

BUTLER NATIONAL CORP  
Form 10-K  
July 29, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of  
1934 (Fee Required)

Mark One

For the fiscal year ended April 30, 2008

or

Transition Report Pursuant to Section 13 or 15(d) of the Security Exchange Act of 1934 (No Fee Required)

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-1678

**BUTLER NATIONAL CORPORATION**

(Exact name of Registrant as specified in its charter)

Kansas

41-0834293

(State of Incorporation)

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

19920 West 161st Street, Olathe, Kansas 66062

(Address of Principal Executive Office)(Zip Code)

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

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

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

Common Stock \$.01 Par Value

(Title of Class)

Indicate by check if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

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

Indicate by check mark whether the registrant is a large accelerated filer an accelerated filer, or a non-accelerated filer.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company. Yes  No

The aggregate market value of the voting stock and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity of the Registrant was approximately **\$19,660,065** at July 3, 2008, when the average bid and asked prices of such stock was \$0.44.

The number of shares outstanding of the Registrant's Common Stock, \$0.01 par value, as of July 3, 2008, was **55,091,109** shares.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

This Form 10-K consists of 71 pages (including exhibits). The index to exhibits is set forth on pages 38-40.

## PART I

### Item 1. BUSINESS

#### Forward Looking Information

The information set forth below includes "forward-looking" information and is subject to the Risk Factors as outlined in the Private Securities Litigation Reform Act of 1995. The Risk Factors listed under Item 1A of this Form 10-K, and the Cautionary Statements, filed by us as Exhibit 99 to this Form 10-K, are incorporated herein by reference, and you are specifically referred to such Risk Factors and Cautionary Statements for a discussion of factors which could affect our operations and forward-looking statements contained herein.

#### General

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

#### Current Activities.

Our current product lines and services include:

**Aircraft Modifications**

- principally includes the modification of customer and company owned business-size aircraft from passenger to freighter configuration, addition of aerial photography capability, and stability enhancing modifications for Learjet, Beechcraft, Cessna, and Dassault Falcon aircraft along with other specialized modifications. We provide these services through our subsidiary, Avcon Industries, Inc. ("Aircraft Modifications" or "Avcon"). In March 2008, Butler National Corporation, through its subsidiary Avcon Industries, Inc. acquired the JET autopilot product line for the Classic Learjets. The Company plans a transition of the acquisition to continue the service and support of all customers operating the JET autopilot and related equipment in 2008 or shortly thereafter. In the interim period the company has an agreement for transition services and continued support for the acquired JET product line.

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

**Aircraft - Acquisition, Modification and Sales** - Our subsidiary, Butler National, Inc., purchases airplanes, principally Learjets, modifies the planes and sells the planes directly to customers or receives a broker fee for placing an airplane with a customer. Also, the Company-owned aircraft are sometimes used to prove the design, testing, and compliance of STC modifications during the FAA approval process.

**Services - SCADA (Supervisory Control and Data Acquisition) Systems and Monitoring Services** - principally includes the monitoring and related repair services of water and wastewater remote pumping stations through electronic surveillance for municipalities and the private sector. We provide these services through our subsidiary, Butler National Services, Inc. ("Monitoring Services" or "BNS").

**Corporate / Professional Services** - provides as a management service licensed architectural services through our subsidiary, BCS Design, Inc. These services include commercial and industrial building design. We have expanded this segment to include aviation-related engineering consulting services and operate as the Butler National Aircraft Certification Center ("BNACC").

**Gaming** - principally includes business management services and advances to Indian tribes in connection with the Indian Gaming Regulatory Act of 1988. We provide these management services and advances through our subsidiary, Butler National Service Corporation ("Management Services", "Gaming" or "BNSC").

