. Marketing and advertising expenses include advertising, sales and marketing labor, gaming development costs, and casino and product promotions.

Employee benefits expenses as a percent of total revenue was 3% in the six months ended October 31, 2018, compared to 4% in the six months ended October 31, 2017. These expenses increased 6% to \$987 in the six months ended October 31, 2018, compared to \$935 in the six months ended October 31, 2017. These expenses include the employers' share of all federal, state and local taxes, paid time off for vacation, holidays and illness, employee health and life insurance programs and employer matching contributions to retirement plans.

Depreciation and amortization expenses as a percent of total revenue was 3% in the six months ended October 31, 2018, compared to 4% in the six months ended October 31, 2017. These expenses decreased 20% to \$783 in the six months ended October 31, 2018, from \$982 in the six months ended October 31, 2017. These expenses include depreciation related to owned assets being depreciated over various useful lives and amortization of intangible items including the Kansas privilege fee related to the Boot Hill Casino being expensed over the term of the gaming contract with the State of Kansas. BHCMC, LLC depreciation and amortization expense for the six months ended October 31, 2018 was \$495 compared to \$714 in the six months ended October 31, 2017.

General, administrative and other expenses as a percent of total revenue was 14% in the six months ended October 31, 2018, compared to 12% in the six months ended October 31, 2017. These expenses increased 48% to \$4.0 million in the six months ended October 31, 2018, from \$2.7 million in the six months ended October 31, 2017.

Other income (expense):

Interest expense and other income were \$1.5 million in the six months ended October 31, 2018, compared with interest expense and other income of \$(167) in the six months ended October 31, 2017. Interest related to obligations of BHCMC, LLC was \$(55) in the six months ended October 31, 2018 compared to \$(83) in the six months ended October 31, 2017.

Operations by Segment

We have two operating segments, Professional Services and Aerospace Products. The Professional Services segment includes revenue contributions and expenditures associated with casino management services and professional architectural, engineering and management support services. Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft.

The following table presents a summary of our operating segment information for the six months ended October 31, 2018 and October 31, 2017:

| (dollars in thousands) | Six | | Six | | Percent | Change | 2017-2018 |
|---|----------|----------|----------|----------|---------|--------|-----------|
| | Months | Percent | Months | Percent | | | |
| | Ended | of Total | Ended | of Total | | | |
| | October | Revenue | October | Revenue | | | |
| | 31, | | 31, | | | | |
| | 2018 | | 2017 | | | | |
| Professional Services | | | | | | | |
| Revenue | | | | | | | |
| Boot Hill Casino | \$15,594 | 99 % | \$14,543 | 98 % | 7 % | | % |
| Management/Professional Services | 212 | 1 % | 238 | 2 % | -11 % | | % |
| Revenue | 15,806 | 100 % | 14,781 | 100 % | 7 % | | % |
| Costs of Professional Services | 9,738 | 61 % | 9,596 | 65 % | 1 % | | % |
| Expenses | 5,478 | 35 % | 4,617 | 31 % | 19 % | | % |
| Total costs and expenses | 15,216 | 96 % | 14,213 | 96 % | 7 % | | % |
| Professional Services operating income before noncontrolling interest in BHCMC, LLC | \$590 | 4 % | \$568 | 4 % | 4 % | | % |

| (dollars in thousands) | Six | Percent | Six | Percent | Percent |
|------------------------|--------|----------|--------|----------|---------|
| | Months | of Total | Months | of Total | Change |

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| | Ended | Revenue | Ended | Revenue | 2017-2018 | | | |
|-------------------------------------|----------|---------|---------|---------|-----------|---|-----|---|
| | October | | October | | | | | |
| | 31, | | 31, | | | | | |
| | 2018 | | 2017 | | | | | |
| Aerospace Products | | | | | | | | |
| Revenue | \$12,895 | 100 | % | \$8,024 | 100 | % | 61 | % |
| Costs of Aerospace Products | 8,461 | 66 | % | 5,833 | 73 | % | 45 | % |
| Expenses | 2,306 | 18 | % | 1,796 | 22 | % | 28 | % |
| Total costs and expenses | 10,767 | 84 | % | 7,629 | 95 | % | 41 | % |
| Aerospace Products operating income | \$2,128 | 16 | % | \$395 | 5 | % | 439 | % |

Professional Services

Revenue from Professional Services increased 7% for the six months ended October 31, 2018 to \$15.8 million compared to \$14.8 million for the six months ended October 31, 2017.

