

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 **July 31, 2019**
- 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

41-0834293

(State or other jurisdiction of incorporation or organization)

(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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock \$.01 Par Value
(Title of Class)

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 every Interactive Data File required to be submitted 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 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 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 September 6, 2019 was 68,160,250 shares.

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 July 31, 2019 and April 30, 2019
(in thousands except per share data)

	<u>July 31, 2019</u>	<u>April 30, 2019</u>
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 10,249	\$ 9,014
Accounts receivable, net of allowance for doubtful accounts	5,382	3,265
Asset held for sale, net of accumulated depreciation	-	447
Income tax receivable	-	27
Inventories		
Parts and raw materials	7,507	7,370
Work in process	1,679	1,441
Finished goods	73	74
Total inventory, net of allowance	<u>9,259</u>	<u>8,885</u>
Prepaid expenses and other current assets	1,746	1,646
Total current assets	<u>26,636</u>	<u>23,284</u>
PROPERTY, PLANT AND EQUIPMENT:		
Finance lease right-of-use assets	43,680	1,699
Land and building	5,765	5,765
Aircraft	8,467	8,467
Machinery and equipment	4,075	4,075
Office furniture and fixtures	7,545	7,487
Leasehold improvements	4,032	4,032
	<u>73,564</u>	<u>31,525</u>
Accumulated depreciation	(17,824)	(16,714)
Total property, plant and equipment	<u>55,740</u>	<u>14,811</u>
SUPPLEMENTAL TYPE CERTIFICATES (net of accumulated amortization of \$6,298 at July 31, 2019 and \$6,054 at April 30, 2019)	<u>6,163</u>	<u>6,407</u>
OTHER ASSETS:		
Deferred tax asset	295	295
Other assets (net of accumulated amortization of \$9,570 at July 31, 2019 and \$9,370 at April 30, 2019)	3,905	4,105
Total other assets	<u>4,200</u>	<u>4,400</u>
Total assets	<u>\$ 92,739</u>	<u>\$ 48,902</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 1,596	\$ 1,899
Current maturities of finance lease liability	1,070	8
Accounts payable	1,736	1,774
Customer deposits	2,948	2,758
Gaming facility mandated payment	975	1,280
Compensation and compensated absences	1,508	1,664
Deferred tax liability, current	236	236
Income taxes payable	735	-
Other current liabilities	245	230
Total current liabilities	<u>11,049</u>	<u>9,849</u>
Long-term debt, net of current maturities	1,823	2,076
Finance lease liability, net of current maturities	42,384	1,689
Deferred tax liability	944	944
Total long-term liabilities	<u>45,151</u>	<u>4,709</u>
Total liabilities	<u>56,200</u>	<u>14,558</u>
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 71,008,122 shares, and outstanding 68,160,250 shares at July 31, 2019 and issued 71,008,122 shares, and outstanding 68,281,071 shares at April 30, 2019	710	710
Capital contributed in excess of par	14,814	14,767
Treasury stock at cost, 2,847,872 shares at July 31, 2019 and 2,727,051 shares at April 30, 2019	(1,430)	(1,387)
Retained earnings	15,974	13,913
Total Butler National Corporation's stockholders' equity	<u>30,068</u>	<u>28,003</u>
Noncontrolling interest in BHCMC, LLC	6,471	6,341
Total stockholders' equity	<u>36,539</u>	<u>34,344</u>
Total liabilities and stockholders' equity	<u>\$ 92,739</u>	<u>\$ 48,902</u>

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 JULY 31, 2019 AND 2018
(in thousands, except per share data)
(unaudited)

