

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

**FORM 10-Q**

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

For the quarterly period ended October 31, 2023

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

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

Commission File Number **0-1678**

**BUTLER NATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Kansas**

**41-0834293**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**One Aero Plaza, New Century, Kansas 66031**

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: **(913) 829-4606**

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

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

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

**Common Stock \$0.01 Par Value**

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files): Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The number of shares outstanding of the Issuer's Common Stock, \$0.01 par value, as of December 15, 2023 was 69,025,600 shares.

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**As of October 31, 2023 and April 30, 2023**  
**(in thousands except per share data)**

	<u>October 31, 2023</u>	<u>April 30, 2023</u>
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 18,324	\$ 21,997
Accounts receivable, net	5,578	3,793
Inventory, net	9,239	8,947
Contract asset	1,755	1,893
Prepaid expenses and other current assets	1,932	3,532
Total current assets	<u>36,828</u>	<u>40,162</u>
LEASE RIGHT-TO-USE ASSET, net	2,986	3,081
PROPERTY, PLANT AND EQUIPMENT, net	60,136	59,067
SUPPLEMENTAL TYPE CERTIFICATES (net of accumulated amortization of \$11,165 at October 31, 2023 and \$10,603 at April 30, 2023)	9,044	8,722
<b>OTHER ASSETS:</b>		
Other assets (net of accumulated amortization of \$12,642 at October 31, 2023 and \$12,290 at April 30, 2023)	1,146	1,401
Deferred tax asset, net	1,473	1,473
Total other assets	<u>2,619</u>	<u>2,874</u>
Total assets	<u>\$ 111,613</u>	<u>\$ 113,906</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 9,820	\$ 5,320
Current maturities of long-term debt	4,858	4,987
Current maturities of lease liability	99	145
Contract liability	4,680	6,031
Gaming facility mandated payment	1,687	1,730
Compensation and compensated absences	1,485	6,722
Income taxes payable	1,599	228
Other current liabilities	528	214
Total current liabilities	<u>24,756</u>	<u>25,377</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current maturities	36,026	38,418
Lease liability, net of current maturities	3,339	3,330
Total long-term liabilities	<u>39,365</u>	<u>41,748</u>
Total liabilities	<u>64,121</u>	<u>67,125</u>
<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 79,871,211 shares, and outstanding 69,025,600 shares at October 31, 2023 and issued 80,871,211 shares, and outstanding 76,891,689 shares at April 30, 2023	798	808
Capital contributed in excess of par	13,734	13,647
Treasury stock at cost, 10,845,611 shares at October 31, 2023 and 3,979,522 shares at April 30, 2023	(7,174)	(2,138)
Retained earnings	40,134	34,464
Total stockholders' equity	<u>47,492</u>	<u>46,781</u>
Total liabilities and stockholders' equity	<u>\$ 111,613</u>	<u>\$ 113,906</u>

See accompanying notes to condensed consolidated financial statements (unaudited)

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED OCTOBER 31, 2023 AND 2022**  
(in thousands, except per share data)  
(unaudited)

	THREE MONTHS ENDED	
	2023	October 31, 2022
<b>REVENUE:</b>		
Professional services	\$ 9,770	\$ 9,745
Aerospace products	9,832	9,581
Total revenues	<u>19,602</u>	<u>19,326</u>
<b>COSTS AND EXPENSES:</b>		
Cost of professional Services	4,006	3,752
Cost of aerospace products	6,852	6,582
Marketing and advertising	1,361	1,368
General, administrative and other	3,785	3,622
Total costs and expenses	<u>16,004</u>	<u>15,324</u>
<b>OPERATING INCOME</b>	<u>3,598</u>	<u>4,002</u>
<b>OTHER INCOME (EXPENSE):</b>		
Interest expense	(615)	(707)
Gain on sale of airplanes	3,729	-
Interest income	70	-
Total other income (expense)	<u>3,184</u>	<u>(707)</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>6,782</u>	<u>3,295</u>
<b>PROVISION FOR INCOME TAXES:</b>		
Provision for income taxes	<u>1,831</u>	<u>612</u>
<b>NET INCOME</b>	<u>\$ 4,951</u>	<u>\$ 2,683</u>
<b>BASIC EARNINGS PER COMMON SHARE</b>	<u>\$ 0.07</u>	<u>\$ 0.03</u>
<b>WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION</b>	<u>69,502,008</u>	<u>76,781,461</u>
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<u>\$ 0.07</u>	<u>\$ 0.03</u>
<b>WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION</b>	<u>69,502,008</u>	<u>76,781,461</u>

See accompanying notes to condensed consolidated financial statements (unaudited)

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED OCTOBER 31, 2023 AND 2022**  
(in thousands, except per share data)  
**(unaudited)**

	SIX MONTHS ENDED	
	October 31,	
	2023	2022
<b>REVENUE:</b>		
Professional Services	\$ 18,810	\$ 18,707
Aerospace Products	17,976	15,922
Total revenue	<u>36,786</u>	<u>34,629</u>
<b>COSTS AND EXPENSES:</b>		
Cost of Professional Services	7,952	7,375
Cost of Aerospace Products	14,178	11,409
Marketing and advertising	2,639	2,699
General, administrative and other	7,282	7,519
Total costs and expenses	<u>32,051</u>	<u>29,002</u>
<b>OPERATING INCOME</b>	<u>4,735</u>	<u>5,627</u>
<b>OTHER INCOME (EXPENSE):</b>		
Interest expense	(1,254)	(1,430)
Gain on sale of airplane	4,169	-
Gain on sale of building	-	69
Interest income	117	-
Total other income (expense)	<u>3,032</u>	<u>(1,361)</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>7,767</u>	<u>4,266</u>
<b>PROVISION FOR INCOME TAXES</b>		
Provision for income taxes	2,097	872
Deferred income tax	-	280
<b>NET INCOME</b>	<u>5,670</u>	<u>3,114</u>
<b>BASIC EARNINGS PER COMMON SHARE</b>	<u>\$ 0.08</u>	<u>\$ 0.04</u>
<b>WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION</b>	<u>72,005,204</u>	<u>76,618,873</u>
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<u>\$ 0.08</u>	<u>\$ 0.04</u>
<b>WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION</b>	<u>72,005,204</u>	<u>76,618,873</u>

See accompanying notes to condensed consolidated financial statements (unaudited)

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED OCTOBER 31, 2023 AND 2022**  
**(dollars in thousands) (unaudited)**

	Shares of Common Stock	Common Stock	Capital Contributed in Excess of Par	Shares of Treasury Stock	Treasury Stock at Cost	Retained Earnings	Total Stock- holders' Equity
Balance, April 30, 2022	80,348,572	\$ 803	\$ 12,160	3,890,426	\$ (2,077)	\$ 29,948	\$ 40,834
Deferred compensation, restricted stock	(75,000)	-	132	-	-	-	132
Stock repurchase	-	-	-	1,639	(2)	-	(2)
Stock awarded to Director	400,000	4	348	-	-	-	352
Net Income	-	-	-	-	-	431	431
Balance, July 31, 2022	80,673,572	\$ 807	\$ 12,640	3,892,065	\$ (2,079)	\$ 30,379	\$ 41,747
Deferred compensation, restricted stock	-	-	146	-	-	-	146
Stock repurchase	-	-	-	150	-	-	-
Net Income	-	-	-	-	-	2,683	2,683
Balance, October 31, 2022	<u>80,673,572</u>	<u>\$ 807</u>	<u>\$ 12,786</u>	<u>3,892,215</u>	<u>\$ (2,079)</u>	<u>\$ 33,062</u>	<u>\$ 44,576</u>
	Shares of Common Stock	Common Stock	Capital Contributed in Excess of Par	Shares of Treasury Stock	Treasury Stock at Cost	Retained Earnings	Total Stock- holders' Equity
Balance, April 30, 2023	80,871,211	\$ 808	\$ 13,647	3,979,522	\$ (2,138)	\$ 34,464	\$ 46,781
Stock repurchase	-	-	-	6,863,789	(5,035)	-	(5,035)
Deferred compensation, restricted stock	(1,300,000)	(13)	(236)	-	-	-	(249)
Net Income	-	-	-	-	-	719	719
Balance, July 31, 2023	79,571,211	\$ 795	\$ 13,411	10,843,311	\$ (7,173)	\$ 35,183	\$ 42,216
Deferred compensation, restricted stock	-	-	104	-	-	-	104
Stock repurchase	-	-	-	2,300	(1)	-	(1)
Stock award to Director	300,000	3	219	-	-	-	222
Net Income	-	-	-	-	-	4,951	4,951
Balance, October 31, 2023	<u>79,871,211</u>	<u>\$ 798</u>	<u>\$ 13,734</u>	<u>10,845,611</u>	<u>\$ (7,174)</u>	<u>\$ 40,134</u>	<u>\$ 47,492</u>

See accompanying notes to condensed consolidated financial statements (unaudited)

