

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, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-1678



**BUTLER NATIONAL CORPORATION**

(Exact name of Registrant as specified in its charter)

Kansas

(State of Incorporation)

41-0834293

(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)

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 or a smaller reporting company. See the definition of "large accelerated filer," "non-accelerated filer," and "smaller reporting company," in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

The 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 **\$8,786,094** at October 31, 2014, when the closing price of such stock was \$0.19.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of July 3, 2015, was **62,860,098** shares.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

**BUTLER NATIONAL CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE FISCAL YEAR ENDED APRIL 30, 2015**  
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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;
- any delays in receiving components from third party suppliers;
- the competitive environment;
- the bankruptcy or insolvency of one or more key customers;
- new product offerings from competitors;
- protection of intellectual property rights;
- the ability to service 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, 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 for our assets;

- 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 aerial photography capability, 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").

In September 2010 we expanded this division by the acquisition of Kings Avionics, Inc., now known as Butler Avionics, Inc. ("Butler Avionics"). The acquisition of Butler Avionics allowed us to transition into the new technology available in avionics. 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, 2015, 2014, and 2013 and Revenue for the year ended April 30, 2015, 2014, and 2013.

<u>Assets</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Professional Services	52.0%	53.0%	54.4%
Aerospace Products	48.0%	47.0%	45.6%
<u>Revenue</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Professional Services	65.4%	65.6%	72.3%
Aerospace Products	34.6%	34.4%	27.7%

Butler National Services, Inc. (“BNSI” or “BNS”) provided monitoring and related repair services of water and wastewater remote pumping stations through electronic surveillance for municipalities and the private sector. On May 1, 2013 we sold our waste water monitoring business (Butler National Services, Inc.) to Beadle Enterprises, LLC.

## **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 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 cannot be assured.

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. 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 three year period ended April 30, 2015.

### **Narrative Description of Business**

#### **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 55 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 to make the installations (STC) acceptable to foreign governments for installation abroad.

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 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.

**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, addition of aerial photography capability, stability enhancing modifications for Learjets, and other special mission modifications. Avcon offers avionics, aerodynamic, and stability improvement products for selected business jet aircraft. Avcon makes these modifications to customer-owned aircraft.

The Aircraft Modifications business derives its ability to modify aircraft from the authority granted to it 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, and many special mission modifications.

We operate FAA Authorized Repair Stations. The focus of our business includes the Learjet model 20 and 30 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 Helicopter 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 has now become part of the fuel system safety regulations. One aspect of these regulations requires protection for auxiliary fuel tanks.

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 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 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. BCS Design assisted with the design, construction and continued refurbishment of the Stables.

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. BCS Design assisted with the design, construction and continued refurbishment of Boot Hill Casino.

The Phase II expansion of Boot Hill Casino began in early 2012 and was completed in January 2013. 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, with minimum exposure to Butler National Corporation. The Phase II expansion included the interior finish of 15,000 square feet of casino shell and provided for 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). In late January 2013, the snack bar was reopened with additional seating and space as the “Cowboy Cafe.” BCS Design assisted with the design, construction and continued refurbishment of Boot Hill Casino.

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:

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

Our wholly owned subsidiary, Butler National Service Corporation continues friendly discussions with the other member of BHCMC,



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

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

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 development of an adjacent hotel and community owned special events center was funded by BHI, is completed, and open to the public. 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, with minimum exposure to Butler National Corporation. 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 now has approximately 690 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 charter 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, 2015, 2014, and 2013, was as follows:

<b>Industry Segment</b> (in thousands)	<b>2015</b>	<b>2014</b>	<b>2013</b>
Aerospace Products	\$ 8,999	\$ 5,329	\$ 3,130
Professional Services	100	285	179
Total backlog	<u>\$ 9,099</u>	<u>\$ 5,614</u>	<u>\$ 3,309</u>

Our backlog as of July 3, 2015 totaled \$9,373; consisting of \$9,273 and \$100, 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 2016. 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 92 full time and 4 part time employees on April 30, 2015 compared to 82 full time and 3 part time employees on April 30, 2014. As of July 3, 2015, staffing was 94 full time and 4 part time employees. Our staffing at Boot Hill Casino on April 30, 2015 was 193 full time and 43 part time employees and at July 3, 2015 was 189 full time employees and 51 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 \$5,400 in the year ended April 30, 2015, \$4,800 in the year ended April 30, 2014, and \$3,205 in the year ended April 30, 2013. 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, 63 years old, Chairman of the Board of Directors  
Clark D. Stewart, 75 years old, President and Chief Executive Officer  
Craig D. Stewart, 41 years old, Vice President and Chief Financial Officer  
Christopher J. Reedy, 49 years old, Vice President and Secretary

**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 161<sup>st</sup> 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:** We have concerns regarding the Budget Control Act of 2011 (the “Budget Act”) that was signed into law on August 2, 2011. The law to reduce federal government expenditures over the next 10 years may result in reduced U.S. government funding for the defense industry. The Budget Act set \$900 billion in immediate costs to discretionary government spending for 2012 through 2021. The impact of any resulting reductions in defense appropriations, and/or reduction in U.S. 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.

**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. Gaming and Aviation activities 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 have no "major customers" (10 percent or more of consolidated revenue). During the fiscal year ending April 30, 2015 we derived 18.7% 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. Moreover, our proposed new aviation modification products will 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.

**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 related to the JET acquisition. 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 Features:** 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. 17-12, 101 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 \$2.7 million during fiscal year ended April 30, 2015.

#### **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 \$123.

Avcon Industries, Inc. is located at 714 North Oliver Road, Newton, Kansas, in a 42,700 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 \$4,652 in fiscal year ended April 30, 2014 and \$4,698 in fiscal year ended April 30, 2015.

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**

BHCMC and BHC Development filed a complaint against Bally Gaming in the United States District Court for the District of Kansas in June 2012. After hearing the evidence, in March 2014 the jury rendered a verdict in favor of BHCMC and BHC Development in the amount of \$1,424. Bally appealed the verdict. In February of 2015, BHCMC and BHC Development agreed to accept the sum of \$1,324 in satisfaction of the judgment. This amount was received in February 2015. BHCMC and BHC Development agreed to return to Bally its system-related equipment which had a book value of \$591, resulting in a gain on settlement of \$733.

As of July 3, 2015, there are no other significant known legal proceedings pending against us. We consider all such unknown proceedings, if any, to be ordinary litigation incident to the character of the business. We believe that the resolution of any claims will not, individually or in the aggregate, have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

## **Item 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## 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 OTC Pink platform under the symbol "BUKS".

The range of the high and low bid prices per share of the our common stock, for fiscal years 2015 and 2014, 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.

	Year Ended April 30, 2015		Year Ended April 30, 2014	
	Low	High	Low	High
First quarter	\$ 0.14	\$ 0.20	\$ 0.13	\$ 0.25
Second quarter	\$ 0.15	\$ 0.23	\$ 0.15	\$ 0.25
Third quarter	\$ 0.13	\$ 0.19	\$ 0.09	\$ 0.20
Fourth quarter	\$ 0.14	\$ 0.28	\$ 0.13	\$ 0.25

(b) Holders: The approximate number of holders of record of our common stock, as of July 3, 2015, was 2,900. The price of the stock as of July 3, 2015 was approximately \$0.23 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 3, 2015 there were no Convertible Preferred shares or Convertible Debenture notes outstanding.

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

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased under the Plans or Programs (c)
May 1, 2014 through April 30, 2015	0	\$ 0.00	0
Total	0	\$ 0.00	0



## 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.

	Year Ended April 30				
	(In thousands except per share data)				
	2015	2014	2013	2012	2011
Total revenues	\$ 47,062	\$ 47,271	\$ 49,152	\$ 52,719	\$ 46,335
Operating income	\$ 1,319	\$ 1,921	\$ 1,503	\$ 5,486	\$ 2,828
Net income (loss) attributable to Butler National Corporation	\$ 27	\$ 112	\$ (148)	\$ 1,900	\$ 1,259
Basic earnings per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.03	\$ 0.02
<b>Selected Balance Sheet Information</b>					
Total assets	\$ 41,598	\$ 41,678	\$ 43,860	\$ 40,562	\$ 32,158
Long-term obligations (excluding current maturities)	\$ 6,870	\$ 6,820	\$ 10,155	\$ 8,678	\$ 4,940
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 financial statements and the accompanying notes to the financial statements (Notes).

Our fiscal year ends on April 30. Fiscal years 2015, 2014 and 2013 consisted of 52 weeks and ended on April 30, 2015, April 30, 2014 and April 30, 2013, 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 55 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 50 years to modern state of the art equipment for sale worldwide using FAA supplemental type certification to make the installations (STC) acceptable to foreign governments for installation abroad.

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 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. BCS Design assisted with the design, construction and continued refurbishment of the Stables.

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. BCS Design assisted with the design, construction and continued refurbishment of Boot Hill Casino.

The Phase II expansion of Boot Hill Casino began in early 2012 and was completed in January 2013. 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, with minimum exposure to Butler National Corporation. The Phase II expansion included the interior finish of 15,000 square feet of casino shell and provided for 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). In late January 2013, the snack bar was reopened with additional seating and space as the "Cowboy Cafe." BCS Design assisted with the design, construction and continued refurbishment of Boot Hill Casino.

### **Results Overview**

Our fiscal 2015 revenue decreased 0% to \$47.1 million compared to \$47.3 million in fiscal 2014. In fiscal 2015 the Professional Services revenue decreased 1%. There was an increase of 0% in the Aerospace Products revenue in fiscal 2015. We anticipate future domestic military spending reductions and continued slow growth of the United States economy.

Our fiscal 2015 net income was \$27 compared to net income of \$112 in fiscal 2014. Earnings per share was \$0.00 for fiscal 2015

compared to \$0.00 in fiscal 2014. We continue focusing on our margin expansion initiatives, including efficiencies in our implementation and operational processes and controlling general and administrative expenses. The fiscal 2015 operating income was 3%, a decrease from our margin of 4% in fiscal 2014.

