

BUTLER NATIONAL CORP  
Form 10-K  
July 21, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934  
For the fiscal year ended **April 30, 2017**

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**                      **41-0834293**

(State of Incorporation) (I.R.S. Employer Identification No.)

**19920 West 161st Street, Olathe, Kansas 66062**

(Address of principal executive office)(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: **None**

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

**Common Stock \$.01 Par Value**

(Title of Class)

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Indicate by check if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 12 months, 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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

|                            |                      |  |                              |                            |
|----------------------------|----------------------|--|------------------------------|----------------------------|
| Large accelerated<br>filer | Accelerated<br>filer | Non-accelerated filer (Do not check if a<br>smaller reporting company) | Smaller Reporting<br>Company | Emerging Growth<br>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 aggregate market value of the voting stock and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately **\$9,377,954** at October 31, 2016, when the closing price of such stock was \$0.18.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of July 14, 2017, was **64,543,550** shares.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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**BUTLER NATIONAL CORPORATION**

**ANNUAL REPORT ON FORM 10-K**

**FOR THE FISCAL YEAR ENDED APRIL 30, 2017**

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## Forward-Looking Statements

Statements made in this report, the Annual Report on Form 10-K the Annual Report to Stockholders in which this report is made a part, 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 this Item 1A. Risk Factors 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 this Annual Report on Form 10-K and the Cautionary Statements filed by us as Exhibit 99 to this form, including the following factors:

- the impact of general economic trends on the Company's business;
- sensitivity of demand related to changes in the U.S. dollar to foreign currency exchange rates;
- the deferral or termination of programs or contracts for convenience by customers;
- market acceptance of the Company's Aerospace Products and or other planned products or product enhancements;
- increased fuel and energy costs and the downward pressure on demand for our aircraft business;
- the ability to gain and maintain regulatory approval of existing products and services and receive regulatory approval of new businesses and products;
- the actions of regulatory, legislative, executive or judicial decisions of the federal, state or local level with regard to our business and the impact of any such actions;
- failure to retain/recruit key personnel;
- the availability of government funding to vendors and customers;
- any delays in receiving components from third party suppliers;

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

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

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Form 10-K. The Company does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events, circumstances or changes in expectations after the date of this Form 10-K, or to reflect the occurrence of unanticipated events. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A of the Securities Act of 1933, as amended (the "Securities Act") and 21E of the Securities Exchange Act of 1934 as amended (the "Exchange Act").

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.

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## **PART I**

### **Item 1. BUSINESS**

#### **General**

Butler National Corporation (the "Company", "BNC", or "Butler National") is a Kansas corporation formed in 1960, with corporate headquarters at 19920 West 161st Street, Olathe, Kansas 66062.

**Current Activities** - The Company focuses on two primary activities, Professional Services and Aerospace Products.

#### **Aerospace Products:**

Aerospace Products focuses on two product lines: Aircraft Modifications and Avionics.

Aircraft Modifications principally includes the modification of customer and company owned business-size aircraft from passenger to freighter configuration, addition of radar systems, aerial photography capabilities, and stability enhancing modifications for Learjet, Beechcraft, Cessna, and Dassault Falcon aircraft along with other specialized modifications. We provide these services through our subsidiary, Avcon Industries, Inc. ("Aircraft Modifications" or "Avcon").

Avionics principally includes the manufacture, sale, and service of electronic equipment and systems. We have made significant development investments and continue to make these investments to address the current Federal Aviation Administration ("FAA") and international system requirements for Automatic Dependent Surveillance - Broadcast ("ADS-B"). ADS-B is a precise satellite-based surveillance system. ADS-B Out uses GPS technology to determine aircraft location, airspeed and other data, and broadcasts that information to a network of ground stations, that relays the data to air traffic control displays and to nearby aircraft equipped to receive the data via ADS-B In. Operators of aircraft equipped with ADS-B In may receive weather and traffic position information delivered directly to the cockpit. We currently have FAA approved Supplemental Type Certificates allowing the installation of four different

configurations of ADS-B systems. ADS-B will be required on the majority of all civil aviation aircraft by January 20, 2020. We are selling and installing ADS-B system solutions at Butler Avionics and Avcon.

In addition to the new ADS-B systems, Avionics includes the design and approval of components to resolve obsolescence issues in airplanes. Avionics designs and obtains airworthiness approval of parts including autopilot boards and sensors such as gyros and accelerometers. Avionics also includes airborne electronic switching units used in DC-9, DC-10, DC-9/80, MD-80, MD-90, and the KC-10 aircraft, Transient Suppression Devices ("TSDs") for fuel tank protection on Boeing Classic 737 and 747 aircraft, and other Classic aircraft using a capacitance fuel quantity indicating system ("FQIS"), airborne electronics upgrades for classic weapon control systems used on military aircraft and vehicles, and consulting services with airlines and equipment manufacturers regarding fuel system safety requirements. We provide the products through our subsidiary, Butler National Corporation - Tempe, Arizona and the services through Butler National Corporation - Olathe, Kansas ("Avionics", "Classic Aviation Products", "Safety Products", or "Switching Units"). Butler National Corporation - Tempe, Arizona and Avcon Industries are AS 9100 certified.

Butler Avionics, Inc. ("Butler Avionics") sells, installs and repairs avionics equipment (airplane radio equipment and flight control systems). These systems are flight display systems which include intuitive touchscreen controls with large display to give users unprecedented access to high-resolution terrain mapping, graphical flight planning, geo-referenced charting, traffic display, satellite weather and much more. Butler Avionics received Parts Manufacturing Authority ("PMA") from the Federal Aviation Administration ("FAA") in fiscal 2015 and is currently manufacturing parts. Butler Avionics is also recognized nationwide for its troubleshooting and repair work particularly on autopilot systems.

#### **Professional Services:**

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

BCS Design, Inc. provides licensed architectural services. These services include commercial and industrial building design.

Butler National Service Corporation ("BNSC") provides management services to the Boot Hill Casino, a "state owned casino" and to The Stables, an "Indian owned casino".

**Assets as of April 30, 2017 and 2016 and Revenue for the years ended April 30, 2017 and 2016.**

| <b>Assets</b>         | <b>2017</b> | <b>2016</b> |
|-----------------------|-------------|-------------|
| Professional Services | 51.1 %      | 52.6 %      |
| Aerospace Products    | 48.9 %      | 47.4 %      |

| <b>Revenue</b>        | <b>2017</b> | <b>2016</b> |
|-----------------------|-------------|-------------|
| Professional Services | 60.9 %      | 66.5 %      |
| Aerospace Products    | 39.1 %      | 33.5 %      |

**Regulations**

**Regulation Under Federal Aviation Administration:** Aerospace is subject to regulation by the Federal Aviation Administration ("FAA") and equivalent foreign organizations. We manufacture products and parts under FAA Parts Manufacturing Authority (PMA) requiring qualification and traceability of all materials and vendors. We make aircraft modifications pursuant to the authority granted by Supplemental Type Certificates issued by the FAA. We repair aircraft parts pursuant to the authority granted by our FAA Authorized Repair Station. Violations of, or changes to, FAA regulations could be detrimental to our operations.

**Licensing and Regulation under Federal Indian Law:** Gaming on Indian land is extensively regulated by Federal, State, and Tribal governments and authorities. Regulatory changes could limit or otherwise materially affect the types of gaming that may be conducted on Indian Land. All aspects of our business operations on Indian Lands are subject to approval, regulation, and oversight by the Bureau of Indian Affairs ("BIA"), the Secretary of the United States Department of the Interior ("Secretary"), and the National Indian Gaming Commission ("NIGC"). Our management of Class III gaming operations is also subject to approval of a Class III Gaming Compact between the Indian Tribe and the respective state. Failure to comply with applicable laws or regulations, whether Federal, State or Tribal, could result in, among other things, the termination of any management agreements which would have a material adverse effect on us. We are also required to comply with background checks as specified in Tribal-State Compacts before we can manage gaming operations on Indian land. There can be no assurance that we would continue to be successful in obtaining the necessary regulatory approvals for our gaming operations on a timely basis, or at all.

**Licensing and Regulation under State Law:** Our present and future stockholders are and will continue to be subject to review by regulatory agencies. Gaming licenses and/or background investigations ("license") are required in connection with our management of a State of Kansas owned Lottery Gaming Facility (a casino). Our management

personnel, Butler National and/or the managing subsidiaries, the key personnel of all entities may be required to have a Lottery Gaming Facility gaming license prior to conducting operations. The failure of the Company or the key personnel to obtain or retain a license could have a material adverse effect on the Company or on its ability to obtain or retain these licenses in other jurisdictions. Each such State Gaming Agency has broad discretion in granting, renewing, and revoking licenses. Obtaining such licenses and approvals will be time consuming and cannot be assured.

The State of Kansas owns and operates a state lottery, keno games, and state-owned Lottery Gaming Facilities for the benefit of the State. The Lottery Gaming Facility management contract approval process requires that any entity or person owning directly or indirectly one-half of one percent (0.5%) of the ownership interest of the management company must be found suitable to be an owner by the State of Kansas. The Kansas Supreme Court announced its ruling affirming the constitutionality of the Kansas Expanded Lottery Act (KELA) as the law was enacted. There can be no assurances that other constitutionality challenges will not occur.

As a condition to obtaining and maintaining our various gaming approvals, we must submit reports to the Indian Tribe and the respective federal and state regulatory Agencies (each, an "Agency"). Any person owning or acquiring directly or indirectly 5% or more of the Common Stock of the Company (the "Interest") must be found suitable by one or more of the Agencies or the Indian Tribes. Any Agency has the authority to require a finding of suitability with respect to any stockholder regardless of the percentage of ownership.

If found unsuitable by any Agency or the Indian Tribe, the stockholder must offer all of the Interest in Company stock held by such stockholder to the Company for cash at the current market bid price less a fifteen percent (15%) administrative charge and the Company must purchase such Interest within six months of the offer. The stockholder is required to pay all costs of investigation with respect to a determination of his/her suitability. In addition, regardless of ownership, each member of the Board of Directors and certain officers of the Company are subject to a finding of suitability by any Agency and the Indian Tribe.

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## **Financial Information about Industry Segments**

Information with respect to our industry segments are found at Note 10 of Notes to Consolidated Financial Statements for the two year period ended April 30, 2017.

## **Narrative Description of Business**

### **Aerospace Products**

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

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

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

**Aircraft Modification:** Our aircraft modifications are performed by Avcon Industries, Inc. ("Avcon"). Avcon modifies business-type aircraft in Newton, Kansas. Newton is geographically located in the Wichita, Kansas area, the air capital of the world. The modifications include aircraft conversion from passenger to freighter configuration, radar systems, addition of aerial photography capabilities, stability enhancing modifications for Learjets, and other special mission modifications. Avcon offers avionics, aerodynamic, and stability improvement products for selected business jet aircraft.

The Aircraft Modifications business derives its ability to modify aircraft from the authority granted by the Federal Aviation Administration ("FAA"). The FAA grants this authority by issuing a Supplemental Type Certificate ("STC") after a detailed review of the design, engineering, functional documentation, and demonstrated flight evaluation of the modified aircraft. The STC authorizes Avcon to build the required parts and assemblies under FAA Parts Manufacturing Authority ("PMA"), and to make the installations on applicable aircraft.

We own more than 250 STCs. When the STC is applicable to a multiple number of aircraft it is categorized as a Multiple-Use STC. These Multiple-Use STCs are considered a major asset of the Company. Some of the Multiple-Use STCs include Reduced Vertical Separation Minimums (RVSM), Beechcraft Cargo Door, Beechcraft Extended Door, Learjet AVCON FINS, Learjet Extended Tip Fuel Tanks, Learjet Weight Increase Package, Dassault Falcon 20 Cargo Door, ADS-B avionics systems, and many special mission modifications.

We operate FAA Authorized Repair Stations. The focus of our business includes the Learjet model 20, 30, 55 and 60 series, Beechcraft King Air, Cessna turbine engine, Cessna multi-engine piston, and Dassault Falcon 20 aircraft. The Repair Stations are a convenience for our customers bringing aircraft to us for modification and maintenance.

**Classic Aviation Products:** Our mission is to provide and support economical products for older aircraft, often referred to as "Classic" aircraft. As a result of more than 50 years in the aircraft switching unit business, we recognize the potential to support many aircraft in the last half of their expected service life. The business mission of the company promotes us as a designer and supplier of "Classic Aviation Products". A part of the Classic products are directed to supporting safety of flight for the older aircraft.

**Special Mission Electronics:** We supply defense-related commercial off the shelf products to various agencies and subcontractors. We provide our customers the opportunity to update or extend the useful life of products with older components and technology. These products include Gun Control Units (GCU) for the Apache and Blackhawk helicopters and other weapon products, including the Hangfire Override Modules (HOM) for all Boeing derived Chain-Gun® cannons, and various weapon-related firing controls, cabling, and test equipment. We have upgraded the design of the GCU and expect to expand sales of the Butler National upgraded GCU control systems to maintain the Apache and Blackhawk fleets and other military aircraft.

**Aircraft Fuel System Safety:** The FAA issued a Special Federal Aviation Requirement ("SFAR") No. 88 titled "Fuel Tank System Fault Tolerance Evaluation Requirements" applicable to turbine-powered aircraft certified to carry 30 or more passengers or a certified payload capacity of 7,500 pounds or more. SFAR-88 is now part of the fuel system safety regulations.

We worked with the Original Equipment Manufacturer to design the Butler National Transient Suppression Device ("TSD"). The TSD is approved and certified by the Federal Aviation Administration ("FAA") under STC number ST00846SE and is owned, manufactured, and marketed by us. The TSD is one solution to the requirements of AD 98-20-40 issued by the FAA to protect the aircraft main and/or auxiliary fuel tanks from hazardous energy levels introduced through the wiring of the FQIS.

### **Professional Services**

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

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

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

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On May 1, 2011 BHC Investment Company, LC ("BHCI") exercised the option to acquire 100% of the Class A Preferred Interest in BHCMC, LLC. The ownership structure of BHCMC, LLC is now:

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

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

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

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

BCS Design, Inc. ("BCS") provides licensed architectural services. These services include commercial and industrial building design.

Butler National Service Corporation ("BNSC") provides management services to the Boot Hill Casino, a "state-owned casino" and to The Stables, an "Indian owned casino".

**Patents and Trademarks:** We have no patents, trademarks, licenses, franchises, or concessions that need to be held to do business other than the FAA, PMA, and Repair Station licenses. We maintain certain airframe alteration certificates, commonly referred to as Supplemental Type Certificates ("STC's"), issued to us by the FAA, for the Aircraft Modification and Avionics businesses. The STC, PMA, and Repair Station licenses are not patents or trademarks. The FAA will issue an STC to anyone, provided that the person or entity documents and demonstrates to the FAA that a change to an aircraft configuration does not endanger the safety of flight. The PMA and Repair Station licenses are available to any person or entity, provided that the person or entity maintains the appropriate documentation and follows the appropriate manufacturing, repair and/or service procedures. The FAA requires the aircraft owner to have the STC document in the aircraft log after each modification is complete.

**Seasonality:** Our business is generally not seasonal.

**Customer Arrangements:** Except in isolated situations, no special inventory-storage arrangements, merchandise return and allowance policies, or extended payment practices are involved in our business.

We require deposits from our customers for aircraft modifications. We generally collect full payment for services before any modified aircraft is released. Long term projects, such as cargo door modifications and custom modifications projects, require interim payments from the customer.

**Governmental Regulations:** The Gaming and Aerospace industries are highly regulated and we must maintain our licenses, certifications and pay taxes and fees in the U.S. and other countries to continue our operations. Each of our facilities is subject to extensive regulation under the laws, rules and regulations of the jurisdiction where it is located. These laws, rules and regulations generally concern the responsibility, financial stability and character of the owners, managers, and persons with financial interest in the operations. Violations of laws or regulations in one jurisdiction could result in disciplinary action in other jurisdictions.

Our businesses are subject to various federal, state and local laws and regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning aircraft modifications, environmental matter, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future or new laws and regulations could be enacted. Material changes, new laws and regulations, or material differences in interpretations by the courts or governmental authorities

could adversely affect our operating results.