	THREE MONTHS ENDED	
	July 31,	
	2019	2018
REVENUE:		
Professional Services	\$ 8,116	\$ 7,948
Aerospace Products	8,900	5,456
Total revenue	<u>17,016</u>	<u>13,404</u>
COSTS AND EXPENSES:		
Cost of Professional Services	3,850	4,812
Cost of Aerospace Products	4,969	4,130
Marketing and advertising	1,104	975
Employee benefits	547	505
Depreciation and amortization	1,239	388
General, administrative and other	1,786	1,693
Total costs and expenses	<u>13,495</u>	<u>12,503</u>
OPERATING INCOME	<u>3,521</u>	<u>901</u>
OTHER INCOME (EXPENSE):		
Interest expense	(1,097)	(70)
Refund of sales/use tax	-	279
Gain on sale of airplane	529	-
Total other income (expense)	<u>(568)</u>	<u>209</u>
INCOME BEFORE INCOME TAXES	2,953	1,110
PROVISION FOR INCOME TAXES		
Provision for income taxes	<u>762</u>	<u>188</u>
NET INCOME	2,191	922
Net income attributable to noncontrolling interest in BHCMC, LLC	(130)	(413)
NET INCOME ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION	<u>\$ 2,061</u>	<u>\$ 509</u>
BASIC EARNINGS PER COMMON SHARE	<u>\$ 0.03</u>	<u>\$ 0.01</u>
WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION	<u>68,270,565</u>	<u>64,743,042</u>
DILUTED EARNINGS PER COMMON SHARE	<u>\$ 0.03</u>	<u>\$ 0.01</u>
WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION	<u>68,270,565</u>	<u>64,743,042</u>

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

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED July 31, 2019 AND 2018
(dollars in thousands)
(unaudited)

	Shares of Common Stock	Common Stock	Capital Contributed in Excess of Par	Shares of Treasury Stock	Treasury Stock at Cost	Retained Earnings	Total Stock- holders' Equity BNC	Non controlling Interest in BHCMC	Total Stock- holders' Equity
Balance, April 30, 2018	66,196,854	\$ 662	\$ 14,231	1,453,537	\$ (951)	\$ 10,060	\$ 24,002	\$ 5,264	\$ 29,266
Stock repurchase	-	-	-	25,277	(6)	-	(6)	-	(6)
Net Income	-	-	-	-	-	509	509	413	922
Balance, July 31, 2018	<u>66,196,854</u>	<u>\$ 662</u>	<u>\$ 14,231</u>	<u>1,478,814</u>	<u>\$ (957)</u>	<u>\$ 10,569</u>	<u>\$ 24,505</u>	<u>\$ 5,677</u>	<u>\$ 30,182</u>

	Shares of Common Stock	Common Stock	Capital Contributed in Excess of Par	Shares of Treasury Stock	Treasury Stock at Cost	Retained Earnings	Total Stock- holders' Equity BNC	Non controlling Interest in BHCMC	Total Stock- holders' Equity
Balance, April 30, 2019	71,008,122	\$ 710	\$ 14,767	2,727,051	\$ (1,387)	\$ 13,913	\$ 28,003	\$ 6,341	\$ 34,344
Stock repurchase	-	-	-	120,821	(43)	-	(43)	-	(43)
Deferred compensation, restricted stock	-	-	47	-	-	-	47	-	47
Net Income	-	-	-	-	-	2,061	2,061	130	2,191
Balance, July 31, 2019	<u>71,008,122</u>	<u>\$ 710</u>	<u>\$ 14,814</u>	<u>2,847,872</u>	<u>\$ (1,430)</u>	<u>\$ 15,974</u>	<u>\$ 30,068</u>	<u>\$ 6,471</u>	<u>\$ 36,539</u>

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 THREE MONTHS ENDED JULY 31, 2019 AND 2018
(in thousands)
(unaudited)

	THREE MONTHS ENDED	
	July 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,191	\$ 922
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,555	750
Gain on sale of airplane	(529)	-
Deferred compensation, restricted stock	47	-
Changes in assets and liabilities		
Accounts receivable	(2,117)	(118)
Income tax receivable	27	188
Inventories	(374)	(391)
Prepaid expenses and other current assets	(100)	(462)
Accounts payable	(38)	(288)
Customer deposits	190	1,340
Accrued liabilities	(156)	(181)
Gaming facility mandated payment	(305)	(282)
Income tax payable	735	-
Other current liabilities	15	61
Net cash provided by operating activities	<u>1,141</u>	<u>1,539</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(58)	(227)
Proceeds from sale of airplane	975	-
Net cash provided by (used in) investing activities	<u>917</u>	<u>(227)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of promissory notes, net	-	(711)
Repayments of long-term debt	(556)	(401)
Reduction of finance lease liability	(224)	(2)
Repurchase of common stock	(43)	(6)
Net cash used in financing activities	<u>(823)</u>	<u>(1,120)</u>
NET INCREASE IN CASH	1,235	192
CASH, beginning of period	<u>9,014</u>	<u>7,353</u>
CASH, end of period	<u>\$ 10,249</u>	<u>\$ 7,545</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 1,096</u>	<u>\$ 71</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
NON CASH INVESTING AND FINANCING ACTIVITY		
Finance lease right-of-use assets and finance lease liability	<u>\$ 41,981</u>	<u>\$ -</u>

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, 2019. In our opinion, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three months ended July 31, 2019 are not indicative of the results of operations that may be expected for the fiscal year ended April 30, 2020.