## RESULTS OF OPERATIONS

### Fiscal 2015 compared to Fiscal 2014

(dollars in thousands)	2015	Percent of Total Revenue	2014	Percent of Total Revenue	Percent Change 2014-2015
Revenue:					
Professional Services	\$ 30,795	65%	\$ 31,022	66%	(1)%
Aerospace Products	16,267	35%	16,249	34%	0%
Total revenue	47,062	100%	47,271	100%	0%
Costs and expenses:					
Cost of Professional Services	18,798	40%	18,843	40%	0%
Cost of Aerospace Products	12,672	27%	12,129	26%	4%
Marketing and advertising	4,323	9%	4,286	9%	1%
Employee benefits	1,825	4%	2,084	4%	(12)%
Depreciation and amortization	2,885	6%	3,495	7%	(17)%
General, administrative and other	5,240	11%	4,513	10%	16%
Total costs and expenses	45,743	97%	45,350	96%	1%
Operating income	\$ 1,319	3%	\$ 1,921	4%	(31)%

#### Revenue:

**Revenue** decreased 0% to \$47.1 million in fiscal 2015, compared to \$47.3 million in fiscal 2014. See "Operations by Segment" below for a discussion of the primary reasons for the decrease 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 decreased 1% to \$30.8 million in fiscal 2015 compared to \$31 million in fiscal 2014.
- Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 0% to \$16.3 million in fiscal 2015 compared to \$16.2 million in fiscal 2014. We anticipate future domestic military spending reductions and continued slow growth of the United States economy.

#### 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 1% in fiscal 2015 to \$45.7 million compared to \$45.3 million in fiscal 2014. Costs and expenses were 97% of total revenue in fiscal 2015, compared to 96% of total revenue in fiscal 2014.

**Marketing and advertising expenses** as a percent of total revenue was 9% in fiscal 2015, as compared to 9% in fiscal 2014. These expenses increased 1% to \$4.3 million in fiscal 2015, from \$4.3 million in fiscal 2014. 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 2015, compared to 4% in fiscal 2014. These expenses decreased 12% to \$1.8 million in fiscal 2015, from \$2.1 million in fiscal 2014. These expenses include the employers' share of all federal, state and local taxes, paid time off for vacation, holidays and illness, employee health and life insurance programs and employer matching contributions to retirement plans.

**Depreciation and amortization expenses** as a percent of total revenue was 6% in fiscal 2015, compared to 7% in fiscal 2014. These expenses decreased 17% to \$2.9 million in fiscal 2015, from \$3.5 million in fiscal 2014. 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. Phase II expansion to Boot Hill Casino was formally completed in early January 2013 and we began depreciation on \$4.9 million of assets with various useful lives. BHCMC, LLC depreciation and amortization expense for fiscal 2015 was \$1.5 million compared to \$1.6 in fiscal 2014.

**General, administrative and other expenses** as a percent of total revenue was 11% in fiscal 2015, compared to 10% in fiscal 2014. These expenses increased 16% to \$5.2 million in fiscal 2015, from \$4.5 million in fiscal 2014.

**Other income (expense):**

**Interest and other expenses** were \$1.1 million in fiscal 2015 compared with interest and other expenses of \$1.4 million in fiscal 2014, a decrease of \$276, from fiscal 2014 to fiscal 2015. Interest of \$900 was related to obligations of BHCMC, LLC. In fiscal 2015, a gain on settlement was recognized in the amount of \$733.

**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 2015 and 2014:

(dollars in thousands)	<u>2015</u>	<u>Percent of Revenue</u>	<u>2014</u>	<u>Percent of Revenue</u>	<u>Percent Change 2014-2015</u>
<b>Professional Services</b>					
Revenue					
Boot Hill Casino	\$ 29,923	97%	\$ 30,144	97%	(1)%
Management/Professional Services	872	3%	878	3%	(1)%
Revenue	<u>30,795</u>	<u>100%</u>	<u>31,022</u>	<u>100%</u>	<u>(1)%</u>
Costs of Professional Services	18,798	61%	18,843	61%	0%
Expenses	<u>10,203</u>	<u>33%</u>	<u>10,361</u>	<u>33%</u>	<u>(2)%</u>
Total costs and expenses	<u>29,001</u>	<u>94%</u>	<u>29,204</u>	<u>94%</u>	<u>(1)%</u>
Professional Services operating income before noncontrolling interest in BHCMC, LLC	<u>\$ 1,794</u>	<u>6%</u>	<u>\$ 1,818</u>	<u>6%</u>	<u>(1)%</u>
(dollars in thousands)	<u>2015</u>	<u>Percent of Revenue</u>	<u>2014</u>	<u>Percent of Revenue</u>	<u>Percent Change 2014-2015</u>
<b>Aerospace Products</b>					
Revenue	\$ 16,267	100 %	\$ 16,249	100%	0%
Costs of Aerospace Products	12,672	78 %	12,129	74%	4%
Expenses	<u>4,070</u>	<u>25 %</u>	<u>4,017</u>	<u>25%</u>	<u>1%</u>
Total costs and expenses	<u>16,742</u>	<u>103 %</u>	<u>16,146</u>	<u>99%</u>	<u>4%</u>
Aerospace Products operating income (loss)	<u>\$ (475)</u>	<u>(3)%</u>	<u>\$ 103</u>	<u>1%</u>	

**Professional Services**

- Revenue from Professional Services decreased 1% to \$30.8 million in fiscal 2015 from \$31.0 million in fiscal 2014. The decrease in Professional Services revenue was driven by decreased revenue in gaming activities of \$.2 million.

In fiscal 2015 Boot Hill Casino received gross receipts for the State of Kansas of \$40.4 million compared to \$40.5 million in fiscal 2014. Mandated fees, taxes and distributions reduced gross receipts by \$13.6 million resulting in gaming revenue of \$26.8 million in fiscal 2015 compared to \$27.2 million in fiscal 2014, a decrease of 1.4%.

The remaining management and Professional Services revenue includes professional management services in the gaming industry, licensed architectural services, food, beverage, and retail from Boot Hill Casino. Gaming related revenue including food, beverage, and retail increased 5% to \$3.1 million in fiscal 2015 compared to \$3.0 million in fiscal 2014. Professional Services revenue including architectural, engineering and monitoring services decreased 1% to \$872 in fiscal 2015 compared to \$878 in fiscal 2014.

- Costs remained constant in fiscal 2015 at \$18.8 million compared to \$18.8 million in fiscal 2014. Costs were 61% of segment total revenue in fiscal 2015, compared to 61% of segment total revenue in fiscal 2014.
- Expenses decreased 2% in fiscal 2015 to \$10.2 million compared to \$10.4 million in fiscal 2014. Expenses were 33% of segment total revenue in fiscal 2015, compared to 33% of segment total revenue in fiscal 2014.

#### Aerospace Products

- Revenue increased 0% to \$16.3 million in fiscal 2015 compared to \$16.2 million in fiscal 2014. We anticipate future domestic military spending reductions and continued slow growth of the United States economy. In an effort to offset decreased domestic military spending, 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 4% to \$12.7 million in fiscal 2015 compared to \$12.1 million in fiscal 2014. Costs were 78% of segment total revenue in fiscal 2015, compared to 74% of segment total revenue in fiscal 2014.
- Expenses increased 1% in fiscal 2015 at \$4.1 million compared to \$4.0 million in fiscal 2014. Expenses were 25% of segment total revenue in fiscal 2015, compared to 25% of segment total revenue in fiscal 2014.

#### Fiscal 2014 compared to Fiscal 2013

(dollars in thousands)	<u>2014</u>	<u>Percent of Total Revenue</u>	<u>2013</u>	<u>Percent of Total Revenue</u>	<u>Percent Change 2013-2014</u>
Revenue:					
Professional Services	\$ 31,022	66%	\$ 35,525	72%	(13)%
Aerospace Products	16,249	34%	13,627	28%	19%
Total revenue	<u>47,271</u>	<u>100%</u>	<u>49,152</u>	<u>100%</u>	<u>(4)%</u>
Costs and expenses:					
Cost of Professional Services	18,843	40%	21,090	43%	(11)%
Cost of Aerospace Products	12,129	26%	11,451	23%	6%
Marketing and advertising	4,286	9%	4,223	9%	1%
Employee benefits	2,084	4%	2,161	4%	(4)%
Depreciation and amortization	3,495	7%	3,276	7%	7%
General, administrative and other	4,513	10%	5,448	11%	(17)%
Total costs and expenses	<u>45,350</u>	<u>96%</u>	<u>47,649</u>	<u>97%</u>	<u>(5)%</u>
Operating income	<u>\$ 1,921</u>	<u>4%</u>	<u>\$ 1,503</u>	<u>3%</u>	<u>28%</u>

#### Revenue:

**Revenue** decreased 4% to \$47.3 in fiscal 2014, compared to \$49.2 million in fiscal 2013. See "Operations by Segment" below for a discussion of the primary reasons for the decrease 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 decreased 13% to \$31 million in fiscal 2014 compared to \$35.6 million in fiscal 2013.
- Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 19% to \$16.2 million in fiscal 2014 compared to \$13.6 million in fiscal 2013. We anticipate future domestic military spending reductions and continued slow growth of the United States economy.

### **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 decreased 5% in fiscal 2014 to \$45.3 million compared to \$47.6 million in fiscal 2013. Costs and expenses were 96% of total revenue in fiscal 2014, compared to 97% of total revenue in fiscal 2013. The decrease in costs and expenses in fiscal 2014 was primarily due to a concerted effort to lower costs to adjust to lower revenue.

**Marketing and advertising expenses** as a percent of total revenue was 9% in fiscal 2014, as compared to 9% in fiscal 2013. These expenses increased 1% to \$4.3 million in fiscal 2014, from \$4.2 million in fiscal 2013. 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 2014, compared to 4% in fiscal 2013. These expenses decreased 4% to \$2.1 million in fiscal 2014, from \$2.2 million in fiscal 2013. 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. The decreased expenses are related to a decrease in the number of employees in Professional Services.