**Backlog:** Our backlog as of April 30, 2017 and 2016 was as follows:

| <b>Industry Segment</b> |              |             |
|-------------------------|--------------|-------------|
| (in thousands)          | <b>2017</b>  | <b>2016</b> |
| Aerospace Products      | \$10,591     | \$7,510     |
| Professional Services   | 224          | 94          |
| <br>Total backlog       | <br>\$10,815 | <br>\$7,604 |

Our backlog as of July 14, 2017 totaled \$11,433; consisting of \$11,221 and \$212, respectively, for Aerospace Products and Professional Services. The backlog includes firm pending and contract orders, which may not be completed within the next fiscal year. A portion of this backlog may be delivered after fiscal year 2018. This is standard for the industry in which modifications services and related contracts may take several months or years to complete. Such actions force backlog as additional customers request modifications, but must wait for other projects to be completed. There can be no assurance that all orders will be completed or that some may ever commence.

**Employees:** Other than persons employed by our gaming subsidiaries there were 86 full time and 2 part time employees on April 30, 2017 compared to 79 full time and 3 part time employees on April 30, 2016. As of July 14, 2017, staffing was 88 full time and 2 part time employees. Our staffing at Boot Hill Casino on April 30, 2017 was 180 full time and 81 part time employees and 179 full time employees and 52 part time employees on April 30, 2016. As of July 14, 2017 our staffing at Boot Hill Casino was 178 full time employees and 84 part time employees. None of the employees are subject to any collective bargaining agreements.

**Financial Information about Foreign and Domestic Operations, and Export Sales:** International sales are made through authorized installation centers and direct to foreign customers to be completed and included in domestic operations. The sales to our customers outside the U.S. consisted of approximately \$7.3 million in the year ended April 30, 2017 and \$4.5 million in the year ended April 30, 2016. Sales from international operations are subject to changes in domestic and foreign laws, regulations and controls. All sales are made in U.S. dollars.

**Executive Officers of the Registrant:** The following people are executive officers of the registrant:

R. Warren Wagoner, 65 years old, Chairman of the Board of Directors

Clark D. Stewart, 77 years old, President and Chief Executive Officer

Craig D. Stewart, 43 years old, Vice President

Christopher J. Reedy, 51 years old, Vice President and Secretary

Tad M. McMahon, 50 years old, Chief Financial Officer

**Available Information and Stock Exchange Information:** Our internet address is [www.butlernational.com](http://www.butlernational.com). The content on our website is available for informational purposes only. You should not rely upon such content for investment purposes and such content is not incorporated by reference into this Form 10-K.

We make available free of charge on or through our Internet website under the heading "Corporate" our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file, or furnish, such reports to the Securities and Exchange Commission. Stockholders may request free copies of these documents from us by writing to Butler National Corporation, 19920 West 161st Street, Olathe, Kansas 66062 or by calling 913-780-9595, or by sending an email request to [investorrelations@butlernational.com](mailto:investorrelations@butlernational.com).

**Competition:** Increased competition, including the entry of new competitors, the introduction of new products by new and existing competitors, or price competition, could have a materially adverse effect on the Company. Additionally, because of the rapid rate at which the gaming industry has expanded, and continues to expand, the gaming industry may be at risk of market saturation, both as to specific areas and generally. Overbuilding of gaming facilities by others at particular sites chosen by us may have a material adverse effect on our ability to compete and on our operations.

**Regulatory Matters:** Our businesses are heavily regulated in most of our markets. We deal with numerous U.S. government agencies and entities, including but not limited to the Federal Aviation Administration ("FAA") and similar government authorities in our international markets.

**Aviation:** In the U.S., our aircraft products are required to comply with FAA regulations governing production and quality systems, airworthiness and installation approvals, repair procedures and continuing operational safety. Internationally, similar requirements exist for airworthiness, installation and operations approvals. These requirements are generally administered by the national aviation authorities of each country.

**Raw Materials:** We are highly dependent on the availability of essential materials and parts from our suppliers. The most important raw material required for our aerospace products is aluminum (sheet and plate). Alternative sources generally exist for these raw materials. Our raw material and parts are procured from a number of companies.

**Suppliers:** We are dependent upon the ability of a number of suppliers to meet performance specifications, quality standards and delivery schedules at our anticipated costs. Failure of suppliers to meet commitments could adversely affect production schedules and program/contract profitability, thereby jeopardizing our ability to fulfill commitments to our customers.

## Item 1A. RISK FACTORS

Statements made in this report, the Annual Report on Form 10-K the Annual Report to Stockholders in which this report is made a part, 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 this Item 1A. Risk Factors 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.

**Defense Spending:** Budget control acts implemented by various governments may result in reduced government funding for the defense industry. The impact of any resulting reductions in defense appropriations, and/or reduction in spending could negatively affect the Company's revenues for our avionics defense products in the Aerospace segment.

**General Governmental Regulations of Financial Reporting:** The Company reports information to its stockholders and the general public pursuant to the regulations of various Federal and State Commissions and Agencies. These regulations require conformance by the Company to Generally Accepted Accounting Principles, to pronouncements of the Public Company Accounting Oversight Board ("PCAOB"), and to accounting and reporting directives issued by the commissions and agencies. The political and regulatory environment in which the Company is operating is dynamic and rapidly changing. Adoption and/or changes in regulations defining accounting procedures or reporting requirements could have a materially adverse effect on the Company. The Company depends upon the financial institutions and capital markets for financing to continue operations and to finance and develop new opportunities.

**General Governmental Regulation of Gaming:** The approved and proposed gaming management operations are and will be subject to extensive gaming laws and regulations, many of which were recently adopted and have not been the subject of definitive interpretations and are still subject to proposed amendments and regulation. The political and regulatory environment in which the Company is and will be operating, with respect to gaming activities on both non-Indian and Indian land, is dynamic and rapidly changing. Adoption and/or changes in gaming laws and regulations could have a materially adverse effect on the Company. Interference with the execution of the steps defined by the gaming laws and regulations by interested third parties, although not included by the regulations, may

interfere with and or significantly slow the approval process.

**Fuel and Energy Costs:** Our business depends on use of the aircraft for business transportation, freight transportation, and many special mission applications. Should our customers be unable to purchase fuel and energy and/or be unable to pass on disproportionate costs to their customers, the use of business and military aircraft by our customers may be curtailed. The value of the aircraft related assets would decrease and the revenue related to the aircraft equipment and modifications would decrease. These events could have a material adverse effect on our Company. Our gaming business depends on the use of automotive fuels to travel to our locations in agricultural communities. Should our customers determine that fuel is too expensive or not available to travel, our gaming business may be curtailed.

**National Economy and Financing:** The status of the national economy and its slow growth outlook could be disproportionately affected by volatility and disruption of capital and credit markets and adverse changes in the global economy any of which could negatively impact our financial performance and our ability to access financing. The ongoing credit and liquidity crisis has restricted the availability of capital and has caused capital (if available) to be much higher cost than it has traditionally been.

Adverse conditions in the local, regional, national and global markets have negatively affected our operations, and may continue to negatively affect our operations in the future. During periods of economic contraction, our revenues may decrease while some of our costs remain fixed or even increase, resulting in decreased earnings. The Gaming and Aviation activities that we offer represent discretionary expenditures and participation in such activities may decline during economic downturns, during which consumers generally earn less disposable income. Even an uncertain economic outlook may adversely affect consumer spending in our gaming operations and related facilities, as consumers spend less in anticipation of a potential economic downturn. Furthermore, other uncertainties, including national and global economic conditions, terrorist attacks or other global events, could adversely affect consumer spending and adversely affect our operations.

**War, Terrorism and Natural Disasters:** Acts of terrorism and war, natural disasters and severe weather may negatively impact our future profits.

Terrorist attacks and other acts of war or hostility create many economic and political uncertainties. We cannot predict the extent to which terrorism, security alerts or war, or hostilities throughout the world will continue to directly or indirectly impact our business and operating results. As a consequence of the threat of terrorist attacks and other acts of war or hostility in the future, premiums for a variety of insurance products have increased, and some types of insurance are no longer available. Given current conditions in the global insurance markets, we are substantially uninsured for losses and interruptions caused by terrorist acts and acts of war. If any such event were to affect our properties, we would likely be adversely impacted.

In addition, natural disasters such as major fires, floods, tornados, hurricanes and earthquakes could also adversely impact our business and operating results. Such events could lead to the loss of use of one or more of the facilities for which we provide management services for an extended period of time and disrupt our ability to attract customers to certain of our gaming facilities. If any such event were to affect our properties, we would likely be adversely impacted.

In most situations, we have insurance that should provide coverage for portions of any losses from a natural disaster, but it is subject to deductibles and maximum payouts in many cases. Although we may be covered by insurance from a natural disaster, the timing of our receipt of insurance proceeds, if any, is beyond our control.

**Key Personnel:** Our inability to retain key personnel may be critical to our ability to achieve our objectives. Key personnel are particularly important in maintaining relationships with Indian Tribes and with the operations licensed by the FAA, State of Kansas and the NIGC. Loss of any such personnel could have a materially adverse effect on the Company.

Our success depends heavily upon the continued contributions of these key persons, whose knowledge, leadership and technical expertise would be difficult to replace, and on our ability to attract and retain experienced professional staff. We have an employment agreement with our CEO. If we were to lose the services of key persons, our ability to execute our business plan would be harmed and we may be forced to cease operations until such time as we could hire suitable replacements.

**Competition:** Increased competition, including the entry of new competitors, the introduction of new products by new and existing competitors, or price competition, could have a materially adverse effect on the Company. Additionally, because of the rapid rate at which the gaming industry has expanded, and continues to expand, the gaming industry may be at risk of market saturation, both as to specific areas and generally. Overbuilding of gaming facilities by others at particular sites chosen by us may have a material adverse effect on our ability to compete and on our operations.

**Major Customers:** The termination of contracts with major customers or renegotiation of these contracts at less cost-effective terms could have a materially adverse effect on the Company. Irregularities in financial accounting procedures, financial reporting requirements and regulatory reporting requirements could cause major customers to become unstable and be unable to complete business transactions which could have a materially adverse effect on the Company. We had one "major customer" (10 percent or more of consolidated revenue) that provided 10.5% of total sales. During the fiscal year ending April 30, 2017 we derived 25.2 % of our revenue from five customers.

**Product Development:** Difficulties or delays in the development, production, testing and marketing of products, could have a materially adverse effect. Our Aerospace business is subject, in part, to regulatory procedures and administration enacted by and/or administered by the FAA. Accordingly, our business may be adversely affected in the event the Company is unable to comply with such regulations relative to its current products and/or if any new products and/or services to be offered by the Company are not formally approved by such agency. Our proposed new

aviation modification products depend upon the issuance by the FAA of a Supplemental Type Certificate with related parts manufacturing authority and repair station license which may not be issued in the time frames we expect or at all.

**International Sales:** Our international sales may be subject to local government laws, regulations and procurement policies and practices which may differ from U.S. Government regulation, including regulations related to products being installed on aircraft, exchange controls, as well to varying currency, geo-political and economic risks. We also are exposed to risks associated with any relationships with foreign representatives, consultants, partners and suppliers for international sales and operations. Our ability to arrange safe travel to visit our international customers may put our ability to sell in the international market at risk.

**Adverse Actions:** Adverse actions by regulators, state and local governments, customers, competitors, and/or professionals engaged to regulate or to serve us may cause project delays and excessive administrative costs that are not controlled by us.

**Administrative Expenditures:** Higher service, administrative, additional regulatory requirements, or general expenses occasioned by the need for additional legal, consulting, advertising, marketing, or administrative expenditures may decrease income to be recognized by the Company.

**Strategic Acquisitions and Investments:** We continually review, evaluate and consider potential investments and acquisitions in pursuing our business strategy. In evaluating such transactions, we are making difficult judgments regarding the value of business opportunities, technologies and other assets, and the risk and cost of potential liabilities. Acquisitions and investments involve certain other risks and uncertainties, including the difficulty in integrating newly-acquired businesses, the challenges in reaching our strategic objectives and other benefits expected from acquisitions or investments. Other risks include the diversion of our attention and resources from our current operations, the potential of impairment of acquired assets and the potential loss of key employees of acquired businesses.

**Joint Ventures and Other Arrangements:** We have entered, and may continue to enter, into joint venture and other arrangements. These activities involve risk and uncertainties, including the risk of the joint venture or applicable entity failing to satisfy its obligations, which may result in certain liabilities to us for guarantees or other commitments. Additional risks involve the challenges in achieving strategic objectives and expected benefits of the business arrangement, including the risk of conflicts arising between us and others and the difficulty of managing and resolving such conflicts and the difficulty of managing or otherwise monitoring such business arrangements.

**Impairment of Intangible Property:** We evaluate intangible assets for impairment annually during the fourth quarter and in any interim period in which circumstances arise that indicate our intangible asset may be impaired. Indicators of impairment include, but are not limited to, the loss of significant business and, or significant adverse changes in industry or market conditions. No events occurred during the periods presented that indicated the existence of an



impairment with respect to our intangible assets. Preparation of forecasts for use in the long-range plan and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders and general market conditions. Significant changes in these forecasts or the discount rate selected could affect the estimated fair value and could result in an impairment charge in a future period.

**Low-Priced Penny Stock:** Because our common stock is deemed a low-priced "Penny" stock, an investment in our common stock should be considered high risk and subject to marketability restrictions.

Since our common stock is a penny stock, as defined in Rule 3a51-1 under the Securities Exchange Act, it will be more difficult for investors to liquidate their investment even if and when a market develops for the common stock. Until the trading price of the common stock rises above \$5.00 per share, if ever, trading in the common stock is subject to the penny stock rules of the Securities Exchange Act specified in Rules 15g-1 through 15g-10. Those rules require broker-dealers, before effecting transactions in any penny stock, to:

- Deliver to the customer, and obtain a written receipt for, a disclosure document;
- Disclose certain price information about the stock;
- Disclose the amount of compensation received by the broker-dealer or any associated person of the broker-dealer;
- Send monthly statements to customers with market and price information about the penny stock; and
- In some circumstances, approve the purchaser's account under certain standards and deliver written statements to the customer with information specified in the rules.

Consequently, the penny stock rules may restrict the ability or willingness of broker-dealers to sell the common stock and may affect the ability of holders to sell their common stock in the secondary market and the price at which such holders can sell any such securities. These additional procedures could also limit our ability to raise additional capital in the future.

**Governance:** Some provisions of our Articles of Incorporation and Bylaws could make it more difficult for a potential acquirer to acquire a majority of our outstanding voting stock. This includes, but is not limited to, provisions that: provide for a classified Board of Directors, prohibit stockholders from taking action by written consent, and restrict the ability of stockholders to call special meetings. We are also subject to provisions of Kansas law K.S.A. 17-6427 that prohibit us from engaging in any business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder, unless certain conditions are met, which could have the effect of delaying or preventing a change of control.

**Regulation Under Federal Aviation Administration:** Our Aerospace business is subject to regulation by the Federal Aviation Administration ("FAA"). We manufacture products and parts under FAA Parts Manufacturing Authority (PMA) requiring qualification and traceability of all materials and vendors used by us. We make aircraft modifications pursuant to the authority granted by Supplemental Type Certificates issued by the FAA. We repair aircraft parts pursuant to the authority granted by our FAA Authorized Repair Station. Violation or changes to FAA regulations could be detrimental to our operations.

**Licensing and Regulation under Federal Indian Law:** Gaming on Indian land is extensively regulated by Federal, State, and Tribal governments and authorities. Regulatory changes could limit or otherwise materially affect the types of gaming that may be conducted on Indian Land. All aspects of our business operations on Indian Lands are subject to approval, regulation, and oversight by the Bureau of Indian Affairs ("BIA"), the Secretary of the United States Department of the Interior ("Secretary"), and the National Indian Gaming Commission ("NIGC"). Our management of Class III gaming operations is also subject to approval of a Class III Gaming Compact between the Indian Tribe and the respective state. Failure to comply with applicable laws or regulations, whether Federal, State or Tribal, could result in, among other things, the termination of any management agreements which would have a material adverse effect on us. We are also required to comply with background checks as specified in Tribal-State Compacts before we can manage gaming operations on Indian land. There can be no assurance that we would continue to be successful in obtaining the necessary regulatory approvals for our gaming operations on a timely basis, or at all.

**Licensing and Regulation under State Law:** Our present and future stockholders are and will continue to be subject to review by regulatory agencies. Gaming licenses and/or background investigations ("license") are required in connection with our management of a State of Kansas owned Lottery Gaming Facility (a casino). Our management personnel, Butler National and/or the managing subsidiaries, the key personnel of all entities may be required to have a Lottery Gaming Facility gaming license prior to conducting operations. The failure of the Company or the key personnel to obtain or retain a license could have a material adverse effect on the Company or on its ability to obtain or retain these licenses in other jurisdictions. Each such State Gaming Agency has broad discretion in granting, renewing, and revoking licenses. Obtaining such licenses and approvals will be time consuming and may be unsuccessful.