Assets as of April 30, 2008 and Net Revenues for the year ended April 30, 2008

<u>Industry Segment</u>	<u>Assets</u>	<u>Revenue</u>
Aircraft Modifications	18.2%	49.0%

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Aircraft	17.9%	0.0%
Avionics	21.9%	28.5%
Gaming	15.9%	8.5%
Monitoring Services	1.3%	8.8%
Corporate / Professional Services	24.8%	5.2%

### Regulations

#### Regulation Under Federal Aviation Administration

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

**Licensing and Regulation under Federal Indian Law:** Before commencing gaming operations (Class II or Class III) on Indian Land, we must obtain the approval of various regulatory entities. Gaming on Indian land is extensively regulated by Federal, State, and Tribal governments and authorities. Regulatory changes could limit or otherwise materially affect the types of gaming that may be conducted on Indian Land. All aspects of our proposed business operations on Indian Lands are subject to approval, regulation, and oversight by the Bureau of Indian Affairs ("BIA"), the Secretary of the United States Department of the Interior ("Secretary"), and the National Indian Gaming Commission ("NIGC"). Our management of Class III gaming operations is also subject to approval of a Class III Gaming Compact between the Indian Tribe and the respective state. Failure to comply with applicable laws or regulations, whether Federal, State or Tribal, could result in, among other things, the termination of any management agreements which would have a material adverse effect on us. Management agreement terms are also regulated by the Indian Gaming Regulatory Act ("IGRA"), which restricts initial terms to five years and management fees to 30% of the net profits of the casino, except in certain circumstances where the term may be extended to seven years and the management fee increased to 40%. Management agreements with Indian Tribes will not be approved by the NIGC unless, among other things, background checks of the directors and officers of the manager and its ten largest holders of capital stock have been satisfactorily completed. We will also be required to comply with background checks as specified in Tribal-State Compacts before we can manage gaming operations on Indian land. Background checks by the NIGC may take up to 180 days and may be extended to 270 days. There can be no assurance that we would continue to be successful in obtaining the necessary regulatory approvals for our management of proposed gaming operations on a timely basis, or at all.

**Licensing and Regulation under State Law:** Our present and future stockholders are and will continue to be subject to review by regulatory agencies. Gaming licenses may be required in connection with our proposed management of a State of Kansas owned Lottery Gaming Facility (a casino) and/or a Class III Indian casino on Indian land within the territorial boundaries of the State of Kansas. Our management personnel, Butler National and/or the managing subsidiaries, the key personnel of all entities, and if applicable the appropriate Indian Tribe may be required to have gaming licenses for Class III gaming and/or a Lottery Gaming Facility

gaming licenses in the respective state prior to conducting operations. The failure of the Company or the key personnel to obtain or retain a state license could have a material adverse effect on the Company or on its ability to obtain or retain Class III licenses in other jurisdictions. Each such State Gaming Agency has broad discretion in granting, renewing and revoking licenses. Obtaining such licenses and approvals will be time consuming and cannot be assured.

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

Our subsidiary, Butler National Service Corporation received approval from the Kansas Lottery Commission of its management proposal and contract for the Southwest Gaming Zone. The Lottery Commission directed the Executive Director of the Kansas Lottery, on behalf of the State of Kansas, to forward the Management Contract with Butler National Service Corporation to the Lottery Gaming Facility Review Board.

Butler National is one of two applicants proposing to manage the Ford County/Southwest Gaming Zone Casino forwarded to the Review Board. The Contract does not become effective until approved by the Lottery Gaming Facility Review Board and the Kansas Racing and Gaming Commission. If selected by the Review Board, the approval may be completed between October and December of 2008.

There is no assurance that a Tribal/State Compact between the Tribes and the State of Kansas can be completed. If the Compact is not approved, there could be a material adverse effect on our plans for management of Class III gaming on Indian lands within the territorial boundaries of Kansas.

There is no assurance that a Lottery Gaming Facility management contract and/or the required state licenses will be awarded to us. If a Lottery Gaming Facility management contract is not awarded to us, there could be a material adverse effect on our plans to manage a state owned casino in Kansas.

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

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

#### Financial Information about Industry Segments

Information with respect to our industry segments are found at Note 10 of Notes to Consolidated Financial Statements for the year ended April 30, 2008.

Narrative Description of Business

Aircraft Modifications

Avcon modifies business-type aircraft in Newton, Kansas. The modifications include aircraft conversion from passenger to freighter configuration, addition of aerial photography capability, stability enhancing modifications for Learjets, and other special mission modifications. Avcon offers avionics, aerodynamic, and stability improvement products for selected business jet aircraft. Avcon makes these modifications to customer-owned aircraft and Company owned aircraft for resale.