**Depreciation and amortization expenses** as a percent of total revenue was 7% in fiscal 2014, compared to 7% in fiscal 2013. These expenses increased 7% to \$3.5 million in fiscal 2014, from \$3.3 million in fiscal 2013. 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. Phase II expansion to Boot Hill Casino was formally completed in early January 2013 and we began depreciation on \$4.9 million of assets with various useful lives. BHCMC, LLC depreciation and amortization expense for fiscal 2014 was \$1.6 million compared to \$1.3 in fiscal 2013.

**General, administrative and other expenses** as a percent of total revenue was 10% in fiscal 2014, compared to 11% in fiscal 2013. These expenses decreased 17% to \$4.5 million in fiscal 2014, from \$5.4 million in fiscal 2013. The decrease reflects our cost reduction plan to align overall expenses with the current level of revenue. The plan includes reductions in staffing levels and reduction of top-level management compensation.

### **Other income (expense):**

**Interest and other expenses** were \$1.4 million in fiscal 2014 compared with interest and other expenses of \$1.5 million in fiscal 2013, a decrease of \$104, from fiscal 2013 to fiscal 2014. Interest of \$1.1 million was related to obligations of BHCMC, LLC. A gain on the sale of assets was recorded for Butler National Services, Inc. in the amount of \$36.

### **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 2014 and 2013:

(dollars in thousands)	<u>2014</u>	<u>Percent of Revenue</u>	<u>2013</u>	<u>Percent of Revenue</u>	<u>Percent Change 2013-2014</u>
<b>Professional Services</b>					
Revenue					
Boot Hill Casino	\$ 30,144	97%	\$ 32,595	92%	(8)%
Management/Professional Services	878	3%	2,930	8%	(70)%
Revenue	<u>31,022</u>	<u>100%</u>	<u>35,525</u>	<u>100%</u>	<u>(13)%</u>
Costs of Professional Services	18,843	61%	21,090	60%	(11)%
Expenses	<u>10,361</u>	<u>33%</u>	<u>11,448</u>	<u>32%</u>	<u>(9)%</u>
Total costs and expenses	<u>29,204</u>	<u>94%</u>	<u>32,538</u>	<u>92%</u>	<u>(10)%</u>
Professional Services operating income before noncontrolling interest in BHCMC, LLC	<u>\$ 1,818</u>	<u>6%</u>	<u>\$ 2,987</u>	<u>8%</u>	<u>(39)%</u>

(dollars in thousands)	<u>2014</u>	<u>Percent of Revenue</u>	<u>2013</u>	<u>Percent of Revenue</u>	<u>Percent Change 2013- 2014</u>
<b>Aerospace Products</b>					
Revenue	\$ 16,249	100%	\$ 13,627	100%	19%
Costs of Aerospace Products	12,129	74%	11,451	84%	6%
Expenses	<u>4,017</u>	<u>25%</u>	<u>3,660</u>	<u>27%</u>	<u>10%</u>
Total costs and expenses	<u>16,146</u>	<u>99%</u>	<u>15,111</u>	<u>111%</u>	<u>7%</u>
Aerospace Products operating income (loss)	<u>\$ 103</u>	<u>1%</u>	<u>\$ (1,484)</u>	<u>(11)%</u>	

#### Professional Services

- Revenue from Professional Services decreased 13% to \$31.0 million in fiscal 2014 from \$35.5 million in fiscal 2013. The decrease in Professional Services revenue was driven by decreased revenue in gaming activities of \$2.6 million and other management and Professional Services of \$1.9 million.

In fiscal 2014 Boot Hill Casino received gross receipts for the State of Kansas of \$40.5 million compared to \$43.2 million in fiscal 2013. Mandated fees, taxes and distributions reduced gross receipts by \$13.3 million resulting in gaming revenue of \$27.2 million in fiscal 2014 compared to \$29.3 million in fiscal 2013, a decrease of 7.3%.

The remaining management and Professional Services revenue includes professional management services in the gaming industry, licensed architectural services, food, beverage, and retail from Boot Hill Casino. Gaming related revenue including food, beverage, and retail decreased 9.4% to \$3.0 million in fiscal 2014 compared to \$3.3 million in fiscal 2013. Professional Services revenue including architectural, engineering and monitoring services decreased 70% to \$878 in fiscal 2014. Two primary causes for the decline are a \$429 decrease relating to architectural services and a \$1.3 million decrease in revenue from monitoring services due to the sale of BNSI.

- Costs decreased 11% in fiscal 2014 to \$18.8 million compared to \$21.1 million in fiscal 2013. Costs were 61% of segment total revenue in fiscal 2014, compared to 60% of segment total revenue in fiscal 2013. The decrease in direct costs were a result of reductions of electronic gaming machines.
- Expenses decreased 9% in fiscal 2014 to \$10.4 million compared to \$11.4 million in fiscal 2013. Expenses were 33% of segment total revenue in fiscal 2014, compared to 32% of segment total revenue in fiscal 2013.

#### Aerospace Products

- Revenue increased 19% to \$16.2 million in fiscal 2014 compared to \$13.6 million in fiscal 2013. This increase is attributable to increased revenue of \$2.3 million relating to aircraft modifications. We anticipate future domestic military spending reductions and continued slow growth of the United States economy. In an effort to offset decreased domestic military spending, 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 6% to \$12.1 million in fiscal 2014 compared to \$11.5 million in fiscal 2013. Costs were 74% of segment total revenue in fiscal 2014, compared to 84% of segment total revenue in fiscal 2013.
- Expenses increased 10% in fiscal 2014 at \$4.0 million compared to \$3.7 million in fiscal 2013. Expenses were 25% of segment total revenue in fiscal 2014, compared to 27% of segment total revenue in fiscal 2013.

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

At April 30, 2015, the Company was utilizing three lines of credit totaling \$4.5 million. The unused line at April 30, 2015 was \$3.0 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.

We believe the lines of credit will be extended when they become due and do not anticipate the full repayment of these notes in fiscal 2016. Our \$1 million line of credit has been extended to August 2015. Our \$2.5 million line of credit matures May 2016. Our \$1.0 million line of credit matures May 2016. The lines of credit are collateralized by the first and second positions on all assets of the Company.

At April 30, 2015, there were several notes collateralized by aircraft security agreements totaling \$1,396. These notes were used for the purchase and modification of these collateralized aircraft.

There are three notes at a bank totaling \$1,142 for real estate located in Olathe, Kansas and Tempe, Arizona. The due date for these notes is March 2019.

One note totaling \$306 remains for real estate purchased in Dodge City, Kansas.

One note collateralized by equipment totals an additional \$43.

BHCMC arranged to acquire for ownership by the Kansas Lottery additional gaming machines. The balance of these financed payables is \$895.

In April 2015, we obtained a note at a bank for a total of \$5.5 million. The proceeds were used primarily to pay off obligations with BHCI (a non-controlling owner of BHCMC, LLC).

We are not in default of any of our notes as of April 30, 2015 or July 3, 2015.

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 2015 and beyond.

The terms of the agreement between the Kansas Lottery and BNSC/BHCMC require the completion of an addition to the Boot Hill Casino. The Phase II development of an adjacent hotel and community owned special events center was funded by a third party, is completed, and open to the public. 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, with minimum exposure to Butler National Corporation. The Phase II expansion included the interior finish of 15,000 square feet of casino shell and 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). In January 2013 the snack bar was reopened with additional seating and space as the "Cowboy Cafe."

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

During fiscal 2015 our cash position decreased by \$66. Net income was \$829. Cash flows from operating activities provided \$4.0 million. Non-cash activities consisting of depreciation and amortization contributed \$4.0 million and 401(k) stock issues contributed \$219. Customer deposits and inventories decreased our cash position by \$846. Prepaid expenses and other current assets decreased our cash by \$1.7 million, while an increase in accounts payable, accrued expenses, and other liabilities increased our cash by an additional \$710. We had a gain on settlement of \$773.

Cash used in investing activities was \$2,359. We invested \$912 to purchase aircraft, \$93 on aircraft related equipment, \$35 on building improvements, \$2,253 towards STCs, and \$234 to equipment purchases and leasehold improvements at Boot Hill Casino.



We also invested \$155 on the Wild West Heritage exhibit in Dodge City, Kansas. We received \$1,323 from a settlement.

Cash used in financing activities was \$1,693. We reduced our debt by \$1,446 and paid down our line of credit by \$247.

### **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 amount 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.

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

### **Changing Prices and Inflation**

We have experienced upward pressure from inflation in fiscal year 2015. From fiscal year 2014 to fiscal year 2015 a majority of the

increases we experienced were in material costs. This additional cost may not be transferable to our customers resulting in lower income in the future. We anticipate fuel costs and possibly interest rates to rise in fiscal 2016 and 2017.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

### Contractual Obligations:

#### Tabular Disclosure of Contractual Obligations

Contractual Obligations	Payments Due By Period (Dollars in thousands)						
	Total	Less than 1 Year	2 Years FY 2017	3 Years FY 2018	4 Years FY 2019	5 Years FY 2020	Thereafter
Long-term debt	\$ 9,282	\$ 2,412	\$ 2,285	\$ 1,577	\$ 1,576	\$ 1,328	\$ 104
Operating rent obligations	620	250	178	137	40	8	7
BHCR Facility rent obligations	102,563	4,745	4,793	4,841	4,889	4,938	78,357
Promissory notes	<u>1,510</u>	<u>1,510</u>	-	-	-	-	-
<b>TOTAL</b>	<b><u>\$ 113,975</u></b>	<b><u>\$ 8,917</u></b>	<b><u>\$ 7,256</u></b>	<b><u>\$ 6,555</u></b>	<b><u>\$ 6,505</u></b>	<b><u>\$ 6,274</u></b>	<b><u>\$ 78,468</u></b>

### 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)						Total	Fair Value
	2016	2017	2018	2019	2020	Thereafter		
<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	\$ 1,510	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,510	\$ 1,510
Long-term debt:	\$ 2,412	\$ 2,285	\$ 1,577	\$ 1,576	\$ 1,328	\$ 104	\$ 9,282	\$ 9,282
Variable rate								
Average interest rate	4.6%	4.6%	4.8%	4.8%	5.0%	4.9%	4.7%	4.7%
<b>Interest Payments</b>								
Est. interest payments:	\$ 406	\$ 266	\$ 181	\$ 108	\$ 38	\$ 3	\$ 1,002	

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 7%.