**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED OCTOBER 31, 2023 AND 2022**  
(in thousands)  
(unaudited)

	SIX MONTHS ENDED	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 5,670	\$ 3,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,049	2,939
Stock awarded to director	222	352
Deferred income tax expense	-	280
Gain on sale of airplanes	(4,169)	-
Gain on sale of building	-	(69)
Deferred compensation, restricted stock	(145)	278
Changes in operating assets and liabilities:		
Accounts receivable	(1,785)	(324)
Inventory	(764)	(424)
Contract assets	138	228
Prepaid expenses and other assets	1,601	(1,557)
Accounts payable	4,500	(157)
Contract liability	(1,351)	4,028
Lease liability	94	93
Accrued liabilities	(5,237)	(408)
Gaming facility mandated payment	(43)	52
Income tax payable	1,371	(814)
Other liabilities	314	238
Net cash provided by operating activities	<u>3,465</u>	<u>7,849</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(4,354)	(3,253)
Proceeds from sale of airplanes	4,904	-
Proceeds from sale of building	-	164
Net cash provided by (used in) investing activities	<u>550</u>	<u>(3,089)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of long-term debt	(2,521)	(2,614)
Repayments on right-to-use lease liability	(131)	(129)
Repurchase of common stock	(5,036)	(2)
Net cash used in financing activities	<u>(7,688)</u>	<u>(2,745)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(3,673)</b>	<b>2,015</b>
CASH, beginning of period	<u>21,997</u>	<u>12,487</u>
CASH, end of period	<u>\$ 18,324</u>	<u>\$ 14,502</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 1,266</u>	<u>\$ 1,423</u>
Income taxes paid	<u>\$ 725</u>	<u>\$ 1,686</u>
<b>NON CASH INVESTING AND FINANCING ACTIVITY:</b>		
Lease right-of-use assets purchased	<u>\$ -</u>	<u>\$ 541</u>
Lease liability for purchase of assets under lease	<u>\$ -</u>	<u>\$ 541</u>

See accompanying notes to condensed consolidated financial statements (unaudited)

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

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the annual report on Form 10-K for the fiscal year ended April 30, 2023. In our opinion, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three and six months ended October 31, 2023 are not indicative of the results of operations that may be expected for the fiscal year ending April 30, 2024.

Certain reclassifications within the condensed financial statement captions have been made to maintain consistency in presentation between years. These reclassifications have no impact on the reported results of operations. Financial amounts are in thousands of dollars except per share amounts.

2. Net Income Per Share: Butler National Corporation (“the Company”) follows ASC 260 that requires the reporting of both basic and diluted earnings per share. Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with ASC 260, any anti-dilutive effects on net earnings per share would be excluded.

3. Revenue Recognition: ASC Topic 606, “Revenue from Contracts with Customers”

Under ASC 606, revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration we expect to receive in exchange for those services. To achieve this core principal, the Company applies the following five steps:

1) Identify the contract, or contracts, with a customer

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party’s rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance and (iii) the Company determines that collection of substantially all consideration for services that are transferred is probable based on the customer’s intent and ability to pay the promised consideration.

2) Identify the performance obligations in the contract

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer. Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised services, the Company must apply judgment to determine whether promised services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

3) Determine the transaction price

The transaction price is the amount that an entity allocates to the performance obligations identified in the contract and, therefore, represents the amount of revenue recognized as those performance obligations are satisfied. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

4) Allocate the transaction price to the performance obligations in the contract

Once a contract and associated performance obligations have been identified and the transaction price has been determined, ASC 606 requires an entity to allocate the transaction price to each performance obligation identified. This is generally done in proportion to the standalone selling prices of each performance obligation (i.e., on a relative standalone selling price basis). As a result, any discount within the contract generally is allocated proportionally to all of the separate performance obligations in the contract. The Company is applying the right to invoice practical expedient to recognize revenue. As a result, the entity bypasses the steps of determining the transaction price, allocating that transaction price and determining when to recognize revenue as it will recognize revenue as billed by multiplying the price assigned to the good or service, by the units.

5) Recognize revenue when, or as, we satisfy a performance obligation

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. Control transfers either over time or at a point in time. Revenue is recognized when control of the promised services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

Aircraft modifications are performed under fixed-price contracts unless modified with a change order. Significant payment terms are generally included in these contracts, requiring a 30% to 50% down payment on arrival of the aircraft and include milestone payments throughout the project. Typically, contracts are less than one year in duration. Revenue from fixed-priced contracts is recognized on the percentage-of-completion method, measured by the direct labor incurred compared to total estimated direct labor. Direct labor best represents the progress on a contract.

Revenue from Aircraft Avionics and Special Mission Electronics are recognized when shipped. Payment for these Avionics products is due within 30 days of the invoice date after shipment.

Regarding warranties and returns, our products are special order and are not suitable for return. Our products are unique upon installation and tested prior to their release to the customer and acceptance by the customer. In the rare event of a warranty claim, the claim is processed through the normal course of business and may include additional charges to the customer. In our opinion, any future warranty work would not be material to the consolidated financial statements.

Gaming revenue is the gross gaming win as reported by the Kansas Lottery casino reporting systems, less the mandated payments by and for the State of Kansas. Electronic games-slots and table games revenue is the aggregate of gaming wins and losses. Liabilities are recognized for chips and "ticket-in, ticket-out" coupons in the customers' possession, and for accruals related to anticipated payout of progressive jackpots. Progressive gaming machines, which contain base jackpots that increase at a progressive rate based on the number of coins played, are deducted from revenue as the value of jackpots increase. Effective September 1, 2022, sports wagering became legal in the State of Kansas. The company is currently managing sports wagering through DraftKings sports wagering platform. The Company shares a percentage of the gross sports wagering win with its platform partner. Revenue from Gaming Management and other Corporate/Professional Services is recognized as the service is rendered. Food, beverage, and other revenue is recorded when the service is received and paid.

#### 4. Disaggregation of Revenue

In the following table, revenue is disaggregated by primary geographical market, major product line, and timing of revenue recognition.

	Three Months Ended October 31, 2023			Three Months Ended October 31, 2022		
	Professional Services	Aerospace Products	Total	Professional Services	Aerospace Products	Total
<b>Geographical Markets</b>						
North America	\$ 9,770	\$ 8,639	\$ 18,409	\$ 9,745	\$ 8,298	\$ 18,043
Europe	-	952	952	-	124	124
Asia	-	4	4	-	274	274
Australia and Other	-	237	237	-	885	885
	<u>\$ 9,770</u>	<u>\$ 9,832</u>	<u>\$ 19,602</u>	<u>\$ 9,745</u>	<u>\$ 9,581</u>	<u>\$ 19,326</u>
<b>Major Product Lines</b>						
Casino Gaming Revenue	\$ 7,298	\$ -	\$ 7,298	\$ 7,744	\$ -	\$ 7,744
Sportsbook Revenue	1,314	-	1,314	825	-	825
Casino Non-Gaming Revenue	1,158	-	1,158	1,105	-	1,105
Professional Services	-	-	-	71	-	71
Aircraft Modification	-	6,082	6,082	-	5,878	5,878
Aircraft Avionics	-	778	778	-	523	523
Special Mission Electronics	-	2,972	2,972	-	3,180	3,180
	<u>\$ 9,770</u>	<u>\$ 9,832</u>	<u>\$ 19,602</u>	<u>\$ 9,745</u>	<u>\$ 9,581</u>	<u>\$ 19,326</u>
<b>Contract Types / Revenue Recognition Timing</b>						
Percentage of completion contracts	\$ -	\$ 5,401	\$ 5,401	\$ -	\$ 5,624	\$ 5,624
Goods or services transferred at a point of sale	9,770	4,431	14,201	9,745	3,957	13,702
	<u>\$ 9,770</u>	<u>\$ 9,832</u>	<u>\$ 19,602</u>	<u>\$ 9,745</u>	<u>\$ 9,581</u>	<u>\$ 19,326</u>
<b>Six Months Ended October 31, 2023</b>						
	Professional Services	Aerospace Products	Total	Professional Services	Aerospace Products	Total
<b>Geographical Markets</b>						
North America	\$ 18,810	\$ 14,184	\$ 32,994	\$ 18,707	\$ 14,294	\$ 33,001
Europe	-	1,619	1,619	-	306	306
Asia	-	358	358	-	411	411
Australia and Other	-	1,815	1,815	-	911	911
	<u>\$ 18,810</u>	<u>\$ 17,976</u>	<u>\$ 36,786</u>	<u>\$ 18,707</u>	<u>\$ 15,922</u>	<u>\$ 34,629</u>
<b>Major Product Lines</b>						
Casino Gaming Revenue	\$ 14,496	\$ -	\$ 14,496	\$ 15,560	\$ -	\$ 15,560
Sportsbook Revenue	2,015	-	2,015	825	-	825
Casino Non-Gaming Revenue	2,247	-	2,247	2,182	-	2,182
Professional Services	52	-	52	140	-	140
Aircraft Modification	-	11,565	11,565	-	9,714	9,714
Aircraft Avionics	-	1,522	1,522	-	1,237	1,237
Special Mission Electronics	-	4,889	4,889	-	4,971	4,971
	<u>\$ 18,810</u>	<u>\$ 17,976</u>	<u>\$ 36,786</u>	<u>\$ 18,707</u>	<u>\$ 15,922</u>	<u>\$ 34,629</u>
<b>Contract Types / Revenue Recognition Timing</b>						
Percentage of completion contracts	\$ -	\$ 10,613	\$ 10,613	\$ -	\$ 8,875	\$ 8,875
Goods or services transferred at a point of sale	18,810	7,363	26,173	18,707	7,047	25,754
	<u>\$ 18,810</u>	<u>\$ 17,976</u>	<u>\$ 36,786</u>	<u>\$ 18,707</u>	<u>\$ 15,922</u>	<u>\$ 34,629</u>