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 would be excluded. The number of potential common shares as of July 31, 2019 is 68,160,250.

3. Revenue Recognition: On May 1, 2018, the Company adopted ASC Topic 606, “Revenue from Contracts with Customers”.

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. 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 consolidated financial statements. Significant estimates include assumptions about collection of accounts receivable, the valuation, and recognition of stock-based compensation expense, valuation for deferred tax assets and useful life of fixed assets.

5. Inventories: Inventories are priced at the lower of cost, determined on a first-in, first-out basis, or net realizable value. 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 July 31, 2019 and April 30, 2019, the estimate of obsolete inventory was \$718 and \$718 respectively.

6. Research and Development: We invested in research and development activities. The amount invested in the three months ended July 31, 2019 and 2018 was \$397 and \$318 respectively.

7. Debt: At July 31, 2019, the Company was utilizing a promissory note in the form of a line of credit totaling \$5,000. The unused line at July 31, 2019 was \$5,000. These funds are 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 July 31, 2019, there was one note with an interest rate of 6.25% collateralized by aircraft security agreements totaling \$2.1 million. This note was used for the purchase and modifications of collateralized aircraft. This note matures in January 2023.

At July 31, 2019, there is one note totaling \$238 collateralized by real estate in Dodge City, Kansas. The interest rate on this note is 6.25%. This note matures in June 2024.

At July 31, 2019, there is one note collateralized by equipment with a balance of \$57. The interest rate on this note is 4.5%. This note matures in April 2022.

At July 31, 2019, there is one note at a bank totaling \$1.0 million 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 July 31, 2019.

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.

8. Other Assets: Our other asset account includes assets of \$5,500 related to the Kansas Expanded Lottery Act Management Contract privilege fee, \$5,646 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 \$912. 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 fifteen years.

9. Stock Options and Incentive Plans:

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.

On April 12, 2019, the Company granted 2.5 million restricted shares to employees. These shares have voting rights at date of grant and become fully vested and nonforfeitable on April 11, 2024. The restricted shares were valued at \$0.38 per share, for a total of \$950. The deferral compensation of \$950 will be expensed on the financial statements over the five year vesting period. No other equity awards have been made under the plan.

For the three months ended July 31, 2019 and July 31, 2018, the company expensed \$47 and \$0, respectively.

10. Stock Repurchase Program

The Board of Directors approved a stock purchase program authorizing the repurchase of up to \$2,225 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, 2020.

The table below provides information with respect to common stock purchases by the Company through July 31, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
Program authorization				\$ 500
Shares purchased in prior periods	130,346	\$ 0.25	130,346	\$ 468
Quarter ended October 31, 2017	8,607	\$ 0.30	8,607	\$ 465
Quarter ended January 31, 2018 (a)	536,058	\$ 0.26	536,058	\$ 326
Quarter ended April 30, 2018 (a)	178,526	\$ 0.25	178,526	\$ 281
Increase in program authorization April 2018 (b)	-	\$ -	-	\$ 531
Quarter ended July 31, 2018 (a)	25,277	\$ 0.26	25,277	\$ 525
Quarter ended October 31, 2018 (a)	480,805	\$ 0.30	480,805	\$ 381

Quarter ended January 31, 2019 (a)	186,727	\$ 0.34	186,727	\$ 317
Quarter ended April 30, 2019 (a)	580,705	\$ 0.38	580,705	\$ 94
Increase in program authorization April 2019 (c)	-	\$ -	-	\$ 1,569
Quarter ended July 31, 2019 (a)	120,821	\$ 0.35	120,821	\$ 1,526
Total	<u>2,247,872</u>	<u>\$ 0.31</u>	<u>2,247,872</u>	

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

(b) Board of Directors increased program authorization from \$500 to \$750

(c) Board of Directors increased program authorization from \$750 to \$2,225

11. Finance Lease Right-of-Use

On May 1, 2019, the Company adopted ASU 2016-02 Leases – Topic 842. ASU 2016-02 requires that on the balance sheet 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.

We lease the casino as well as hangar and office space with initial lease terms of two, five, twenty-five and fifty years.