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

The Financial Statements of the Registrant are set forth on pages 48 through 64 of this report.

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

We have had a change in accountants but no 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, 2015. 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, 2015.

### **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, 2015.

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, 2015 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.

<b>Name of Director, Age and Term</b>	<b>Served Since</b>	<b>Principal Occupation for Last Five Years and Other Directorships</b>
Clark D. Stewart (75) Up for re-election at fiscal year end 2015	1989	President of the Company from September 1, 1989 to present.
R. Warren Wagoner (63) Up for re-election at fiscal year end 2015	1986	Chairman of the Board of Directors of the Company since August 30, 1989. Employee chairman until October 2013.
David B. Hayden (69) Up for re-election at fiscal year end 2017	1996	Co-owner and President of Kings Avionics, Inc. since 1974 prior to its acquisition in 2010. Director since 1996. Consultant since 2011.
Michael J. Tamburelli (52) Up for re-election at fiscal year end 2017	2010	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 (41) Up for re-election at fiscal year end 2016	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	75	President and Chief Executive Officer
R. Warren Wagoner	63	Chairman of the Board of Directors
Craig D. Stewart	41	Vice President and Chief Financial Officer
Christopher J. Reedy	49	Vice President and Secretary

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.

R. Warren Wagoner was General Manager, Am-Tech Metal Fabrications, Inc. from 1982 to 1987. From 1987 to 1989, Mr. Wagoner was President of Stelco, Inc. Mr. Wagoner was Sales Manager for Yamazen Machine Tool, Inc. from March 1992 to March 1994. Mr. Wagoner was President of the Company from July 26, 1989, to September 1, 1989. He became Chairman of the Board of the Company on August 30, 1989. He served as employee Chairman until October 2013.

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. He became Chief Financial Officer in November 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.

## Directorships Held within the Past Five Years:

### Current Directorships:

<u>Name</u>	<u>Company</u>	<u>Date(s) of Directorship</u>
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

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company pursuant to Rule 16(a)-3(e) during the most recent fiscal year and Form 5 and amendments thereto furnished to the Company with respect to the most recent fiscal year, the Company believes that no person who at any time during the fiscal year was a director, officer, beneficial owner of more than 10% of any class of equity securities registered pursuant to Section 12 of the Exchange Act failed to file on a timely basis reports required by Section 16(a) of the Exchange Act during the most recent fiscal year or prior fiscal years.

### 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. Tad McMahon. Mr. Hoffman is an independent member under the Nasdaq listing standards. The Audit Committee met five times during fiscal year 2015, 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, 2015 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, 2015.

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 (which superseded Statement on Auditing Standards No. 61, as amended. 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 29, 2015 regarding the audited consolidated financial statements of the Company for the year ended April 30, 2015, 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, 2015 for filing with the Securities and Exchange Commission.

The Audit Committee report is submitted by:

David B. Hayden, Bradley K. Hoffman and Tad McMahon

## **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 a Vice President. There are only four executive officers of Butler National Corporation. The “Executive Compensation” section presents compensation earned by the listed officers for fiscal years ending April 30, 2015, 2014 and 2013.

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 (no grants since fiscal 2011)
- 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 November 2014. They considered the current economic conditions and determined any compensation changes to be made in fiscal 2016.

<b><u>PAY COMPONENT</u></b>	<b><u>BRIEF DESCRIPTION</u></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

The following table summarizes option awards to non-employee directors during fiscal year 2011.

Name	Stock Awards
	Exercisable/Unexercisable
R. Warren Wagoner	0 / 130,000(a)
	0 / 130,000(b)
	0 / 130,000(c)
David B. Hayden	0 / 125,000(a)
	0 / 125,000(b)
	0 / 125,000(c)
Michael J. Tamburelli	0 / 125,000(a)
	0 / 125,000(b)
	0 / 125,000(c)
Bradley K. Hoffman	0 / 125,000(a)
	0 / 125,000(b)
	0 / 125,000(c)

The unexercised options at April 30, 2015 listed in the table above have an exercise price of \$0.49 and will expire on December 31, 2020. The options were granted under and are expressly subject to all the terms and provisions of the Plans, and the terms of such Plans are incorporated herein by reference. The terms are included but not limited to the following restrictions:

(a) In no event may any shares be purchased hereunder until satisfaction, either simultaneously or separately, of both (1) the date being December 31, 2011 or later and (2) the close of the Company's common stock at a market price at or above \$0.92 on any date between December 31, 2010 and December 31, 2015.

(b) In no event may any shares be purchased hereunder until satisfaction, either simultaneously or separately, of both (1) the date being December 31, 2012 or later and (2) the close of the Company's common stock at a market price at or above \$1.41 on any date between December 31, 2010 and December 31, 2015.

(c) In no event may any shares be purchased hereunder until satisfaction, either simultaneously or separately, of both (1) the date being December 31, 2013 or later and (2) the close of the Company's common stock at a market price at or above \$1.90 on any date between December 31, 2010 and December 31, 2015.

## 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 2015

The Compensation Committee set base salaries for executive officers for fiscal 2015 in April 2014.

The performance measures used by the Compensation Committee in determining executive compensation for fiscal year 2015 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 2014. 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 2014, 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 2015 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 2015 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 employee-chairmen of comparator companies.

### **Report of the Compensation Committee**

The Compensation Committee, which is composed of the three members of the Board of Directors, assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible under its charter for determining the compensation of the Company's executive officers. The Compensation Committee has reviewed and discussed the "Compensation Discussion and Analysis" section of this Annual Report on Form 10-K with management, including our CEO, Clark D. Stewart and our CFO, Craig D. Stewart. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the "Compensation Discussion and Analysis" section be included in the Company's Annual Report on Form 10-K.

Compensation Committee

Mr. R. Warren Wagoner (effective November 2014)

Mr. Michael J. Tamburelli

Mr. Bradley K. Hoffman

## Executive Compensation

### SUMMARY

The following table below sets forth certain compensation information concerning the Chief Executive Officer, Vice President, and our two additional most highly compensated executive officers for the fiscal years ended April 30, 2015, 2014 and 2013. Our listed officers are the CEO, Chairman of the Board, CFO, and Vice President. There are only four executive officers of Butler National Corporation. The “Executive Compensation” section presents compensation earned by the listed officers for fiscal years ending April 30, 2015, 2014 and 2013:

#### 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 President and Director	2015	458	---	---	---	---	---	79	537
	2014	396	---	---	---	---	---	46	442
	2013	477	9	---	---	---	---	39	525
R. Warren Wagoner Director - Chairman of the Board	2015	---	---	---	---	---	---	---	---
	2014	75	---	---	---	---	---	10	85
	2013	269	5	---	---	---	---	15	289
Craig D. Stewart Vice President and Chief Financial Officer	2015	246	---	---	---	---	---	40	286
	2014	210	---	---	---	---	---	46	256
	2013	214	6	---	---	---	---	44	264
Christopher J. Reedy Vice President and Secretary	2015	244	10	---	---	---	---	23	277
	2014	227	---	---	---	---	---	23	250
	2013	230	23	---	---	---	---	26	279

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

Name	Year	Airplane and Automobile Usage	Health Benefits	Memberships	Matching Contributions to 401(k) (3)
		(\$)	(\$)	(\$)	(\$)
Clark D. Stewart	2015	7	45	11	16
R. Warren Wagoner	2015	---	---	---	---
Craig D. Stewart	2015	---	16	10	14
Christopher J. Reedy	2015	---	5	3	15

- (1) All Other Compensation includes the amounts in the tables above.
- (2) All benefits are provided for in the tables, summaries, and footnotes above. We did not participate in any of the 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

All options are exercisable. The stock price must obtain a closing market price at or above \$0.92, which is four times the market price of \$0.23 per share on July 3, 2015.

No options were granted to any named executive officer in the last fiscal year.

The following table provides information with respect to the named executive officers concerning options exercised and unexercised options held as of the end of the our last fiscal year:

### Outstanding Equity Awards at Fiscal Year End

Name	Number of Shares Acquired on Exercise	Value Realized on Exercise (\$)	Number of Securities Underlying Unexercised Options at FY-End (no.) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at FY-End (\$) Exercisable/ Unexercisable
Clark D. Stewart, Chief Executive Officer	-	-	0 / 618,488(a) 0 / 618,488(b) 0 / 618,488(c)	0 / 0 0 / 0 0 / 0
R. Warren Wagoner, Director - Chairman of the Board	-	-	0 / 130,000(a) 0 / 130,000(b) 0 / 130,000(c)	0 / 0 0 / 0 0 / 0
Craig D. Stewart, Vice President and Chief Financial Officer	-	-	0 / 150,000(a) 0 / 150,000(b) 0 / 150,000(c)	0 / 0 0 / 0 0 / 0
Christopher J. Reedy, Vice President and Secretary	-	-	0 / 130,000(a) 0 / 130,000(b) 0 / 130,000(c)	0 / 0 0 / 0 0 / 0
David B. Hayden, Director	-	-	0 / 125,000(a) 0 / 125,000(b) 0 / 125,000(c)	0 / 0 0 / 0 0 / 0
Michael J. Tamburelli, Director	-	-	0 / 125,000(a) 0 / 125,000(b) 0 / 125,000(c)	0 / 0 0 / 0 0 / 0
Bradley K. Hoffman, Director	-	-	0 / 125,000(a) 0 / 125,000(b) 0 / 125,000(c)	0 / 0 0 / 0 0 / 0

The unexercised options at April 30, 2015 listed in the table above have an exercise price of \$0.49 and will expire on December 31, 2020. The options were granted under and are expressly subject to all the terms and provisions of the Plans, and the terms of such Plans are incorporated herein by reference. The terms are included but not limited to the following restrictions:

- (a) In no event may any shares be purchased hereunder until satisfaction, either simultaneously or separately, of both (1) the date being December 31, 2011 or later and (2) the close of the Company's common stock at a market price at or above \$0.92 on any date between December 31, 2010 and December 31, 2015.
- (b) In no event may any shares be purchased hereunder until satisfaction, either simultaneously or separately, of both (1) the date being December 31, 2012 or later and (2) the close of the Company's common stock at a market price at or above \$1.41 on any date between December 31, 2010 and December 31, 2015.
- (c) In no event may any shares be purchased hereunder until satisfaction, either simultaneously or separately, of both (1) the date being December 31, 2013 or later and (2) the close of the Company's common stock at a market price at or above \$1.90 on any date between December 31, 2010 and 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)

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

Fees of \$20 were paid to Michael Tamburelli, David Hayden, and Bradley Hoffman in fiscal 2014. Fees of \$20 were paid to the Chairman in fiscal 2014.