Sales of the Aircraft Modifications products are handled directly through Avcon. Specialty modifications are quoted individually by job. We are geographically located in the Wichita, Kansas area, the marketplace for Aircraft Modifications products. We believe there are two primary competitors (AAR of Oklahoma, and Raisbeck Engineering) in the industry in which the Aircraft Modifications division participates.

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

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

On May 3, 1996, Avcon received approval from the Federal Aviation Administration for a Multiple-Use Supplemental Type Certificate ("STC") (no. ST00432WI) of its AVCON FIN Modification for installation on Learjet Model 35 and 36 Aircraft. FAA pilots thoroughly evaluated the test aircraft, and determined that the fins substantially increase the aerodynamic stability in all flight conditions. The AVCON FIN STC eliminates the operational requirement for Yaw Dampers which are otherwise required in both Learjet models to control adverse yaw tendencies in certain flight conditions, particularly during approach and landing. Learjets equipped with AVCON FINS exhibit the same aerodynamic stability and improved operating efficiency offered on newer Learjet models, while maintaining the outstanding range, speed, and load-carrying capabilities that made the Learjet Models 35 and 36 among the most popular Business Jets ever produced. Mounted like the feathers of an arrow on the rear of the aircraft, Learjets equipped with AVCON FINS have a look much the same as the current production aircraft. This modification will give the Learjets produced in the 1970's and 1980's the look of the 21st century.

During fiscal year 2002, Avcon made an application to the FAA for the approval of a Multiple-Use STC for the addition of Avcon fins for the Learjet Model 24 and 25 aircraft. The initial fin STC for the 20 Series is expected by the end of September 2008.

Effective January 2005, the FAA required that aircraft operating between 29,000 and 41,000 feet within the United States air space be RVSM compliant. RVSM stands for Reduced Vertical Separation Minimums and means that now aircraft are separated by 1,000 feet vertically instead of the prior 2,000 feet.

During fiscal year 2003, Avcon made an application to the FAA for the approval of the Learjet 20 RVSM

MOD (including dual pitot tubes, dual digital altimeters, dual air data computers, autopilot refinements, and a standby altimeter) for the Learjet 20 series aircraft.

In April 2004, the FAA issued a Learjet 20 Series RVSM Group Approval to Avcon for its Supplemental Type Certificate Number ST01195WI. This is a joint development project with Bizjet of Tulsa, Oklahoma. Avcon supplies RVSM kits to Bizjet as part of the RVSM joint development project.

During fiscal 2007, Avcon received FAA approval to add the Learjet 30 Series RVSM upgrade modification (including dual pitot tubes, dual digital altimeters, dual air data computers, autopilot refinements, and a standby altimeter) to STC ST01195WI.

Avcon operates two FAA Authorized Repair Stations. The focus of these repair stations include the Learjet model 20 and 30 series, Beechcraft King Air, Cessna turbine engine, Cessna multi-engine piston, and Dassault Falcon 20 aircraft. The Repair Station is a convenience for our customers bringing aircraft to us for modification and maintenance. We also use the repair station for maintenance of aircraft purchased for modification and resale.

#### Aircraft - Acquisition, Modification and Sales

We actively purchase airplanes, through our subsidiary Butler National, Inc., principally Learjets. Avcon modifies these planes and then we sell them directly to customers or to brokers. Company owned aircraft are sometimes used to prove the design of the STC modifications during the FAA approval process.

In fiscal 2006, we purchased three Learjet aircraft. In November 2004 a Learjet 25 was sold for \$424,000. We sold a Learjet in fiscal 1999 for \$2,100,000 and another in fiscal 2002 for \$1,425,000. Butler National, Inc. is currently searching for quality Learjet 20 and 30 series aircraft for modification and resale. We continue to evaluate the benefits of leasing our aircraft inventory.

#### Avionics

##### Classic Aviation Products:

Our mission is to provide and support economical products for older aircraft, often referred to as "Classic" aircraft. As a result of more than 40 years in the aircraft switching unit business, we recognize the potential to support many aircraft in the last half of their expected service life. The business mission of the company promotes us as a designer and supplier of "Classic Aviation Products". A part of the Classic products are directed to supporting safety of flight for the older aircraft.