In the six months ended October 31, 2018 Boot Hill Casino received gross receipts for the State of Kansas of \$20.5 million compared to \$19.3 million for the six months ended October 31, 2017. Mandated fees, taxes and distributions reduced gross receipts by \$6.7 million resulting in gaming revenue of \$13.8 million for the six months ended October 31, 2018, compared to a reduction to gross receipts of \$6.5 million resulting in gaming revenue of \$12.8 million for the six months ended October 31, 2017. Non-gaming revenue at Boot Hill Casino increased 2% to \$1.8 million for the six months ended October 31, 2018, from \$1.7 million for the six months ended October 31, 2017.

The remaining management and Professional Services revenue includes professional management services in the gaming industry, and licensed architectural services. Professional Services revenue excluding Boot Hill Casino decreased 11% to \$212 for the six months ended October 31, 2018, compared to \$238 for the six months ended October 31, 2017.

Costs of Professional Services increased 1% in the six months ended October 31, 2018 to \$9.7 million compared to \$9.6 million in the six months ended October 31, 2017. Costs were 61% of segment total revenue in the six months ended October 31, 2018, as compared to 65% of segment total revenue in the six months ended October 31, 2017.

Expenses increased 19% in the six months ended October 31, 2018 to \$5.5 million compared to \$4.6 million in the six months ended October 31, 2017. Expenses were 35% of segment total revenue in the six months ended October 31, 2018, as compared to 31% of segment total revenue in the six months ended October 31, 2017.

Aerospace Products

Revenue increased 61% to \$12.9 million in the six months ended October 31, 2018, compared to \$8.0 million in the six months ended October 31, 2017. The increase is primarily due to a increase in aircraft modification revenue of \$2.1 million and an increase in avionics of \$2.8 million. We have invested in the development of several STCs. These STCs are state of the art avionics and we are aggressively marketing both domestically and internationally.

Costs of Aerospace Products increased by 45% in the six months ended October 31, 2018 to \$8.5 million compared to \$5.8 million for the six months ended October 31, 2017. Costs were 66% of segment total revenue in the six months ended October 31, 2018, as compared to 73% of segment total revenue in the six months ended October 31, 2017.

Expenses increased 28% in the six months ended October 31, 2018 to \$2.3 million compared to \$1.8 million in the six months ended October 31, 2017. Expenses were 18% of segment total revenue in the six months ended October 31, 2018, as compared to 22% of segment total revenue in the six months ended October 31, 2017.

SECOND QUARTER FISCAL 2019 COMPARED TO SECOND QUARTER FISCAL 2018

| | Three | | Three | | Percent | Change | | |
|------------------------|---------|----------|---------|----------|-----------|--------|--|--|
| | Months | Percent | Months | Percent | | | | |
| (dollars in thousands) | Ended | of Total | Ended | of Total | Change | | | |
| | October | Revenue | October | Revenue | 2017-2018 | | | |
| | 31, | | 31, | | | | | |
| | 2018 | | 2017 | | | | | |
| Revenue: | | | | | | | | |
| Professional Services | \$7,858 | 51 % | \$7,342 | 66 % | 7 % | | | |
| Aerospace Products | 7,439 | 49 % | 3,814 | 34 % | 95 % | | | |
| Total revenue | 15,297 | 100 % | 11,156 | 100 % | 37 % | | | |

Costs and expenses:

| | | | | | | | | |
|-----------------------------------|---------|----|---|--------|----|---|-----|---|
| Costs of Professional Services | 4,926 | 32 | % | 4,763 | 43 | % | 3 | % |
| Cost of Aerospace Products | 4,331 | 28 | % | 2,800 | 25 | % | 55 | % |
| Marketing and advertising | 1,060 | 7 | % | 956 | 9 | % | 11 | % |
| Employee benefits | 481 | 3 | % | 459 | 4 | % | 5 | % |
| Depreciation and amortization | 395 | 3 | % | 500 | 4 | % | -21 | % |
| General, administrative and other | 2,286 | 15 | % | 1,361 | 12 | % | 68 | % |
| Total costs and expenses | 13,479 | 88 | % | 10,839 | 97 | % | 24 | % |
| Operating income | \$1,818 | 12 | % | 317 | 3 | % | 474 | % |

Revenue:

Revenue increased 37% to \$15.3 million in the three months ended October 31, 2018, compared to \$11.2 million in the three months ended October 31, 2017.

