

BUTLER NATIONAL CORP  
Form 10-Q  
December 14, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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FORM 10-Q  
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THE QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2011

OR 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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

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 2, 2011 was 57,194,262 shares.

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

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BUTLER NATIONAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited)

|  | October 31,<br>2011 | April 30,<br>2011 |
|--|---------------------|-------------------|
| <b>ASSETS</b>  |                     |                   |
| <b>CURRENT ASSETS:</b>   |                     |                   |
| Cash   | \$7,435,089         | \$8,475,525       |
| Accounts receivable (net of allowance for doubtful accounts of \$73,886 at October 31, 2011 and \$146,502 at April 30, 2011) | 2,179,251           | 2,127,865         |
| Inventories (net of obsolete of \$1,075,437 at October 31, 2011 and \$1,792,681 at April 30, 2011)                           |                     |                   |
| Raw materials  | 5,685,656           | 5,202,476         |
| Work in process  | 930,097             | 1,088,235         |
| Finished goods   | 718,291             | 723,972           |
| Total Inventory  | 7,334,044           | 7,014,683         |
| Prepaid expenses and other current assets  | 1,340,808           | 964,117           |
| Total current assets   | 18,289,192          | 18,582,190        |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>  |                     |                   |
| Land and building  | 3,976,853           | 3,142,486         |
| Aircraft   | 6,131,859           | 5,951,859         |
| Machinery and equipment  | 3,687,588           | 3,497,763         |
| Office furniture and fixtures  | 1,031,132           | 1,024,612         |
| Leasehold improvements   | 31,389              | 31,389            |
|  | 14,858,821          | 13,648,109        |
| Accumulated depreciation   | (5,646,934 )        | (4,769,307 )      |
|  | 9,211,887           | 8,878,802         |
| SUPPLEMENTAL TYPE CERTIFICATES (net of amortization of \$2,507,769 at October 31, 2011 and \$2,464,183 at April 30, 2011)    | 1,652,616           | 1,696,202         |
| <b>OTHER ASSETS:</b>   |                     |                   |
| Deferred tax asset   | 1,226,000           | 1,226,000         |
| Other assets (net of accumulated amortization of \$351,382 at October 31, 2011 and \$292,465 at April 30, 2011)              | 1,715,583           | 1,774,500         |
| Total other assets   | 2,941,583           | 3,000,500         |
| Total Assets   | \$32,095,278        | \$32,157,694      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                     |                   |
| <b>CURRENT LIABILITIES:</b>  |                     |                   |
| Line of Credit   | \$207,246           | \$91,799          |
| Current maturities of long-term debt and capital lease obligations   | 1,554,815           | 1,807,490         |
| Accounts payable   | 2,352,492           | 2,093,992         |
| Customer deposits  | 670,275             | 1,091,043         |
| Gaming facility mandated payment   | 1,362,059           | 2,028,015         |
| Compensation and compensated absences  | 964,531             | 1,605,283         |

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|   |              |              |
|---|--------------|--------------|
| Accrued income tax  | 4,878        | 252,623      |
| Other   | 264,892      | 221,584      |
| Total current liabilities   | 7,381,188    | 9,191,829    |
| <b>LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, NET OF CURRENT MATURITIES:</b>   |              |              |
|   | 4,946,325    | 4,940,402    |
| Total liabilities   | 12,327,513   | 14,132,231   |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |              |              |
| <b>STOCKHOLDERS' EQUITY:</b>  |              |              |
| Preferred stock, par value \$5:   |              |              |
| Authorized 50,000,000 shares, all classes   |              |              |
| Designated Classes A and B 200,000 shares   |              |              |
| \$1,000 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 and outstanding                                     |              |              |
| 57,194,262 shares at October 31, 2011 and April 30, 2011  | 571,943      | 571,943      |
| Common stock, owed but not issued 278,573 shares at October 31, 2011 and at April 30, 2011                              |              |              |
|   | 2,786        | 2,786        |
| Capital contributed in excess of par  | 12,167,812   | 11,911,838   |
| Treasury stock at cost, 600,000 shares  | (732,000 )   | (732,000 )   |
| Minority Interest - BHCMC, LLC  | 919,536      | (396 )       |
| Retained earnings   | 6,837,688    | 6,271,292    |
| Total stockholders' equity  | 19,767,765   | 18,025,463   |
| Total Liabilities and Stockholders' Equity  | \$32,095,278 | \$32,157,694 |