## 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 \$209 and \$119 as of April 30, 2015, and 2014 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. The company does not generally employ the use of any compensation consultants in determining or recommending the amount or form of executive and director compensation. 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 2014, 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 \$4, \$50, and \$47 from ISG, the employer of Bradley Hoffman, a director of Butler National Corporation during fiscal 2015, 2014 and 2013 respectively.

We paid consulting fees of \$135, \$135, and \$135 to David Hayden, a director of Butler National Corporation in fiscal year ended April 30, 2015, 2014, and 2013, respectively.

Included in accrued liabilities are \$209 and \$119 as of April 30, 2015, and 2014 respectively for amounts owed to our CEO for accrued compensation.

In fiscal 2015, 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 Chief Financial Officer, and an architect. Compensation for these related-persons was calculated in the same manner as the Summary Compensation table resulting in compensation of \$219, \$286 and \$179, respectively, for fiscal 2015, \$204, \$256 and \$171, respectively, for fiscal 2014, and \$209, \$264 and \$173 respectively, for fiscal 2013.

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 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 3, 2015.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership (1)</u>	<u>Percent of Class</u>
Clark D. Stewart 19920 West 161 <sup>st</sup> Street Olathe, Kansas 66062	5,348,458(2)	8.5%
R. Warren Wagoner 19920 West 161 <sup>st</sup> Street Olathe, Kansas 66062	4,482,994(3)	7.1%

- (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) Includes 1,855,464 shares which may be acquired by Mr. Stewart pursuant to the exercise of stock options which are exercisable.
- (3) Includes 390,000 shares which may be acquired by Mr. Wagoner pursuant to the exercise of stock options which are exercisable.

The following table sets forth as of April 30, 2015, 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, 2015.

<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership (1)</u>	<u>Percent of Class</u>
Clark D. Stewart	5,348,458 (2)	8.5%
R. Warren Wagoner	4,482,994 (3)	7.1%
Craig D. Stewart	1,793,077 (4)	2.9%
Christopher J. Reedy	1,420,942 (5)	2.3%
David B. Hayden	1,732,225 (6)	2.8%
Michael J. Tamburelli	375,000 (7)	0.6%
Bradley K. Hoffman	375,000 (8)	0.6%
All Directors and Executive Officers as a Group (7 persons)	15,527,696 (9)	24.8%

- (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.
- (2) Includes 1,855,464 shares, which may be acquired by Mr. Stewart pursuant to the exercise of stock options, which are exercisable.
- (3) Includes 390,000 shares, which may be acquired by Mr. Wagoner pursuant to the exercise of stock options, which are exercisable.
- (4) Includes 450,000 shares, which may be acquired by Mr. Stewart pursuant to the exercise of stock options, which are exercisable.
- (5) Includes 390,000 shares, which may be acquired by Mr. Reedy pursuant to the exercise of stock options, which are exercisable.
- (6) Includes 375,000 shares, which may be acquired by Mr. Hayden pursuant to the exercise of stock options, which are exercisable.
- (7) Includes 375,000 shares, which may be acquired by Mr. Tamburelli pursuant to the exercise of stock options, which are exercisable.
- (8) Includes 375,000 shares, which may be acquired by Mr. Hoffman pursuant to the exercise of stock options, which are exercisable.
- (9) Includes 4,210,464 shares for all directors and executive officers as a group, which may be acquired pursuant to the exercise of stock options, which are exercisable.

The Company does not have any equity compensation plans which have not been approved by the stockholders.

### Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	7,262,064	\$ 0.49	0(1)
Equity compensation plans not approved by stockholders	<u>0</u>	<u>0.00</u>	<u>0</u>
Total	<u><u>7,262,064</u></u>	<u><u>\$ 0.49</u></u>	<u><u>0</u></u>

(1) See Note 5 to the audited consolidated financial statements for a description of the equity compensation plan for securities remaining available for future issuance.

### 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 \$4, \$50, and \$47 from ISG, the employer of Bradley Hoffman, a director of Butler National Corporation during fiscal 2015, 2014 and 2013 respectively.

We paid consulting fees of \$135, \$135, and \$135 to David Hayden, a director of Butler National Corporation in fiscal year ended April 30, 2015, 2014, and 2013, respectively.

Included in accrued liabilities are \$209 and \$119 as of April 30, 2015, and 2014 respectively for amounts owed to our CEO for accrued compensation.

In fiscal 2015, 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 Chief Financial Officer, and an architect. Compensation for these related-persons was calculated in the same manner as the Summary Compensation table resulting in compensation of \$219, \$286 and \$179, respectively, for fiscal 2015, \$204, \$256 and \$171, respectively, for fiscal 2014, and \$209, \$264 and \$173 respectively, for fiscal 2013.

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 ACCOUNTANT FEES AND SERVICES

Fee Type	Fiscal 2015	Fiscal 2014
Audit fees (a)	\$ 137	\$ 128
Audit related fees (b)	14	16
Tax fees (c)	17	16
All other fees (d)	<u>-</u>	<u>-</u>
Total	<u><u>\$ 168</u></u>	<u><u>\$ 160</u></u>

(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 2016. 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.

(1) **Financial Statements:**

<b>Description</b>	<b>Page No.</b>
Report of Independent Registered Public Accounting Firms	46
Consolidated Balance Sheets as of April 30, 2015 and 2014	48
Consolidated Statements of Operations for the years ended April 30, 2015, 2014, and 2013	49
Consolidated Statements of Stockholders' Equity for the years ended April 30, 2015, 2014, and 2013	50
Consolidated Statements of Cash Flows for the years ended April 30, 2015, 2014, and 2013	51
Notes to Consolidated Financial Statements	52

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.	
10.1	1989 Nonqualified Stock Option Plan is incorporated by reference to our Form 8-K filed on September 1, 1989 and as amended on Exhibit 4(a) of our Form S-8 filed on February 20, 1998.	*
10.2	Employment Agreement between the Company and Clark D. Stewart dated March 17, 1994, are incorporated by reference to Exhibit 10.8 of our Form 10-K/A, as amended, for the year ended April 30, 1994.*	*
10.3	Employment Agreement between the Company and Clark D. Stewart dated March 17, 1994, as amended March 8, 2011*	*
10.4	1993 Nonqualified Stock Option Plan, is incorporated by reference to Exhibit 10.11 of our Form 10-K/A, as amended, for the year ended April 30, 1994 and as amended on Exhibit 4(a) of our Form S-8 filed on February 20, 1998.	*
10.5	1993 Nonqualified Stock Option Plan II, is incorporated by reference to Exhibit 10.12 of our Form 10-K/A, as amended, for the year ended April 30, 1994 and as amended on Exhibit 4(a) of our Form S-8 filed on February 20, 1998.	*
10.6	Industrial State Bank principal amount of \$500,000 revolving credit line, as amended, is incorporated by reference to Exhibit 10.13 of our Form 10-K/A, as amended, for the year ended April 30, 1994.	*
10.7	1995 Nonqualified Stock Option Plan dated December 1, 1995, is incorporated by reference to Exhibit 10.19 of our Form 10-K, as amended for the year ended April 30, 1996 and as amended on Exhibit 4(a) of our Form S-8 filed on February 20, 1998.	*
10.8	Stock Purchase Agreement with Gary Morris and David Hayden for the acquisition of Kings Avionics, incorporated by reference to Exhibit 10.1 of the Company's current report on Form 8-K	

dated September 27, 2010.