	<u>July 31, 2019</u>
Right-of-use assets	\$ 43,680
Less accumulated depreciation	693
Total	<u>\$ 42,987</u>

Future minimum lease payments for assets under capital leases at July 31, 2019 are as follows:

2020	\$ 5,195
2021	5,242
2022	5,241
2023	5,293
2024	5,333
Thereafter	<u>60,365</u>
Total minimum lease payments	86,669
Less amount representing interest	<u>43,215</u>
Present value of net minimum lease payments	43,454
Less current maturities of finance lease liability	<u>1,070</u>
Finance lease liability, net of current maturities	<u>\$ 42,384</u>

The adoption of ASU 2016-02 had a negative impact on our financial statements for the three months ended July 31, 2019. The impact is summarized below:

Increase in depreciation	\$ 693
Increase in interest expense	1,035
Decrease in rent expense	<u>-1,218</u>
Decrease in net income for the three months ended July 31, 2019	<u>\$ 510</u>

12. Subsequent Events:

The Company evaluated its July 31, 2019 financial statements for subsequent events through the filing date of this report. The Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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

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

Forward-Looking Statements

Statements made in this report, 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, 2019, 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, 2019, 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 2019 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
- Aerodynamic enhancement products
- Airspeed and altimeter systems
- Avcon Fins
- ADS-B (transponder) systems
- Conversion of passenger configurations to cargo
- Cargo/sensor carrying pods
- Electronic navigation instruments, radios and transponders
- GARMIN GTN Global Position System Navigator with Communication Transceiver
- J.E.T autopilot products
- Electrical systems and switching equipment
- Noise suppression systems
- Rate gyroscopes
- Replacement vertical accelerometers
- Provisions for external stores
- Attitude heading reference systems

Modifications. The companies in Aerospace Products have authority pursuant to Federal Aviation Administration Supplemental Type Certificates (“STCs”) and Parts Manufacturer Approval (“PMA”), 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
- Aerodynamic improvements
- Avionics systems
- Cargo doors
- Conversion from passenger to freighter configuration
- Extended doors
- Extended tip fuel tanks
- Radar systems
- ISR – Intelligence Surveillance Reconnaissance
- Special mission modifications
- Stability enhancements
- 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
- Electronic control systems
- Gun Control Units for Apache and Blackhawk helicopters
- HangFire Override Modules
- Test equipment
- Gun Control Units for land and sea based military vehicles

Professional Services. The Professional Services segment includes the management of a gaming facility and related dining and entertainment facilities in Dodge City, Kansas. 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. Butler National Service Corporation (“BNSC”), via BHCMC, LLC (“BHCMC”), a company in Professional Services, has managed The Boot Hill Casino and Resort in Dodge City, Kansas (“Boot Hill”) since 2009 pursuant to the

Lottery Gaming Facility Management Contract, by and among BNSC, BHC MC 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. From 1998 until 2018, Butler National Service Corporation, a company in Professional Services and our wholly-owned subsidiary, 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 received 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 three months ending July 31, 2019 revenue increased 27% to \$17.0 million compared to \$13.4 million in the three months ending July 31, 2018. In the three months ending July 31, 2019 the professional services revenue was \$8.1 million compared to \$7.9 million in the three months ending July 31, 2018, an increase of 2%. In the three months ending July 31, 2019 the Aerospace Products revenue was \$8.9 million compared to \$5.5 million in the three months ending July 31, 2018, an increase of 63%.

The three months ending July 31, 2019 net income increased to \$2.1 million compared to a net income of \$509 in the three months ending July 31, 2018. The three months ending July 31, 2019, operating income increased to \$3.5 million, from an operating income of \$901 in the three months ending July 31, 2018.

RESULTS OF OPERATIONS

THREE MONTHS ENDING JULY 31, 2019 COMPARED TO THREE MONTHS ENDING JULY 31, 2018

(dollars in thousands)	Three Months Ended July 31, 2019	Percent of Total Revenue	Three Months Ended July 31, 2018	Percent of Total Revenue	Percent Change 2018-2019
Revenue:					
Professional Services	\$ 8,116	48%	\$ 7,948	59%	2%
Aerospace Products	8,900	52%	5,456	41%	63%
Total revenue	17,016	100%	13,404	100%	27%
Costs and expenses:					
Costs of Professional Services	3,850	23%	4,812	36%	-20%
Cost of Aerospace Products	4,969	29%	4,130	31%	20%
Marketing and advertising	1,104	7%	975	7%	13%
Employee benefits	547	3%	505	4%	8%
Depreciation and amortization	1,239	7%	388	3%	219%
General, administrative and other	1,786	10%	1,693	12%	5%
Total costs and expenses	13,495	79%	12,503	93%	8%
Operating income	\$ 3,521	21%	\$ 901	7%	291%