The accompanying notes are an integral part of these financial statements

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BUTLER NATIONAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

|   | THREE MONTHS<br>ENDED<br>October 31, |                  |
|---|--------------------------------------|------------------|
|   | 2011                                 | 2010             |
| <b>REVENUE</b>  |                                      |                  |
| Aircraft / Modifications  | \$4,000,719                          | \$3,836,278      |
| Avionics / Defense  | 1,001,513                            | 942,788          |
| Management / Professional Services                                | 1,054,849                            | 1,050,840        |
| Gaming facility   | 8,083,789                            | 5,186,531        |
| Net Revenue   | 14,140,870                           | 11,016,437       |
| <b>COST OF SALES</b>  |                                      |                  |
| Aircraft / Modifications  | 1,804,869                            | 2,303,985        |
| Avionics / Defense  | 771,886                              | 702,134          |
| Management / Professional Services                                | 288,656                              | 298,621          |
| Gaming facility   | 1,972,956                            | 1,566,447        |
| Total Cost of Sales   | 4,838,367                            | 4,871,187        |
| <b>GROSS PROFIT</b>   | <b>9,302,503</b>                     | <b>6,145,250</b> |
| <b>OPERATING EXPENSES MARKETING, GENERAL &amp; ADMINISTRATIVE</b> | <b>7,924,098</b>                     | <b>5,364,813</b> |
| <b>OPERATING INCOME (LOSS)</b>                                    | <b>1,378,405</b>                     | <b>780,437</b>   |
| <b>OTHER INCOME (EXPENSE)</b>                                     |                                      |                  |
| Interest expense  | (92,675 )                            | (90,681 )        |
| Other   | 388                                  | 2,103            |
| Other income (expense)  | (92,287 )                            | (88,578 )        |
| <b>INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES</b>            | <b>1,286,118</b>                     | <b>691,859</b>   |
| <b>PROVISION FOR (BENEFIT FROM) INCOME TAXES</b>                  | <b>305,850</b>                       | <b>220,120</b>   |
| <b>NET INCOME (LOSS) BEFORE MINORITY INTEREST</b>                 | <b>980,268</b>                       | <b>471,739</b>   |
| <b>MINORITY INTEREST - BHCMC, LLC</b>                             | <b>(522,226 )</b>                    | <b>941</b>       |
| <b>NET INCOME (LOSS)</b>  | <b>\$458,042</b>                     | <b>\$472,680</b> |
| <b>BASIC EARNINGS PER COMMON SHARE</b>                            | <b>\$.01</b>                         | <b>\$.01</b>     |
| Shares used in per share calculation                              | 56,594,262                           | 56,156,448       |
| <b>DILUTED EARNINGS PER COMMON SHARE</b>                          | <b>\$.01</b>                         | <b>\$.01</b>     |
| Shares used in per share calculation                              | 56,594,262                           | 56,266,608       |

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



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BUTLER NATIONAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