5. Accounts receivable, net, contract asset and contract liability

Accounts Receivables, net, contract asset and contract liability were as follows (in thousands):

	October 31, 2023	April 30, 2023
Accounts Receivable, net	\$ 5,578	\$ 3,793
Contract Asset	1,755	1,893
Contract Liability	4,680	6,031

Accounts receivable, net consist of \$5,578 and \$3,793 from customers as of October 31, 2023 and April 30, 2023, respectively. At October 31, 2023 and April 30, 2023, the allowance for doubtful accounts was \$205 and \$205, respectively.

Contract assets are net of progress payments and performance based payments from our customers totaling \$1,755 and \$1,893 as of October 31, 2023 and April 30, 2023. Contract assets decreased \$138 during the six months ended October 31, 2023, primarily due to the recognition of revenue related to the satisfaction or partial satisfaction of performance obligations during the six months ended October 31, 2023. There were no significant impairment losses related to our contract assets during the six months ended October 31, 2023. We expect to bill our customers for the majority of the October 31, 2023 contract assets during fiscal year end 2024.

Contract liabilities decreased \$1,351 during the six months ended October 31, 2023, primarily due to the revenue recognized on these performance obligations being greater than the payments received.

6. Inventory

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

Inventory obsolescence is examined on a regular basis. When determining our estimate of obsolescence, we consider inventory that has been inactive for five years or longer and the probability of using that inventory in future production. The obsolete inventory generally consists of Falcon and Learjet parts and electrical components.

Inventory is comprised of the following, net of the estimate for obsolete inventory of \$275 at October 31, 2023 and \$275 at April 30, 2023.

	October 31, 2023	April 30, 2023
Parts and raw material	\$ 6,196	\$ 5,704
Work in process	2,981	3,194
Finished goods	62	49
Total Inventory, net of allowance	<u>\$ 9,239</u>	<u>\$ 8,947</u>

7. Property, Plant and Equipment

Property, plant and equipment is comprised of the following:

	October 31, 2023	April 30, 2023
Land	\$ 4,751	\$ 4,751
Building and improvements	49,401	47,867
Aircraft	4,046	8,515
Machinery and equipment	6,939	5,547
Office furniture and fixtures	14,327	13,881
Leasehold improvements	4,032	4,032
	<u>83,496</u>	<u>84,593</u>
Accumulated depreciation	(23,360)	(25,526)
Total property, plant and equipment	<u>\$ 60,136</u>	<u>\$ 59,067</u>

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. Depreciation expense was \$2,347 for the six months ended October 31, 2023 and \$2,153 for the six months ended October 31, 2022. Depreciation expense is included in cost of sales and general and administrative costs.

Description	Estimated useful life
Building and improvements	39 years or the shorter of the estimated useful life of the asset or the underlying lease term
Aircraft	5 years
Machinery and equipment	5 years
Office furniture and fixtures	5 years
Leasehold improvements	Shorter of the estimated useful life of the asset or the underlying lease term

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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.

8. 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.

9. Research and Development:

We invested in research and development activities. The amount invested in the six months ended October 31, 2023 and 2022 was \$1,339 million and \$1,632, respectively.

10. Debt: At October 31, 2023, the Company has a line of credit with Kansas State Bank in the form of a promissory note with an interest rate 8.4% totaling \$2,000. The unused line at October 31, 2023 was \$2,000. There were no advances made on the line of credit during the quarter ended October 31, 2023. The line of credit is due on demand and is secured by a first and second position on all assets of the Company.

One note with Academy Bank, N.A. for \$29,847 secured by all of BHCMC's assets and compensation under the State management contract with an interest rate of 5.32% payable over seven years with an initial twenty-year amortization and a balloon payment of \$19,250 in December 2027. The second note with Academy Bank, N.A. for \$8,766 is secured by all of BHCMC's assets and compensation under the State management contract with an interest rate of 5.75% payable in full over five years. These notes contain a covenant to maintain a debt service coverage ratio of 1.3 to 1.0. These notes also contain a liquidity covenant requiring the Company to maintain an aggregate sum of \$1.5 million of unrestricted cash. We are in compliance with these covenants at October 31, 2023.

At October 31, 2023, there was a note payable with Bank of America, N.A. with a balance of \$867. The interest rate on this note is at SOFR plus 1.75%. The loan is secured by buildings and improvements having a net book value of \$629. This note matures in March 2029.

At October 31, 2023, there is a note payable with Bank of America, N.A. with a balance of \$397. The interest rate on this note is at SOFR plus 1.75%. This loan is secured by buildings and improvements with a net book value of \$680. This note matures in March 2029.

At October 31, 2023, there was a note payable with Patriots Bank with an interest rate of 4.35% totaling \$968. This loan is secured by aircraft security agreements with a net book value of \$847. This note matures in March 2029.

At October 31, 2023, there is a note payable with an interest rate of 8.13% totaling \$39 secured by equipment with a net book value of \$39. This note matures in October 2025.

We are compliant with the covenants and obligations of each of our notes as of October 31, 2023, and December 15, 2023.

11. Other Assets:

Our other asset account includes assets of \$5,500 related to the Kansas Expanded Lottery Act Management Contract privilege fee, \$6,744 of gaming equipment we were required to pay for ownership by the State of Kansas Lottery, JET autopilot intellectual property of \$1,417 and miscellaneous other assets of \$127. BHCMC expects the \$5,500 privilege fee to have a value over the remaining life of the initial Management Contract with the State of Kansas which will end in December 2024. The State of Kansas approved a renewal management contract and an amendment to the current management contract for our Professional Services company BNSC assumed by BHCMC. The renewal will take effect December 15, 2024, and continue to 2039, another 15 years. 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 fully amortized.

12. Stock Options and Incentive Plans:

In November 2016, the shareholders approved and adopted the Butler National Corporation 2016 Equity Incentive Plan. The maximum number of shares of common stock that may be issued under the Plan is 12.5 million.

On April 12, 2019, the Company granted 2.5 million restricted shares to employees. These shares have voting rights at date of grant and become fully vested and nonforfeitable on April 11, 2024. The restricted shares were valued at \$0.38 per share, for a total of \$950. On March 17, 2020, the Company granted 5.0 million restricted shares to employees. These shares have voting rights at date of grant and become fully vested and non-forfeitable on March 16, 2025. The restricted shares were valued at \$0.41 per share, for a total of \$2.0 million. The deferred compensation related to these grants will be expensed on the financial statements over the five year vesting period.

In July 2022, the Company granted a board member 400,000 shares under the plan. These shares were fully vested and non-forfeitable on the date of grant. These shares were valued at \$0.88 per share, for a total of \$352. The compensation related to this grant was expensed in fiscal year 2023.

In October 2023, the Company granted a board member 300,000 shares under the plan. These shares were fully vested and non-forfeitable on the date of the grant. These shares were valued at \$0.74 per share, for a total of \$222. The compensation related to this grant was expensed in the current period.

For the six months ended October 31, 2023 the Company expensed \$208 and received a benefit from the forfeiture of shares of \$353 for a net benefit of \$145. For the six months ended October 31, 2022, the Company expensed \$278.

	Number of Shares	Weighted Average Grant Date Fair Value
Total shares issued	8,200,000	\$ 0.43
Forfeited, in prior periods	(100,000)	\$ 0.40
Forfeited, during the year ended April 30, 2023	(875,000)	\$ 0.40
Forfeited, during the six months ended October 31, 2023	(1,300,000)	\$ 0.40
<b>Total</b>	<b>5,925,000</b>	<b>\$ 0.45</b>

13. Stock Repurchase Program:

In July 2023, the Board of Directors approved an increase in the size of the Company's stock repurchase program from \$4 million to \$9 million. The program was established for the purpose of enabling Butler National Corporation (BNC) to flexibly repurchase its own shares in consideration of factors such as opportunities for strategic investment, BNC's financial condition and the price of its common stock as part of improving capital efficiency. The program is currently authorized through July 31, 2025.