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. Revenue from Professional Services increased 7% for the three months to \$7.9 million at October 31, 2018 compared to \$7.3 million at October 31, 2017.

Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 95% for the three months to \$7.4 million at October 31, 2018 compared to \$3.8 million at October 31, 2017. The increase is primarily due to an increase in aircraft modification revenue of \$1.3 million and an increase in avionics revenue of \$2.3 million.

Costs and expenses:

Costs and expenses related to Professional Services and Aerospace Products include the cost of engineering, labor, materials, equipment utilization, control systems, security and occupancy.

Costs and expenses increased 24% in the three months ended October 31, 2018 to \$13.5 million compared to \$10.8 million in the three months ended October 31, 2017. Costs and expenses were 88% of total revenue in the three months ended October 31, 2018, as compared to 97% of total revenue in the three months ended October 31, 2017.

Costs of Professional Services increased by 3% in the three months ended October 31, 2018 to \$4.9 million compared to \$4.8 million in the three months ended October 31, 2017. Costs were 32% of total revenue in the three months ended October 31, 2018, as compared to 43% of total revenue in the three months ended October 31, 2017.

Costs of Aerospace Products increased by 55% in the three months ended October 31, 2018 to \$4.3 million compared to \$2.8 million for the three months ended October 31, 2017. Costs were 28% of total revenue in the three months ended October 31, 2018, as compared to 25% of total revenue in the three months ended October 31, 2017.

Marketing and advertising expenses increased by 11% in the three months ended October 31, 2018, to \$1.1 million compared to \$1.0 million in the three months ended October 31, 2017. Expenses were 7% of total revenue in the three months ended October 31, 2018, as compared to 9% of total revenue in the three months ended October 31, 2017. Marketing and advertising expenses include advertising, sales and marketing labor, gaming development costs, and casino and product promotions.

Employee benefits expenses as a percent of total revenue was 3% in the three months ended October 31, 2018, compared to 4% in the three months ended October 31, 2017. These expenses increased 5% to \$481 in the three months ended October 31, 2018, from \$459 in the three months ended October 31, 2017. These expenses include the employers' share of all federal, state and local taxes, paid time off for vacation, holidays and illness, employee health and life insurance programs and employer matching contributions to retirement plans.

Depreciation and amortization expenses as a percent of total revenue was 3% in the three months ended October 31, 2018, compared to 4% in the three months ended October 31, 2017. These expenses decreased 21% to \$395 in the three months ended October 31, 2018, from \$500 in the three months ended October 31, 2017. These expenses include depreciation related to owned assets being depreciated over various useful lives and amortization of intangible items including the Kansas privilege fee related to the Boot Hill Casino being expensed over the term of the gaming contract

with the State of Kansas. BHCMC, LLC depreciation and amortization expense for the three months ended October 31, 2018 was \$250 compared to \$364 in the three months ended October 31, 2017.

General, administrative and other expenses as a percent of total revenue was 15% in the three months ended October 31, 2018, compared to 12% in the three months ended October 31, 2017. These expenses increased 68% to \$2.3 million in the three months ended October 31, 2018, from \$1.4 million in the three months ended October 31, 2017.

Other income (expense):

Interest Expense and other income were \$1.3 million in the three months ended October 31, 2018, compared with interest expense and other income of \$(81) in the three months ended October 31, 2017. Interest related to obligations of BHCMC, LLC was \$26 in the three months ended October 31, 2018 compared to \$40 in the three months ended October 31, 2017.

Operations by Segment

We have two operating segments, Professional Services and Aerospace Products. The Professional Services segment includes revenue contributions and expenditures associated with casino management services and professional architectural, engineering and management support services. Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft.

The following table presents a summary of our operating segment information for the three months ended October 31, 2018 and October 31, 2017:

| (dollars in thousands) | Three | Percent | Three | Percent | Percent Change 2017-2018 |
|---|------------------------|---------|------------------------|---------|--------------------------------|
| | Months | of | Months | of | |
| | Ended | Total | Ended | Total | |
| | October 31, 2018 | Revenue | October 31, 2017 | Revenue | |
| Professional Services | | | | | |
| Revenue | | | | | |
| Boot Hill Casino | \$ 7,750 | 99 % | \$ 7,231 | 98 % | 7 % |
| Management/Professional Services | 108 | 1 % | 111 | 2 % | -3 % |
| Revenue | 7,858 | 100 % | 7,342 | 100 % | 7 % |
| Costs of Professional Services | 4,926 | 63 % | 4,763 | 65 % | 3 % |
| Expenses | 2,886 | 36 % | 2,365 | 32 % | 22 % |
| Total costs and expenses | 7,812 | 99 % | 7,128 | 97 % | 10 % |
| Professional Services operating income before noncontrolling interest in BHCMC, LLC | \$ 46 | 1 % | \$ 214 | 3 % | -79 % |