- 10.9 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.
- 10.10 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.
- 10.11 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.
- 10.12 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 of our Form 10-Q for the period ended October 31, 2012.
- 10.13 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.
- 10.14 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.
- 10.15 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.
- 10.16 Lease between BHCMC, LLC as tenant and BHC Investment Company, L.C. as landlord, dated May 1, 2011 and 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.
- 10.17 Lease between BHCMC, LLC as tenant and BHC Investment Company, L.C. as landlord, dated August 24, 2012, incorporated by reference to Exhibit 10.9 of our Form 10-Q for the period ended October 31, 2012.
- 10.18 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.
- 10.19 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.
- 10.20 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.
- 10.21 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.
- 10.22 Promissory Note, dated April 1, 2013, by and among Butler National Corporation and Industrial State Bank, incorporated by reference to Exhibit 10.1 of our Form 8-K filed on April 5, 2013.
- 10.23 Promissory Note, dated April 29, 2015, by and among BHCMC, L.L.C. and KS StateBank.
- 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.
- 23.2 Consent of Independent Public Accountants L.L. Bradford and Company, LLC.
- 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, 2015, formatted in XBRL (eXtensible Business Reporting Language) includes; (i) Consolidated Balance Sheets as of April 30, 2015 and 2014; (ii) Consolidated Statements of Operations for the years ended April 30, 2015, 2014 and 2013; (iii) Consolidated Statements of Stockholders' Equity for the years ended April 30, 2015, 2014 and 2013; (iv) Consolidated Statements of Cash Flows for the years ended April 30, 2015, 2014 and 2013, 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 29, 2015

### 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><u>Signature</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
/s/ Clark D. Stewart Clark D. Stewart	President, Chief Executive Officer and Director (Principal Executive Officer)	July 29, 2015
/s/ Craig D. Stewart Craig D. Stewart	Chief Financial Officer (Principal Accounting Officer)	July 29, 2015
/s/ R. Warren Wagoner R. Warren Wagoner	Chairman of the Board and Director	July 29, 2015
/s/ David B. Hayden David B. Hayden	Director	July 29, 2015
/s/ Michael J. Tamburelli Michael J. Tamburelli	Director	July 29, 2015
/s/ Bradley K. Hoffman Bradley K. Hoffman	Director	July 29, 2015

Report of Independent Registered Public Accounting Firm

Stockholders and Directors  
Butler National Corporation  
Olathe, Kansas

We have audited the accompanying consolidated balance sheet of Butler National Corporation as of April 30, 2015 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended April 30, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated balance sheet of Butler National Corporation as of April 30, 2015 and the consolidated results of its operations, stockholders' equity, and cash flows for the year ended April 30, 2015 in conformity with U.S. generally accepted accounting principles.

/s/ RBSM, LLP  
Leawood, Kansas  
July 29, 2015

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 as of April 30, 2014 and 2013 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the years ended April 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 audit 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Butler National Corporation as of April 30, 2014 and 2013 and the consolidated results of its operations, stockholders' equity, and cash flows for each of the two years in the years ended April 30, 2014 in conformity with U.S. generally accepted accounting principles.

/s/ L. L. Bradford & Company, LLC  
Leawood, Kansas  
July 29, 2014

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF APRIL 30, 2015 AND 2014**  
(in thousands, except per share data)

	<b>April 30, 2015</b>	<b>April 30, 2014</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 6,195	\$ 6,261
Accounts receivable	1,724	3,109
Inventories		
Raw materials	5,277	5,102
Work in process	1,364	1,090
Finished goods	396	144
Total Inventory	7,037	6,336
Prepaid expenses and other current assets	862	825
Total current assets	15,818	16,531
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land and building	4,071	4,044
Aircraft	7,493	6,723
Machinery and equipment	3,612	3,535
Office furniture and fixtures	5,396	6,447
Leasehold improvements	4,081	4,060
	24,653	24,809
Accumulated depreciation	(13,473)	(12,140)
Total property, plant and equipment	11,180	12,669
SUPPLEMENTAL TYPE CERTIFICATES (net of accumulated amortization of \$2,975 at April 30, 2015 and \$2,841 at April 30, 2014)	5,863	3,744
<b>OTHER ASSETS:</b>		
Deferred tax asset	1,197	1,335
Other assets (net of accumulated amortization of \$4,050 at April 30, 2015 and \$2,520 at April 30, 2014)	7,540	7,399
Total other assets	8,737	8,734
Total assets	\$ 41,598	\$ 41,678
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Promissory notes	\$ 1,510	\$ 1,757
Current maturities of long-term debt	2,412	3,908
Accounts payable	1,874	1,375
Customer deposits	837	982
Gaming facility mandated payment	1,299	1,267
Compensation and compensated absences	1,294	1,122
Other current liabilities	100	93
Total current liabilities	9,326	10,504
LONG-TERM DEBT, NET OF CURRENT MATURITIES:	6,870	6,820
Total liabilities	16,196	17,324
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, par value \$5:		
Authorized 50,000,000 shares, all classes		
Designated Classes A and B 200,000 shares		
\$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 and outstanding 62,860,098 shares at April 30, 2015 and 61,493,092 at April 30, 2014	628	614
Capital contributed in excess of par	13,487	13,282
Treasury stock at cost, 600,000 shares	(732)	(732)
Retained earnings	8,161	8,134
Total stockholders' equity Butler National Corporation	21,544	21,298
Noncontrolling interest in BHCMC, LLC	3,858	3,056
Total stockholders' equity	25,402	24,354
Total liabilities and stockholders' equity	\$ 41,598	\$ 41,678

The accompanying notes are an integral part of these financial statements



**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED APRIL 30, 2015, 2014, AND 2013**  
(in thousands, except per share data)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>REVENUES:</b>			
Professional Services	\$ 30,795	\$ 31,022	\$ 35,525
Aerospace Products	16,267	16,249	13,627
Total revenues	<u>47,062</u>	<u>47,271</u>	<u>49,152</u>
<b>COSTS AND EXPENSES:</b>			
Cost of Professional Services	18,798	18,843	21,090
Cost of Aerospace Products	12,672	12,129	11,451
Marketing and advertising	4,323	4,286	4,223
Employee benefits	1,825	2,084	2,161
Depreciation and amortization	2,885	3,495	3,276
General, administrative and other	5,240	4,513	5,448
Total costs and expenses	<u>45,743</u>	<u>45,350</u>	<u>47,649</u>
<b>OPERATING INCOME</b>	<u>1,319</u>	<u>1,921</u>	<u>1,503</u>
<b>OTHER INCOME (EXPENSE):</b>			
Interest expense	(1,141)	(1,417)	(1,521)
Other income (expense), net	16	43	11
Gain on settlement	773	-	-
Total other income (expense)	<u>(352)</u>	<u>(1,374)</u>	<u>(1,510)</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	967	547	(7)
<b>PROVISION FOR INCOME TAXES</b>			
Deferred income tax (benefit)	138	(33)	(136)
Provision (benefit) for income taxes	-	66	(680)
<b>NET INCOME</b>	<u>829</u>	<u>514</u>	<u>809</u>
Net income attributable to noncontrolling interest in BHCMC, LLC	(802)	(402)	(957)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO BUTLER NATIONAL</b>	<u>\$ 27</u>	<u>\$ 112</u>	<u>\$ (148)</u>
<b>BASIC EARNINGS PER COMMON SHARE</b>	<u>\$ .00</u>	<u>\$ .00</u>	<u>\$ .00</u>
<b>WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION</b>	<u>62,260,098</u>	<u>60,893,092</u>	<u>59,014,594</u>
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<u>\$ .00</u>	<u>\$ .00</u>	<u>\$ .00</u>
<b>WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION</b>	<u>62,260,098</u>	<u>60,893,092</u>	<u>59,014,594</u>

The accompanying notes are an integral part of these financial statements

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED April 30, 2015, 2014 AND 2013**  
**(dollars in thousands)**

	Common Stock	Common Stock Owed but Not Issued	Capital Contributed in Excess of Par	Treasury Stock at Cost	Retained Earnings	Total Stockholders' Equity Butler National Corporation	Noncontrolling Interest in BHCCMC, LLC	Total Stockholders' Equity
BALANCE, April 30, 2012	\$ 579	\$ 3	\$ 12,567	\$ (732)	\$ 8,170	\$ 20,587	\$ 2,017	\$ 22,604
Issuance of stock for services and other	2	(3)	91	-	-	-	-	90
Stock options issued to employees and directors	-	-	110	-	-	110	-	110
BHCCMC distribution noncontrolling member	-	-	-	-	-	-	(320)	(320)
Issuance of stock benefit plan	15	-	266	-	-	281	-	281
Net income	-	-	-	-	(148)	(148)	957	809
<b>BALANCE, April 30, 2013</b>	<b>596</b>	<b>-</b>	<b>13,034</b>	<b>(732)</b>	<b>8,022</b>	<b>20,920</b>	<b>2,654</b>	<b>23,574</b>
Stock options issued to employees and directors	-	-	22	-	-	22	-	22
Issuance of stock benefit plan	18	-	226	-	-	244	-	244
Net income	-	-	-	-	112	112	402	514
<b>BALANCE, April 30, 2014</b>	<b>614</b>	<b>-</b>	<b>13,282</b>	<b>(732)</b>	<b>8,134</b>	<b>21,298</b>	<b>3,056</b>	<b>24,354</b>
Issuance of stock benefit plan	14	-	205	-	-	219	-	219
Net income	-	-	-	-	27	27	802	829
<b>BALANCE, April 30, 2015</b>	<b>\$ 628</b>	<b>\$ -</b>	<b>\$ 13,487</b>	<b>\$ (732)</b>	<b>\$ 8,161</b>	<b>\$ 21,544</b>	<b>\$ 3,858</b>	<b>\$ 25,402</b>

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

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED April 30, 2015, 2014, AND 2013**  
(dollars in thousands)

	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 829	\$ 514	\$ 809
Adjustments to reconcile cash flows from operating activities			
Depreciation and amortization	4,032	4,481	3,528
Stock issued for services	-	-	90
Stock options issued to employees and directors	-	22	110
Stock issued for benefit plan	219	244	281
Gain and loss on disposal of other assets	-	(36)	-
Gain on settlement	(773)	-	-
Deferred income tax asset	138	(33)	(136)
 Changes in assets and liabilities			
Accounts receivable	1,385	(273)	892
Income tax receivable	-	1,395	(1,395)
Inventories	(701)	(772)	207
Prepaid expenses and other current assets	(1,708)	(1,178)	(518)
Accounts payable	499	(133)	340
Customer deposits	(145)	789	(822)
Accrued liabilities	172	77	(344)
Gaming facility mandated payment	32	(70)	56
Other liabilities	7	(26)	(88)
Net cash provided by operating activities	3,986	5,001	3,010
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(3,682)	(290)	(8,159)
Proceeds from settlement	1,323	-	-
Net cash used in investing activities	(2,359)	(290)	(8,159)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings promissory notes, net	(247)	380	915
Borrowings of long-term debt	7,587	1,070	5,780
Repayments of long-term debt	(9,033)	(5,048)	(3,509)
Distribution to noncontrolling member	-	-	(320)
Net cash (used in ) provided by financing activities	(1,693)	(3,598)	2,866
 <b>NET INCREASE (DECREASE) IN CASH</b>	(66)	1,113	(2,283)
 <b>CASH, beginning of year</b>	6,261	5,148	7,431
 <b>CASH, end of year</b>	\$ 6,195	\$ 6,261	\$ 5,148
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Interest paid	\$ 1,141	\$ 1,419	\$ 1,520
Income taxes paid (refund)	\$ -	\$ (1,329)	\$ 762
 <b>NON CASH OPERATING ACTIVITY</b>			
Non cash stock issued for services	\$ -	\$ -	\$ 90
Non cash stock options issued to employees and directors	\$ -	\$ 22	\$ 110
Non cash stock issued for benefit plan	\$ 219	\$ 244	\$ 281

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

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except per share data)**

**1. NATURE OF OPERATIONS, ORGANIZATION:**

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. (sold May 1, 2013), 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.