The table below provides information with respect to common stock purchases by the Company through October 31, 2023.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
Shares purchased in prior periods	3,290,426	\$ 0.40	3,290,426	\$ 2,655
Quarter ended July 31, 2022 (a)	1,639	\$ 0.84	1,639	\$ 2,653
Quarter ended October 31, 2022 (a)	150	\$ 0.70	150	\$ 2,653
Quarter ended January 31, 2023 (a)	85,307	\$ 0.68	85,307	\$ 2,595
Quarter ended April 30, 2023 (a)	2,000	\$ 0.68	2,000	\$ 2,594
Increase in program authorization July 2023	-	\$ -	-	\$ 7,594
Quarter ended July 31, 2023 (a)	6,863,789	\$ 0.73	6,863,789	\$ 2,560
Quarter ended October 31, 2023 (a)	2,300	\$ 0.73	2,300	\$ 2,558
<b>Total</b>	<b>10,245,611</b>	<b>\$ 0.63</b>	<b>10,245,611</b>	

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

14. Lease Right-to-Use:

We lease hangars and office space with initial lease terms of five, forty-six, and fifty years.

	October 31, 2023
Lease right-to-use assets	\$ 3,781
Less accumulated depreciation	795
Total	<u>\$ 2,986</u>

Future minimum lease payments for assets under finance leases at October 31, 2023 are as follows:

2024	\$ 214
2025	114
2026	117
2027	119
2028	122
Thereafter	12,767
Total minimum lease payments	13,453
Less amount representing interest	10,015
Present value of net minimum lease payments	3,438
Less current maturities of lease liability	99
Lease liability, net of current maturities	<u>\$ 3,339</u>

Finance lease costs at October 31, 2023 and October 31, 2022 are as follows:

	October 31, 2023	October 31, 2022
Finance lease cost:		
Amortization of right-of-use assets	\$ 95	\$ 94
Interest on lease liabilities	94	93
Total finance lease cost	<u>\$ 189</u>	<u>\$ 187</u>
	October 31, 2023	October 31, 2022
Weighted average remaining lease term - Financing leases (in years)	44	45
Weighted average discount rate - Financing leases	5.8%	5.8%

15. Acquisition:

In September 2023, the Company acquired KC Machine, a recognized provider of high quality precision machine parts for \$2,860. The purchase price was paid by a combination of \$2,375 in cash, a \$300 earned-out liability due in March 2024, and a final escrow liability due September 2024. The present value of these liabilities is included in accounts payable at October 31, 2023.

The following table summarizes the purchase price and accounting for this transaction:

Purchase price summary:	
Cash paid at closing	\$ 2,375
Present value of final escrow liability	228
Present value of earn-out liability	257
	<u>\$ 2,860</u>
Accounting summary:	
Building	\$ 1,510
Equipment	930
Intangibles	205
Inventory	230
Other	(15)
	<u>\$ 2,860</u>

## 16. Segment Reporting 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 for specific operations or special missions such as addition of aerial photography capabilities, mapping, environmental research, search and rescue, and ISR modifications. We provide these services through our subsidiary, Avcon Industries, Inc. ("Aircraft Modifications" or "Avcon").

Special mission electronics principally includes the manufacture, sale, and service of electronics upgrades for classic weapon control systems used on civilian and military aircraft and vehicles. Ruggedized electrical fabrication is another recognized specialty. We provide the products through our subsidiary, Butler National Corporation - Tempe, Arizona.

Butler Avionics sells, installs and repairs aircraft avionics equipment (airplane radio equipment and flight control systems). These systems are flight display systems which include intuitive touchscreen controls with large display that enhance pilot situational awareness and 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:

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

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

Three Months Ended October 31, 2023	Gaming	Aircraft Modification	Aircraft Avionics	Special Mission Electronics	Other	Total
Revenues from customers	\$ 9,770	\$ 6,082	\$ 778	\$ 2,972	\$ -	\$ 19,602
Interest expense	532	58	-	16	9	615
Depreciation	689	88	4	32	27	840
Operating income (loss)	2,767	557	(105)	1,482	(1,103)	3,598

Three Months Ended October 31, 2022	Gaming	Aircraft Modification	Aircraft Avionics	Special Mission Electronics	Other	Total
Revenues from customers	\$ 9,674	\$ 5,878	\$ 523	\$ 3,180	\$ 71	\$ 19,326
Interest expense	622	66	-	11	8	707
Depreciation	608	58	3	36	51	756
Operating income (loss)	2,939	912	(249)	1,451	(1,051)	4,002

Six Months Ended October 31, 2023	Gaming	Aircraft Modification	Aircraft Avionics	Special Mission Electronics	Other	Total
Revenues from customers	\$ 18,758	\$ 11,565	\$ 1,522	\$ 4,889	\$ 52	\$ 36,786
Interest expense	1,088	116	-	33	17	1,254
Depreciation	1,337	152	7	63	54	1,613
Operating income (loss)	5,081	(191)	(146)	2,203	(2,212)	4,735

Six Months Ended October 31, 2022	Gaming	Aircraft Modification	Aircraft Avionics	Special Mission Electronics	Other	Total
Revenues from customers	\$ 18,567	\$ 9,714	\$ 1,237	\$ 4,971	\$ 140	\$ 34,629
Interest expense	1,264	132	-	18	16	1,430
Depreciation	1,234	111	5	75	102	1,527
Operating income (loss)	5,581	966	(201)	2,067	(2,786)	5,627

Our Chief Operating Decision Maker (CODM) does not evaluate operating segments using asset or liability information.

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

	<b>Six Months Ended October 31, 2023</b>	<b>Six Months Ended October 31, 2022</b>
Aerospace Products – two customers in the six months ended October 31, 2023, two customers in the six months ended October 31, 2022	27.5%	25.2%
Professional Services	-	-

In the six months ended October 31, 2023 the Company derived 34.4% of total revenue from five Aerospace customers. The top customer provided 15.7% of total revenue while the next top four customers ranged from 1.8% to 11.8%.

17. Subsequent Events:

The Company evaluated its October 31, 2023 financial statements for subsequent events through the filing date of this report. The Company is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

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

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

### Forward-Looking Statements

Statements made in this report, other reports and proxy statements filed with the Securities and Exchange Commission, communications to stockholders, press releases, and oral statements made by representatives of the Company that are not historical in nature, or that state the Company or management intentions, hopes, beliefs, expectations or predictions of the future, may constitute "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements can often be identified by the use of forward-looking terminology, such as "could," "should," "will," "intended," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," "plan," "guidance" or "estimate" or the negative of these words, variations thereof or similar expressions. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties, and assumptions. It is important to note that any such performance and actual results, financial condition or business, could differ materially from those expressed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A (Risk Factors) of the Annual Report on Form 10-K for the fiscal year ended April 30, 2023, and elsewhere herein or in other reports filed with the SEC. Other unforeseen factors not identified herein could also have such an effect. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results, financial condition or business over time.

The forward-looking statements in this report are only predictions and actual events or results may differ materially. In evaluating such statements, a number of risks, uncertainties and other factors could cause actual results, performance, financial condition, cash flows, prospects and opportunities to differ materially from those expressed in, or implied by, the forward-looking statements. These risks, uncertainties and other factors include those set forth in Item 1A (Risk Factors) of the Annual Report on Form 10-K for the fiscal year ended April 30, 2023, including the following factors:

- customer concentration risk;
- dependence on government spending;
- industry specific business cycles;
- regulatory hurdles in the launch of new products;
- loss of key personnel;
- the geographic location of our casino;
- fixed-price contracts;
- international sales;
- future acquisitions;
- supply chain and labor issues;
- cyber security threats;
- fraud, theft and cheating at our casino;
- dependence on third-party platforms to offer sports wagering;
- outside factors influence the profitability of sports wagering;
- change of control restrictions;
- significant and expensive governmental regulation across our industries;
- failure by the corporation or its stockholders to maintain applicable gaming licenses;
- evolving political and legislative initiatives in gaming;
- extensive and increasing taxation of gaming revenues;
- changes in regulations of financial reporting;
- the stability of economic markets;
- potential impairment losses;
- marketability restrictions of our common stock;
- stock dilution;
- the possibility of a reverse-stock split;
- market competition by larger competitors;
- acts of terrorism and war;
- inclement weather and natural disasters; and
- rising inflation.

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

Investors should also be aware that while the Company, from time to time, communicates with securities analysts; it is against its policy to disclose any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of Butler National Corporation.

## General

Butler National Corporation (“Butler National” the “Company”, “we”, “us”, or “our”) was incorporated in 1960. Our companies design, engineer, manufacture, sell, integrate, install, repair, modify, overhaul, service and distribute a broad portfolio of aerostructures, aircraft components, avionics, accessories, subassemblies and systems (“Aerospace Products”). We serve a broad, worldwide spectrum of the aviation industry, including owners and operators, of private, commercial, regional, business and government aircraft.