The State of Kansas has approved state-owned Lottery Gaming Facilities, pari-mutuel dog and/or horse racing for non-Indian organizations. The State of Kansas operates a state lottery, keno games and state-owned Lottery Gaming Facilities for the benefit of the State. The Lottery Gaming Facility management contract approval process requires that any entity or person owning directly or indirectly one-half of one percent (0.5%) of the ownership interest of the management company must be found suitable to be an owner by the State of Kansas. The Kansas Supreme Court announced its ruling affirming the constitutionality of the Kansas Expanded Lottery Act (KELA) as the law was enacted, although other constitutionality challenges may occur.

As a condition to obtaining and maintaining our various gaming approvals, we must submit reports to the Indian Tribe and the respective federal and state regulatory Agencies (each, an "Agency"). Any person owning or acquiring directly or indirectly 5% or more of the Common Stock of the Company (the "Interest") must be found suitable by one or more of the agencies or the Indian Tribes. Any Agency has the authority to require a finding of suitability with respect to any stockholder regardless of the percentage of ownership.

If found unsuitable by any Agency or the Indian Tribe, the stockholder must offer all of the Interest in Company stock held by such stockholder to the Company for cash at the current market bid price less a fifteen percent (15%) administrative charge and the Company must purchase such Interest within six months of the offer. The stockholder is required to pay all costs of investigation with respect to a determination of his/her suitability. In addition, regardless of ownership, each member of the Board of Directors and certain officers of the Company are subject to a finding of

suitability by any Agency and the Indian Tribe on a regular basis.

**We are Subject to Extensive Taxation Policies, Which may Harm our Business:** The federal government has, from time to time, considered a federal tax on casino revenues and may consider such a tax in the future. If such an increase were to be enacted, our ability to incur additional indebtedness in the future to finance casino development projects could be materially and adversely affected. In addition, gaming companies are currently subject to significant state and local taxes and fees, in addition to normal federal and state corporate income taxes, and such taxes and fees are subject to increase at any time.

Boot Hill Casino, pursuant to its Management Contract with the State of Kansas pays total taxes between 27% and 31% of gross gaming revenue, based on achievement of the following revenue levels: 27% on gross gaming revenue up to \$180 million, 29% on amounts from \$180 million to \$220 million, and 31% on amounts above \$220 million in gross gaming revenue. Boot Hill Casino is contractually obligated to pay its proportionate share of certain expenses incurred by the Kansas Lottery Commission and the Kansas Racing and Gaming Commission, which amounted to \$2.5 million during fiscal year ended April 30, 2017.

#### **Item 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **Item 2. PROPERTIES**

##### **Corporate:**

Our corporate headquarters are located in a 9,000 square foot owned facility for office and storage space at 19920 West 161st Street, in Olathe, Kansas.

##### **Aerospace Products (dollars in thousands):**

Butler National Corporation has an office and manufacturing operations at 4654 South Ash Ave, Tempe, Arizona in a 16,110 square foot owned facility.

Butler Avionics, Inc. is located at 280 Gardner Dr., Ste. 3, New Century, Kansas in a 19,500 square foot facility with annual rent of approximately \$179.

Avcon Industries, Inc. is located at 714 North Oliver Road, Newton, Kansas, in a 47,000 square foot leased facility of hangar and office space at the municipal airport in Newton, Kansas, at an annual rent of approximately \$157.

Butler National Aircraft Certification Center is located at One Aero Plaza, New Century, Kansas in a 36,000 square foot facility with hangar space at the New Century Airport in New Century, Kansas. The annual rent is approximately \$48.

**Professional Services (dollars in thousands):**

BHCMC, LLC is located at 4000 W. Comanche in Dodge City, Kansas in a 60,000 square feet building known as the Boot Hill Casino facility at an annual rent of \$4,793 in fiscal year ended April 30, 2017 and \$4,745 in fiscal year ended April 30, 2016.

BHCMC, LLC has an administration center located at 2601 N. 14th Avenue in Dodge City, Kansas in a 29,000 square foot owned facility.

BCS Design, Inc. is located at 19930 W. 161<sup>st</sup>, Olathe, Kansas in a 10,800 square foot owned facility.

Management believes our properties have been well maintained, are suitable and adequate for us to operate at present levels, and the current productive capacity. The utilization of these facilities is appropriate for our existing real estate requirements. However, significant increases in customer orders, changes in product lines, and/or future acquisitions may require expansion of our current properties or the addition of new properties.

**Item 3. LEGAL PROCEEDINGS**

As of July 14, 2017, 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 4. MINE SAFETY DISCLOSURES.**

Not applicable.

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**PART II**

**Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

**COMMON STOCK (BUKS):**

(a) **Market Information:** Our shares are exclusively quoted on OTCQB platform under the symbol "BUKS".

The range of the high and low bid prices per share of the common stock, for fiscal years 2017 and 2016, as reported by OTC Markets Group, is set forth below. Such market quotations reflect intra-dealer prices, without retail mark-up, markdown or commissions, and may not necessarily represent actual transactions.

|                       | <b>Year Ended</b> |             | <b>Year Ended</b> |             |
|-----------------------|-------------------|-------------|-------------------|-------------|
|                       | <b>April 30,</b>  |             | <b>April 30,</b>  |             |
|                       | <b>2017</b>       |             | <b>2016</b>       |             |
|                       | <b>Low</b>        | <b>High</b> | <b>Low</b>        | <b>High</b> |
| <b>First quarter</b>  | \$0.14            | \$0.21      | \$0.16            | \$0.27      |
| <b>Second quarter</b> | \$0.17            | \$0.22      | \$0.16            | \$0.24      |
| <b>Third quarter</b>  | \$0.16            | \$0.31      | \$0.13            | \$0.20      |
| <b>Fourth quarter</b> | \$0.17            | \$0.48      | \$0.13            | \$0.23      |

(b) **Holders:** The approximate number of holders of record of our common stock, as of July 14, 2017, was 2,800. The price of the stock as of July 14, 2017 was approximately \$0.32 per share.

(c) **Dividends:** We have not paid any cash dividends on common stock, and the Board of Directors does not expect to declare any cash dividends in the foreseeable future.

**SECURITIES CONVERTIBLE TO COMMON STOCK:**

As of July 14, 2017 there were no Convertible Preferred shares or Convertible Debenture notes outstanding.

**Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities**

| <b>Period</b>                      | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>Maximum<br/>Number (or<br/>Approximate<br/>Dollar<br/>Value)<br/>of Shares<br/>that May Yet<br/>be<br/>Purchased<br/>under the<br/>Plans or<br/>Programs</b> |
|------------------------------------|---|---|---|
|                                    | <b>(a)</b>  | <b>(b)</b>  | <b>(c)</b>  |
| May 1, 2016 through April 30, 2017 | 0   | \$ 0.00   | \$ 0.00   |
| Total                              | 0   | \$ 0.00   | \$ 0.00   |

**STOCK REPURCHASE PROGRAM**

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

The table below provides information with respect to common stock purchases by the Company during the year ended April 30, 2017.

| <b>Period</b>    | <b>Total Number of<br/>Shares Purchased (a)</b> | <b>Average Price<br/>Paid per Share</b> | <b>Total Number of Shares Purchased as Part of<br/>Publicly Announced Plans or Programs</b> | <b>Approximate<br/>Dollar Value<br/>of Shares<br/>That May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</b> |
|------------------|---|---|---|---|
| December<br>2016 | 0   | \$ 0.00                                 | 0   | \$ 500  |
| January<br>2017  | 49,920  | \$ 0.20                                 | 49,920  | \$ 490  |

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|               |         |         |         |        |
|---------------|---------|---------|---------|--------|
| February 2017 | 0       | \$ 0.00 | 0       | \$ 490 |
| March 2017    | 0       | \$ 0.00 | 0       | \$ 490 |
| April 2017    | 80,426  | \$ 0.27 | 80,426  | \$ 468 |
| Total         | 130,346 | \$ 0.25 | 130,346 |        |

(a) 49,920 shares of common stock purchased were purchased through a private transaction.

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**Item 6. SELECTED FINANCIAL DATA**

The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Results of Operations and Financial Condition", and with the Consolidated Financial Statements and related Notes included elsewhere in this report.

|   | <b>Year Ended April 30</b>                  |             |             |             |             |
|---|---|-------------|-------------|-------------|-------------|
|   | <b>(In thousands except per share data)</b> |             |             |             |             |
|   | <b>2017</b>                                 | <b>2016</b> | <b>2015</b> | <b>2014</b> | <b>2013</b> |
| Total revenues  | \$50,619                                    | \$44,794    | \$47,062    | \$47,271    | \$49,152    |
| Operating income  | \$3,500                                     | \$622       | \$1,319     | \$1,921     | \$1,503     |
| Net income (loss) attributable to Butler National Corporation | \$1,534                                     | \$24        | \$27        | \$112       | \$(148 )    |
| Basic earnings per common share                               | \$0.02                                      | \$0.00      | \$0.00      | \$0.00      | \$0.00      |
| <b>Selected Balance Sheet Information</b>                     |   |             |             |             |             |
| Total assets  | \$42,778                                    | \$42,697    | \$41,598    | \$41,678    | \$43,860    |
| Long-term obligations (excluding current maturities)          | \$3,347                                     | \$5,218     | \$6,870     | \$6,820     | \$10,155    |
| Cash dividends declared per common share                      | None  | None        | None        | None        | None        |

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management Discussion and Analysis (MD&A) is intended to help the reader understand our results of operations and financial condition. This MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to the consolidated financial statements (Notes).

Our fiscal year ends on April 30. Fiscal years 2017 and 2016 consisted of 52 weeks and ended on April 30, 2017 and April 30, 2016, respectively. All references to years in this MD&A represent fiscal years unless otherwise noted.

## **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 revenues from product and service innovations, strategic acquisitions, and targeted marketing programs.

Our revenues are primarily derived from two very different business segments; Aerospace Products and Professional Services. These segments operate through various Butler National subsidiaries and affiliates listed on Exhibit 21 of this Form 10-K.

### **Aerospace Products**

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

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

Aerospace continues to be a focus for new product design and development. Butler National received FAA approvals of a number of products: Butler National's newly redesigned rate gyroscope for Learjets; the replacement vertical accelerometer safety device that resolves obsolescence as a key component of the legacy Learjet stall warning systems; Butler National's addition of the GARMIN GTN 650/750 Global Position System Navigator with Communication transceiver in the Learjet Model 50 series, 30 series and 20 series, Avcon's new cargo/sensor carrying pod that mounts to the bottom of a King Air Model 90 airplane, and the provisions for external stores on a Learjet Model 60 to enable the 60 for consideration as the next Learjet candidate for special mission operations; and noise suppression for Learjet 20 series aircraft. We expect this segment will continue to grow in the future. To address the three to five year business cycles related to the Aerospace industry, in the 1990's, we began providing Professional Services to markets outside the Aerospace industry.

### **Professional Services**

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

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

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

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

## Results Overview

Our fiscal 2017 revenue increased 13% to \$50.6 million compared to \$44.8 million in fiscal 2016. In fiscal 2017 the Professional Services revenue increased 4%. There was an increase of 32% in the Aerospace Products revenue in fiscal 2017.

Our fiscal 2017 net income was \$1,534 compared to net income of \$24 in fiscal 2016. Earnings per share was \$0.02 for fiscal 2017 compared to \$0.00 in fiscal 2016. We continue focusing on our margin expansion initiatives, including efficiencies in our implementation and operational processes and controlling general and administrative expenses. The fiscal 2017 operating income was 7%, an increase from our margin of 2% in fiscal 2016.

## RESULTS OF OPERATIONS

### Fiscal 2017 compared to Fiscal 2016

|                        |          | Percent  |            | Percent  |           | Percent |  |
|------------------------|----------|----------|------------|----------|-----------|---------|--|
| (dollars in thousands) | 2017     | of Total | 2016       | of Total | Change    |         |  |
|                        |          | Revenue  |            | Revenue  | 2016-2017 |         |  |
| Revenue:               |          |          |            |          |           |         |  |
| Professional Services  | \$30,849 | 61       | % \$29,784 | 66       | % 4       | %       |  |
| Aerospace Products     | 19,770   | 39       | % 15,010   | 34       | % 32      | %       |  |

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|                                   |         |     |   |        |     |   |     |   |
|-----------------------------------|---------|-----|---|--------|-----|---|-----|---|
| Total revenues                    | 50,619  | 100 | % | 44,794 | 100 | % | 13  | % |
| Costs and expenses:               |         |     |   |        |     |   |     |   |
| Cost of Professional Services     | 19,126  | 38  | % | 17,872 | 40  | % | 7   | % |
| Cost of Aerospace Products        | 14,547  | 29  | % | 12,173 | 27  | % | 20  | % |
| Marketing and advertising         | 4,276   | 8   | % | 4,562  | 10  | % | -6  | % |
| Employee benefits                 | 1,972   | 4   | % | 1,889  | 4   | % | 4   | % |
| Depreciation and amortization     | 1,985   | 4   | % | 2,174  | 5   | % | -9  | % |
| General, administrative and other | 5,213   | 10  | % | 5,502  | 12  | % | -5  | % |
| Total costs and expenses          | 47,119  | 93  | % | 44,172 | 98  | % | 7   | % |
| Operating income                  | \$3,500 | 7   | % | \$622  | 2   | % | 463 | % |

**Revenue:**

**Revenue** increased 13% to \$50.6 million in fiscal 2017, compared to \$44.8 million in fiscal 2016. 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 through BCS Design ("BCS"). Revenue from Professional Services increased 4% to \$30.8 million in fiscal 2017 compared to \$29.8 million in fiscal 2016.

Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 32% to \$19.8 million in fiscal 2017 compared to \$15.0 million in fiscal 2016.

**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 7% in fiscal 2017 to \$47.1 million compared to \$44.2 million in fiscal 2016. Costs and expenses were 93% of total revenue in fiscal 2017, compared to 98% of total revenue in fiscal 2016.

**Marketing and advertising expenses** as a percent of total revenue was 8% in fiscal 2017, as compared to 10% in fiscal 2016. These expenses decreased 6% to \$4.3 million in fiscal 2017, from \$4.6 million in fiscal 2016. 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 4% in fiscal 2017, compared to 4% in fiscal 2016. These expenses increased 4% to \$2.0 million in fiscal 2017, from \$1.9 million in fiscal 2016. 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** as a percent of total revenue was 4% in fiscal 2017, compared to 5% in fiscal 2016. These expenses decreased 9% to \$2.0 million in fiscal 2017, from \$2.2 million in fiscal 2016. 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 fiscal 2017 was \$1.4 million compared to \$1.4 million in fiscal 2016.

**General, administrative and other expenses** as a percent of total revenue was 10% in fiscal 2017, compared to 12% in fiscal 2016. These expenses decreased 5% to \$5.2 million in fiscal 2017, from \$5.5 million in fiscal 2016.

**Other income (expense):**

**Interest and other expenses** were \$419 in fiscal 2017 compared with interest and other expenses of \$450 in fiscal 2016, a decrease of \$31, from fiscal 2016 to fiscal 2017. In fiscal year 2016, a gain on the sale of an aircraft was recognized in the amount of \$732.

**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 fiscal years 2017 and 2016:

| (dollars in thousands) | <b>2017</b> | <b>Percent<br/>of</b> | <b>2016</b> | <b>Percent<br/>of</b> | <b>Percent<br/>Change</b> |
|------------------------|-------------|-----------------------|-------------|-----------------------|---------------------------|
|------------------------|-------------|-----------------------|-------------|-----------------------|---------------------------|

|   | Revenue  |     |   | Revenue  |     |   | 2016-2017 |   |
|---|----------|-----|---|----------|-----|---|-----------|---|
| <b>Professional Services</b>  |          |     |   |          |     |   |           |   |
| Revenue   |          |     |   |          |     |   |           |   |
| Boot Hill Casino  | \$30,269 | 98  | % | \$29,143 | 98  | % | 4         | % |
| Management/Professional Services  | 580      | 2   | % | 641      | 2   | % | -10       | % |
| Revenue   | 30,849   | 100 | % | 29,784   | 100 | % | 4         | % |
| Costs of Professional Services  | 19,126   | 62  | % | 17,872   | 60  | % | 7         | % |
| Expenses  | 10,101   | 33  | % | 10,315   | 35  | % | -2        | % |
| Total costs and expenses  | 29,227   | 95  | % | 28,187   | 95  | % | 4         | % |
| Professional Services operating income before noncontrolling interest in BHCMC, LLC | \$1,622  | 5   | % | \$1,597  | 5   | % | 2         | % |

| (dollars in thousands)                     | 2017     | Percent<br>of<br>Revenue | 2016       | Percent<br>of<br>Revenue | Percent<br>Change<br>2016-2017 |   |
|--|----------|--------------------------|------------|--------------------------|--------------------------------|---|
| <b>Aerospace Products</b>                  |          |                          |            |                          |                                |   |
| Revenue                                    | \$19,770 | 100                      | % \$15,010 | 100                      | % 32                           | % |
| Costs of Aerospace Products                | 14,547   | 74                       | % 12,173   | 81                       | % 20                           | % |
| Expenses                                   | 3,345    | 17                       | % 3,812    | 25                       | % -12                          | % |
| Total costs and expenses                   | 17,892   | 91                       | % 15,985   | 106                      | % 12                           | % |
| Aerospace Products operating income (loss) | \$1,878  | 9                        | % \$-975   | -6                       |                                |   |

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## **Professional Services**

Revenue from Professional Services increased 4% to \$30.8 million in fiscal 2017 from \$29.8 million in fiscal 2016. The increase in Professional Services revenue was driven primarily by an increased revenue in gaming activities of \$861.