- 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. We review these policies on a quarterly basis, and based on these reviews, we believe we maintain adequate reserves. At April 30, 2015 and 2014, the allowance for doubtful accounts was \$81 and \$72 respectively.
- b) **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.
- c) **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 three 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, 2015 and 2014, the estimate of obsolete inventory was \$1,126 and \$1,381 respectively.

- d) **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.

- e) **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.

- f) Other Assets: Our other asset account includes assets of \$5,500 related to the Kansas Expanded Lottery Act Management Contract privilege fee, \$3,635 of gaming equipment we were required to pay for ownership by the State of Kansas Lottery, and JET autopilot intellectual property of \$1,417, and miscellaneous other assets of \$1,038. BHCMC expects the \$5,500 privilege fee to have a value over the remaining life of the Management Contract with the State of Kansas which will end in December 2024. There is no assurance of the Management Contract renewal. The Managers Certificate asset for use of gaming equipment is being amortized over a period of three years based on the estimated useful life of gaming equipment. The JET intellectual property is being amortized over a period of 15 years.

Other assets net values are as follows:

(dollars in thousands)	<u>2015</u>	<u>2014</u>
Privilege fee	\$ 5,500	\$ 5,500
Less amortized costs	1,410	987
Privilege fee balance	<u>\$ 4,090</u>	<u>\$ 4,513</u>
Intangible gaming equipment	\$ 3,635	\$ 2,252
Less amortized costs	1,961	948
Intangible gaming equipment balance	<u>\$ 1,674</u>	<u>\$ 1,304</u>
JET autopilot intellectual property	\$ 1,417	\$ 1,417
Less amortized costs	679	585
JET autopilot balance	<u>\$ 738</u>	<u>\$ 832</u>

- g) Supplemental Type Certificates: Supplemental Type Certificates (STCs) are authorizations granted by the Federal Aviation Administration (FAA) for specific modification of a certain aircraft. The STC authorizes us to perform modifications, installations, and assemblies on applicable customer-owned aircraft. Costs incurred to obtain STCs are capitalized and subsequently amortized against revenues being generated from aircraft modifications associated with the STC. The costs are expensed as services are rendered on each aircraft through costs of sales using the units of production method. The legal life of an STC is indefinite. We believe we have enough future sales to fully amortize our STC development costs. Consultant costs, as shown below, include costs of engineering, legal and aircraft specialists. STC capitalized costs are as follows:

(dollars in thousands)	<u>2015</u>	<u>2014</u>
Direct labor	\$ 1,709	\$ 1,033
Direct materials	2,336	1,833
Consultant costs	1,922	1,922
Overhead	2,871	1,797
	<u>8,838</u>	<u>6,585</u>
Less-amortized costs	2,975	2,841
STC balance	<u>\$ 5,863</u>	<u>\$ 3,744</u>

- 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 amount of jackpots increase. Food, beverage, and other revenue is recorded when the service is received and paid for.

- i) 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. 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.
- j) Advanced Payments and Billings in Excess of Costs Incurred: We receive advances, performance-based payments and progress payment from customers which may exceed costs incurred on certain contracts. We classify advance payments and billings in excess of costs incurred, other than those reflected as a reduction of contracts in process, as current liabilities.
- k) Earnings Per Share: Earnings per common share is based on the weighted average number of common shares outstanding during the year. Stock options have been considered in the dilutive earnings per share calculation.

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

(in thousands, except per share data)	2015	2014	2013
Net income (loss) attributable to Butler National Corporation	\$ 27	\$ 112	\$ (148)
Weighted average common shares outstanding	62,260,098	60,893,092	59,014,594
Dilutive effect of non-qualified stock option plans	-	-	-
Weighted average common shares outstanding, assuming dilution	62,260,098	60,893,092	59,014,594
Potential common shares if all options were exercised and shares issued	69,522,162	68,155,156	66,281,237
Basic earnings per common share	\$ .00	\$ .00	\$ .00
Diluted earnings per common share	\$ .00	\$ .00	\$ .00

- l) 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.
- m) 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.
- n) 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, 2015 we had \$2,250 in bank deposits that exceeded the federally insured limits.
- o) 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.

- p) Research and Development: We invested in research and development activities. The amount invested in the year ended April 30, 2015 and 2014 was \$2,048 and \$1,765 respectively.
- q) 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.

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## 2. DEBT:

Principal amounts of debt at April 30, 2015 and 2014, consist of the following (in thousands):

<u>Promissory Notes</u>	<u>2015</u>	<u>2014</u>
Bank line of credit, available LOC \$1.0 million interest at prime plus 2% (7.0% at April 30, 2015 - with a floor of 7%) due August 2015, collateralized by a first or second position on all assets of the Company.	\$ 700	\$ 908
Bank line of credit, available LOC \$2.5 million interest at 6% due May 2016, collateralized by a first or second position on all assets of the Company.	656	699
Bank line of credit, available LOC \$1.0 million interest at 3.4% due May 2016, collateralized by real estate.	154	150
	<u>\$ 1,510</u>	<u>\$ 1,757</u>
 <u>Long-Term Debt</u>		
Note payable, interest at 6% due February 2016 collateralized by Aircraft Security Agreements.	\$ 314	\$ 671
Note payable, interest at 6% due April 2017 collateralized by Aircraft Security Agreements.	159	232
Note payable, interest at 6.25% due September 2017 collateralized by Aircraft Security Agreements.	249	342
Note payable, interest at 5.75% due January 2020 collateralized by Aircraft Security Agreements	674	-
Note payable, interest at bank prime (3.36% at April 30, 2015) due August 2019, collateralized by real estate.	253	312
Note payable, interest at bank prime (3.36% at April 30, 2015) due March 2019, collateralized by real estate.	261	323
Note payable, interest at bank prime (2.68% at April 30, 2015) due March 2019, collateralized by real estate.	628	788
Note payable, interest at 6.25%, due June 2016, collateralized by real estate.	306	320
Note payable, interest at 4.89% due May 2020, collateralized by all of BNSC's assets and compensation due under the State Management contract.	5,500	-
Obligation of BHCMC, LLC to its noncontrolling owner with interest at 12.0%, paid off in April 2015.	-	1,900
Obligation of BHCMC, LLC to its noncontrolling owner with interest at 15.0%, paid off in April 2015.	-	4,634
Obligations of BHCMC, LLC due May 2015 and December 2016 with interest rates at 3.5%.	895	1,126
Other notes payable, due April 2016 with interest at 5.8%.	43	80
	<u>9,282</u>	<u>10,728</u>
Less: Current maturities	2,412	3,908
	<u>\$ 6,870</u>	<u>\$ 6,820</u>



Maturities of long-term debt are as follows:

<u>Year Ending April 30</u>	<u>Amount</u>
2016	\$ 2,412
2017	2,285
2018	1,577
2019	1,576
2020	1,328
Thereafter	104
	<u>\$ 9,282</u>

### **Financial and Other Covenants**

We are in compliance with our covenants at April 30, 2015.

### **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, 2015 and 2014 are as follows (in thousands):

	<u>April 30, 2015</u>	<u>April 30, 2014</u>
Deferred tax liabilities:		
Depreciation	\$ (178)	\$ (352)
Deferred tax assets:		
Accounts receivable allowance	28	28
Inventory and other allowances	1,154	1,548
Vacation accruals	117	111
NOL carryforward	76	-
Total gross deferred tax assets	<u>1,375</u>	<u>1,687</u>
Less valuation allowance	-	-
Net deferred tax assets	<u>\$ 1,197</u>	<u>\$ 1,335</u>

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

	<u>April 30, 2015</u>	<u>April 30, 2014</u>
Statutory federal income tax rate (benefit) expense, net of noncontrolling interest	34.0%	34.0%
State income tax net of federal benefits	0.0%	0.0%
Permanent tax	59.15%	26.9%
Other	(9.71)%	(38.0)%
	<u>83.44%</u>	<u>22.9%</u>
Income tax expense:		
Deferred income tax (benefit)	\$ 138	\$ (33)
Current income tax (benefit)	-	66
Total income tax expense (benefit)	<u>\$ 138</u>	<u>\$ 33</u>

Current income tax expense (benefit) of \$0 and \$66 are comprised of \$0 and \$66 in federal income tax and \$0 and \$0 in state income tax for the years ended April 30, 2015 and 2014, respectively.

The Company has accrued (refundable) income taxes due to federal and state taxing authorities of approximately \$0 and \$0 for the years ended April 30, 2015 and 2014, 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, 2010 and prior. There are no current tax examinations.

#### 4. STOCKHOLDERS' EQUITY:

##### Common Stock Transactions

During the year ended April 30, 2015, we issued 1,367,006 shares valued at \$219 as the match to the Company 401(k) plan.

During the year ended April 30, 2014, we issued 1,873,919 shares valued at \$244 as the match to the Company 401(k) plan.

During the year ended April 30, 2013, we issued 1,476,259 shares valued at \$281 as the match to the Company 401(k) plan.

During the year ended April 30, 2013, we issued - shares of Company common stock at a value of \$90 for marketing and consulting services.