In addition, our companies provide management services in the gaming industry, which includes owning the land and building for the Boot Hill Casino and Resort in Dodge City, Kansas (“Professional Services”).

## Products and Services

The Company has two operating segments for financial reporting purposes: (a) Aerospace Products, whose companies’ revenues are derived from system design, engineering, manufacturing, sale, distribution, integration, installation, repairing, modifying, overhauling and servicing of aerostructures, avionics, aircraft components, accessories, subassemblies and systems; and (b) Professional Services, whose companies provide professional management services in the gaming industry, sports wagering, and professional architectural services.

**Aerospace Products.** The Aerospace Products segment includes the manufacture, sale and service of structural modifications, electronic equipment, and systems and technologies enhancing aircraft. Additionally, we operate Federal Aviation Administration (the “FAA”) Repair Stations. Companies in Aerospace Products concentrate on Learjets, Beechcraft King Air and Cessna Caravan turboprop aircraft.

*Products.* The aviation-related products that the companies within this group design, engineer, manufacture, integrate, install, repair and service include:

- Aerial mapping, search and rescue, environmental research and surveillance products
- Aerodynamic enhancement products
- Standby instrument systems
- Avcon stability enhancing airplane strakes
- ADS-B (transponder) systems
- Cargo/sensor carrying pods and radomes
- Electronic navigation instruments, radios and transponders
- GARMIN GTN Global Position System Navigator with Communication Transceiver
- Learjet J.E.T. autopilot products
- Electrical systems and switching equipment
- Rate gyroscopes
- Replacement vertical accelerometers
- Provisions to allow carrying of external stores
- Attitude and heading reference systems

*Modifications.* The companies in Aerospace Products have authority, pursuant to Federal Aviation Administration Supplemental Type Certificates (“STCs”) and Parts Manufacturer Approval (“PMA”), to build required parts and subassemblies and to make applicable installations. Companies in Aerospace Products perform modifications in the aviation industry including:

- Aerial photograph capabilities
- Aerodynamic improvements
- Avionics systems
- Cargo doors
- Extended nose and wing tip bays
- Environmental research capabilities
- Extended tip fuel tanks
- Radar systems
- ISR – Intelligence Surveillance Reconnaissance
- Special mission modifications
- Stability enhancements
- Traffic collision avoidance systems

*Special Mission Electronics.* We supply defense-related, commercial off-the-shelf products to various commercial entities and government agencies and subcontractors in order to update or extend the useful life of aircraft with older components and technology. These products include:

- Ruggedized military cabling
- Electronic control systems
- Gun Control Units for Apache and Blackhawk helicopters
- HangFire Override Modules
- Test equipment
- Gun Control Units for land and sea based military vehicles

**Professional Services.** The Professional Services segment includes the management of a gaming and related dining and entertainment facility in Dodge City, Kansas. Boot Hill Casino and Resort features approximately 500 slot machines, 16 table games and a sportsbook. A Company in Professional Services also provides licensed architectural services, including commercial and industrial building design services.

*Boot Hill.* Butler National Service Corporation (“BNSC”), and BHCMC, LLC (“BHCMC”), companies in Professional Services, manage The Boot Hill Casino and Resort in Dodge City, Kansas (“Boot Hill”) pursuant to the Lottery Gaming Facility Management Contract, by and among BNSC, BHCMC and the Kansas Lottery, as subsequently amended (“Boot Hill Agreement”). As required by Kansas law, all games, gaming equipment and gaming operations, including sports wagering, at Boot Hill are owned and operated by the Kansas Lottery. On September 1, 2022, sports wagering became legal in the State of Kansas. The Company entered into a provider contract with DraftKings for interactive/mobile sports wagering. In addition to an online platform, the Company also features a DraftKings branded sports book at Boot Hill that opened on February 28, 2023.

*Architectural Services.* A Company in Professional Services provides licensed architectural, including commercial and industrial building design. The Company is in the process of winding down its architectural business.

**Results Overview**

The six months ended October 31, 2023 revenue increased 6% to \$36.8 million compared to \$34.6 million in the six months ended October 31, 2022. In the six months ended October 31, 2023 the Professional Services revenue was \$18.8 million compared to \$18.7 million in the six months ended October 31, 2022, an increase of 1%. In the six months ended October 31, 2023 the Aerospace Products revenue was \$18.0 million compared to \$15.9 million in the six months ended October 31, 2022, an increase of 13%.

The six months ended October 31, 2023 net income increased to \$5.7 million compared to a net income of \$3.1 million in the six months ended October 31, 2022. The six months ended October 31, 2023, operating income decreased to \$4.7 million from an operating income of \$5.6 million in the six months ended October 31, 2022.

**RESULTS OF OPERATIONS**

**SIX MONTHS ENDED OCTOBER 31, 2023 COMPARED TO SIX MONTHS ENDED OCTOBER 31, 2022**

(dollars in thousands)	Six Months Ended October 31, 2023	Percent of Total Revenue	Six Months Ended October 31, 2022	Percent of Total Revenue	Percent Change 2022-2023
<b>Revenue:</b>					
Professional Services	\$ 18,810	51%	\$ 18,707	54%	1%
Aerospace Products	17,976	49%	15,922	46%	13%
Total revenue	36,786	100%	34,629	100%	6%
<b>Costs and expenses:</b>					
Costs of Professional Services	7,952	22%	7,375	21%	8%
Cost of Aerospace Products	14,178	38%	11,409	33%	24%
Marketing and advertising	2,639	7%	2,699	8%	-2%
General, administrative and other	7,282	20%	7,519	22%	-3%
Total costs and expenses	32,051	87%	29,002	84%	11%
Operating income	\$ 4,735	13%	\$ 5,627	16%	-16%

**Revenue:**

**Revenue** increased 6% to \$36.8 million in the six months ended October 31, 2023, compared to \$34.6 million in the six months ended October 31, 2022. See "Operations by Segment" below for a discussion of the primary reasons for the increase in revenue.

- Professional Services derives its revenue from (a) professional management services in the gaming industry through Butler National Service Corporation ("BNSC") and BHCMC, LLC ("BHCMC"), and (b) professional architectural, and management support services. Revenue from Professional Services increased 1% for the six months to \$18.8 million at October 31, 2023 compared to \$18.7 million at October 31, 2022. The sports wagering platform brought in \$2.0 million of revenue for the six months ended October 31, 2023 compared to \$825 in the six months ended October 31, 2022. Furthermore, casino gaming revenue decreased \$1.1 million due to a decrease in patron spend per visit. We believe this was primarily due to increased inflation, competition in Oklahoma and drought conditions in our primary market area causing a decrease in discretionary spending.
- Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 13% for the six months to \$18.0 million at October 31, 2023 compared to \$15.9 million at October 31, 2022. The increase in revenue is mainly due to an increase in the aircraft modification business of \$1.9 million. The development of new STC's and our marketing efforts in both domestic and international markets support this increase.

**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 11% to \$32.1 million in the six months ended October 31, 2023 compared to \$29.0 million in the six months ended October 31, 2022. Costs and expenses were 87% of total revenue in the six months ended October 31, 2023, as compared to 84% of total revenue in the six months ended October 31, 2022. The increase is primarily due to an increase in material and labor costs.

**Costs of Professional Services** increased 8% in the six months ended October 31, 2023 to \$8.0 million compared to \$7.4 million in the six months ended October 31, 2022. Costs were 22% of total revenue in the six months ended October 31, 2023, as compared to 21% of total revenue in the six months ended October 31, 2022. The increase is directly related to an increase in labor costs.

**Costs of Aerospace Products** increased 24% in the six months ended October 31, 2023 to \$14.2 million compared to \$11.4 million for the six months ended October 31, 2022. Costs were 38% of total revenue in the six months ended October 31, 2023, as compared to 33% of total revenue in the six months ended October 31, 2022. The increase is directly related to an increase in material and labor costs.

**Marketing and advertising expenses** decreased 2% in the six months ended October 31, 2023, to \$2.6 million compared to \$2.7 million in the six months ended October 31, 2022. Expenses were 7% of total revenue in the six months ended October 31, 2023, as compared to 8% of total revenue in the six months ended October 31, 2022. Marketing and advertising expenses include advertising, sales and marketing labor, gaming development costs, and casino and product promotions.

**General, administrative and other expenses** as a percent of total revenue was 20% in the six months ended October 31, 2023, compared to 22% in the six months ended October 31, 2022. These expenses decreased 3% to \$7.3 million in the six months ended October 31, 2023, from \$7.5 million in the six months ended October 31, 2022. The decrease is primarily due to a stock award of \$352 and cash compensation of \$140 awarded to a board member expensed in July 2022 compared to a stock award of \$222 to a board member expensed in October 2023.

**Other expense:**

**Interest expense** was \$1,254 in the six months ended October 31, 2023, compared with interest expense of \$1,430 in the six months ended October 31, 2022.