|   | SIX MONTHS ENDED<br>October 31, |                   |
|---|---------------------------------|-------------------|
|   | 2011                            | 2010              |
| <b>REVENUE</b>  |                                 |                   |
| Aircraft / Modifications  | \$6,907,769                     | \$6,003,000       |
| Avionics / Defense  | 1,642,439                       | 1,928,093         |
| Management / Professional Services                                | 2,181,409                       | 2,200,265         |
| Gaming facility   | 15,555,443                      | 10,431,437        |
| Net Revenue   | 26,287,060                      | 20,562,795        |
| <b>COST OF SALES</b>  |                                 |                   |
| Aircraft / Modifications  | 4,076,638                       | 4,275,992         |
| Avionics / Defense  | 1,436,864                       | 1,085,345         |
| Management / Professional Services                                | 599,328                         | 653,244           |
| Gaming facility   | 4,026,569                       | 3,150,368         |
| Total Cost of Sales   | 10,139,399                      | 9,164,949         |
| <b>GROSS PROFIT</b>   | <b>16,147,661</b>               | <b>11,397,846</b> |
| <b>OPERATING EXPENSES MARKETING, GENERAL &amp; ADMINISTRATIVE</b> | <b>14,094,787</b>               | <b>10,681,227</b> |
| <b>OPERATING INCOME (LOSS)</b>                                    | <b>2,052,874</b>                | <b>716,619</b>    |
| <b>OTHER INCOME (EXPENSE)</b>                                     |                                 |                   |
| Interest expense  | (181,089 )                      | (182,010 )        |
| Other   | 2,799                           | (36,502 )         |
| Other income (expense)  | (178,290 )                      | (218,512 )        |
| <b>INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES</b>            | <b>1,874,584</b>                | <b>498,107</b>    |
| <b>PROVISION FOR (BENEFIT FROM) INCOME TAXES</b>                  | <b>388,256</b>                  | <b>138,070</b>    |
| <b>NET INCOME (LOSS) BEFORE MINORITY INTEREST</b>                 | <b>1,486,328</b>                | <b>360,037</b>    |
| <b>MINORITY INTEREST - BHCMC, LLC</b>                             | <b>(919,932 )</b>               | <b>2,101</b>      |
| <b>NET INCOME (LOSS)</b>  | <b>\$566,396</b>                | <b>\$362,138</b>  |
| <b>BASIC EARNINGS PER COMMON SHARE</b>                            | <b>\$.01</b>                    | <b>\$.01</b>      |
| Shares used in per share calculation                              | 56,594,262                      | 56,059,573        |
| <b>DILUTED EARNINGS PER COMMON SHARE</b>                          | <b>\$.01</b>                    | <b>\$.01</b>      |
| Shares used in per share calculation                              | 56,594,262                      | 56,169,733        |



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BUTLER NATIONAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

|  | SIX MONTHS ENDED<br>October 31, |                    |
|--|---------------------------------|--------------------|
|  | 2011                            | 2010               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                  |                                 |                    |
| Net income (loss)  | \$1,486,328                     | \$360,037          |
| Adjustments to reconcile cash flows from operating activities                |                                 |                    |
| Depreciation and amortization  | 936,544                         | 601,181            |
| Amortization (Supplemental Type Certificates)                                | 43,586                          | 56,192             |
| Stock options issued to employees and directors                              | 250,974                         | -                  |
| Loss on sale of fixed asset  | -                               | 43,450             |
| Changes in assets and liabilities  |                                 |                    |
| Accounts receivable  | (51,386 )                       | 207,088            |
| Inventories  | (319,361 )                      | (669,162 )         |
| Prepaid expenses and other current assets                                    | (376,691 )                      | (733,410 )         |
| Stock issue  | -                               | 77,500             |
| Accounts payable   | 258,500                         | 289,512            |
| Customer deposits  | (420,768 )                      | (98,094 )          |
| Deposits other   | -                               | (1,700,000)        |
| Accrued liabilities  | (888,497 )                      | (818,294 )         |
| Gaming facility mandated payment   | (665,956 )                      | 1,198,906          |
| Other liabilities  | 43,308                          | 26,365             |
| Cash flows from operating activities   | 296,581                         | (1,158,729)        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                  |                                 |                    |
| Capital expenditures   | (1,210,712)                     | (1,297,006)        |
| Proceeds from sale of land/other assets                                      | -                               | 39,000             |
| Cash flows from investing activities   | (1,210,712)                     | (1,258,006)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                  |                                 |                    |
| Borrowings under line of credit, net   | 115,447                         | 46,385             |
| Contributed capital  | 5,000                           | -                  |
| Borrowings of promissory notes, long-term debt and capital lease obligations | 727,745                         | 1,211,659          |
| Repayments of promissory notes, long-term debt and capital lease obligations | (974,497 )                      | (861,400 )         |
| Cash flows from financing activities   | (126,305 )                      | 396,644            |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                       | <b>(1,040,436)</b>              | <b>(2,020,091)</b> |
| CASH, beginning of period  | 8,475,525                       | 8,706,546          |
| CASH, end of period  | \$7,435,089                     | \$6,686,455        |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                     |                                 |                    |
| Interest paid  | \$181,262                       | \$180,690          |
| Income taxes paid  | \$634,050                       | \$895,720          |
| <b>NON CASH OPERATING ACTIVITY</b>   |                                 |                    |

|                              |           |     |
|------------------------------|-----------|-----|
| Non cash options to employee | \$250,974 | \$- |
|------------------------------|-----------|-----|

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

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BUTLER NATIONAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q 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 dated April 30, 2011. 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, 2011 are not indicative of the results of operations that may be expected for the year ended April 30, 2012.