Revenue:

Revenue increased 27% to \$17.0 million in the three months ended July 31, 2019, compared to \$13.4 million in the three months ended July 31, 2018. See "Operations by Segment" below for a discussion of the primary reasons for the increase in revenue.

- 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 2% for the three months to \$8.1 million at July 31, 2019 compared to \$7.9 million in the three months ended July 31, 2018.
- Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 63% for the three months to \$8.9 million at July 31, 2019 compared to \$5.5 million at July 31, 2018.

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 8% in the three months ended July 31, 2019 to \$13.5 million compared to \$12.5 million in the three months ended July 31, 2018. Costs and expenses were 79% of total revenue in the three months ended July 31, 2019, as compared to 93% of total revenue in the three months ended July 31, 2018.

Costs of Professional Services decreased 20% in the three months ended July 31, 2019 to \$3.9 million compared to \$4.8 million in the three months ended July 31, 2018. Costs were 23% of total revenue in the three months ended July 31, 2019, as compared to 36% of total revenue in the three months ended July 31, 2018.

Costs of Aerospace Products increased by 20% in the three months ended July 31, 2019 to \$5.0 million compared to \$4.1 million for the three months ended July 31, 2018. Costs were 29% of total revenue in the three months ended July 31, 2019, as compared to 31% of total revenue in the three months ended July 31, 2018.

Marketing and advertising expenses increased by 13% in the three months ended July 31, 2019, to \$1.1 million compared to \$975 in the three months ended July 31, 2018. Expenses were 7% of total revenue in the three months ended July 31, 2019, as compared to 7% of total revenue in the three months ended July 31, 2018. 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 July 31, 2019, compared to 4% in the three months ended July 31, 2018. These expenses increased to \$547 in the three months ended July 31, 2019, from \$505 in the three months ended July 31, 2018. 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 7% in the three months ended July 31, 2019, compared to 3% in the three months ended July 31, 2018. These expenses increased 219% to \$1.2 million in the three months ended July 31, 2019, from \$388 in the three months ended July 31, 2018. 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 July 31, 2019 was \$938 compared to \$245 in the three months ended July 31, 2018.

General, administrative and other expenses as a percent of total revenue was 10% in the three months ended July 31, 2019, compared to 12% in the three months ended July 31, 2018. These expenses increased 5% to \$1.8 million in the three months ended July 31, 2019, from \$1.7 million in the three months ended July 31, 2018.

Other income (expense):

Interest expense and other income were \$(568) in the three months ended July 31, 2019, compared with interest expense and other income of \$209 in the three months ended July 31, 2018. Interest related to obligations of BHCMC, LLC was \$1.0 million in the three months ended July 31, 2019 compared to \$29 in the three months ended July 31, 2018.

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 July 31, 2019 and July 31, 2018:

(dollars in thousands)	Three Months Ended July 31, 2019	Percent of Total Revenue	Three Months Ended July 31, 2018	Percent of Total Revenue	Percent Change 2018-2019
Professional Services					
Revenue					
Boot Hill Casino	\$ 8,069	99%	\$ 7,841	99%	3%
Management/Professional Services	47	1%	107	1%	-56%
Revenue	<u>8,116</u>	<u>100%</u>	<u>7,948</u>	<u>100%</u>	<u>2%</u>
Costs of Professional Services	3,850	48%	4,812	60%	-20%
Expenses	<u>3,017</u>	<u>37%</u>	<u>2,592</u>	<u>33%</u>	<u>16%</u>
Total costs and expenses	<u>6,867</u>	<u>85%</u>	<u>7,404</u>	<u>93%</u>	<u>-7%</u>
Professional Services operating income before noncontrolling interest in BHCMC, LLC	<u>\$ 1,249</u>	<u>15%</u>	<u>\$ 544</u>	<u>7%</u>	<u>130%</u>