**Operations by Segment**

We have two operating segments, Professional Services and Aerospace Products. The Professional Services segment includes revenue contributions and expenditures associated with casino management services and professional architectural, engineering and management support services. Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft.

The following table presents a summary of our operating segment information for the six months ended October 31, 2023 and October 31, 2022:

(dollars in thousands)	Six Months Ended October 31, 2023	Percent of Total Revenue	Six Months Ended October 31, 2022	Percent of Total Revenue	Percent Change 2022-2023
<b>Professional Services</b>					
Revenue					
Boot Hill Casino	\$ 18,758	100%	\$ 18,567	99%	1%
Management/Professional Services	52	0%	140	1%	-63%
Revenue	18,810	100%	18,707	100%	1%
Costs of Professional Services	7,952	42%	7,375	39%	8%
Expenses	7,039	38%	7,068	38%	0%
Total costs and expenses	14,991	80%	14,443	77%	4%
Professional Services operating income	\$ 3,819	20%	\$ 4,264	23%	-10%
<b>Aerospace Products</b>					
Revenue	\$ 17,976	100%	\$ 15,922	100%	13%
Costs of Aerospace Products	14,178	79%	11,409	71%	24%
Expenses	2,882	16%	3,150	20%	-9%
Total costs and expenses	17,060	95%	14,559	91%	17%
Aerospace Products operating income	\$ 916	5%	\$ 1,363	9%	(33)%

**Professional Services**

- Revenue from Professional Services increased 1% for the six months ended October 31, 2023 to \$18.8 million compared to \$18.7 million for the six months ended October 31, 2022.

In the six months ended October 31, 2023, Boot Hill Casino received gross receipts for the State of Kansas of \$23.2 million compared to \$24.5 million for the six months ended October 31, 2022. Mandated fees, taxes and distributions reduced gross receipts by \$7.5 million resulting in gaming revenue of \$15.7 million for the six months ended October 31, 2023, compared to a reduction to gross receipts of \$7.7 million resulting in gaming revenue of \$16.8 million for the six months ended October 31, 2022. Sportsbook revenue was \$2.0 million in the six months ended October 31, 2023 compared to \$825 in the six months ended October 31, 2022. Non-gaming revenue at Boot Hill Casino remained constant at \$2.2 million for the six months ended October 31, 2023, compared to \$2.2 million for the six months ended October 31, 2022.

The remaining management and Professional Services revenue includes professional management services in the gaming industry, and licensed architectural services. Professional Services revenue excluding Boot Hill Casino decreased to \$52 for the six months ended October 31, 2023, compared to \$140 for the six months ended October 31, 2022. The Company is in the process of winding down its architectural business.

- Costs of Professional Services increased 8% in the six months ended October 31, 2023 to \$8.0 million compared to \$7.4 million in the six months ended October 31, 2022. Costs were 42% of segment total revenue in the six months ended October 31, 2023, as compared to 39% of segment total revenue in the six months ended October 31, 2022. The increase is directly related to an increase in labor costs.
- Expenses remained constant in the six months ended October 31, 2023 to \$7.0 million compared to \$7.1 million in the six months ended October 31, 2022. Expenses were 38% of segment total revenue in the six months ended October 31, 2023, as compared to 38% of segment total revenue in the six months ended October 31, 2022.

**Aerospace Products**

- Revenue increased 13% to \$18.0 million in the six months ended October 31, 2023, compared to \$15.9 million in the six months ended October 31, 2022. The increase in revenue is mainly due to an increase in the aircraft modification business of \$1.9 million. The development of new STC's and our marketing efforts for them in both domestic and international markets support this increase.
- Costs of Aerospace Products increased 24% in the six months ended October 31, 2023 to \$14.2 million compared to \$11.4 million for the six months ended October 31, 2022. Costs were 79% of segment total revenue in the six months ended October 31, 2023, as compared to 71% of segment total revenue in the six months ended October 31, 2022. The increase is directly related to the increase in material and labor costs.
- Expenses decreased 9% in the six months ended October 31, 2023 to \$2.9 million compared to \$3.2 million in the six months ended October 31, 2022. Expenses were 16% of segment total revenue in the six months ended October 31, 2023, as compared to 20% of segment total revenue in the six months ended October 31, 2022. The decrease is primarily due to the stock award of \$352 and cash compensation of \$140 awarded to a board member expensed in July 2022 compared to a stock award of \$222 to a board member expensed in October 2023.

**SECOND QUARTER FISCAL 2023 COMPARED TO SECOND QUARTER FISCAL 2022**

(dollars in thousands)	Three Months Ended October 31, 2023	Percent of Total Revenue	Three Months Ended October 31, 2022	Percent of Total Revenue	Percent Change 2022-2023
<b>Revenue:</b>					
Professional Services	\$ 9,770	50%	\$ 9,745	50%	-
Aerospace Products	9,832	50%	9,581	50%	3%
<b>Total revenue</b>	<b>19,602</b>	<b>100%</b>	<b>19,326</b>	<b>100%</b>	<b>1%</b>
<b>Costs and expenses:</b>					
Costs of Professional Services	4,006	21%	3,752	19%	7%
Cost of Aerospace Products	6,852	35%	6,582	34%	4%
Marketing and advertising	1,361	7%	1,368	7%	-1%
General, administrative and other	3,785	19%	3,622	19%	5%
<b>Total costs and expenses</b>	<b>16,004</b>	<b>82%</b>	<b>15,324</b>	<b>79%</b>	<b>4%</b>
<b>Operating income</b>	<b>\$ 3,598</b>	<b>18%</b>	<b>\$ 4,002</b>	<b>21%</b>	<b>-10%</b>

**Revenue:**

**Revenue** increased 1% to \$19.6 million in the three months ended October 31, 2023, compared to \$19.3 million in the three months ended October 31, 2022. See "Operations by Segment" below for a discussion of the primary reasons for the increase in revenue.

- Professional Services derives its revenue from (a) professional management services in the gaming industry through Butler National Service Corporation ("BNSC") and BHCMC, LLC ("BHCMC"), and (b) professional architectural, and management support services. Revenue from Professional Services increased 1% for the three months to \$9.8 million at October 31, 2023 compared to \$9.7 million at October 31, 2022. The sports wagering platform brought in \$1.3 million of revenue for the three months ended October 31, 2023 compared to \$825 in the three months ended October 31, 2022. Furthermore, casino gaming revenue decreased \$446 due to a decrease in patron spend per visit. We believe this was primarily due to increased inflation and drought conditions in our primary market area causing a decrease in discretionary spending.
- Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 3% for the three months to \$9.8 million at October 31, 2023 compared to \$9.6 million at October 31, 2022.

**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 4% to \$16.0 million in the three months ended October 31, 2023 compared to \$15.3 million in the three months ended October 31, 2022. Costs and expenses were 82% of total revenue in the three months ended October 31, 2023, as compared to 79% of total revenue in the three months ended October 31, 2022. The increase is primarily due to an increase in material and labor costs.

**Costs of Professional Services** increased 7% in the three months ended October 31, 2023 to \$4.0 million compared to \$3.8 million in the three months ended October 31, 2022. Costs were 21% of total revenue in the three months ended October 31, 2023, as compared to 19% of total revenue in the three months ended October 31, 2022. The increase is directly related to an increase in labor costs.

**Costs of Aerospace Products** increased 4% in the three months ended October 31, 2023 to \$6.9 million compared to \$6.6 million for the three months ended October 31, 2022. Costs were 35% of total revenue in the three months ended October 31, 2023, as compared to 34% of total revenue in the three months ended October 31, 2022. The increase is directly related to an increase in material and labor costs.

**Marketing and advertising expenses** decreased 1% in the three months ended October 31, 2023, to \$1.4 million compared to \$1.4 million in the three months ended October 31, 2022. Expenses were 7% of total revenue in the three months ended October 31, 2023, as compared to 7% of total revenue in the three months ended October 31, 2022. Marketing and advertising expenses include advertising, sales and marketing labor, gaming development costs, and casino and product promotions.

**General, administrative and other expenses** as a percent of total revenue was 19% in the three months ended October 31, 2023, compared to 19% in the three months ended October 31, 2022. These expenses increased 5% to \$3.8 million in the three months ended October 31, 2023, from \$3.6 million in the three months ended October 31, 2022.

**Other expense:**

**Interest expense** was \$615 in the three months ended October 31, 2023, compared with interest expense of \$707 in the three months ended October 31, 2022.

**Operations by Segment**

We have two operating segments, Professional Services and Aerospace Products. The Professional Services segment includes revenue contributions and expenditures associated with casino management services and professional architectural, engineering and management support services. Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft.

