

BUTLER NATIONAL CORP

Form 10-K

July 21, 2017

---

---

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)

Edgar Filing: BUTLER NATIONAL CORP - Form 10-K

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 filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller Reporting Company	Emerging Growth Company
-------------------------	-------------------	---	---------------------------	-------------------------

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The 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

---

**BUTLER NATIONAL CORPORATION**

**ANNUAL REPORT ON FORM 10-K**

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

**TABLE OF CONTENTS**

**PART I**

ITEM 1. Business	5
ITEM 1A. Risk Factors	11
ITEM 1B. Unresolved Staff Comments	15
ITEM 2. Properties	15
ITEM 3. Legal Proceedings	15
ITEM 4. Mine Safety Disclosures	15

**PART II**

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
ITEM 6. Selected Financial Data	17
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk	23
ITEM 8. Financial Statements and Supplementary Data	24
ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	24
ITEM 9A. Controls and Procedures	24
ITEM 9B. Other Information	25

**PART III**

ITEM 10. Directors, Executive Officers and Corporate Governance	25
ITEM 11. Executive Compensation	29
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	34
ITEM 13. Certain Relationships and Related Transactions, and Director Independence	34
ITEM 14. Principal Accounting Fees and Services	35

**PART IV**

ITEM 15. Exhibits, Financial Statement Schedules	36
Signatures	38
Financial Statements	40



## 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.

*Rest of page intentionally left blank.*

---



## **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.

---

## **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.

---



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

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

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

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
 Total backlog	 \$10,815	 \$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