(dollars in thousands)	Three Months Ended July 31, 2019	Percent of Total Revenue	Three Months Ended July 31, 2018	Percent of Total Revenue	Percent Change 2018-2019
Aerospace Products					
Revenue	\$ 8,900	100%	\$ 5,456	100%	63%
Costs of Aerospace Products	4,969	56%	4,130	75%	20%
Expenses	<u>1,659</u>	<u>18%</u>	<u>969</u>	<u>18%</u>	<u>71%</u>
Total costs and expenses	<u>6,628</u>	<u>74%</u>	<u>5,099</u>	<u>93%</u>	<u>30%</u>
Aerospace Products operating income	<u>\$ 2,272</u>	<u>26%</u>	<u>\$ 357</u>	<u>7%</u>	<u>536%</u>

Professional Services

- Revenue from Professional Services increased 2% for the three months ended July 31, 2019 to \$8.1 million compared to \$7.9 million for the three months ended July 31, 2018.

In the three months ended July 31, 2019 Boot Hill Casino received gross receipts for the State of Kansas of \$10.3 million compared to \$10.4 million for the three months ended July 31, 2018. Mandated fees, taxes and distributions reduced gross receipts by \$3.3 million resulting in gaming revenue of \$7.0 million for the three months ended July 31, 2019, compared to a reduction to gross receipts of \$3.4 million resulting in gaming revenue of \$7.0 million for the three months ended July 31, 2018. Non-gaming revenue at Boot Hill Casino increased to \$1.0 million for the three months ended July 31, 2019, compared to \$876 for the three months ended July 31, 2018.

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 56% to \$47 for the three months ended July 31, 2019, compared to \$107 for the three months ended July 31, 2018.

- Costs of Professional Services decreased in the three months ended July 31, 2019 to \$3.9 million compared to \$4.8 million in the three months ended July 31, 2018. Costs were 48% of segment total revenue in the three months ended July 31, 2019, as compared to 60% of segment total revenue in the three months ended July 31, 2018.

- Expenses increased 16% in the three months ended July 31, 2019 to \$3.0 million compared to \$2.6 million in the three months ended July 31, 2018. Expenses were 37% of segment total revenue in the three months ended July 31, 2019, as compared to 33% of segment total revenue in the three months ended July 31, 2018.

Aerospace Products

- Revenue increased 63% to \$8.9 million in the three months ended July 31, 2019, compared to \$5.5 million in the three months ended July 31, 2018. The increase in revenue was due to an increase of \$2.7 million in avionics business and a \$782 increase in modification business. 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 20% in the three months ended July 31, 2019 to \$5.0 million compared to \$4.1 million for the three months ended July 31, 2018. Costs were 56% of segment total revenue in the three months ended July 31, 2019, as compared to 75% of segment total revenue in the three months ended July 31, 2018.
- Expenses increased 71% in the three months ended July 31, 2019 to \$1.7 million compared to \$969 in the three months ended July 31, 2018. Expenses were 18% of segment total revenue in the three months ended July 31, 2019, as compared to 18% of segment total revenue in the three months ended July 31, 2018.

Employees

Other than persons employed by our gaming subsidiaries there were 102 full time and 5 part time employees on July 31, 2019, compared to 93 full time and 6 part time employees on July 31, 2018. As of September 6, 2019, staffing is 99 full time and 5 part time employees. Our staffing at Boot Hill Casino & Resort on July 31, 2019 was 192 full time and 67 part time employees compared to 186 full time and 66 part time employees on July 31, 2018. At September 6, 2019 there are 197 full time and 63 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:

<u>Membership Interest</u>	<u>Members of Board of Managers</u>	<u>Equity Ownership</u>	<u>Income (Loss) Sharing</u>
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 three months ended July 31, 2019 our cash position increased by \$1.2 million. Net income was \$2.2 million for the three months ended July 31, 2019. Cash flows provided by operating activities was \$1.1 million for the three months ended July 31, 2019. Non-cash activities consisting of depreciation and amortization provided \$1.6 million, while a gain on sale of an airplane

used \$529. Customer deposits increased our cash position by \$190. Inventories decreased our cash position by \$374. Accounts receivable decreased our cash position by \$2.1 million. Gaming facility mandated payments decreased our cash position by \$305. Prepaid expenses and other assets decreased our cash by \$100. A decrease in accounts payable, a decrease in accrued expenses, and an increase in other current liabilities decreased our cash by an additional \$179. Income tax payable increased our cash position by \$735.