The following table presents a summary of our operating segment information for the three months ended October 31, 2023 and October 31, 2022:

(dollars in thousands)	Three Months Ended October 31, 2023	Percent of Total Revenue	Three Months Ended October 31, 2022	Percent of Total Revenue	Percent Change 2022-2023
<b>Professional Services</b>					
Revenue					
Boot Hill Casino	\$ 9,770	100%	\$ 9,674	99%	1%
Management/Professional Services	-	0%	71	1%	-100%
Revenue	<u>9,770</u>	<u>100%</u>	<u>9,745</u>	<u>100%</u>	<u>0%</u>
Costs of Professional Services	4,006	41%	3,752	39%	7%
Expenses	3,696	38%	3,740	38%	-1%
Total costs and expenses	<u>7,702</u>	<u>79%</u>	<u>7,492</u>	<u>77%</u>	<u>3%</u>
Professional Services operating income	<u>\$ 2,068</u>	<u>21%</u>	<u>\$ 2,253</u>	<u>23%</u>	<u>-8%</u>
(dollars in thousands)	Three Months Ended October 31, 2023	Percent of Total Revenue	Three Months Ended October 31, 2022	Percent of Total Revenue	Percent Change 2022-2023
<b>Aerospace Products</b>					
Revenue	\$ 9,832	100%	\$ 9,581	100%	3%
Costs of Aerospace Products	6,852	70%	6,582	69%	4%
Expenses	1,450	14%	1,250	13%	16%
Total costs and expenses	<u>8,302</u>	<u>84%</u>	<u>7,832</u>	<u>82%</u>	<u>6%</u>
Aerospace Products operating income	<u>\$ 1,530</u>	<u>16%</u>	<u>\$ 1,749</u>	<u>18%</u>	<u>-13%</u>

### **Professional Services**

- Revenue from Professional Services increased 1% for the three months ended October 31, 2023 to \$9.8 million compared to \$9.7 million for the three months ended October 31, 2022.

In the three months ended October 31, 2023 Boot Hill Casino received gross receipts for the State of Kansas of \$11.6 million compared to \$12.3 million for the three months ended October 31, 2022. Mandated fees, taxes and distributions reduced gross receipts by \$3.8 million resulting in gaming revenue of \$7.8 million for the three months ended October 31, 2023, compared to a reduction to gross receipts of \$3.9 million resulting in gaming revenue of \$8.4 million for the three months ended October 31, 2022. Sportsbook revenue was \$1.3 in the three months ended October 31, 2023 compared to \$825 in the three months ended October 31, 2022. Non-gaming revenue at Boot Hill Casino increased to \$1.2 million for the three months ended October 31, 2023, compared to \$1.1 million for the three months ended October 31, 2022.

The remaining Professional Services revenue includes professional management services in the gaming industry, and licensed architectural services. Professional Services revenue excluding Boot Hill Casino decreased to \$0 for the three months ended October 31, 2023, compared to \$71 for the three months ended October 31, 2022. The Company is in the process of winding down its architecture business.

- Costs of Professional Services increased 7% in the three months ended October 31, 2023 to \$4.0 million compared to \$3.8 million in the three months ended October 31, 2022. Costs were 41% of segment total revenue in the three months ended October 31, 2023, as compared to 39% of segment total revenue in the three months ended October 31, 2022. The increase is directly related to an increase in labor costs.
- Expenses remained constant in the three months ended October 31, 2023 at \$3.7 million compared to \$3.7 million in the three months ended October 31, 2022. Expenses were 38% of segment total revenue in the three months ended October 31, 2023, as compared to 38% of segment total revenue in the three months ended October 31, 2022.

### **Aerospace Products**

- Revenue increased 3% to \$9.8 million in the three months ended October 31, 2023, compared to \$9.6 million in the three months ended October 31, 2022.
- Costs of Aerospace Products increased 4% in the three months ended October 31, 2023 to \$6.9 million compared to \$6.6 million for the three months ended October 31, 2022. Costs were 70% of segment total revenue in the three months ended October 31, 2023, as compared to 69% of segment total revenue in the three months ended October 31, 2022. The increase is directly related to the increase in material and labor costs.
- Expenses increased 16% in the three months ended October 31, 2023 to \$1.5 million compared to \$1.3 million in the three months ended October 31, 2022. Expenses were 14% of segment total revenue in the three months ended October 31, 2023, as compared to 13% of segment total revenue in the three months ended October 31, 2022. The increase is primarily due to the stock award of \$222 awarded to a board member expensed in October 2023.

### **Employees**

Other than persons employed by our gaming subsidiaries, there were 123 full time and 2 part time employees on October 31, 2023, compared to 107 full time and 4 part time employees on October 31, 2022. As of December 8, 2023 staffing is 130 full time and 2 part time employees. Our staffing at Boot Hill Casino & Resort on October 31, 2023 was 190 full time and 54 part time employees compared to 197 full time and 55 part time employees on October 31, 2022. At December 8, 2023 there are 197 full time and 54 part time employees. None of the employees are subject to any collective bargaining agreements.

## **Liquidity and Capital Resources**

### **Overview**

Butler National is a holding company. Our ability to fund our obligations depends on existing cash on hand, cash flow from our subsidiaries and our ability to raise capital. Our primary sources of liquidity and capital resources have been cash on hand, cash flow from operations, borrowings under our lines of credit and notes payable (as further described below) and proceeds from the issuance of debt and equity securities. We assess liquidity in terms of the ability to generate cash or obtain financing in order to fund operating, investing and debt service requirements. Our primary ongoing cash requirements include the funding of operations, capital expenditures, acquisitions and other investments in line with our business strategy and debt repayment obligations and interest payments. Our strategy has been to maintain moderate leverage and substantial capital resources in order to take advantage of opportunities, to invest in our businesses and develop new streams of income that may be profitable. As such, we have continued to invest in developing and marketing new STCs and growing our established sports wagering platform. 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 2024 and beyond.

### **Operating Activities**

During the six months ended October 31, 2023 our cash position decreased by \$3.7 million. Net income was \$5.7 million for the six months ended October 31, 2023. Cash flow provided by operating activities was \$3.5 million for the six months ended October 31, 2023. Non-cash activities consisting of depreciation and amortization provided \$3.0 million, gain on sale of airplanes used \$4.2 million, stock awarded to a director provided \$222, and deferred compensation used \$145. Contract assets increased our cash position by \$138. Contract liability decreased our cash position by \$1.4 million. Inventories decreased our cash position by \$764. Accounts receivable decreased our cash position by \$1.8 million. Gaming facility mandated payments decreased our cash position by \$43. Prepaid expenses and other assets increased our cash by \$1.6 million. A decrease in accounts payable and accrued liabilities and an increase in lease liabilities and other current liabilities decreased our cash by \$329. Income tax payable increased our cash position by \$1.4 million.

### **Investing Activities**

Cash provided in investing activities was \$550 for the six months ended October 31, 2023. We invested \$884 towards STCs, \$1.5 million on a building, and \$1.9 million on equipment and furnishings. We received \$4.9 million in proceeds from the sale of airplanes.

### **Financing Activities**

Cash used by financing activities was \$7.7 million for the six months ended October 31, 2023. We made repayments on our debt of \$2.5 million. We made repayments on lease right-to-use of \$131. We purchased Company stock of \$5.0 million. The stock acquired was placed in treasury.

### **Capital Expenditures**

The Company anticipates capital expenditures during the remainder of fiscal year 2024 to be approximately \$2.0 million, consisting of \$1.0 million on STC's and \$1.0 million on equipment. We anticipate our cash balance will be sufficient to cover cash requirements through the current fiscal year.

### **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, inventory and long-lived assets. These policies and our procedures related to these policies are described in detail below and under specific areas within this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### **Revenue from Contracts with Customers – Aerospace Contracts**

#### **Methodology**

We recognize revenue and profit based upon either (1) the percent completion method, in which sales and profit are recorded based upon the ratio of labor costs incurred to date to estimated total labor costs to complete the performance obligation, or (2) the point-in-time method, in which sales are recognized at the time control is transferred to the customer. For aerospace contracts that involve airplane modifications based on customer specific requirements, we generally recognize revenue and income using the percent completion method because of continuous transfer of control to the customer. Revenue is generally recognized using the percent completion method based on the extent of progress towards completion of the performance obligation, which allows for recognition of revenue as work on a contract progresses. Our general contract term is between one to twelve months.

Management performs detailed quarterly reviews of all of our significant long-term contracts. Based upon these reviews, we record the effects of adjustments in profit estimates each period. If at any time management determines that in the case of a particular contract total costs will exceed total contract revenue, we record a provision for the entire anticipated contract loss at that time.

#### **Judgment and Uncertainties**

The percent completion revenue recognition model requires that we estimate future revenues and costs over the life of a contract. Revenues are estimated based upon the original contract price, with consideration being given to exercised contract options, change orders and, in some cases, projected customer requirements. Contract costs may be incurred over a period of several months, and the estimation of these costs requires significant judgment based upon the acquired knowledge and experience of program managers, engineers and financial professionals. Estimated costs are based primarily on anticipated purchase contract terms, historical performance trends, business base and other economic projections.