In fiscal 2017 Boot Hill Casino received gross receipts for the State of Kansas of \$40.2 million compared to \$39.3 million in fiscal 2016. Mandated fees, taxes and distributions reduced gross receipts by \$13.4 million resulting in gaming revenue of \$26.8 million in fiscal 2017 compared to \$25.9 million in fiscal 2016, an increase of 3%. Non-gaming revenue at Boot Hill Casino increased to \$3.5 million in fiscal 2017 compared to \$3.2 million in fiscal 2016.

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 10% to \$580 in fiscal 2017 compared to \$641 in fiscal 2016.

Costs increased 7% in fiscal 2017 to \$19.1 million compared to \$17.9 million in fiscal 2016. Costs were 62% of segment total revenue in fiscal 2017, compared to 60% of segment total revenue in fiscal 2016.

Expenses decreased 2% in fiscal 2017 to \$10.1 million compared to \$10.3 million in fiscal 2016. Expenses were 33% of segment total revenue in fiscal 2017, compared to 35% of segment total revenue in fiscal 2016.

## **Aerospace Products**

Revenue increased 32% to \$19.8 million in fiscal 2017 compared to \$15.0 million in fiscal 2016. 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 increased 20% to \$14.5 million in fiscal 2017 compared to \$12.2 million in fiscal 2016. Costs were 74% of segment total revenue in fiscal 2017, compared to 81% of segment total revenue in fiscal 2016.

Expenses decreased 12% in fiscal 2017 to \$3.3 million compared to \$3.8 million in fiscal 2016. Expenses were 17% of segment total revenue in fiscal 2017, compared to 25% of segment total revenue in fiscal 2016.



**Liquidity and Capital Resources (in thousands)**

At April 30, 2017, the Company was utilizing promissory note in the form of a line of credit totaling \$5.0 million. The unused line at April 30, 2017 was \$2.4 million. During the current year these funds were primarily used for the purchase of inventory and aircraft modification STC development for the modifications and avionics operations.

The line of credit is due on demand and is collateralized by a first and second position on all assets of the Company.

At April 30, 2017, there were two notes collateralized by aircraft security agreements totaling \$458. These notes were used for the purchase and modification of these collateralized aircraft.

There are three notes at a bank totaling \$567 for real estate located in Olathe, Kansas and Tempe, Arizona. The due date for these notes is March 2019.

At April 30, 2017, there is one note for equipment with a balance of \$98. This note matures in April 2022.

One note for \$276 remains for real estate purchased in Dodge City, Kansas. This note matures in June 2019.

BHCMC arranged to acquire additional gaming machines for ownership by the Kansas Lottery. The balance of these financed payables is \$685.

There is one note at a bank totaling \$3.6 million. 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 April 30, 2017 or July 14, 2017.

We believe that our current banks will provide the necessary capital for our business operations. However, we continue to maintain contact with other banks that have an interest in funding our working capital needs to continue our growth in operations in 2017 and beyond.

### **Analysis and Discussion of Cash Flow**

During fiscal 2017 our cash position decreased by \$992. Net income was \$2.3 million. Cash flows from operating activities provided \$6.0 million. Non-cash activities consisting of depreciation and amortization contributed \$3.4 million, 401(k) stock issues contributed \$251, stock issued to directors contributed \$25, and deferred income taxes contributed \$179. Accounts receivable decreased our cash position by \$2.5 million. Inventories increased our cash position by \$1.1 million. Customer deposits, accrued liabilities, and gaming facility mandated payments increased our cash position by \$1.4 million. Prepaid expenses decreased our cash by \$66, while a decrease in accounts payable decreased our cash by an additional \$99.

Cash used in investing activities was \$3.2 million. We invested \$176 to enhance an aircraft, \$669 towards STCs, \$1.1 million on a building, and \$1.3 million on equipment purchases.

Cash used in financing activities was \$3.8 million. We reduced our debt by \$2.0 million while reducing our line of credit \$1.4 million. We distributed \$360 to our non-controlling member.

### **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 Discussion and Analysis of Financial Condition and Results of Operations." In addition, Note 1 to the consolidated financial statements expands upon discussion of our accounting policies.

**Revenue Recognition:** Generally, we perform aircraft modifications under fixed-price contracts. Revenue 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.

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 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.

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 for.

**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, the valuation, and recognition of stock-based compensation expense, valuation for deferred tax assets and useful life of fixed assets.

**Long-lived Assets:** The Company accounts for its long-lived assets in accordance with ASC Topic 360-10, formerly SFAS No. 144 "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 2017. From fiscal year 2016 to fiscal year 2017 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 labor rates, fuel costs and possibly interest rates to rise in fiscal 2018 and 2019.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

### Contractual Obligations:

#### Tabular Disclosure of Contractual Obligations

##### Payments Due By Period (Dollars in thousands)

| Contractual Obligations        | Total   | Less than 1 Year | 2 Years FY 2019 | 3 Years FY 2020 | 4 Years FY 2021 | 5 Years FY 2022 | Thereafter |
|--------------------------------|---------|------------------|-----------------|-----------------|-----------------|-----------------|------------|
| Long-term debt                 | \$5,644 | \$2,297          | \$1,612         | \$1,589         | \$124           | \$22            | \$ -       |
| Operating rent obligations     | 230     | 175              | 40              | 8               | 7               | -               | -          |
| BHCR Facility rent obligations | 93,025  | 4,841            | 4,889           | 4,938           | 4,987           | 5,037           | 68,333     |
| Promissory notes               | 2,604   | 2,604            | -               | -               | -               | -               | -          |

**TOTAL** \$101,503 \$9,917 \$6,541 \$6,535 \$5,118 \$5,059 \$68,333

## Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Sensitivity

The table below provides information about our other financial instruments that are sensitive to changes in interest rates including debt obligations.

For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. Weighted average variable rates are based on implied forward rates based upon the rate at the reporting date.

### Expected Maturity Date (Dollars in thousands)

|                          | 2018    | 2019    | 2020    | 2021  | 2022  | Thereafter | Total   | Fair Value |
|--------------------------|---------|---------|---------|-------|-------|------------|---------|------------|
| <b>Assets</b>            |         |         |         |       |       |            |         |            |
| Note receivable:         | \$-     | \$-     | \$-     | \$-   | \$-   | \$ -       | \$-     | \$-        |
| Variable rate            |         |         |         |       |       |            |         |            |
| Average interest rate    | N/A     | N/A     | N/A     | N/A   | N/A   | N/A        | N/A     | N/A        |
| <b>Liabilities</b>       |         |         |         |       |       |            |         |            |
| Promissory notes         | \$2,604 | \$-     | \$-     | \$-   | \$-   | \$ -       | \$2,604 | \$2,604    |
| Long-term debt:          | \$2,297 | \$1,612 | \$1,589 | \$124 | \$22  | \$ -       | \$5,644 | \$5,644    |
| Variable rate            |         |         |         |       |       |            |         |            |
| Average interest rate    | 4.2 %   | 5.0 %   | 5.1 %   | 4.7 % | 4.5 % | N/A        | 4.5 %   | 4.5 %      |
| <b>Interest Payments</b> |         |         |         |       |       |            |         |            |
| Est. interest payments:  | \$246   | \$126   | \$48    | \$4   | \$1   | \$ -       | \$425   |            |

Scheduled interest payments are calculated on a fixed rate basis, if known, and the remaining interest will be calculated on the average current rate, including imputed interest calculations at 6%.

## **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Financial Statements of the Registrant are set forth on pages 40 through 53 of this report.

## **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

We had no changes or disagreements with accountants.

## **Item 9A. 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-K 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-K, 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 April 30, 2017. 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 April 30, 2017.

## 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 ("COSO"). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of April 30, 2017.

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 annual 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 \$75 million from the requirement that our registered public accounting firm attest to our internal controls.

### 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 during the three months ended April 30, 2017 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## **Item 9B. OTHER INFORMATION**

We believe all material information is reported on Form 8-K reports.

## **PART III**

### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**Qualifications and Skills of Directors:** The Company believes that its Board as a whole should encompass a range of talent, skill, diversity, and expertise enabling it to provide sound guidance with respect to the Company's operations and interests. In addition to considering a candidate's background and accomplishments, candidates are reviewed in the context of the current composition of the Board and the evolving needs of our businesses.

The Board of Directors identifies candidates for election to the Board of Directors; reviews their skills, characteristics and experience. The Board of Directors seeks directors with strong reputations and experience in areas relevant to the strategy and operations of the Company's businesses, particularly industries and growth segments that the Company serves, such as avionics, aircraft modifications and gaming. Each of the Company's current Directors has experience in core management skills, such as strategic and financial planning, public company financial reporting, corporate governance, risk management, and leadership development.

The Board of Directors also believes that each of the current Directors has other key attributes that are important to an effective Board: integrity and demonstrated high ethical standards, sound judgment, analytical skills, the ability to engage management and each other in a constructive and collaborative fashion, diversity of origin, background, experience, and thought, and the commitment to devote significant time and energy to service on the Board and its Committees.

**Diversity as a Factor in Selection of Board Candidates:** The Board does not have a formal policy with respect to diversity. However, the Board believes that it is essential that the Board members represent diverse viewpoints, with a broad array of experiences, professions, skills and backgrounds that, when considered as a group, provide a sufficient



mix of perspectives to allow the Board to best fulfill its responsibilities to the long-term interests of the Company's stockholders.

**Board's Role in Risk Oversight and Board Leadership Structure:** The Board has determined that the positions of Chairman of the Board and Chief Executive Officer should be held by different persons. Under our corporate governance principles, the Chairman of the Board is responsible for coordinating the Board's activities, including scheduling of meetings of the full Board, scheduling executive sessions of the non-employee directors and setting relevant items on the agenda (in consultation with the Chief Executive Officer as necessary or appropriate). The Board believes this leadership structure enhances the Board's oversight of Company management, the ability of the Board to carry out its roles and responsibilities on behalf of our stockholders, and our overall corporate governance.

The Board as a whole has responsibility for risk oversight, with reviews of certain areas being conducted by the relevant Board committees. These committees then provide reports to the full Board. The oversight responsibility of the Board and its committees is enabled by management reporting processes that are designed to provide visibility to the Board about the identification, assessment, and management of critical risks. These areas of focus include strategic, operational, financial and reporting, succession and compensation, compliance, and other risks. The Board and its committees oversee risks associated with their respective areas of responsibility, as summarized above.

The names and ages of the directors, their principal occupations for at least the past five years are set forth below based on information furnished to us by the directors.

| Name of Director, Age and Term             | Served Since | Principal Occupation for Last Five Years and Other Directorships  |
|--|--------------|---|
| Clark D. Stewart (77)                      | 1989         | President of the Company from September 1, 1989 to present.   |
| Up for re-election at fiscal year end 2018 |              |   |
| R. Warren Wagoner (65)                     | 1986         | Chairman of the Board of Directors of the Company since August 30, 1989. Employee chairman until October 2013.                          |
| Up for re-election at fiscal year end 2018 |              |   |
| David B. Hayden (71)                       | 1996         | Co-owner and President of Kings Avionics, Inc. since 1974 prior to its acquisition in 2010. Director since 1996. Consultant since 2011. |

Up for  
re-election at  
fiscal year end  
2017

Michael J.  
Tamburelli  
(54)

2010

Up for  
re-election at  
fiscal year end  
2017

General Manager of the Isle of Capri Kansas City, Missouri 2004-2008, General Manager Boot Hill Casino & Resort 2009-2010, General Manager of Cherokee National Casino, West Siloam Springs, Oklahoma 2010-2011, General Manager Presque Isle Downs, Erie, Pennsylvania 2012-2014. Director of Gaming Operations Apache Casino, Lawton, Oklahoma 2014-2015. Director of Operations St. Jo Frontier Casino 2015 to present. Director since 2010.

Bradley K.  
Hoffman (43)

Up for  
re-election at  
fiscal year end  
2019

2010

Vice President – Corporate Strategy of ISG Technology, Inc. since 2005. Director since 2010.

The executive officers of the Company are elected each year at the annual meeting of the Board of Directors held in conjunction with the annual meeting of stockholders and at special meetings held during the year. The executive officers are as follows:

| <b>Name</b>          | <b>Age</b> | <b>Position</b>                       |
|----------------------|------------|---------------------------------------|
| Clark D. Stewart     | 77         | President and Chief Executive Officer |
| Craig D. Stewart     | 43         | Vice President                        |
| Christopher J. Reedy | 51         | Vice President and Secretary          |
| Tad M. McMahon       | 50         | Chief Financial Officer               |

Clark D. Stewart was President of Tradewind Industries, Inc., a manufacturing company, from 1979 to 1985. From 1986 to 1989, Mr. Stewart was Executive Vice President of RO Corporation. In 1980, Mr. Stewart became President of Tradewind Systems, Inc. He became President of the Company in September 1989.

Craig D. Stewart worked for Accenture, a global management consulting, technology services and outsourcing company, from 1997 to 2003. Mr. Stewart joined the Company in January 2004 and became Vice President of the Company in 2013. Mr. Stewart is the son of Clark D. Stewart.

Christopher J. Reedy worked for Colantuono & Associates, LLC from 1997 to 2000 in the area of aviation, general business and employment counseling, and from 1995 to 1997 with the Polsinelli, White firm. He was involved in aviation product development and sales with Bendix/King, a division of Allied Signal, Inc. from 1988 through 1993.

Mr. Reedy joined the Company in November 2000 as Vice President and became Secretary of the Company in 2005.

Tad M. McMahon worked in public accounting as an auditor with KPMG, LLP and Grant Thornton, LLP from 1993 to 2000 focusing on manufacturing clients. Mr. McMahon worked in private industry from April 2000 to August 2008 when he joined the Company. Mr. McMahon became Chief Financial Officer in March 2017.

**Directorships Held within the Past Five Years:**

**Current Directorships:**

| <b>Name</b>           | <b>Company</b>              | <b>Date(s) of Directorship</b> |
|-----------------------|-----------------------------|--------------------------------|
| Clark D. Stewart      | Butler National Corporation | Since 1989                     |
| R. Warren Wagoner     | Butler National Corporation | Since 1986                     |
| David B. Hayden       | Butler National Corporation | Since 1996                     |
| Michael J. Tamburelli | Butler National Corporation | Since 2010                     |
| Bradley K. Hoffman    | Butler National Corporation | Since 2010                     |

**Past Directorships:**

|                       |      |
|-----------------------|------|
| Clark D. Stewart      | None |
| R. Warren Wagoner     | None |
| David B. Hayden       | None |
| Michael J. Tamburelli | None |
| Bradley K. Hoffman    | None |

**Legal Proceedings Involving a Director or Executive Officer**

During the past ten years no director or officer has been convicted in a criminal proceeding or is a named subject of a pending criminal proceeding, exclusive of traffic violations.

No petitions under the Federal bankruptcy laws have been filed by or against any business or property of any director or officer of the Company nor has any bankruptcy petition been filed against a partnership or business association where these persons were general partners or executive officers.

No director or officer has been permanently or temporarily enjoined, barred, suspended or otherwise limited from involvement in any type of business, securities or banking activities.

No director or officer been convicted of violating a federal or state securities or commodities law.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors, and persons who own more than 10% of the Company's Common Stock, to file reports of ownership and changes in ownership with the SEC and NASDAQ. Executive officers, directors and greater-than-10% beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to the Company, the Company believes that during fiscal 2017, all its executive officers, directors and greater-than-10% beneficial owners complied with the Section 16(a) filing requirements.