| (dollars in thousands) | Three | Percent | Three | Percent | Percent |
|------------------------|---------|----------|---------|----------|-----------|
| | Months | of Total | Months | of Total | Change |
| | Ended | Revenue | Ended | Revenue | 2017-2018 |
| | October | | October | | |
| | 31, | | 31, | | |

| | 2018 | | 2017 | | | | | |
|-------------------------------------|----------|-----|------|----------|-----|---|------|---|
| Aerospace Products | | | | | | | | |
| Revenue | \$ 7,439 | 100 | % | \$ 3,814 | 100 | % | 95 | % |
| Costs of Aerospace Products | 4,331 | 58 | % | 2,800 | 73 | % | 55 | % |
| Expenses | 1,336 | 18 | % | 911 | 24 | % | 47 | % |
| Total costs and expenses | 5,667 | 76 | % | 3,711 | 97 | % | 53 | % |
| Aerospace Products operating income | \$ 1,772 | 24 | % | \$ 103 | 3 | % | 1620 | % |

Professional Services

Revenue from Professional Services increased 7% for the three months ended October 31, 2018 to \$7.9 million compared to \$7.3 million for the three months ended October 31, 2017.

In the three months ended October 31, 2018 Boot Hill Casino received gross receipts for the State of Kansas of \$10.1 million compared to \$9.6 million for the three months ended October 31, 2017. Mandated fees, taxes and distributions reduced gross receipts by \$3.3 million resulting in gaming revenue of \$6.8 million for the three months ended October 31, 2018, compared to a reduction to gross receipts of \$3.2 million resulting in gaming revenue of \$6.4 million for the three months ended October 31, 2017. Non-gaming revenue at Boot Hill Casino increased to \$900 for the three months ended October 31, 2018, compared to \$871 for the three months ended October 31, 2017.

The remaining management and Professional Services revenue includes professional management services in the gaming industry, and licensed architectural services. Professional Services revenue excluding Boot Hill Casino decreased 3% to \$108 for the three months ended October 31, 2018, compared to \$111 for the three months ended October 31, 2017.

Costs of Professional Services increased 3% in the three months ended October 31, 2018 to \$4.9 million compared to \$4.8 million in the three months ended October 31, 2017. Costs were 63% of segment total revenue in the three months ended October 31, 2018, as compared to 65% of segment total revenue in the three months ended October 31, 2017.

Expenses increased 22% in the three months ended October 31, 2018 to \$2.9 million compared to \$2.4 million in the three months ended October 31, 2017. Expenses were 36% of segment total revenue in the three months ended October 31, 2018, as compared to 32% of segment total revenue in the three months ended October 31, 2017.

Aerospace Products

Revenue increased 95% to \$7.4 million in the three months ended October 31, 2018, compared to \$3.8 million in the three months ended October 31, 2017. The increase is primarily due to an increase in aircraft modification revenue of \$1.3 million and an increase in avionics revenue of \$2.3 million. We have invested in the development of several STCs. These STCs are state of the art avionics and we are aggressively marketing both domestically and internationally.

Costs of Aerospace Products increased by 55% in the three months ended October 31, 2018 to \$4.3 million compared to \$2.8 million for the three months ended October 31, 2017. Costs were 58% of segment total revenue in the three months ended October 31, 2018, as compared to 73% of segment total revenue in the three months ended October 31, 2017.

Expenses increased 47% in the three months ended October 31, 2018 to \$1.3 million compared to \$911 in the three months ended October 31, 2017. Expenses were 18% of segment total revenue in the three months ended October 31, 2018, as compared to 24% of segment total revenue in the three months ended October 31, 2017.

Employees

Other than persons employed by our gaming subsidiaries there were 96 full time and 3 part time employees on October 31, 2018, compared to 88 full time and 3 part time employees on October 31, 2017. As of December 7, 2018, staffing is 99 full time and 3 part time employees. Our staffing at Boot Hill Casino & Resort on October 31, 2018 was 194 full time and 63 part time employees compared to 168 full time and 82 part time employees on October 31, 2017. At December 7, 2018 there were 185 full time and 66 part time employees. None of the employees are subject to any collective bargaining agreements.