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### Effect if Actual Results Differ From Assumptions

While we do not believe there is a reasonable likelihood there will be a material change in estimates or assumptions used to calculate our revenue contracts and costs, estimating the percentage of work complete on certain programs is a complex task. As a result, changes to these estimates could have a significant impact on our results of operations. These products and services are an important element in our continuing strategy to increase operating efficiencies and profitability as well as broaden our business base. Management continues to monitor and update program cost estimates quarterly for these contracts. A significant change in an estimate on one or more of these contracts could have a material effect on our financial position and results of operations.

### **Inventory Valuation**

#### Methodology

We have four types of inventory (a) raw materials, (b) contracts in process, (c) other work in process and (d) finished goods. Raw material includes certain general stock materials but primarily relates to purchases that were made in anticipation of specific programs that have not been started as of the balance sheet date. Raw materials are stated at the lower of the cost of the inventory or its fair market value. Contracts in process, other work in process and finished goods are valued at production cost comprised of material, labor and overhead. Contracts in process, other work in process and finished goods are reported at the lower of cost or net realizable value.

#### Judgment and Uncertainties

The process for evaluating inventory obsolescence or market value often requires the Company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be sold in the normal course of business. We adjust our inventory by the difference between the estimated market value and the actual cost of our inventory to arrive at net realizable value. Changes in estimates of future sales volume may necessitate future write-downs of inventory value.

### Effect if Actual Results Differ From Assumptions

Management reviews the inventory balance on an annual basis to determine whether any additional write-downs are necessary. Following the write-down of the inventory as discussed above, we believe this inventory is stated at net realizable value at October 31, 2023, although an unanticipated lack of demand for aircraft or spare parts in the future could result in additional write-downs of the inventory value. Overall, management believes that our inventory is appropriately valued at October 31, 2023.

### **Long-lived Assets**

#### Methodology

The Company accounts for its long-lived assets in accordance with ASC Topic 360-10, "Accounting for the Impairment or Disposal of Long-Lived Assets." ASC Topic 360-10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses the recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition.

#### Judgment and Uncertainties

In years that management performs a qualitative assessment we consider the following qualitative factors: general economic conditions in the markets served by the segment, relevant industry-specific performance statistics, and forecasted results of operations.

For the quantitative impairment tests, management estimated the fair value of the long-lived asset group using an income methodology based on management's estimates of forecasted undiscounted cash flows over the estimated life of the assets. Changes in these estimates and assumptions could materially affect the results of our impairment testing.

An impairment loss is recognized for any excess of the carrying amount of the estimated undiscounted cash flows over the remaining life of the assets. No impairment charges were recorded during the six months ended October 31, 2023.

### Effect if Actual Results Differ From Assumptions

As with all assumptions, there is an inherent level of uncertainty and actual results, to the extent they differ from those assumptions, could have a material impact on fair value. For example, a reduction in customer demand would impact our assumed growth rate resulting in a reduced fair value. Potential events or circumstances could have a negative effect on the estimated fair value. The loss of a major customer or program could have a significant impact on the future cash flows associated with a long-lived asset group. We do not currently believe there to be a reasonable likelihood that actual results will vary materially from estimates and assumptions used to test our long-lived assets for impairment losses. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to additional impairment charges that could be material.

### **Changing Prices and Inflation**

We have experienced upward pressure from inflation in fiscal year 2024. From fiscal year 2023 to fiscal year 2024 most of the increases we experienced were in material and labor 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 2024 and 2025.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

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

We are a smaller reporting company as defined by Rule 12b-2 under the Securities Exchange Act of 1934 and are not required to provide the information required under this item.

### **Item 4. CONTROLS AND PROCEDURES**

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Our principal executive and financial officers have evaluated our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q and have determined that such disclosure controls and procedures are effective, based on criteria in the Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

**Evaluation of disclosure controls and procedures:** Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Form 10-Q, our Chief Executive Officer and our Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2023. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of October 31, 2023.

### **Internal Control Over Financial Reporting**

#### **Limitations on Controls**

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**Changes in Internal Control Over Financial Reporting:** In our opinion there were no changes in the Company's internal control over financial reporting during the the three months ended October 31, 2023 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS.**

As of October 31, 2023, there are no significant known legal proceedings pending against us. We consider all such unknown proceedings, if any, to be ordinary litigation incident to the character of the business. We believe that the resolution of any claims will not, individually or in the aggregate, have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

### **Item 1A. RISK FACTORS.**

Smaller reporting companies are not required to provide the information required by this item.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

The table below provides information with respect to common stock purchases by the Company during the second quarter of fiscal 2024.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
August 1, 2023 - August 31, 2023	-	\$ -	-	\$ 2,560,000
September 1, 2023 - September 30, 2023	2,000	\$ 0.74	2,000	\$ 2,558,000
October 1, 2023 - October 31, 2023	300	\$ 0.68	300	\$ 2,558,000
Total	<u>2,300</u>	\$ 0.73	<u>2,300</u>	

(a) Our Board of Directors authorized the repurchase of shares of Butler National common stock in the open market or otherwise, at an aggregate purchase price of \$4,000,000 in the second quarter of fiscal 2020. In July 2023, the Board of Directors approved an increase in the size of the Company's stock repurchase program from \$4,000,000 to \$9,000,000. The timing and amount of any share repurchases will be determined by Butler National's management based on market conditions and other factors. The program is currently authorized through July 31, 2025.

**Item 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**Item 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**Item 5. OTHER INFORMATION.**

None.

**Item 6. EXHIBITS.**

- 3.1 [Articles of Incorporation, as amended and restated are incorporated by reference to Exhibit 3.1 of our Form DEF 14A filed on December 26, 2001.](#)
- 3.2 [Bylaws, as amended, are incorporated by reference to Exhibit 3.2 of our Form 10-Q filed on March 14, 2013.](#)
- 4.1 [Rights Agreement, dated August 2, 2011, by and between Butler National Corporation and UMB Bank, N.A., as Rights Agent, incorporated by reference to Exhibit 4.1 of our 10-Q filed on December 13, 2016.](#)
- 4.2 [Amendment One to Rights Agreement between Butler National Corporation and UMB Bank, N.A. dated July 22, 2021, incorporated by reference to Exhibit 4.2 of our Form 8-K filed on July 26, 2021.](#)
- 10.1 [First Amendment to Employment Agreement of Christopher J. Reedy dated October 4, 2023](#)
- 10.2 [First Amendment to Employment Agreement of Tad M. McMahon dated October 4, 2023](#)
- 10.3 [First Amendment to Employment Agreement of Joe A. Peters dated October 4, 2023](#)
- 31.1 [Certificate of Chief Executive Officer pursuant to Exchange Act Rule 13a-14\(a\).](#)
- 31.2 [Certificate of Chief Financial Officer pursuant to Exchange Act Rule 13a-14\(a\).](#)
- 32.1 [Certifications of Chief Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certifications of Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2023, formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) Condensed Consolidated Balance Sheets as of October 31, 2023 and April 30, 2023, (ii) Condensed Consolidated Statements of Operations for the three and six months ended October 31, 2023 and 2022, (iii) Condensed Consolidated Statements of Stockholders' Equity for the six months ended October 31, 2023 and 2022, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended October 31, 2023 and 2022 and (v) the Notes to Consolidated Financial Statements, with detail tagging.
- 104 The cover page from the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2023, formatted in Inline XBRL (included as Exhibit 101)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BUTLER NATIONAL CORPORATION  
(Registrant)

December 15, 2023  
Date

/s/ Christopher J. Reedy  
Christopher J. Reedy  
(President and Chief Executive Officer)

December 15, 2023  
Date

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

**Exhibit Index**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
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104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2023, formatted in Inline XBRL (included as Exhibit 101)

## CERTIFICATIONS

I, Christoph J. Reedy, certify that:

1. I have reviewed this quarterly report on Form 10-Q ended October 31, 2023 of Butler National Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 15, 2023

/s/Christopher J. Reedy  
Christopher J. Reedy  
President and Chief Executive Officer

## CERTIFICATIONS

I, Tad M. McMahon, certify that:

1. I have reviewed this quarterly report on Form 10-Q ended October 31, 2023 of Butler National Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 15, 2023

/s/ Tad M. McMahon

Tad M. McMahon  
Chief Financial Officer and Secretary

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

In connection with the quarterly report of Butler National Corporation (the "Company") on Form 10-Q for the period ending October 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Reedy, Chief Executive Officer of the Company, certify, (to the best of my knowledge), pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002 that;

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

/s/Christopher J. Reedy

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Christopher J. Reedy  
President and Chief Executive Officer  
Butler National Corporation  
December 15, 2023

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

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

In connection with the quarterly report of Butler National Corporation (the "Company") on Form 10-Q for the period ending October 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tad M. McMahon, Chief Financial Officer of the Company, certify, (to the best of my knowledge), pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002 that;

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

/s/ Tad M. McMahon

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Tad M. McMahon  
Chief Financial Officer and Secretary  
Butler National Corporation  
December 15, 2023

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