Certain reclassifications within the condensed financial statement captions have been made to maintain consistency in presentation between years.

2. Net Income (Loss) Per Share: The Company adopted ASC 260 (Formerly Statement of Financial Accounting Standards No. 128) that requires the reporting of both basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) 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 (loss) per share are excluded.

3. Research and Development: We invested in research and development activities. The amount invested in the six months ended October 31, 2011 and 2010 was approximately \$779,000 and \$818,000 respectively.

4. Borrowings: At October 31, 2011, the Company had one line of credit totaling \$1,000,000. The unused line at October 31, 2011 was \$792,754. During the current year these funds were primarily used for the purchase of inventory for the modifications and avionics operations.

At October 31, 2011, there were several notes collateralized by aircraft security agreements totaling \$2,031,054. These notes were used for the purchase and modifications of these collateralized aircraft.

There are three notes at a bank totaling \$2,073,133 for real estate located in Olathe, Kansas and Tempe, Arizona. The due date for these notes is in March 2013, and August 2016.

One note with a balance of \$573,377 is collateralized by the first and second position on all assets of the company. There are several other notes collateralized by automobiles and equipment totaling an additional \$242,372.

We have debt obligations of \$1,581,204 as a result of our business development and acquisition activities.

5. Stock Options: Approximately 7.2 million stock options were issued on December 31, 2010. Previously issued stock options were time-vesting and did not include share price performance targets. All of the newly issued stock options expire December 31, 2015.

The exercise price for the incentive stock options is \$0.49 (closing price as of December 31, 2010). The Board of Directors approved the issuance of incentive stock options on December 31, 2010 with the goals of increasing shareholder value, expanding the number of managers participating in the program, and increasing the percentage of compensation tied to share price performance.

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The incentive stock options are allocated in three groups with two conditions for vesting. The first condition is stock price and the second condition is time:

|                       |   |
|-----------------------|---|
| Year 1: Target \$0.92 |   |
| §                     | 2,420,688 options that can be exercised after December 31, 2011 once the share price reaches \$0.92 |
| Year 2: Target \$1.41 |   |
| §                     | 2,420,688 options that can be exercised after December 31, 2012 once the share price reaches \$1.41 |
| Year 3: Target \$1.90 |   |
| §                     | 2,420,688 options that can be exercised after December 31, 2013 once the share price reaches \$1.90 |

At October 31, 2011 we had 7,262,064 outstanding stock options with an average exercise price of \$1.42.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS REFERENCE TO EXHIBIT 99 OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K

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 discussed in the Cautionary Statements and Risk Factors, filed as Exhibit 99 and Item 1A. Risk Factors to the Company's Annual Report on Form 10-K for the year ended April 30, 2011 are incorporated herein by reference. 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.

### RESULTS OF OPERATIONS

#### YEAR TO DATE OCTOBER 31, 2011 COMPARED TO YEAR TO DATE OCTOBER 31, 2010

Our revenue for the six months ended October 31, 2011 was \$26,287,060, an increase of 27.8% from the six months ended October 31, 2010 with revenue of \$20,562,795. Our operating profit for the six months ended October 31, 2011 was \$2,052,874, compared to a profit of \$716,619 for the six months ended October 31, 2010 an increase of 186.5%.

Discussion of the specific changes by operation at each business segment follows (the results of operations are based on pre-corporate allocations):

Aircraft Modifications: Revenue from Aircraft Modifications segment for the six months ended October 31, 2011, was \$6,907,769, an increase of 15% from the six months ended October 31, 2010 with revenue of \$6,003,000.