Liquidity and Capital Resources

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 fiscal 2019 and beyond.

The ownership structure of BHCMC, LLC is now:

| Membership Interest | Members of Board of Managers | Equity Ownership | Income (Loss) Sharing |
|---------------------|---------------------------------------|---------------------|-----------------------------|
| Class A | 3 | 20% | 40% |
| Class B | 4 | 80% | 60% |

Our wholly owned subsidiary, Butler National Service Corporation continues friendly discussions with the other member of BHCMC, LLC to explore the possible acquisition by Butler National Service Corporation of the other member's 20% equity interest in BHCMC, LLC. If and when a definitive agreement is reached, such definitive agreement and a press release concerning the acquisition will be issued to describe the terms of the agreement and the intentions of the members. We have not set a definitive timetable for our discussions and there can be no assurances that the process will result in any transaction being announced or completed. At present there is no disagreement between the members of BHCMC, LLC. We do not plan to disclose or comment on developments until further disclosure is deemed appropriate.

BHCMC, LLC, rents the casino building under the terms of a 25 year lease from BHC Development L.C. ("BHCD"). Butler National Service Corporation continues friendly discussions with BHC Development L.C. to explore the possible acquisition by Butler National Service Corporation of the casino building and related land. If and when a definitive agreement is reached, such definitive agreement and press release concerning the acquisition will be issued to describe the terms of the agreement and the intentions of the members. Butler National Corporation, its management, and its subsidiaries have no ownership interest in BHCI or BHCD.

Analysis and Discussion of Cash Flow

During the six months ended October 31, 2018 our cash position increased by \$1.6 million. Net income was \$3.4 million for the six months ended October 31, 2018. Cash flows provided by operating activities was \$5.0 million for the six months ended October 31, 2018. For the six months ended October 31, 2018, non-cash activities consisting of depreciation and amortization provided \$1.5 million. Customer deposits increased our cash position by \$1.0 million while inventories decreased our cash position by \$441. Accounts receivable decreased our cash position by \$1.2 million. A decrease in income tax receivable increased our cash position by \$219. Gaming facility mandated payments increased our cash position by \$16. Prepaid expenses and other assets decreased our cash by \$281. A decrease in accounts payable and an increase in accrued expenses and other current liabilities increased our cash by an additional \$714.

Cash used in investing activities was \$329 for the six months ended October 31, 2018. We invested \$36 in building additions, \$56 to purchase equipment, \$196 in furniture and fixtures and \$41 to develop and enhance STCs.

Cash used in financing activities was \$3.0 million for the six months ended October 31, 2018. We made repayments on our debt of \$809 and decreased promissory notes by \$1.7million. We made a distribution to our non-controlling member of \$360, and purchased company common stock of \$150 and placed such stock in treasury.

Critical Accounting Policies and Estimates:

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amount of revenue and other significant areas involving management judgments and estimates. These significant accounting policies relate to revenue recognition, the use of estimates, long-lived assets, and Supplemental Type Certificates. These policies and our procedures related to these policies are described in detail below and under specific areas within this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Revenue Recognition: See footnote 3 to the consolidated financial statements.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets

and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our financial statements.

Significant estimates include assumptions about collection of accounts receivable, inventory obsolescence, the valuation of long-lived assets, including the STC's, valuation for deferred tax assets and useful life of fixed and other long-term assets.

Long-lived Assets: The Company accounts for its long-lived assets in accordance with ASC Topic 360-10, "Accounting for the Impairment or Disposal of Long-Lived Assets." ASC Topic 360-10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value.

Supplemental Type Certificates: Supplemental Type Certificates (STCs) are authorizations granted by the Federal Aviation Administration (FAA) for specific modification of a certain aircraft. The STC authorizes us to perform modifications, installations, and assemblies on applicable customer-owned aircraft. Costs incurred to obtain STCs are capitalized and subsequently amortized over a seven year life. The legal life of an STC is indefinite.

Changing Prices and Inflation

We have experienced upward pressure from inflation in fiscal year 2019. From fiscal year 2018 to fiscal year 2019 a majority of the increases we experienced were in material costs. This additional cost may not be transferable to our customers resulting in lower income in the future. We anticipate fuel costs and possibly interest rates to rise in fiscal 2019 and 2020.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting Company as defined by Rule 12b-2 under the Securities Exchange Act of 1934, and are not required to provide the information required under this item.