#### **Code of Ethics**

The Company has adopted a code of ethics for our executive and senior financial officers, violations of which are required to be reported to the audit committee. The Company will furnish a copy without charge upon written request to the Company at 19920 West 161st Street, Olathe, Kansas 66062, Attn: Secretary or a copy is available on our website at [www.butlernational.com/codeofethics.pdf](http://www.butlernational.com/codeofethics.pdf). The Company intends to disclose amendments to or waivers of its code of ethics on Form 8-K.

### **Audit Committee and Audit Committee Financial Expert of the Company**

The current members of the Audit Committee are Mr. David B. Hayden (a non-employee consultant), Mr. Bradley K. Hoffman, and Mr. R. Warren Wagoner. Mr. Hoffman and Mr. Wagoner are independent members under the Nasdaq listing standards. The Audit Committee met five times during fiscal year 2017, excluding actions by unanimous written consent.

Each member of the Audit Committee has experience or education in business or financial matters sufficient to provide him or her with a working familiarity with basic finance and accounting matters of the company.

The Audit Committee is primarily concerned with the effectiveness of the Company accounting policies and practices, financial reporting and internal controls. The Audit Committee is authorized (i) to make recommendations to the Board of Directors regarding the engagement of the Company's independent auditors, (ii) to review the plan, scope and results of the annual audit, the independent auditors' letter of comments and management response thereto, (iii) to approve all audit and non-audit services, (iv) to review the Company policies and procedures with respect to internal accounting and financial controls and (v) to review any changes in accounting policy.

### **Audit Committee Financial Expert**

The Company's Board of Directors does not have an "audit committee financial expert," within the meaning of such phrase under applicable regulations of the Securities and Exchange Commission, serving on its audit committee. The Board of Directors believes that all members of its audit committee are financially literate and experienced in business matters, and that one or more members of the audit committee are capable of (i) understanding generally accepted accounting principles ("GAAP") and financial statements, (ii) assessing the general application of GAAP principles in connection with our accounting for estimates, accruals and reserves, (iii) analyzing and evaluating our financial statements, (iv) understanding our internal controls and procedures for financial reporting; and (v) understanding audit committee functions, all of which are attributes of an audit committee financial expert. However, the Board of Directors believes that there is not any audit committee member who has obtained these attributes through the experience specified in the SEC's definition of "audit committee financial expert." Further, like many small companies, it is difficult for the Company to attract and retain Board members who qualify as "audit committee financial experts," and competition for these individuals is significant. The Board believes that its current audit committee is able to fulfill its role under SEC regulations despite not having a designated "audit committee financial expert."

## **Audit Committee Report**

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors and oversees the entire audit function including the selection of independent registered public accounting firm. Management has the primary responsibility for the consolidated financial statements and the financial reporting process including internal control over financial reporting and the Company's legal and regulatory compliance. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited consolidated financial statements for the year ended April 30, 2017 including a discussion of the acceptability and quality of the accounting principles, the reasonableness of significant accounting judgments and critical accounting policies and estimates, the clarity of disclosures in the consolidated financial statements, and management's assessment and report on internal control over financial reporting. The Audit Committee also discussed with the Chief Executive Officer and Chief Financial Officer their respective certifications with respect to the Company's Annual Report on Form 10-K for the year ended April 30, 2017.

The Audit Committee reviewed with the independent registered public accounting firm, who are responsible for expressing an opinion on the conformity of the audited consolidated financial statements with U.S. generally accepted accounting principles, its judgments as to the acceptability and quality of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) including those matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees. In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence and has discussed those disclosures and other matters relating to independence with the auditors.

The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for its audit. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of its audits of the Company.

Members of the Audit Committee rely without independent verification on the information provided to them and on the representations made by management and the independent registered public accounting firm. In reliance on the reviews and discussions with management and with the independent registered public accounting firm referred to above and the receipt of an unqualified opinion from RBSM, LLP dated July 21, 2017 regarding the audited consolidated financial statements of the Company for the year ended April 30, 2017, the Audit Committee recommended to the Board of Directors (and the Board approved) that the audited consolidated financial statements be included in the Annual Report on Form 10-K for the year ended April 30, 2017 for filing with the Securities and Exchange Commission.

The Audit Committee report is submitted by:

David B. Hayden, Bradley K. Hoffman and R. Warren Wagoner

## **Item 11. EXECUTIVE COMPENSATION**

### **COMPENSATION DISCUSSION AND ANALYSIS:**

Our compensation programs are designed to support our business goals and promote both short-term and long-term growth. This section of the Annual Report on Form 10-K explains how our compensation programs are designed and operate in practice with respect to our listed officers. Our listed officers are the CEO, CFO, Chairman of the Board and two Vice Presidents. There are only five executive officers of Butler National Corporation. The "Executive Compensation" section presents compensation earned by the listed officers for fiscal years ending April 30, 2017 and 2016.

The Compensation Committee of the Board of Directors determines the compensation for Butler National executive officers. Our executive officers have the broadest job responsibilities and policy-making authority in the company. The Compensation Committee reviews and determines all components of executive officer compensation, including making individual compensation decisions and reviewing and revising the executive officer compensation plans, programs, and guidelines as appropriate. The Compensation Committee also consults with management regarding non-executive employee compensation programs.

### **Our Compensation Philosophy**

The core element of our overall compensation philosophy is the alignment of pay and performance. Total compensation varies with individual performance and Butler National's performance in achieving financial and non-financial objectives. Our equity plans are designed to ensure that executive compensation is aligned with the long-term interests of our stockholders. The Compensation Committee and our management believe that compensation should help to recruit, retain, and motivate the employees that the company will depend on for current and future success. The Compensation Committee and our management also believe that the proportion of "at risk" compensation (variable cash compensation and equity) should rise as an employee's level of responsibility increases. This philosophy is reflected in the following key design priorities that govern compensation decisions:

- pay for performance
- employee recruitment, retention, and motivation
- cost management
- egalitarian treatment of employees
- alignment with stockholders' interests
- continued focus on corporate governance

Each element of compensation reflects one or more of these design priorities. In most cases, our employees, including our executive officers, except Mr. Stewart, are employed at will, without employment agreements, severance payment arrangements (except as required by local law), or payment arrangements that would be triggered by a "change in control" of Butler National. Retirement plan programs are broad-based; Butler National does not provide special retirement plans or benefits solely for executive officers.

Total compensation for the majority of our employees including executive officers, includes two or more of the following components:

- base salary
- annual and semiannual incentive cash payments
- equity grants
- employee stock purchase plan
- retirement benefits
- health and welfare benefits

The Compensation Committee and management continue to believe that a similar method of compensating all employees with cash, equity and retirement benefits supports a culture of fairness, collaboration, and egalitarianism.

The Company provides its shareholders with the opportunity to cast an advisory vote on executive compensation on the Notice of Annual Meeting of Shareholders. The Company believes that it is appropriate to seek the views of the shareholders on the design and effectiveness of the Company's executive compensation program. As an advisory vote the proposal is not binding upon the Company. However, the Compensation Committee values the opinions expressed by shareholders and consider the outcome of the vote when making compensation decisions for named executive officers.

### **Determining Executive Compensation**

The Compensation Committee reviews and determines the compensation for Butler National executive officers. The Compensation Committee process for determining compensation includes a review of Butler National executive compensation and practices, and an analysis, for each Butler National executive officer, of all elements of compensation. In conducting an annual performance review and determining appropriate compensation levels, the Compensation Committee meets and deliberates outside the presence of the executive officers. In determining base salary, the Compensation Committee reviews company and individual performance information.



In designing the compensation programs and determining compensation levels for the Butler National executive officers, including the CEO, the Compensation Committee was assisted by an independent compensation consultant and independent legal counsel (other than Butler National's in-house counsel and Butler National's general external legal counsel). The Compensation Committee engaged CBIZ Human Capital Services ("CBIZ") to serve as its independent advisor and compensation consultant. The Chairman of the Compensation Committee worked directly with CBIZ to determine the scope of the work needed to assist the Compensation Committee in its review and decision-making processes. The engagement included confirmation of compensation philosophy, provision of benchmark comparative data for executive officers with respect to base salary, total cash compensation (including annual cash incentive payments), long-term equity incentives, review of current employment arrangements, benefits, perquisites and incentive plan design of short term and long term incentives. CBIZ provides no other consultation or services to Butler National or management.

### Base Salary

The Compensation Committee establishes executive officers' base salaries at levels that it believes are reasonable for comparable positions. When the Compensation Committee determines the executive officers' base salaries during the first quarter of the year, the Compensation Committee takes into account each officer's role and level of responsibility at the company. In general, executive officers with the highest level and amount of responsibility have received the highest base salaries. The Compensation Committee met in February 2017. They considered the current economic conditions and determined any compensation changes to be made in fiscal 2018.

| <b>PAY COMPONENT</b>                          | <b>BRIEF DESCRIPTION</b>   |
|---|--|
| Base salary                                   | Described in detail in separate paragraph above titled Base Salary.  |
| Annual and semiannual incentive cash payments | Paid as discretionary cash bonuses to individual employees for outstanding performance of a task.  |
| Equity grants/option awards                   | No Option Awards have been granted since 2011. Option Awards are granted by the Compensation Committee to align management objective toward improved earnings and retention of the management team.  |
| Employee stock purchase plan                  | Any employee may purchase the Company stock at the fair market value at the date of purchase without broker or issue fees. The stock is restricted and not considered a stock reward. We have the 1981 Employee Stock Purchase plan. No shares have been purchased under this plan since 1988. |
| Retirement benefits                           | We pay the required federal and state retirement contributions, the required unemployment contributions and match the employee's contribution to their account in the Butler National Corporation 401(k) plan according to the parameters set forth in the plan.                               |
| Health and welfare benefits                   | Employees electing to participate in the various insurance plans offered by the Company receive a payment for a share of the health, dental, vision and life insurance costs for the employee.   |

### Grant Date Fair Value of Stock Option Awards

At April 30, 2017, we had no outstanding stock options. There were 7,262,064 outstanding stock options that were issued on December 31, 2010, all of which expired on December 31, 2015. No options were granted to any named executive officer in the last fiscal year.

### **Material Adverse Effect of Compensation Policies and Procedures**

The Compensation Committee regularly reviews the Company's compensation policies and practices, including the risks created by the Company's compensation plans. In addition, the Company also conducted a review of its compensation plans and related risks to the Company. The Company reviewed its analysis with the Compensation Committee, and the Compensation Committee concluded that the compensation plans reflected the appropriate compensation goals and philosophies. Based on this review and analysis, the Company has concluded that any risks arising from its employee compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

### **Performance Measures and Decision-Making Process for Fiscal Year 2017**

The Compensation Committee set base salaries for executive officers for fiscal 2017 in February 2016.

The performance measures used by the Compensation Committee in determining executive compensation for fiscal year 2017 were:

\_ the absolute one-year and multi-year company performance as measured by market share, revenue growth, profit from operations and total shareholder return;

\_ one-year and multi-year performance on the same measures as compared with competitors in the comparator group; and

-Company progress toward its strategic goals.

To make its decisions on executive compensation, the Compensation Committee reviewed in detail each of the performance measures above and reviewed compensation market data. The Compensation Committee also reviewed the total compensation and benefits of the executive officers and considered the impact that their retirement, or termination under various other scenarios, would have on their compensation and benefits.

The CEO provided the entire Board of Directors with an assessment of his own performance with respect to the performance measures listed above, which the Board considered in its assessment of his performance for fiscal year 2016. The CEO reviewed the performance of the other executive officers (except the Chairman) with the Compensation Committee and made recommendations regarding the components of their compensation.

Before making its compensation decisions, the Compensation Committee discussed levels of compensation for the Chairman, the CEO and the other executive officers with the full Board of Directors in an executive session.

### **Determination of CEO and Executive Officer Compensation**

In fiscal year 2016, Butler National Corporation did reach projected levels of revenue, profit from operations, operating margin and operating cash flow.

With regard to progress toward strategic goals, BNC improved its products and technology positions and strengthened its relationships with customers.

Taking into account Company performance, both absolute and relative to competition and the executive officers' contribution to that performance, the Compensation Committee set its targeted compensation levels so as to be commensurate with that relative performance. The Compensation Committee made the following determinations for fiscal year 2017 with respect to each component of compensation for the CEO and his existing contract and the other executive officers:

**Base Salary** - In keeping with its strategy, the Compensation Committee base salary decisions for fiscal year 2017 were generally intended to provide salaries somewhat lower than the median level of salaries for similarly situated executives of the comparator companies.

**Long-Term Compensation** - The Compensation Committee granted no equity compensation.

### **Compensation of the Chairman**

The SEC rules require disclosure of the employee-chairman compensation. Beginning October 2013, Mr. Wagoner served only as Chairman. In making the determinations, the Compensation Committee considered his role as Chairman, his contribution to the Company performance and strategic direction, and the compensation of comparator

companies.

## Executive Compensation

### SUMMARY

The following table below sets forth certain compensation information concerning the Chief Executive Officer and our three additional most highly compensated executive officers for the fiscal years ended April 30, 2017 and 2016. Our listed officers are the CEO, CFO, and two Vice Presidents. There are only five executive officers of Butler National Corporation. The "Executive Compensation" section presents compensation earned by the listed officers for fiscal years ending April 30, 2017 and 2016:

#### Summary Compensation Table

(dollars in thousands)

| Name and Principal Position                       | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards and Stock Appreciation Rights (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$)(1) | Total (\$)(2) |
|---|------|-------------|------------|-------------------|--|---|--|--------------------------------|---------------|
| Clark D. Stewart, CEO                             | 2017 | 498         | ---        | ---               | ---  | ---   | ---  | 40                             | 538           |
| President and Director                            | 2016 | 469         | ---        | ---               | ---  | ---   | ---  | 52                             | 521           |
| Craig D. Stewart Vice President                   | 2017 | 250         | ---        | ---               | ---  | ---   | ---  | 45                             | 295           |
|   | 2016 | 249         | ---        | ---               | ---  | ---   | ---  | 43                             | 292           |
| Christopher J. Reedy Vice President and Secretary | 2017 | 255         | 15         | ---               | ---  | ---   | ---  | 26                             | 296           |
|   | 2016 | 256         | 15         | ---               | ---  | ---   | ---  | 24                             | 295           |
| Tad M. McMahon Chief Financial Officer            | 2017 | 200         | ---        | ---               | ---  | ---   | ---  | 35                             | 235           |
|   | 2016 | 199         | 15         | ---               | ---  | ---   | ---  | 29                             | 243           |

**All Other Compensation** (dollars in thousands):

| <b>Name</b>          | <b>Year</b> | <b>Airplane<br/>and<br/>Automobile<br/>Usage<br/>(\$)</b> | <b>Health<br/>Benefits<br/>(\$)</b> | <b>Memberships<br/>(\$)</b> | <b>Matching<br/>Contributions<br/>to 401(k) (3)<br/>(\$)</b> |
|----------------------|-------------|---|-------------------------------------|-----------------------------|--|
| Clark D. Stewart     | 2017        | 7   | 12                                  | 5                           | 16   |
| Craig D. Stewart     | 2017        | ---   | 21                                  | 9                           | 15   |
| Christopher J. Reedy | 2017        | ---   | 7                                   | 3                           | 16   |
| Tad M. McMahon       | 2017        | ---   | 19                                  | 4                           | 12   |

(1) Includes the amounts in the "All Other Compensation" table.

All benefits are provided for in the tables, summaries, and footnotes above. We did not participate in any of the (2) following transactions and such items are therefore not reported in table format: Equity Award Table, Pension Benefit Table, and Nonqualified Deferred Compensation Table.

(3) Includes catch-up contribution made by the employee and matched by the Company.

**OPTION GRANTS, EXERCISES AND HOLDINGS**

At April 30, 2017, we had no outstanding stock options. There were 7,262,064 outstanding stock options that were issued on December 31, 2010, all of which expired on December 31, 2015.

**COMPENSATION OF DIRECTORS**

Each non-officer director is entitled to a director's fee of \$5 per quarter. The Chairman receives an additional \$5 per quarter.