The modifications segment had an operating profit of \$2,127,366 in the six months ended October 31, 2011, and an operating profit of \$1,188,308 in the six months ended October 31, 2010.

During the past few years we have seen a significant increase in aircraft camera modifications. As the economy grows aircraft owners may elect to update, modify, and purchase business aircraft. A shift to business aircraft ownership positively impacts our aircraft modification revenue. Although we cannot anticipate the future we must always consider the negative impact of items such as the September 11, 2001 event, increases in fuel prices, and general economic downturns.



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Avionics: Revenue from Avionics segment for the six months ended October 31, 2011, was \$1,642,439 a decrease of 15% from the six months ended October 31, 2010 with revenue of \$1,928,093. The avionics segment had an operating loss of \$500,120 in the six months ended October 31, 2011, and an operating profit of \$460,652 for the six months ended October 31, 2010. Many economic and political uncertainties can impact the avionics products line.

Services - SCADA Systems and Monitoring Services: Revenue in the Monitoring Services Segment for the six months ended October 31, 2011, was \$759,554, a decrease of 6% from the six months ended October 31, 2010 with revenue of \$807,890. The monitoring services segment had an operating profit of \$80,187 in the six months ended October 31, 2011, and an operating profit of \$130,601 for the six months ended October 31, 2010, a decrease of 38.6%. We maintain a relatively level volume of long-term contracts with municipalities. Our contracts with our two largest customers have been renewed through fiscal year 2012. Revenues have fluctuated over the past years due to lift station rehabilitations.

Corporate / Professional Services: Services in this segment include the architectural services activities related to gaming and other real estate development, administrative management services, and engineering consulting services.

Revenue from projects related to architectural services for the six months ended October 31, 2011, was \$218,263, a decrease of 33.6% from the six months ended October 31, 2010 with revenue of \$328,938. The architectural services had an operating loss of \$80,770 in the six months ended October 31, 2011, and an operating loss of \$78,339 for the six months ended October 31, 2010.

Revenue related to on site contract management of gaming establishments and real estate development, for the six months ended October 31, 2011 was \$1,203,592 compared to \$1,063,438 for the six months ended October 31, 2010, an increase of 13%. The management services related to gaming had an operating loss of \$655,948 in the six months ended October 31, 2011, and an operating profit of \$513,660 for the six months ended October 31, 2010.

Revenue from Boot Hill Casino and Resort for the six months ended October 31, 2011 was \$23,124,301 compared to \$19,966,161 in the six months ended October 31, 2010 an increase of 15.8%. Mandated fees, taxes and distributions reduced gross revenue by \$7,568,858 leaving net revenue to BHCMC, LLC, of \$15,555,443 for the six months ended October 31, 2011 compared to \$10,431,437 for the six months ended October 31, 2010. Net income before taxes and minority interest was \$2,299,829 in the six months ended October 31, 2011 compared to a loss of \$527,661 in the six months ended October 31, 2010.

Selling, General and Administrative ("SG&A"): Expenses were \$14,094,787, or 53.6% of revenue, for the six months ended October 31, 2011 compared to \$10,681,227 or 51.9% of revenue for the six months ended October 31, 2010. Of these costs, \$9,229,044 was directly related to the Gaming Facility in the six months ended October 31, 2011 and \$7,808,730 for the six months ended October 31, 2010.

As we grow, we anticipate that overhead expenses may increase. We continue to monitor and evaluate our overhead expenses in order to efficiently manage our operations.

Other Income (Expense): Interest expenses for the six months ended October 31, 2011, was \$181,089 a decrease of 0.5% from the six months ended October 31, 2010 with interest expense of \$182,010.

Earnings: Our operating profit for the six months ended October 31, 2011 was \$2,052,874, compared to a profit of \$716,619 for the six months ended October 31, 2010.

Consolidated Net Income: As a result of the factors described above, our net income for six months ended October 31, 2011 was \$566,396 compared to net income of \$362,138 in the six months ended October 31, 2010. The net

income before taxes and minority interest for the six months ended October 31, 2011 was \$1,874,584 compared to net income of \$498,107 in the six months ended October 31, 2010.