Item 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Our principal executive and financial officers have evaluated our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q and have determined that such disclosure controls and procedures are effective, based on criteria in the Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Evaluation of disclosure controls and procedures: Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Form 10-Q, our Chief Executive Officer and our Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2018. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of October 31, 2018.

Internal Control Over Financial Reporting

Limitations on Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control Over Financial Reporting: In our opinion there were no changes in the Company's internal control over financial reporting during the three months ended October 31, 2018 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. LEGAL PROCEEDINGS.**

As of October 31, 2018, there are no significant known legal proceedings pending against us. We consider all such unknown proceedings, if any, to be ordinary litigation incident to the character of the business. We believe that the resolution of any claims will not, individually or in the aggregate, have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

Item 1A. RISK FACTORS.

There are no material changes to the risk factors disclosed under Item 1A of our Form 10-K for the fiscal year ended April 30, 2018.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The table below provides information with respect to common stock purchases by the Company during the second fiscal quarter of 2019.

| <u>Period</u> | <u>Total Number of Shares Purchased (a)</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (b)</u> |
|--|---|-------------------------------------|---|---|
| August 1, 2018 - August 31, 2018 | - | \$ - | - | \$ 525,000 |
| September 1, 2018 - September 30, 2018 | 102,733 | \$ 0.30 | 102,733 | \$ 496,000 |
| October 1, 2018 - October 31, 2018 | 378,122 | \$ 0.30 | 378,122 | \$ 381,000 |
| Total | 480,855 | \$ 0.30 | 480,855 | |

(a) All of the 480,855 shares of common stock purchased were purchased through private transactions

(b) Our Board of Directors authorized the repurchase of shares of Butler National common stock in the open market or otherwise, at an aggregate purchase price of \$750,000. The timing and amount of any share repurchases will be determined by Butler National's management based on market conditions and other factors. The program is currently authorized through May 1, 2019.

Item 3.

DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4.

MINE SAFETY DISCLOSURES.

Not applicable.

Item 5.

OTHER INFORMATION.

Based upon the Company's discussions with shareholders related to the 2016 Equity Incentive Plan, the Compensation Committee of the board sought input from the Committee's independent compensation consultant on compensation practices, including the use of the 2016 Equity Incentive Plan. Consequently, the Company believes the Committee will issue significant awards to eligible employees in early calendar 2019 from the 2016 Equity Incentive Plan. The Company intends to announce the issuance of such awards pursuant to a Current Report on Form 8-K at the appropriate time.

Item 6.

EXHIBITS.

- 3.1 Articles of Incorporation, as amended and restated are incorporated by reference to Exhibit 3.1 of our Form DEF 14A filed on December 26, 2001.
- 3.2 Bylaws, as amended, are incorporated by reference to Exhibit 3.2 of our Form 10-Q filed on March 14, 2013.
- 4.1 Rights Agreement, dated August 2, 2011, by and between Butler National Corporation and UMB Bank, N.A., as Rights Agent, which includes the form of Certificate of Designations, setting forth the terms of the Series C Participating Preferred Stock, par value \$5.00 per share, as Exhibit A, the form of Right Certificate as Exhibit B and the summary of the rights as Exhibit C.
- 31.1 Certificate of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).
- 31.2 Certificate of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a).
- 32.1 Certifications of Chief Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of

the Sarbanes-Oxley Act of 2002.

32.2 Certifications of Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Investor Presentation for the 2018 Annual Meeting of Shareholders of Butler National Corporation, which is incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K dated October 11, 2018.

101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2018, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Condensed Consolidated Balance Sheets as of October 31, 2018 and April 30, 2018, (ii) Condensed Consolidated Statements of Operations for the three months ended October 31, 2018 and 2017 and six months ended October 31, 2018 and 2017, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended October 31, 2018 and 2017, and (iv) the Notes to Consolidated Financial Statements, with detail tagging.

SIGNATURES

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

BUTLER NATIONAL CORPORATION
(Registrant)

December 14, 2018 /s/ Clark D. Stewart
Date Clark D. Stewart
(President and Chief Executive Officer)

December 14, 2018 /s/ Tad M. McMahon
Date Tad M. McMahon
(Chief Financial Officer)

Exhibit Index

| Exhibit Number | Description of Exhibit |
|-------------------|--|
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