Cash provided by investing activities was \$917 for the three months ended July 31, 2019. We invested \$58 in furniture and fixtures. We received \$975 in proceeds for the sale of an airplane.

Cash used in financing activities was \$823 for the three months ended July 31, 2019. We made repayments on our debt of \$556. We reduced our financed lease liability by \$224. We purchased company stock of \$43. The stock was acquired and placed 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 condensed consolidated financial statements.

Finance Lease Right-of-Use: See footnote 11 to the condensed 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 2020. From fiscal year 2019 to fiscal year 2020 most 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 2020 and 2021.

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 July 31, 2019. 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 July 31, 2019.

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 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 changes in the Company's internal control over financial reporting during the three months ended July 31, 2019 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 July 31, 2019, 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, 2019.

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 first quarter of fiscal 2020.

Period	Total Number of Shares Purchased (a)	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
May 1, 2019 - May 31, 2019	-	\$ -	-	\$ 1,569,000
June 1, 2019 - June 30, 2019	-	\$ -	-	\$ 1,569,000
July 1, 2019 - July 31, 2019	120,821	\$ 0.35	120,821	\$ 1,526,000
Total	<u>120,821</u>	<u>\$ 0.35</u>	<u>120,821</u>	

(a) 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 \$2,225,000. 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, 2020.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

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.
- 4.1 Rights Agreement, dated August 2, 2011, by and between Butler National Corporation and UMB Bank, N.A., as Rights Agent, incorporated by reference to Exhibit 4.1 of our 10-Q filed on December 13, 2016.
- 3.2 Bylaws, as amended, are incorporated by reference to Exhibit 3.2 of our Form 10-Q filed on March 14, 2013.
- 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.
- 101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2019, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Condensed

Consolidated Balance Sheets as of July 31, 2019 and April 30, 2019, (ii) Condensed Consolidated Statements of Operations for the three months ended July 31, 2019 and 2018, (iii) Condensed Consolidated Statements of Stockholders' Equity for the three months ended July 31, 2019 and 2018, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended July 31, 2019 and 2018, and (v) the Notes to Condensed 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)

September 13, 2019
Date

/s/ Clark D. Stewart
Clark D. Stewart
(President and Chief Executive Officer)

September 13, 2019
Date

/s/ Tad M. McMahon
Tad M. McMahon
(Chief Financial Officer)

Exhibit Index

Exhibit Number	Description of Exhibit
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, incorporated by reference to Exhibit 4.1 of our 10-Q filed on December 13, 2016
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.
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2019, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Condensed Consolidated Balance Sheets as of July 31, 2019 and April 30, 2019, (ii) Condensed Consolidated Statements of Operations for the three months ended July 31, 2019 and 2018, (iii) Condensed Consolidated Statements of Stockholders' Equity for the three months ended July 31, 2019 and 2018, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended July 31, 2019 and 2018, and (v) the Notes to Condensed Consolidated Financial Statements, with detail tagging.

CERTIFICATIONS

I, Clark D. Stewart, certify that:

1. I have reviewed this quarterly report on Form 10-Q ended July 31, 2019 of Butler National Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: September 13, 2019

/s/Clark D. Stewart
Clark D. Stewart
President and Chief Executive Officer

CERTIFICATIONS

I, Tad M. McMahon, certify that:

1. I have reviewed this quarterly report on Form 10-Q ended July 31, 2019 of Butler National Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: September 13, 2019

/s/ Tad M. McMahon
Tad M. McMahon
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Butler National Corporation (the "Company") on Form 10-Q for the period ending July 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clark D. Stewart, Chief Executive Officer of the Company, certify, (to the best of my knowledge), pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002 that;

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Clark D. Stewart
Clark D. Stewart
President and Chief Executive Officer
Butler National Corporation
September 13, 2019

"A signed original of this written statement required by Section 906 has been provided to Butler National Corporation and will be retained by Butler National Corporation and furnished to the Securities and Exchange Commission or its staff upon request."

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Butler National Corporation (the "Company") on Form 10-Q for the period ending July 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tad M. McMahon, Chief Financial Officer of the Company, certify, (to the best of my knowledge), pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002 that;

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tad M. McMahon

Tad M. McMahon
Chief Financial Officer
Butler National Corporation
September 13, 2019

"A signed original of this written statement required by Section 906 has been provided to Butler National Corporation and will be retained by Butler National Corporation and furnished to the Securities and Exchange Commission or its staff upon request."