Employees: Other than gaming, we have 111 full time and 3 part time employees on October 31, 2011 compared to 106 full time and 2 part time employees on October 31, 2010. As of December 2, 2011, staffing is 110 full time and 3 part time employees. Our staffing at Boot Hill Casino & Resort on October 31, 2011 was 245 full time and 78 part time employees and at December 2, 2011 are 227 full time employees and 81 part time employees. None of the employees are subject to any collective bargaining agreements.

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SECOND QUARTER FISCAL 2011 COMPARED TO SECOND QUARTER FISCAL 2010

Our revenue for the three months ended October 31, 2011 was \$14,140,870, an increase of 28.4% from the three months ended October 31, 2010 with revenue of \$11,016,437. Our operating profit for the three months ended October 31, 2011 was \$1,378,404, compared to a profit of \$780,437 for the three months ended October 31, 2010.

Discussion of the specific changes by operation at each business segment follows (the results of operations are based on pre-corporate allocations):

**Aircraft Modifications:** Revenue from Aircraft Modifications segment for the three months ended October 31, 2011, was \$4,000,719, an increase of 4.3% from the three months ended October 31, 2010 with revenue of \$3,836,278.

The modifications segment had an operating profit of \$1,765,490 in the three months ended October 31, 2011, and an operating profit of \$1,249,909 in the three months ended October 31, 2010.

**Avionics:** Revenue from Avionics segment for the three months ended October 31, 2011, was \$1,001,513 an increase of 6.2% from the three months ended October 31, 2010 with revenue of \$942,788. The avionics segment had an operating loss of \$162,459 in the three months ended October 31, 2011, and an operating profit of \$41,546 for the three months ended October 31, 2010. Many economic and political uncertainties can impact the avionics products line.

**Services - SCADA Systems and Monitoring Services:** Revenue in the Monitoring Services Segment for the three months ended October 31, 2011, was \$364,381, a decrease of 5.4% from the three months ended October 31, 2010 with revenue of \$385,113. The monitoring services segment had an operating profit of \$34,055 in the three months ended October 31, 2011, and an operating profit of \$65,785 for the three months ended October 31, 2010, a decrease of 48%.

**Corporate / Professional Services:** Services in this segment include the architectural services activities related to gaming and other real estate development, administrative management services, and engineering consulting services.

Revenue from projects related to architectural services for the three months ended October 31, 2011, was \$107,088, a decrease of 39% from the three months ended October 31, 2010 with revenue of \$166,871. The architectural services had an operating loss of \$35,370 in the three months ended October 31, 2011, and an operating loss of \$44,394 for the three months ended October 31, 2010.

Revenue related to on site contract management of gaming establishments and real estate development, for the three months ended October 31, 2011 was \$583,380 compared to \$498,857 for the three months ended October 31, 2010, an increase of 17%. The management services related to gaming had an operating loss of \$927,281 in the three months ended October 31, 2011, and an operating profit of \$224,549 for the three months ended October 31, 2010.

Revenue from Boot Hill Casino and Resort for the three months ended October 31, 2011 was \$11,570,158 compared to \$9,906,411 in the three months ended October 31, 2010. Mandated fees, taxes and distributions reduced gross revenue by \$3,486,369 leaving net revenue to BHCMC, LLC, of \$8,083,789 for the three months ended October 31, 2011 compared to \$5,186,531 for the three months ended October 31, 2010. Net income before taxes and minority interest was \$1,305,565 in the three months ended October 31, 2011 compared to a loss of \$235,302 in the three months ended October 31, 2010.

**Selling, General and Administrative ("SG&A"):** Expenses were \$7,924,098, or 56% of revenue, for the three months ended October 31, 2011 compared to \$5,364,813 or 48.7% of revenue for the three months ended October 31,

2010. Of these costs, \$4,805,268 was directly related to the Gaming Facility in the three months ended October 31, 2011 and \$3,855,386 for the three months ended October 31, 2010.

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Other Income (Expense): Interest expenses for the three months ended October 31, 2011, was \$92,675 an increase of 2.2% from the three months ended October 31, 2010 with interest expense of \$90,681.

Earnings: Our operating profit for the three months ended October 31, 2011 was \$1,378,405, compared to a profit of \$780,437 for the three months ended October 31, 2010.