**Director Compensation Table**

(dollars in thousands)

| Name of Director      | Fees<br>Earned<br>or | Option | All Other    | Total |
|-----------------------|----------------------|--------|--------------|-------|
|                       | Paid in<br>Cash      | Awards | Compensation |       |
| R. Warren Wagoner     | \$ 30                | \$ --  | \$ 10        | \$ 40 |
| David B. Hayden       | 15                   | --     | 5            | 20    |
| Michael J. Tamburelli | 15                   | --     | 5            | 20    |
| Bradley K. Hoffman    | 15                   | --     | 5            | 20    |

**EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS**

On April 30, 2001, the Company extended the Employment Agreement through August 31, 2006 with Clark D. Stewart under the terms of which Mr. Stewart was employed as the President and Chief Executive Officer of the Company. On February 24, 2009 the Company extended the Employment Agreement with Mr. Stewart with the terms as currently provided including annual increases of 5% through December 31, 2022. In the event Mr. Stewart is terminated from employment with the Company other than "for cause," Mr. Stewart shall receive as severance pay an amount equal to the unpaid salary for the remainder of the term of the Employment Agreement. Mr. Stewart is also granted an automobile allowance of six hundred dollars per month which is reported by us as Salary Expense and to Mr. Stewart as Wages. Under the terms of the Employment Agreement with Mr. Stewart, the Company is obligated to pay company related expenses and salary. Included in accrued liabilities are \$389 and \$301 as of April 30, 2017, and 2016 respectively for amounts owed to our CEO for accrued compensation.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The Compensation Committee of the Board of Directors is comprised of Mr. Wagoner, Chairman of the Board, Mr. Tamburelli, Board member and Mr. Hoffman, Board member. None of the Committee members served as an officer

or employee of the Company or a subsidiary of the Company. None of our executive officers currently serves, or served during fiscal 2017, on the compensation committee or board of directors of any other entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

In the normal course of business, we purchased business system components of \$0 and \$3 from ISG, the employer of Bradley Hoffman, a director of Butler National Corporation during fiscal 2017 and 2016 respectively.

We paid consulting fees of \$135 and \$135 to David Hayden, a director of Butler National Corporation in fiscal year ended April 30, 2017 and 2016 respectively.

Included in accrued liabilities are \$389 and \$301 as of April 30, 2017, and 2016 respectively for amounts owed to our CEO for accrued compensation.

In fiscal 2017, there were three related-person transactions under the relevant standards: Butler National employed the brother (Wayne Stewart), son (Craig Stewart) and son-in-law (Jeff Shinkle) of Clark D. Stewart, an executive officer, as an engineer, Vice President, and an architect. Compensation for these related-persons was calculated in the same manner as the Summary Compensation table resulting in compensation of \$225, \$295 and \$188, respectively, for fiscal 2017, and \$225, \$292 and \$188, respectively, for fiscal 2016.

The policies and procedures for payment of goods and services for related transactions follow our normal course of business standards and require the necessary review and approval process as outlined in our Policies and Procedures manual and as set forth by our Compensation Committee.

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**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth, with respect to the Company common stock (the only class of voting securities), the only persons known to be beneficial owners of more than five percent (5%) of any class of the Company voting securities as of July 14, 2017.

| Name and Address of Beneficial Owner   | Amount<br>and Nature<br>of<br>Beneficial<br>Ownership<br>(1) | Percent<br>of Class |   |
|--|--|---------------------|---|
| Clark D. Stewart<br>19920 West 161 <sup>st</sup> Street<br>Olathe, Kansas 66062  | 3,641,624  | 5.6                 | % |
| R. Warren Wagoner<br>19920 West 161 <sup>st</sup> Street<br>Olathe, Kansas 66062 | 4,140,897  | 6.3                 | % |
| Joseph P. Daly<br>497 Circle Freeway<br>Cincinnati, OH 45246                     | (2)6,572,000   | 10.1                | % |

Unless otherwise indicated by footnote, nature of beneficial ownership of securities is direct, and beneficial ownership as shown in the table arises from sole voting power and sole investment power. The beneficial ownership includes the shares held in the Butler National 401(k) Profit Sharing Plan for the benefit of the individual.

(2) The number of shares is from Mr. Daly's Form 4 filing on April 11, 2017.

The following table sets forth as of April 30, 2017, with respect to the Company common stock (the only class of voting securities), (i) shares beneficially owned by all directors and named executive officers of the Company, and (ii) total shares beneficially owned by directors and officers as a group, as of April 30, 2017.

| Name of Beneficial Owner | Amount<br>and Nature<br>of | Percent<br>of Class |
|--------------------------|----------------------------|---------------------|
|--------------------------|----------------------------|---------------------|



**Beneficial  
Ownership  
(1)**

|                       |           |     |   |
|-----------------------|-----------|-----|---|
| Clark D. Stewart      | 3,641,624 | 5.6 | % |
| R. Warren Wagoner     | 4,140,897 | 6.3 | % |
| Craig D. Stewart      | 1,482,077 | 2.3 | % |
| Christopher J. Reedy  | 1,177,986 | 1.8 | % |
| Tad M. McMahon        | 472,992   | 0.7 | % |
| David B. Hayden       | 1,381,177 | 2.1 | % |
| Bradley K. Hoffman    | 23,952    | 0.0 | % |
| Michael J. Tamburelli | 23,952    | 0.0 | % |

All Directors and Executive Officers as a Group (8 persons) 12,344,657 18.9 %

(1) Unless otherwise indicated by footnote, nature of beneficial ownership of securities is direct and beneficial ownership as shown in the table arises from sole voting power and sole investment power.

In November 2016, the shareholders approved and adopted the Butler National Corporation 2016 Equity Incentive Plan. No equity awards have been made under the plan.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

R. Warren Wagoner, Michael J. Tamburelli, and Bradley K. Hoffman are independent Directors under the Nasdaq listing standards.

In the normal course of business, we purchased business system components of \$0 and \$3 from ISG, the employer of Bradley Hoffman, a director of Butler National Corporation during fiscal 2017 and 2016 respectively.

We paid consulting fees of \$135 and \$135 to David Hayden, a director of Butler National Corporation in fiscal year ended April 30, 2017 and 2016 respectively.

Included in accrued liabilities are \$389 and \$301 as of April 30, 2017, and 2016 respectively for amounts owed to our CEO for accrued compensation.

In fiscal 2017, there were three related-person transactions under the relevant standards: Butler National employed the brother (Wayne Stewart), son (Craig Stewart) and son-in-law (Jeff Shinkle) of Clark D. Stewart, an executive officer, as an engineer, Vice President, and an architect. Compensation for these related-persons was calculated in the same manner as the Summary Compensation table resulting in compensation of \$225, \$295 and \$188, respectively, for fiscal 2017, and \$225, \$292 and \$188, respectively, for fiscal 2016.

The policies and procedures for payment of goods and services for related transactions follow our normal course of business standards and require the necessary review and approval process as outlined in our Policies and Procedures manual and as set forth by our Compensation Committee.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

| <b>Fee Type</b>        | <b>Fiscal<br/>2017</b> | <b>Fiscal<br/>2016</b> |
|------------------------|------------------------|------------------------|
| Audit fees (a)         | \$ 131                 | \$ 136                 |
| Audit related fees (b) | 14                     | -                      |
| Tax fees (c)           | -                      | -                      |
| All other fees (d)     | -                      | -                      |
| Total                  | \$ 145                 | \$ 136                 |

(a) Includes fees billed for professional services rendered in connection with the audit of the annual financial statements and for the review of the quarterly financial statements.

(b) Includes fees billed for professional services rendered in connection with assurance and other activities not explicitly related to the audit of Company financial statements, including the audits of Company employee benefit plans, contract compliance reviews and accounting research.

(c) Includes fees billed for domestic tax compliance and tax audits, corporate-wide tax planning and executive tax consulting and return preparation.

(d) Includes fees billed for financial systems design and implementation services.

The Audit Committee has adopted a policy requiring pre-approval by the Audit Committee of all services (audit and non-audit) to be provided to the Company by its independent auditor. In accordance with that policy, the Audit Committee has given its approval for the provision of audit services by RBSM, LLP for fiscal 2018. Each year stockholders are asked to affirm the selection of the auditor by a vote requested in the proxy.

The Audit Committee has approved 100% of the fees listed in the above table.



**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Documents Filed As Part of Form 10-K Report.

| <b>(1) Financial Statements:</b> | <b>Description</b>   | <b>Page No.</b> |
|----------------------------------|--|-----------------|
|                                  | Report of Independent Registered Public Accounting Firms Consolidated Balance Sheets as of April 30, 2017 and 2016 | 39              |
|                                  | Consolidated Statements of Operations for the years ended April 30, 2017 and 2016                                  | 41              |
|                                  | Consolidated Statements of Stockholders' Equity for the years ended April 30, 2017 and 2016                        | 42              |
|                                  | Consolidated Statements of Cash Flows for the years ended April  | 43              |

30, 2017 and  
2016  
Notes to  
Consolidated 44  
Financial  
Statements

All other financial statements and schedules not listed have been omitted because the required information is inapplicable or the information is presented in the financial statements or related notes.

**(2) Exhibits Index:**

| <b>No.</b> | <b>Description</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 10-Q for the period ended January 31, 2013 filed on March 12, 2013. |
| 4.1        | The Shareholder Rights Agreement between Butler National Corporation and UMB Bank, N.A. as Rights Agent, dated August 2, 2011, incorporated by   |

reference to  
Exhibit 4.1 of  
the Company's  
registration  
statement on  
Form 8-A dated  
August 2, 2011,  
and as refiled as  
Exhibit 4.1 to  
the Company's  
Form 10-Q for  
the period ended  
October 31,  
2016.

10.1 Employment  
Agreement  
between the  
Company and  
Clark D.  
Stewart dated  
March 17, 1994,  
as amended  
March 8, 2011.\*

10.2 Management  
Agreement  
between BNSC  
and the Modoc  
Tribe of  
Oklahoma,  
dated December  
12, 1996,  
incorporated by  
reference to  
Exhibit 10.1 of  
our Form 10-Q  
for the period  
ended October  
31, 2012.

10.3 First  
Amendment to  
the Management  
Agreement  
between BNSC  
and the Modoc  
Tribe of  
Oklahoma,  
dated April 30,  
2003,

incorporated by reference to Exhibit 10.2 of our Form 10-Q for the period ended October 31, 2012.

10.4 Second Amendment to the Management Agreement between BNSC and the Modoc Tribe of Oklahoma, dated November 30, 2006, incorporated by reference to Exhibit 10.3 of our Form 10-Q for the period ended October 31, 2012.

10.5 Third Amendment to the Management Agreement between BNSC and the Modoc Tribe of Oklahoma, dated October 19, 2009, incorporated by reference to Exhibit 10.4 or our Form 10-Q for the period ended October 31, 2012.

10.6 Fourth Amendment to the Management Agreement between BNSC and the Modoc Tribe of

Oklahoma,  
dated September  
22, 2011,  
incorporated by  
reference to  
Exhibit 10.5 of  
our Form 10-Q  
for the period  
ended October  
31, 2012.

10.7 Lottery Gaming  
Facility  
Management  
Contract  
between the  
State of Kansas  
and Butler  
National Service  
Corporation,  
approved by the  
Kansas Racing  
and Gaming  
Commission on  
December 8,  
2008,  
incorporated by  
reference to  
Exhibit 10.6 of  
our Form 10-Q  
for the period  
ended October  
31, 2012.

10.8 First  
Amendment to  
the Lottery  
Gaming Facility  
Management  
Contract  
between the  
State of Kansas  
and Butler  
National Service  
Corporation,  
dated December  
29, 2009,  
incorporated by  
reference to  
Exhibit 10.7 of  
our Form 10-Q



for the period  
ended October  
31, 2012.

Lease between  
BHCMC, LLC  
as tenant and  
BHC  
Investment  
Company, L.C.  
as landlord,  
dated May 1,  
2011 and

10.9 amended via  
addendum dated  
January 1, 2012,  
incorporated by  
reference to  
Exhibit 10.8 of  
our Form 10-Q  
for the period  
ended October  
31, 2012.

Lease between  
BHCMC, LLC  
as tenant and  
BHC  
Investment  
Company, L.C.  
as landlord,  
dated August  
24, 2012,

10.10 incorporated by  
reference to  
Exhibit 10.9 of  
our Form 10-Q  
for the period  
ended October  
31, 2012.

10.11 Lease between  
Butler National  
Service  
Corporation and  
BHC  
Development,  
L.C., dated  
April 30, 2009,  
incorporated by  
reference to

Exhibit 10.1 of our Form 10-Q for the period ended January 31, 2013.

10.12 Legal Description Lot 1 in future replat of Mariah Center, incorporated by reference to Exhibit 10.2 of our Form 10-Q for the period ended January 31, 2013.

10.13 Legal Description Lot 2 in a future replat of Mariah Center, incorporated by reference to Exhibit 10.3 of our Form 10-Q for the period ended January 31, 2013.

10.14 Bill of Sale, dated April 30, 2013, by and among Butler National Services, Inc. and Beadle Enterprises LLC, incorporated by reference to Exhibit 10.1 of our Form 8-K filed on May 2, 2013.

10.15 Promissory Note, dated April 29, 2015,

by and among  
BHCMC,  
L.L.C. and KS  
StateBank,  
incorporated by  
reference to  
Exhibit 10.23 of  
our Form 10-K  
filed on July 29,  
2015.

10.16 Butler National  
Corporation  
2016 Equity  
Incentive Plan,  
incorporated by  
reference to  
Exhibit A of the  
Company's  
Definitive Proxy  
Statement filed  
September 29,  
2016.

14 Standards of  
Business  
Conduct and  
Ethics,  
incorporated by  
reference to  
Exhibit 14 of  
the Company's  
Form 10-K for  
the year ended  
April 30, 2008.

21 List of  
Subsidiaries.

23.1 Consent of  
Independent  
Public  
Accountants  
RBSM, LLP.

31.1 Certificate  
furnished  
pursuant to 18  
U.S.C 1350, as  
adopted

pursuant to  
Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.

31.2 Certificate  
furnished  
pursuant to 18  
U.S.C 1350, as  
adopted  
pursuant to  
Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.

32.1 Certifications of  
Chief Executive  
Officer Pursuant  
to Section 906  
of the  
Sarbanes-Oxley  
Act of 2002.

32.2 Certifications of  
Chief Financial  
Officer Pursuant  
to Section 906  
of the  
Sarbanes-Oxley  
Act of 2002.

99 Cautionary  
Statement for  
Purpose of the  
"Safe Harbor"  
Provisions of  
the Private  
Securities  
Reform Act of  
1995.

101 The following  
financial  
information  
from the  
Company's  
Annual Report  
on Form 10-K  
for the year

ended April 30, 2017, formatted in XBRL (eXtensible Business Reporting Language) includes; (i) Consolidated Balance Sheets as of April 30, 2017 and 2016; (ii) Consolidated Statements of Operations for the years ended April 30, 2017 and 2016; (iii) Consolidated Statements of Stockholders' Equity for the years ended April 30, 2017 and 2016; (iv) Consolidated Statements of Cash Flows for the years ended April 30, 2017 and 2016, and (v) the Notes to Consolidated Financial Statements, with detail tagging.

\* Relates to management contract, compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

July 21, 2017

BUTLER NATIONAL CORPORATION

/s/ Clark D. Stewart

Clark D. Stewart, President

and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

| <b>Signature</b>                                   | <b>Title</b>   | <b>Date</b>   |
|--|--|---------------|
| /s/ Clark D. Stewart<br>Clark D. Stewart           | President, Chief Executive Officer and Director<br>(Principal Executive Officer) | July 21, 2017 |
| /s/ Tad M. McMahon<br>Tad M. McMahon               | Chief Financial Officer<br>(Principal Accounting Officer)                        | July 21, 2017 |
| /s/ R. Warren Wagoner<br>R. Warren Wagoner         | Chairman of the Board and Director   | July 21, 2017 |
| /s/ David B. Hayden<br>David B. Hayden             | Director   | July 21, 2017 |
| /s/ Michael J. Tamburelli<br>Michael J. Tamburelli | Director   | July 21, 2017 |

/s/ Bradley K. Hoffman Director  
Bradley K. Hoffman

July 21, 2017

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Report of Independent Registered Public Accounting Firm

Stockholders and Directors

Butler National Corporation

Olathe, Kansas

We have audited the accompanying consolidated balance sheets of Butler National Corporation (the "Company") as of April 30, 2017 and 2016 and the related consolidated statements of operations, stockholders' equity, and cash flows for the two years in the period ended April 30, 2017. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of Butler National Corporation as of April 30, 2017 and 2016 and the consolidated results of its operations, stockholders' equity, and cash flows for the two years in the period ended April 30, 2017 in conformity with accounting principles generally accepted in the United States of America.