Butler National Corporation - Tempe, Arizona, manufactures and repairs airborne switching systems for Boeing McDonnell Douglas and their customers. Switching Units are used to switch the presentation to the flight crew from one radio system to another, from one navigational system to another, and to switch instruments in the aircraft from one set to another. The Switching Units were designed and have been manufactured since the 1960's to meet Boeing McDonnell Douglas and FAA requirements. Most Boeing McDonnell Douglas commercial aircraft are equipped with one or more Butler National Switching Units.

Marketing is accomplished directly with aircraft operators. Competition is minimal. However, sales are directly related to operator maintenance requirements. Avionics provides new replacement units and overhaul service directly to the major airlines using the aircraft manufactured by McDonnell Douglas.

We have in the ordinary course of business received purchase orders from the aircraft avionics upgrade suppliers for products with scheduled shipment dates into fiscal year 2009. However, should these customers financially reorganize or for some other reason not accept shipment against these orders, we could suffer significant loss of revenue in the avionics division.

**Defense Contracting and Electronics:** We supply defense commercial off the shelf products to various agencies and subcontractors.

Engineering design and specialized manufacturing solutions are provided to maintain and update classic military and commercial

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aviation systems. In general, we provide our customers the opportunity to update or extend the useful life of products with older components and technology. These products include Gun Control Units (GCU) for the Apache Helicopter and other weapon products, including the Hangfire Override Modules (HOM) for all Boeing derived Chain-Gun® cannons, and various weapon-related firing controls, cabling, and test equipment. We have upgraded the design of the GCU and expect to expand sales of the Butler National upgraded units to maintain the Apache fleet and other military aircraft. We have firm sales orders for these products that sometimes have delivery dates more than one year into the future.

**Boeing 747 Classic Aircraft:** We worked with Honeywell to design the Butler National Transient Suppression Device ("TSD"). The TSD is approved and certified by the Federal Aviation Administration ("FAA") under STC number ST00846SE and is owned, manufactured, and marketed by us. We sell TSDs to owners and/or operators of Boeing 747 Classic aircraft with a Honeywell Fuel Quantity Indicating System ("FQIS"). The TSD is one solution to the requirements of AD 98-20-40 issued by the FAA to protect the aircraft fuel tanks from hazardous energy levels introduced through the wiring of the FQIS. As a result of the TWA 800 accident in July 1996, the industry had until November 3, 2001 to comply with AD 98-20-40. All aircraft returned to service after that date must be in compliance.

There are approximately 400 Boeing 747 Classic aircraft with Honeywell FQIS. The actual number of aircraft needing our TSD is hard to estimate because a number of these aircraft will be permanently removed from service, a number will have the FQIS system converted from the Honeywell system to a BF Goodrich digital or Smiths digital system, and a number will be protected by a Boeing/BF Goodrich protection device. We believe that all of the other protection alternatives are more expensive than and not as easy to install as our TSD.

We started shipments of the Butler National Boeing 747 TSD in April 2001. We continue to provide TSD protection for Boeing 747 Classic aircraft being returned to service. The FAA continued airworthiness provisions require that the TSD be returned to us for inspection after six (6) years or thirty-thousand (30,000) hours in service. Our first installation was January 2001. Approximately one-fourth of these units have completed the first inspection. The majority of these sales are to international customers.

**Boeing 737 Classic Aircraft:** We designed the Butler National Transient Suppression Device ("TSD") for Boeing 737 Classic Aircraft. On January 14, 2003, the B737 TSD was approved and certified by the Federal Aviation Administration ("FAA") under STC number ST01160SE. TSDs are sold to the owners and/or operators of Boeing 737 Classic aircraft with an analog Fuel Quantity Indicating System ("FQIS"). The TSD is one solution to the requirements of AD 99-03-04 issued by the FAA to protect the aircraft fuel tanks from hazardous energy levels introduced through the wiring of the FQIS. As a result of the TWA 800 accident in July 1996, the industry had until March 9, 2003 to comply with AD 99-03-04. All aircraft returned to service after that date must be in compliance.

There are approximately 1,000 Boeing 737 Classic aircraft in this market with an analog FQIS. Estimating the volume of Butler National 737 TSD sales is subject to the same contingencies as described above under the Boeing 747 TSD. We believe that some of our competitor's protection alternatives are more expensive and not as easy to install as our TSD.