Consolidated Net Income: Our net income for the three months ended October 31, 2011 was \$458,042 compared to net income of \$472,680 in the three months ended October 31, 2011.

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 2011 and beyond.

On January 1, 2010 we entered into a lease agreement with BHC Development Company for the build-to-suit facility related to the Gaming Facility in Dodge City, Kansas (the Boot Hill Casino and Resort).

On May 1, 2011 BHC Investment Company exercised the option to acquire 100% of the Class A Preferred Interest in BHCMC, LLC. BNSC, a 100% owned subsidiary of Butler National Corporation, owns 100% of the Class B Interest. Accordingly, the consolidated financial statements report 100% of the operations of BHCMC, LLC. The net income is reduced to remove the 40% minority interest. The members of the Board of Managers (BOM) reflect the voting control of the BHCMC, LLC. A and B shares. The ownership structure of BHCMC, LLC is now:

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

The terms of the agreement between the Kansas Lottery and BNSC/BHCMC require the completion of an expansion area within the Boot Hill Casino and Resort. We may need additional funding to complete this expansion.

Analysis and Discussion of Cash Flow

During the first six months ending October 31, 2011 our cash position decreased by \$1,040,436. We had net income of \$1,486,328. Cash flows from operating activities contributed approximately \$297,000, non-cash activities consisting of depreciation and amortization contributed approximately \$980,000 and stock options issued to employees and directors contributed approximately \$251,000. The following items decreased our cash position. Customer deposits and receivables decreased by approximately \$472,000 while inventories increased by approximately \$319,000. Prepaid expenses and an increase of accounts payable reduced our cash by an additional \$118,000. Accrued and other liabilities increased by approximately \$1,511,000.

Cash used in investing activities was \$1,210,712. We invested approximately \$376,000 towards modification equipment and aircraft, and \$834,000 towards land and building purchases.

Cash used by financing activities was \$126,305. We reduced our debt by approximately \$975,000 and increased our line of credit by approximately \$115,000. We borrowed \$548,000 towards the purchase of a building in Olathe, Kansas and approximately \$180,000 towards the purchase of a new CNC machine for aircraft modifications.

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.

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**Recent Accounting Pronouncements:** We do not believe there are any recently issued accounting standards that have not yet been adopted that will have a material impact on the Company's financial statements.

**Revenue Recognition:** Generally, we perform aircraft modifications under fixed-price contracts. Revenues from fixed-price contracts are recognized on the percentage-of-completion method, measured by the direct labor and material costs incurred compared to total estimated direct labor costs. Each quarter our management reviews the progress and performance of our significant contracts. Based on this analysis, any adjustment to sales, cost of sales and/or profit is recognized as necessary in the period they are earned. Changes in estimates of contract sales, cost of sales and profits are recognized using a cumulative catch-up, which is recognized in the current period of the cumulative effect of the change on current or prior periods. Revenue for off-the-shelf items and aircraft sales is recognized on the date of sale.

Casino gaming revenue is the gross gaming win as reported by the Kansas Lottery casino reporting systems less the mandated distributions by and for the State of Kansas.

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

In regard to 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 financial statements.

**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 against revenues being generated from aircraft modifications associated with the STC. The costs are expensed as services are rendered on each aircraft through costs of sales using the units of production method. The legal life of an STC is indefinite. We believe we have enough future sales to fully amortize our STC development costs.

**Slot Machine Jackpots:** If the Company is unable to avoid payment of the jackpot (i.e. the incremental amount on a progressive machine) due to legal requirements, the jackpot is accrued as the obligation becomes unavoidable. This liability is accrued over the time period in which the incremental progressive jackpot amount is generated with a related reduction in casino revenue. No liability is accrued with respect to the base jackpot.

**Advanced Payments and Billings in Excess of Costs Incurred:** We receive advances, performance-based payments and progress payment from customers which may exceed costs incurred on certain contracts. We classify advance payments and billings in excess of costs incurred, other than those reflected as a reduction of contracts in process, as current liabilities.

**Cash and Cash Equivalents:** Cash and cash equivalents consist primarily of cash and investments in a money market fund. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. We maintain cash in bank deposit accounts that, at times, may exceed federally insured limits.