/s/ RBSM LLP

New York, NY

July 21, 2017

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**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AS OF April 30, 2017 AND 2016****(in thousands, except per share data)**

|   | <b>April 30,<br/>2017</b> | <b>April<br/>30, 2016</b> |
|---|---------------------------|---------------------------|
| <b>ASSETS</b>   |                           |                           |
| <b>CURRENT ASSETS:</b>  |                           |                           |
| Cash  | \$6,389                   | \$7,381                   |
| Accounts receivable, net of allowance for doubtful accounts   | 4,095                     | 1,574                     |
| Inventories   |                           |                           |
| Parts and raw materials   | 5,644                     | 6,339                     |
| Work in process   | 1,174                     | 1,349                     |
| Finished goods  | 39                        | 275                       |
| Total inventory, net of allowance   | 6,857                     | 7,963                     |
| Prepaid expenses and other current assets   | 994                       | 873                       |
| Total current assets  | 18,335                    | 17,791                    |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>   |                           |                           |
| Land and building   | 5,132                     | 4,081                     |
| Aircraft  | 5,888                     | 5,712                     |
| Machinery and equipment   | 3,639                     | 3,630                     |
| Office furniture and fixtures   | 6,497                     | 5,637                     |
| Leasehold improvements  | 4,032                     | 4,032                     |
|   | 25,188                    | 23,092                    |
| Accumulated depreciation  | (14,506)                  | (13,218)                  |
| Total property, plant and equipment   | 10,682                    | 9,874                     |
| SUPPLEMENTAL TYPE CERTIFICATES (net of accumulated amortization of \$4,345 at April 30, 2017 and \$3,549 at April 30, 2016) | 6,354                     | 6,481                     |
| <b>OTHER ASSETS:</b>  |                           |                           |
| Deferred tax asset  | 925                       | 1,104                     |
| Other assets (net of accumulated amortization of \$6,904 at April 30, 2017 and \$5,579 at April 30, 2016)                   | 6,482                     | 7,447                     |
| Total other assets  | 7,407                     | 8,551                     |
| Total assets  | \$42,778                  | \$42,697                  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                           |                           |
| <b>CURRENT LIABILITIES:</b>   |                           |                           |

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|  |          |          |
|--|----------|----------|
| Promissory notes   | \$2,604  | \$3,988  |
| Current maturities of long-term debt   | 2,297    | 2,464    |
| Accounts payable   | 1,919    | 2,018    |
| Customer deposits  | 892      | 258      |
| Gaming facility mandated payment   | 1,227    | 1,206    |
| Compensation and compensated absences  | 1,478    | 1,322    |
| Income tax payable   | 589      | -        |
| Other current liabilities  | 129      | 125      |
| Total current liabilities  | 11,135   | 11,381   |
| <br>   |          |          |
| LONG-TERM DEBT, NET OF CURRENT MATURITIES:   | 3,347    | 5,218    |
| Total liabilities  | 14,482   | 16,599   |
| <br>   |          |          |
| 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 65,273,896 shares, and outstanding 64,543,550 shares at April 30, 2017 and issued 64,066,873 shares, and outstanding 63,466,873 shares at April 30, 2016 | 652      | 640      |
| Capital contributed in excess of par   | 13,980   | 13,716   |
| Treasury stock at cost, 730,346 shares at April 30, 2017 and 600,000 shares at April 30, 2016  | (764 )   | (732 )   |
| Retained earnings  | 9,719    | 8,185    |
| Total Butler National Corporation's stockholders' equity   | 23,587   | 21,809   |
| Noncontrolling interest in BHCMC, LLC  | 4,709    | 4,289    |
| Total stockholders' equity   | 28,296   | 26,098   |
| Total liabilities and stockholders' equity   | \$42,778 | \$42,697 |

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

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED April 30, 2017 AND 2016****(in thousands, except per share data)**

|  | <b>2017</b>    |   | <b>2016</b>  |   |
|--|----------------|---|--------------|---|
| <b>REVENUES:</b>   |                |   |              |   |
| Professional services  | \$30,849       |   | \$29,784     |   |
| Aerospace products   | 19,770         |   | 15,010       |   |
| Total revenues   | 50,619         |   | 44,794       |   |
| <b>COSTS AND EXPENSES:</b>   |                |   |              |   |
| Cost of professional services  | 19,126         |   | 17,872       |   |
| Cost of aerospace products   | 14,547         |   | 12,173       |   |
| Marketing and advertising  | 4,276          |   | 4,562        |   |
| Employee benefits  | 1,972          |   | 1,889        |   |
| Depreciation and amortization  | 1,985          |   | 2,174        |   |
| General, administrative and other  | 5,213          |   | 5,502        |   |
| Total costs and expenses   | 47,119         |   | 44,172       |   |
| <b>OPERATING INCOME</b>  | <b>3,500</b>   |   | <b>622</b>   |   |
| <b>OTHER INCOME (EXPENSE):</b>   |                |   |              |   |
| Interest expense   | (403           | ) | (471         | ) |
| Other income (expense), net  | (16            | ) | 21           |   |
| Gain on sale and disposal of assets  | 1              |   | 736          |   |
| Total other income (expense)   | (418           | ) | 286          |   |
| <b>INCOME BEFORE INCOME TAXES</b>  | <b>3,082</b>   |   | <b>908</b>   |   |
| <b>PROVISION FOR INCOME TAXES</b>  |                |   |              |   |
| Provision for income taxes   | 589            |   | -            |   |
| Deferred income tax  | 179            |   | 93           |   |
| <b>NET INCOME</b>  | <b>2,314</b>   |   | <b>815</b>   |   |
| Net income attributable to noncontrolling interest in BHCMC, LLC                   | (780           | ) | (791         | ) |
| <b>NET INCOME ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION</b>                      | <b>\$1,534</b> |   | <b>\$24</b>  |   |
| <b>BASIC EARNINGS PER COMMON SHARE ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION</b> | <b>\$.02</b>   |   | <b>\$.00</b> |   |

|  |            |            |
|--|------------|------------|
| <b>WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION</b>                         | 63,455,883 | 62,263,404 |
| <b>DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION</b> | \$.02      | \$.00      |
| <b>WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION</b>                         | 63,455,883 | 62,263,404 |

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

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**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****FOR THE YEARS ENDED April 30, 2017 AND 2016****(dollars in thousands)**

|   | Shares of<br>Common<br>Stock | Common<br>Stock | Capital<br>Contributed<br>in Excess<br>of Par | Shares of<br>Treasury<br>Stock | Treasury<br>Stock<br>at Cost | Retained<br>Earnings | Total<br>S/H<br>Equity<br>BNC | Non<br>controlling<br>Interest<br>in<br>BHCMC | Total<br>S/H<br>Equity |
|---|------------------------------|-----------------|---|--------------------------------|------------------------------|----------------------|-------------------------------|---|------------------------|
| Balance, April 30,<br>2015                      | 62,860,098                   | \$ 628          | \$ 13,487                                     | 600,000                        | \$ (732 )                    | \$ 8,161             | \$ 21,544                     | \$ 3,858                                      | \$ 25,402              |
| Issuance of stock<br>benefit plan               | 1,206,775                    | 12              | 229   | -                              | -                            | -                    | 241                           | -   | 241                    |
| BHCMC distribution<br>noncontrolling<br>members | -                            | -               | -   | -                              | -                            | -                    | -                             | (360 )  | (360 )                 |
| Net Income                                      | -                            | -               | -   | -                              | -                            | 24                   | 24                            | 791   | 815                    |
| Balance, April 30,<br>2016                      | 64,066,873                   | 640             | 13,716  | 600,000                        | (732 )                       | 8,185                | 21,809                        | 4,289   | 26,098                 |
| Issuance of stock<br>benefit plan               | 1,087,264                    | 11              | 240   | -                              | -                            | -                    | 251                           | -   | 251                    |
| Stock issued as<br>director fees                | 119,759                      | 1               | 24  | -                              | -                            | -                    | 25                            | -   | 25                     |
| Stock repurchase                                | -                            | -               | -   | 130,346                        | (32 )                        | -                    | (32 )                         | -   | (32 )                  |
| BHCMC distribution<br>noncontrolling<br>members | -                            | -               | -   | -                              | -                            | -                    | -                             | (360 )  | (360 )                 |
| Net Income                                      | -                            | -               | -   | -                              | -                            | 1,534                | 1,534                         | 780   | 2,314                  |

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|                            |            |        |           |         |          |          |           |          |           |
|----------------------------|------------|--------|-----------|---------|----------|----------|-----------|----------|-----------|
| Balance, April 30,<br>2017 | 65,273,896 | \$ 652 | \$ 13,980 | 730,346 | \$(764 ) | \$ 9,719 | \$ 23,587 | \$ 4,709 | \$ 28,296 |
|----------------------------|------------|--------|-----------|---------|----------|----------|-----------|----------|-----------|

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

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**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED April 30, 2017 AND 2016****(dollars in thousands)**

|  | <b>2017</b>   | <b>2016</b>  |
|--|---------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |               |              |
| Net income   | \$2,314       | \$815        |
| Adjustments to reconcile net income to net cash provided by operating activities |               |              |
| Depreciation and amortization  | 3,409         | 3,761        |
| Stock issued for benefit plan  | 251           | 241          |
| Stock issued to directors  | 25            | -            |
| Gain and loss on disposal of assets  | (1 )          | (736 )       |
| Deferred income tax expense  | 179           | 93           |
| Changes in operating assets and liabilities                                      |               |              |
| Accounts receivable  | (2,521 )      | (630 )       |
| Inventories  | 1106          | (926 )       |
| Prepaid expenses and other assets  | (66 )         | 274          |
| Accounts payable   | (99 )         | 144          |
| Customer deposits  | 634           | (579 )       |
| Accrued liabilities  | 745           | 28           |
| Gaming facility mandated payment   | 21            | (93 )        |
| Other liabilities  | 4             | 25           |
| Net cash provided by operating activities  | 6,001         | 2,417        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |               |              |
| Capital expenditures   | (3,180)       | (2,757)      |
| Proceeds from sale and disposal of assets  | 1             | 1,008        |
| Net cash used in investing activities  | (3,179)       | (1,749)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |               |              |
| Borrowings promissory notes, net   | (1,384)       | 2,478        |
| Borrowings of long-term debt   | 513           | 941          |
| Repayments of long-term debt   | (2,551)       | (2,541)      |
| Repurchase of common stock   | (32 )         | -            |
| Distribution to noncontrolling member  | (360 )        | (360 )       |
| Net cash provided by (used in ) financing activities                             | (3,814)       | 518          |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | <b>(992 )</b> | <b>1,186</b> |



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|   |         |         |
|---|---------|---------|
| CASH, beginning of year                           | 7,381   | 6,195   |
| CASH, end of year                                 | \$6,389 | \$7,381 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION |         |         |
| Interest paid                                     | \$405   | \$471   |
| Income taxes paid                                 | \$-     | \$-     |
| NON CASH INVESTING AND FINANCING ACTIVITY         |         |         |
| None  | \$-     | \$-     |

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

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## **BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data)**

#### **1. NATURE OF OPERATIONS, ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The accompanying consolidated financial statements include the accounts of Butler National Corporation (BNC) and its wholly-owned active subsidiaries, Avcon Industries, Inc., AVT Corporation, BCS Design, Inc., Butler National Services, Inc., Butler National Service Corporation, Butler National Corporation-Tempe, Butler Avionics, Inc., Butler National, Inc., Butler Temporary Services, Inc., Kansas International Corporation, Kansas International DDC, LLC, Wild West Heritage Foundation, Inc., and a majority owned subsidiary, BHCMC, LLC (collectively, The Company). All significant intercompany balances and transactions have been eliminated in consolidation. The fiscal year end of the Company is April 30.

Avcon Industries, Inc. modifies business category aircraft at its Newton, Kansas facility. Modifications can include passenger-to-freighter configuration, addition of aerial photography capability, and stability enhancing modifications. Butler Avionics sells, installs and repairs avionics equipment (airplane radio equipment and flight control systems). Butler National Inc. acquires airplanes, principally Learjets, to refurbish and sell. Butler National Corporation-Tempe is primarily engaged in the manufacture of airborne switching units used in Boeing McDonnell Douglas aircraft, electronic upgrades for classic weapon control systems used by the military and transient suppression devices for Boeing Classic aircraft. Butler National Service Corporation is a management consulting and administrative services firm providing business planning and financial coordination to Indian tribes interested in owning and operating casinos under the terms of the Indian Gaming Regulatory Act of 1988. BHCMC, LLC is majority-owned and provides management services for the Boot Hill Casino under a management agreement with the State of Kansas. BCS Design provides professional architectural services.

#### **SIGNIFICANT ACCOUNTING POLICIES:**

- a) **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. Allowance for doubtful accounts are calculated on the historical write-off of doubtful accounts of the individual subsidiaries. Invoices are generally considered a doubtful account if no payment has been made in the past 90 days.

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We review these policies on a quarterly basis, and based on these reviews, we believe we maintain adequate reserves. At April 30, 2017 and 2016, the allowance for doubtful accounts was \$112 and \$81 respectively.

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, the valuation and recognition of stock-based compensation expense, valuation for deferred tax assets and useful life of fixed assets.

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

Inventory obsolescence is examined on a regular basis. When determining our estimate of obsolescence we consider inventory that has been inactive for five years or longer and the probability of using that inventory in future production. The obsolete inventory generally consists of Falcon and Learjet parts and electrical components. At April 30, 2017 and 2016, the estimate of obsolete inventory was \$1,177 and \$1,161 respectively.

Property and Related Depreciation: Machinery and equipment are recorded at cost and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis. The lives used for the significant items within each property classification range from 3 to 39 years.

Maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of assets retired are removed from the accounts and any resulting gains or losses are reflected as income or expense.

During fiscal 2016 the Company sold one aircraft. Proceeds from the sale totaled \$959. The company realized a gain of \$732 on the sale.

Long-Lived Assets: The Company accounts for its long-lived assets in accordance with ASC Topic 360-10, formerly SFAS No. 144 "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.

Other Assets: Our other asset account includes assets of \$5,500 related to the Kansas Expanded Lottery Act Management Contract privilege fee, \$5,012 of gaming equipment we were required to pay for ownership by the

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State of Kansas Lottery, and JET autopilot intellectual property of \$1,417, and miscellaneous other assets of \$1,457. 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.

Other assets net values are as follows:

| (dollars in thousands)              | 2017    | 2016    |
|-------------------------------------|---------|---------|
| Privilege fee                       | \$5,500 | \$5,500 |
| Less amortized costs                | 2,256   | 1,833   |
| Privilege fee balance               | \$3,244 | \$3,667 |
| Intangible gaming equipment         | \$5,012 | \$4,576 |
| Less amortized costs                | 3,782   | 2,974   |
| Intangible gaming equipment balance | \$1,230 | \$1,602 |
| JET autopilot intellectual property | \$1,417 | \$1,417 |
| Less amortized costs                | 866     | 772     |
| JET autopilot balance               | \$551   | \$645   |

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 seven years. The legal life of an STC is indefinite. We believe we have enough future sales to fully amortize our STC development costs. Consultant costs, as shown below, include costs of engineering, legal and aircraft specialists. STC capitalized costs are as follows:

| (dollars in thousands) | 2017    | 2016    |
|------------------------|---------|---------|
| Direct labor           | \$2,199 | \$2,044 |
| Direct materials       | 2,866   | 2,638   |
| Consultant costs       | 1,922   | 1,922   |
| Overhead               | 3,712   | 3,426   |
|                        | 10,699  | 10,030  |
| Less-amortized costs   | 4,345   | 3,549   |
| STC balance            | \$6,354 | \$6,481 |

h) Revenue Recognition: Generally, we perform aircraft modifications under fixed-price contracts. Revenue from fixed-price contracts are recognized on the percentage-of-completion method, measured by the direct labor incurred compared to total estimated direct labor and material 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.

Revenue from product sales is 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 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.

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 for.

Slot Machine Jackpots: If the casino is not required to make 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.  
 i) 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  
 j) payments and billings in excess of costs incurred, other than those reflected as a reduction of contracts in process, as current liabilities.

k) Earnings Per Share: Earnings per common share is based on the weighted average number of common shares outstanding during the year.