#### 5. STOCK OPTIONS AND INCENTIVE PLANS

The following represents the outstanding and exercisable number of shares, weighted average exercise price and weighted average remaining contractual life of options outstanding and exercisable.

We issued 7,262,064 stock options on December 31, 2010 expiring on December 31, 2015. The exercise price for the incentive stock options is \$0.49 (closing price as of December 31, 2010). The incentive stock options are allocated in three groups with two conditions for vesting. The first condition is stock price and the second condition is time:

Year 1: Target \$0.92

- 2,420,688 options that can be exercised after December 31, 2011 once the share price reaches \$0.92

Year 2: Target \$1.41

- 2,420,688 options that can be exercised after December 31, 2012 once the share price reaches \$1.41

Year 3: Target \$1.90

- 2,420,688 options that can be exercised after December 31, 2013 once the share price reaches \$1.90

We used the Black-Scholes model to value the options and used assumptions of ultimately how many option shares would vest based on our experience. The value of the option shares is \$684 and has been expensed over the vesting term using active employment to determine monthly expense. For the fiscal year ended April 30, 2015 and April 30, 2014 we expensed \$0 and \$22, respectively. The fair value of the option shares used the following weighted average assumptions: Strike Price \$1.36; Stock Price \$0.49; Volatility 125%; Term 3.1 years; Dividend yield 0% and Interest Rate 1.01%.

A summary of stock options and warrants is as follows:

	2015	2014	2013
Options exercisable at April 30	0	0	0
Weighted average fair value per share options granted per year	\$ 0.49	\$ 0.49	\$ 0.49

Range of Exercise Prices	Number Outstanding and Exercisable	Weighted Average Remaining Contract Life	Weighted Average Exercise and Outstanding Price
\$ 0.49	0	.7 years	\$ 0.49
	Options	Average Price	
	Outstanding beginning 04/30/2012	7,262,064	\$ 0.49
	Expired	-	-
	Expired	-	-
	Exercised	-	-
	Outstanding ending 04/30/2013	<u>7,262,064</u>	<u>\$ 0.49</u>
	Outstanding beginning 04/30/2013	7,262,064	\$ 0.49
	Granted	-	-
	Expired	-	-
	Exercised	-	-
	Outstanding ending 04/30/2014	<u>7,262,064</u>	<u>\$ 0.49</u>
	Outstanding beginning 04/30/2014	7,262,064	\$ 0.49
	Granted	-	-
	Expired	-	-
	Exercised	-	-
	Outstanding ending 04/30/2015	<u>7,262,064</u>	<u>\$ 0.49</u>

## 6. COMMITMENTS:

Lease and Rent Commitments (in thousands).

We lease and rent space with initial terms of three (3) years, (5) years, ten (10) years, and twenty five (25) years. Total rental expense incurred for the years ended April 30, 2015, 2014, and 2013, was \$5,030, \$4,983 and \$5,012 respectively.

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

<u>Year Ending April 30</u>	<u>Amount</u>
2016	\$ 4,995
2017	4,971
2018	4,978
2019	4,929
2020	4,946
	<u>\$ 24,819</u>

## **7. CONTINGENCIES:**

BHCMC and BHC Development filed a complaint against Bally Gaming in the United States District Court for the District of Kansas in June 2012. After hearing the evidence, in March 2014 the jury rendered a verdict in favor of BHCMC and BHC Development in the amount of \$1,424. Bally appealed the verdict. In February of 2015, BHCMC and BHC Development agreed to accept the sum of \$1,324 in satisfaction of the judgment. This amount was received in February 2015. BHCMC and BHC Development agreed to return to Bally its system-related equipment which had a book value of \$591, resulting in a gain on settlement of \$733.

## **8. RELATED-PARTY TRANSACTIONS:**

In the normal course of business we purchased business system components of \$4, \$50, and \$47 from ISG, the employer of Bradley Hoffman, a director of Butler National Corporation during fiscal 2015, 2014 and 2013 respectively.

We paid consulting fees of \$135, \$135, and \$135 to David Hayden, a director of Butler National Corporation in fiscal year ended April 30, 2015, 2014, and 2013, respectively.

Included in accrued liabilities are \$209 and \$119 as of April 30, 2015 and 2014 respectively for amounts owed to our CEO for accrued compensation.

Included in accounts receivable at April 30, 2015 and 2014 is \$780 owed to us by the noncontrolling company of BHCMC, LLC for costs incurred on their behalf.

In fiscal 2015, 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 Chief Financial Officer, and an architect. Compensation for these related-persons was calculated in the same manner as the Summary Compensation table resulting in compensation of \$219, \$286 and \$179, respectively, for fiscal 2015, \$204, \$256, and \$171, respectively, for fiscal 2014, and \$209, \$264, and \$173 respectively, for fiscal 2013.

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 2015, 2014, and 2013 was approximately \$219, \$244, and \$281 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, addition of aerial photography capability, 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”).

In September 2010 we expanded this division by the acquisition of Kings Avionics, Inc., now known as Butler Avionics, Inc. The acquisition of Butler Avionics allowed us to transition into the new technology available in avionics. 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>Professional Services</b>	<b>Aerospace Products</b>	<b>Consolidated</b>
<b>Year ended April 30, 2015</b>			
Total revenues	\$ 30,795	\$ 16,267	\$ 47,062
Depreciation and amortization	1,573	1,312	2,885
Operating income (loss)	1,794	(475)	1,319
Capital expenditures, net	420	3,262	3,682
Interest expense	-	-	(1,141)
Other income (expense)	-	-	16
Income (loss) before taxes	-	-	967
Income tax expense (benefit)	-	-	138
Net income (loss) attributable to Butler National Corporation	-	-	27
Identifiable assets, net	21,650	19,948	41,598

	<b>Professional Services</b>	<b>Aerospace Products</b>	<b>Consolidated</b>
<b>Year ended April 30, 2014</b>			
Total revenues	\$ 31,022	\$ 16,249	\$ 47,271
Depreciation and amortization	1,676	1,819	3,495
Operating income (loss)	1,819	102	1,921
Capital expenditures, net	148	142	290
Interest expense	-	-	(1,417)
Other income (expense)	-	-	43
Income (loss) before taxes	-	-	547
Income tax expense (benefit)	-	-	33
Net income (loss) attributable to Butler National Corporation	-	-	112
Identifiable assets, net	22,091	19,587	41,678

	<b>Professional Services</b>	<b>Aerospace Products</b>	<b>Consolidated</b>
<b>Year ended April 30, 2013</b>			
Total revenues	\$ 35,525	\$ 13,627	\$ 49,152
Depreciation and amortization	1,285	1,991	3,276
Operating income (loss)	2,987	(1,484)	1,503
Capital expenditures, net	7,180	979	8,159
Interest expense	-	-	(1,521)
Other income (expense)	-	-	11
Income (loss) before taxes	-	-	(7)
Income tax expense (benefit)	-	-	(816)
Net income (loss) attributable to Butler National Corporation	-	-	(148)
Identifiable assets, net	23,880	19,980	43,860

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

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Modifications	N/A *	N/A *	N/A *
Avionics	N/A *	N/A *	N/A *
Management services	N/A *	N/A *	N/A *
Environmental services	N/A *	N/A *	N/A *

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

In fiscal 2015 the Company derived 18.7% of total sales from five customers. The top customer provided 5.8% of total sales while the next top four customers ranged from 1.3% to 4.6%.

## 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.

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of April 30, 2015 (in thousands):

	Level 1	Level 2	Level 3	Fair Value
Promissory notes	\$ -	\$ -	\$ 1,510	\$ 1,510
Long-term debt	-	-	9,282	9,282
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,792</u>	<u>\$ 10,792</u>

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of April 30, 2014 (in thousands):

	Level 1	Level 2	Level 3	Fair Value
Promissory notes	\$ -	\$ -	\$ 1,757	\$ 1,757
Long-term debt	-	-	10,728	10,728
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,485</u>	<u>\$ 12,485</u>

## 12. SUBSEQUENT EVENTS

The Company evaluated its April 30, 2015 financial statements for subsequent events through July 29, 2015, the filing date of this report. The Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

### 13. SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth selected unaudited financial information for each quarter of fiscal 2015, 2014, and 2013 (in thousands, except per share amounts).

<b>2015</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
Revenues	\$ 12,391	\$ 11,752	\$ 11,083	\$ 11,836	\$ 47,062
Operating income (loss)	806	367	535	(389)	1,319
Non-operating income (expense)	(286)	(300)	(246)	480	(352)
Net income (loss) attributable to Butler National Corporation	252	29	68	(322)	27
Basic earnings (loss) per share*	.00	.00	.00	(.01)	.00
Diluted earnings (loss) per share*	.00	.00	.00	(.01)	.00

\*Rounded to nearest hundredth

<b>2014</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
Revenues	\$ 10,996	\$ 10,799	\$ 10,844	\$ 14,632	\$ 47,271
Operating income (loss)	143	(198)	18	1,958	1,921
Non-operating income (expense)	(352)	(360)	(346)	(316)	(1,374)
Net income (loss) attributable to Butler National Corporation	(289)	(345)	(219)	965	112
Basic earnings (loss) per share*	.00	(.01)	.00	.02	.00
Diluted earnings (loss) per share*	.00	(.01)	.00	.02	.00

\*Rounded to nearest hundredth

<b>2013</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
Revenues	\$ 13,023	\$ 13,152	\$ 10,651	\$ 12,326	\$ 49,152
Operating income (loss)	1,285	700	(520)	38	1,503
Non-operating income (expense)	(337)	(331)	(417)	(425)	(1,510)
Net income (loss) attributable to Butler National Corporation	268	114	(755)	225	(148)
Basic earnings (loss) per share*	.00	.00	(.01)	.00	.00
Diluted earnings (loss) per share*	.00	.00	(.01)	.00	.00

\*Rounded to nearest hundredth

The individual quarter and fiscal year earnings per share are presented as shown in our quarterly and annual filings with the Securities and Exchange Commission. These numbers are rounded up to the nearest tenth.