**Accounts receivable:** Accounts receivable are carried on a gross basis, with no discounting, less the allowance for doubtful accounts. Management estimates the allowance for doubtful accounts based on existing economic

conditions, the financial conditions of the customers, and the amount and the age of past due accounts. Receivables are considered past due if full payment is not received by the contractual due date. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted.

Income Taxes: Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred taxes, which arise principally from temporary differences between the period in which certain income and expense items are recognized for financial reporting purposes and the period in which they affect taxable income, are included in the amounts provided for income taxes. Under this method, the computation of deferred tax assets and liabilities give recognition to enacted tax rates in effect in the year the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that we expect to realize.



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### Changing Prices and Inflation

We have experienced upward pressure from inflation in 2012. From fiscal year 2011 to fiscal year 2012 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 2012 and 2013.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please see Item 7(a) of our Form 10-K for the period ended April 30, 2011, incorporated herein by reference.

### 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 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 Internal Control-Integrated Framework issued by COSO.

Evaluation of disclosure controls and procedures: Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (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, 2011. 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, 2011.

### Internal Control Over Financial Reporting

Management Report on Internal Control Over Financial Reporting: Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control -Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of October 31, 2011.

Our internal control over financial reporting includes policies and procedures that; (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of

financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Company assets that could have a material effect on the financial statements.

This quarterly report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company registered public accounting firm because Section 989G(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act exempts us, a company with a public float of less than seventy-five million dollars from the requirement that our registered public accounting firm attest to our financial controls.

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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 error 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 material changes in the Company internal controls over financial reporting as of October 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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## PART II.

## OTHER INFORMATION

|          |  |   |
|----------|--|---|
| Item 1.  | <b>LEGAL PROCEEDINGS.</b>  |   |
|          | Butler National Service Corporation and BHCMC, LLC filed a lawsuit on September 4, 2009 in the United States District Court for the District of Kansas against Larry J. Woolf and Navegante, Inc. a Las Vegas based consulting firm for damages for failing to perform and defective performance related to a written and executed consulting agreement. In October of 2009, Navegante filed a lawsuit with the District Court against Butler National Service Corporation, seeking damages for breach of an alleged oral agreement to provide management services. All litigation between Butler National Service Corporation, BHCMC, LLC, Larry J. Woolf and Navegante was settled to the mutual satisfaction of the parties in October of 2011. |   |
|          | As of December 2, 2011, there are no other 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. | <b>RISK FACTORS.</b>   |   |
|          | There are no material changes to the risk factors disclosed under Item 1A of our Form 10-K for the year ended April 30, 2011.  |   |
| Item 2.  | <b>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.</b>  |   |
|          | None.  |   |
| Item 3.  | <b>DEFAULTS UPON SENIOR SECURITIES.</b>  |   |
|          | None.  |   |
| Item 4.  | <b>(REMOVED AND RESERVED)</b>  |   |
| Item 5.  | <b>OTHER INFORMATION.</b>  |   |
|          | None.  |   |
| Item 6.  | <b>EXHIBITS.</b>   |   |
|          | 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 DEF 14A filed on December 15, 2003.                                    |
|          | 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 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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 99   | Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995, are incorporated by reference to Exhibit 99 of the Form 10-K for the fiscal year ended April 30, 2011.  |
| 101  | The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2011, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Condensed Consolidated Balance Sheets as of October 31, 2011 and April 30, 2011, (ii) Condensed Consolidated Statements of Operations for the three months ended October 31, 2011 and 2010, (iii) Condensed Consolidated Statements of Operations for the six months ended October 31, 2011 and 2010, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended October 31, 2011 and 2010, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text. In accordance with Regulation S-T, the XBRL-formatted interactive data files that comprise this Exhibit 101 shall be deemed "furnished" and not "filed." |

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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, 2011 | /s/ Clark D. Stewart                    |
| Date              | Clark D. Stewart                        |
|                   | (President and Chief Executive Officer) |

|                   |                              |
|-------------------|------------------------------|
| December 14, 2011 | /s/ Angela D.<br>Shinabargar |
| Date              | Angela D. Shinabargar        |
|                   | (Chief Financial<br>Officer) |

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## Exhibit Index

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