The computation of the Company basic and diluted earnings per common share is as follows:

| (in thousands, except per share data)                  | 2017    | 2016 |
|--|---------|------|
| Net income attributable to Butler National Corporation | \$1,534 | \$24 |

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|   |            |            |
|---|------------|------------|
| Weighted average common shares outstanding                              | 63,455,883 | 62,263,404 |
| Dilutive effect of non-qualified stock option plans                     | -          | -          |
| Weighted average common shares outstanding, assuming dilution           | 63,455,883 | 62,263,404 |
| Potential common shares if all options were exercised and shares issued | 63,455,883 | 62,263,404 |
| Basic earnings per common share   | \$0.02     | \$0.00     |
| Diluted earnings per common share                                       | \$0.02     | \$0.00     |

Stock-based Compensation: The Company accounts for stock-based compensation under ASC Topic 505-50, formerly SFAS No. 123R, "*Share-Based Payment*" and SFAS No. 148, "*Accounting for Stock-Based Compensation - Transition and Disclosure - An amendment to SFAS No. 123.*" These standards define a fair value based method of accounting for stock-based compensation. In accordance with SFAS Nos. 123R and 148, the cost of stock-based compensation is measured at the grant date based on the value of the award and is recognized over the vesting period. The value of the stock-based award is determined using the Black-Scholes option-pricing model, whereby compensation cost is the excess of the fair value of the award as determined by the pricing model at the grant date or other measurement date over the amount that must be paid to acquire the stock. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive the benefit, which is generally the vesting period.

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.

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. At April 30, 2017 and 2016, we had \$2,312 and \$3,546, respectively in bank deposits that exceeded the federally insured limits.

Concentration of Credit Risk: We extend credit to customers based on an evaluation of their financial condition and collateral is not required. We perform ongoing credit evaluations of our customers and maintain an allowance for doubtful accounts.

Research and Development: We invested in research and development activities. The amount invested in the year ended April 30, 2017 and 2016 was \$1,479 and \$1,838 respectively.

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.

r)

Reclassifications: Certain reclassifications within the financial statement captions have been made to maintain consistency in presentation between years. These reclassifications have no impact on the reported results of operations.

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**2.DEBT:**

Principal amounts of debt at April 30, 2017 and 2016, consist of the following (in thousands):

| <b>Promissory Notes</b>  | <b>2017</b>    | <b>2016</b>    |
|--|----------------|----------------|
| Bank line of credit, available LOC \$5.0 million interest at 3.4% due on demand, collateralized by a first and second position on all assets of the Company. | 2,604          | 3,988          |
|  | <b>\$2,604</b> | <b>\$3,988</b> |
| <b>Long-Term Debt</b>  |                |                |
| Note payable, interest at 6% paid off in 2017.   | -              | 81             |
| Note payable, interest at 6.25% due September 2017 collateralized by Aircraft Security Agreements.   | 46             | 150            |
| Note payable, interest at 5.75% due January 2020 collateralized by Aircraft Security Agreements.   | 412            | 547            |
| Note payable, interest at bank prime (3.36 % at April 30, 2017) due August 2019, collateralized by real estate.  | 128            | 192            |
| Note payable, interest at bank prime (3.36% at April 30, 2017) due March 2019, collateralized by real estate.  | 132            | 198            |
| Note payable, interest at bank prime (2.68% at April 30, 2017) due March 2019, collateralized by real estate.  | 307            | 468            |
| Note payable, interest at 6.25%, due June 2019, collateralized by real estate.   | 276            | 291            |
| Note payable, interest at 4.89% due May 2020, collateralized by all of BNSC's assets and compensation due under the State Management contract.               | 3,560          | 4,602          |
| Notes payable, interest at 4.5%, due April 2022, collateralized by equipment.  | 98             | -              |
| Obligations of BHCMC, LLC due December 2017 and March 2018.  | 685            | 1,150          |
| Other notes payable, paid off in 2017.   | -              | 3              |
|  | 5,644          | 7,682          |
| Less: Current maturities   | 2,297          | 2,464          |
|  | <b>\$3,347</b> | <b>\$5,218</b> |



Maturities of long-term debt are as follows:

| <b>Year Ending April 30</b> | <b>Amount</b> |
|-----------------------------|---------------|
| 2018                        | \$ 2,297      |
| 2019                        | 1,612         |
| 2020                        | 1,589         |
| 2021                        | 124           |
| 2022                        | 22            |
| Thereafter                  | -             |
|                             | \$ 5,644      |

**Financial and Other Covenants**

We are in compliance with our covenants at April 30, 2017.

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**3. INCOME TAXES:**

Deferred taxes are determined based on the estimated future tax effects of differences between the financial statements and tax basis of assets and liabilities given the provision of the enacted tax laws. Significant components of the Company's deferred tax liabilities and assets as of April 30, 2017 and 2016 are as follows (in thousands):

|                                 | April<br>30,<br>2017 | April<br>30,<br>2016 |
|---------------------------------|----------------------|----------------------|
| Deferred tax liabilities:       |                      |                      |
| Depreciation                    | \$-                  | \$-                  |
| Deferred tax assets:            |                      |                      |
| Depreciation                    | 309                  | 80                   |
| Accounts receivable allowance   | 43                   | 31                   |
| Inventory and other allowances  | 467                  | 859                  |
| Vacation accruals               | 106                  | 93                   |
| NOL carryforward                | -                    | 41                   |
| Total gross deferred tax assets | 925                  | 1,104                |
| Less valuation allowance        | -                    | -                    |
| Net deferred tax assets         | \$925                | \$1,104              |

The reconciliation of the federal statutory income tax rate to the effective tax rate is as follows:

|   | April<br>30,<br>2017 | April<br>30,<br>2016 |
|---|----------------------|----------------------|
| Statutory federal income tax rate (benefit) expense, net of noncontrolling interest | 34.00 %              | 34.00 %              |
| State income tax net of federal benefits  | 1.93 %               | 0.00 %               |
| Permanent tax   | 1.70 %               | 30.70 %              |
| Other   | (4.30 )%             | 14.75 %              |
|   | 33.33 %              | 79.45 %              |
| Income tax expense:   |                      |                      |
| Deferred income tax   | \$179                | \$93                 |
| Current income tax  | 589                  | -                    |
| Total income tax expense  | \$768                | \$93                 |

Current income tax expense (benefit) of \$589 and \$0 are comprised of \$550 and \$0 in federal income tax and \$39 and \$0 in state income tax for the years ended April 30, 2017 and 2016, respectively.

The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on its financial condition, results of operations or cashflow. Therefore, no reserve for uncertain income tax position, interest or penalties, have been recorded.

The Company files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. Federal tax examinations for tax years beginning on May 1, 2012 and prior. There are no current tax examinations.

#### **4. STOCKHOLDERS' EQUITY:**

##### Common Stock Transactions

During the year ended April 30, 2017, we issued 1,087,264 shares valued at \$251 as the match to the Company 401(k) plan.

During the year ended April 30, 2016, we issued 1,206,775 shares valued at \$241 as the match to the Company 401(k) plan.

#### **5. STOCK OPTIONS AND INCENTIVE PLANS**

At April 30, 2017 we had no outstanding stock options. There were 7,262,064 outstanding stock options that were issued on December 31, 2010, all of which expired on December 31, 2015.

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

**6. STOCK REPURCHASE PROGRAM:**

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

The table below provides information with respect to common stock purchases by the Company during the year ended April 30, 2017.

| 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 |
|---------------|--------------------------------------|------------------------------|--|--|
| December 2016 | 0                                    | \$ 0.00                      | 0  | \$ 500   |
| January 2017  | 49,920                               | \$ 0.20                      | 49,920   | \$ 490   |
| April 2017    | 80,426                               | \$ 0.27                      | 80,426   | \$ 468   |
| Total         | 130,346                              | \$ 0.25                      | 130,346  |  |

(a) 49,920 shares of common stock purchased were purchased through a private transaction

**7. COMMITMENTS AND CONTINGENCIES:**

Lease and Rent Commitments (in thousands).

We lease and rent space with initial terms of (3) years, (5) years, ten (10) years, and twenty five (25) years. Total rental expense incurred for the years ended April 30, 2017 and 2016 was \$5,180 and \$5,117 respectively.

Minimum lease and rent agreement commitments under noncancellable operating leases and rental agreements for the next five (5) years are as follows:

| Year Ending April 30 | Amount  |
|----------------------|---------|
| 2018                 | \$5,016 |
| 2019                 | 4,929   |
| 2020                 | 4,946   |

|      |          |
|------|----------|
| 2021 | 4,995    |
| 2022 | 5,037    |
|      | \$24,923 |

**Litigation:**

From time to time we may be a defendant and/or plaintiff in various other legal proceedings arising in the normal course of our business. We are currently not a party to any material legal proceedings or government actions, including any bankruptcy, receivership, or similar proceedings. In addition, we are not aware of any known litigation or liabilities involving the operators of our properties that could affect our operations. Furthermore, as of the date, our management is not aware of any proceedings to which any of our directors, officers, or affiliates, or any associate of any such director, officer, affiliate, or security holder is a party averse to our company or has a material interest averse to us.

**8. RELATED-PARTY TRANSACTIONS:**

In the normal course of business we purchased business system components of \$0 and \$3 from ISG, the employer of Bradley Hoffman, a director of Butler National Corporation during fiscal 2017 and 2016 respectively.

We paid consulting fees of \$135 and \$135 to David Hayden, a director of Butler National Corporation in fiscal year ended April 30, 2017 and 2016 respectively.

Included in accrued liabilities are \$389 and \$301 as of April 30, 2017 and 2016 respectively for amounts owed to our CEO for accrued compensation.

Included in other assets at April 30, 2017 and 2016 is \$780 owed to us by the noncontrolling company of BHCMC, LLC for costs incurred on their behalf.

In fiscal 2017, there were three related-person transactions under the relevant standards: Butler National employed the brother (Wayne Stewart), son (Craig Stewart) and son-in-law (Jeff Shinkle) of Clark D. Stewart, an executive officer, as an engineer, Vice President, and an architect. Compensation for these related-persons was calculated in the same manner as the Summary Compensation table resulting in compensation of \$225, \$295 and \$188, respectively, for fiscal 2017 and \$225, \$292, and \$188, respectively, for fiscal 2016.

The policies and procedures for payment of goods and services for related transactions follow our normal course of business standards and require the necessary review and approval process as outlined in our Policies and Procedures manual and as set forth by our Compensation Committee.

#### **9.401(k) SAVINGS PLAN:**

We have a defined contribution plan authorized under Section 401(k) of the Internal Revenue Code. All benefits-eligible employees with at least thirty days of service are eligible to participate in the plan; however there are only two entry dates per calendar year. The Plan may match subject to the annual approval of the Board of Directors, 100 percent of every pre-tax dollar an employee contributes up to 6% of the employee's salary. Employees are 100 percent vested in the employer's contributions immediately. Our matching contribution, as approved by the Board of Directors was paid in common stock of the Company. The contribution amount was valued at the market price of the stock contributed in 2017 and 2016 was approximately \$251 and \$241 respectively.

#### **10.INDUSTRY SEGMENTATION AND SALES BY MAJOR CUSTOMER:**

##### **Industry Segmentation**

**Current Activities** - The Company focuses on two primary activities, Professional Services and Aerospace Products.

##### **Aerospace Products:**

Aircraft Modifications principally includes the modification of customer and company owned business-size aircraft from passenger to freighter configuration, radar systems, addition of aerial photography capabilities, and stability enhancing modifications for Learjet, Beechcraft, Cessna, and Dassault Falcon aircraft along with other specialized modifications. We provide these services through our subsidiary, Avcon Industries, Inc. ("Aircraft Modifications" or "Avcon").

Avionics principally includes the manufacture, sale, and service of airborne electronic switching units used in DC-9, DC-10, DC-9/80, MD-80, MD-90, and the KC-10 aircraft, Transient Suppression Devices (TSDs) for fuel tank protection on Boeing Classic 737 and 747 aircraft, and other Classic aircraft using a capacitance fuel quantity indicating system ("FQIS"), airborne electronics upgrades for classic weapon control systems used on military aircraft and vehicles, and consulting services with airlines and equipment manufacturers regarding fuel system safety requirements. We provide the products through our subsidiary, Butler National Corporation - Tempe, Arizona and the services through Butler National Corporation - Olathe, Kansas ("Avionics", "Classic Aviation Products", "Safety Products", or "Switching Units").

Butler Avionics sells, installs and repairs avionics equipment (airplane radio equipment and flight control systems). These systems are flight display systems which include intuitive touchscreen controls with large display to give users

unprecedented access to high-resolution terrain mapping, graphical flight planning, geo-referenced charting, traffic display, satellite weather and much more. Butler Avionics is also recognized nationwide for its troubleshooting and repair work particularly on autopilot systems.

**Professional Services:**

BCS Design, Inc. provides licensed architectural services. These services include commercial and industrial building design.

Butler National Service Corporation ("BNSC") provides management services to the Boot Hill Casino, a "state-owned casino" and to The Stables, an "Indian-owned casino".

| <b>Year ended April 30, 2017</b>                       | <b>Professional Aerospace</b> |                 | <b>Consolidated</b> |
|--|-------------------------------|-----------------|---------------------|
|  | <b>Services</b>               | <b>Products</b> |                     |
| Total revenues   | \$ 30,849                     | \$ 19,770       | \$ 50,619           |
| Depreciation and amortization                          | 1,423                         | 562             | 1,985               |
| Operating income                                       | 1,622                         | 1,878           | 3,500               |
| Capital expenditures, net                              | 2,296                         | 884             | 3,180               |
| Interest expense                                       | -                             | -               | (403 )              |
| Other income (expense)                                 | -                             | -               | (16 )               |
| Income before taxes                                    | -                             | -               | 3,082               |
| Income tax expense                                     | -                             | -               | 768                 |
| Net income attributable to Butler National Corporation | -                             | -               | 1,534               |
| Identifiable assets, net                               | 21,863                        | 20,915          | 42,778              |

| <b>Year ended April 30, 2016</b>                       | <b>Professional Aerospace</b> |                 | <b>Consolidated</b> |
|--|-------------------------------|-----------------|---------------------|
|  | <b>Services</b>               | <b>Products</b> |                     |
| Total revenues   | \$ 29,784                     | \$ 15,010       | \$ 44,794           |
| Depreciation and amortization                          | 1,390                         | 784             | 2,174               |
| Operating income (loss)                                | 1,597                         | (975 )          | 622                 |
| Capital expenditures, net                              | 1,183                         | 1,574           | 2,757               |
| Interest expense                                       | -                             | -               | (471 )              |
| Other income (expense)                                 | -                             | -               | 21                  |
| Income before taxes                                    | -                             | -               | 908                 |
| Income tax expense                                     | -                             | -               | 93                  |
| Net income attributable to Butler National Corporation | -                             | -               | 24                  |
| Identifiable assets, net                               | 22,462                        | 20,235          | 42,697              |

**Major Customers:** Revenue from major customers (10 percent or more of consolidated revenue) were as follows:

|                                   | <b>2017</b> |   | <b>2016</b> |
|-----------------------------------|-------------|---|-------------|
| Aerospace Products – one customer | 10.5        | % | N/A<br>*    |
| Professional Services             | N/A         | * | N/A<br>*    |

\*Revenue represented less than 10% of consolidated revenue.

In fiscal 2017 the Company derived 25.2% of total sales from five Aerospace customers. The top customer provided 10.5% of total sales while the next top four customers ranged from 0.9% to 9.2%.

## **11. FAIR VALUE MEASUREMENTS:**

The Company adopted ASC Topic 820-10 at the beginning of 2009 to measure the fair value of certain of its financial assets required to be measured on a recurring basis. The adoption of ASC Topic 820-10 did not impact the Company's financial condition or results of operations. ASC Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). ASC Topic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability. The three levels of the fair value hierarchy under ASC Topic 820-10 are described below:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 - Valuations based on quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 - Valuations based on inputs that are supportable by little or no market activity and that are significant to the fair value of the asset or liability.



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The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of April 30, 2017 (in thousands):

|                  | Level<br>1 | Level<br>2 | Level 3 | Fair<br>Value |
|------------------|------------|------------|---------|---------------|
| Promissory notes | \$ -       | \$ -       | \$2,604 | \$2,604       |
| Long-term debt   |            |            | 5,644   | 5,644         |
|                  | \$ -       | \$ -       | \$8,248 | \$8,248       |

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of April 30, 2016 (in thousands):

|                  | Level<br>1 | Level<br>2 | Level 3  | Fair<br>Value |
|------------------|------------|------------|----------|---------------|
| Promissory notes | \$ -       | \$ -       | \$3,988  | \$3,988       |
| Long-term debt   | -          | -          | 7,682    | 7,682         |
|                  | \$ -       | \$ -       | \$11,670 | \$11,670      |

**12.SUBSEQUENT EVENTS:**

The Company evaluated its April 30, 2017 consolidated financial statements for subsequent events through July 21, 2017, the filing date of this report. The Company is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.