We started shipping the Butler National Boeing 737 TSD in February 2003. We continue to provide TSD protection for the Boeing 737 Classic aircraft being returned to service. The FAA continued airworthiness provisions require that the TSD be returned to us for inspection after six (6) years or thirty-thousand (30,000) hours in service.

**Aircraft Fuel System Safety:** The FAA issued a Special Federal Aviation Requirement ("SFAR") No. 88 titled "Fuel Tank System Fault Tolerance Evaluation Requirements" applicable to turbine-powered aircraft certified to carry 30 or more passengers or a certified payload capacity of 7,500 pounds or more. SFAR-88 has now become part of the fuel system safety regulations. When fully implemented by the FAA, we believe that potential regulations may open a market for Butler National designed TSD products to many more aircraft than the Boeing 747 and 737 Classics.

The FAA has raised fuel tank awareness that should require protection for all systems that might provide an ignition source to the aircraft fuel tank system. In general, we believe that this requirement may require protective devices on other aircraft parts using electrical power in the fuel system such as fuel pumps, fuel valves, float switches, etc. To address this market, in July 2001, we applied to the FAA for an STC for a Ground Fault Interruption device ("GFI") for various Boeing aircraft. We are actively pursuing the completion of the STC. The Butler National GFI product line will be sensitive to unusual power requirements of the electrical systems related to the fuel system. We have not completed a full evaluation of the scope and size of this market but our initial estimates are that approximately 100,000 units will be sold to satisfy this requirement. We believe that there may be four or five suppliers for this market.

### Gaming

BNSC is engaged in the business of providing management services to Indian tribes in connection with the Indian Gaming Regulatory Act of 1988. We have three management agreements; however, the performance of



these agreements is contingent upon, and subject to approval by the Secretary of Interior, Bureau of Indian Affairs, National Indian Gaming Commission, and the appropriate state, if required. Also, we have signed consulting engagement letters with two tribes to study and develop plans for Indian gaming.

The "Management Agreement" between the Indian Tribe (the owner and operator) and Butler National Service Corporation (the manager) is the final approval document issued by the National Indian Gaming Commission ("NIGC") before Indian gaming is authorized. The Management Agreement or Contract is authorized and approved by the NIGC pursuant to the Indian Gaming Regulatory Act of 1988, PL 100-497, 102 Stat. 2467, 25 U.S.C. 2701-2721 (sometimes referred to as "IGRA"). Before the Management Agreement is approved by the NIGC, all required contracts with other parties must be approved; including, (a) the compact with the state for Class III gaming, if applicable, (b) compliance with the requirements of the National Environmental Protection Agency ("NEPA"), (c) a Tribal Gaming Ordinance approved by the NIGC, and (d) Indian land ownership or leases, if applicable approved by the Bureau of Indian Affairs ("BIA").

The management consulting engagement letters provide for advances of funds to the Indian tribes by BNSC for professional services, fees, licenses, travel, administrative costs, documentation, procedure manuals, purchases of property, equipment, and other costs related to the approval and opening of an establishment. These advances are considered to be a receivable from the Tribe and to be repaid by the Tribe from the funding to open the enterprise. The ability to collect these advances depends upon the opening of a gaming establishment or by the liquidation of acquired property. If the collection and/or liquidation efforts are not successful, BNSC may suffer a significant loss of asset value.

Butler National Service Corporation is in the process of obtaining the required licenses for the opening and operation of its potential gaming establishments. BNSC is governed by the law and regulations of the Indian Gaming Regulatory Act of 1988 and the state laws as they may apply.

**Princess Maria Casino:** We have a Management Agreement with the Miami Tribe to provide management services. On July 9, 1992, the Tribe requested a compact with the State of Kansas for Class III Indian gaming, on Indian land, known as the Maria Christiana Miami Reserve No. 35, located in Miami County, Kansas. Under the Management Agreement, as approved by the NIGC on January 7, 2000, the Company, as manager, is to receive a 30% share of the profits during the five year term and reimbursement of development costs. We purchased and currently own an additional 160 acres of land contiguous to the Indian land providing access.

The Miami Tribe's 1992 compact was the subject of a lawsuit filed in February 1993, in the Federal District Court, by the Miami Tribe, alleging the failure to negotiate a compact in good faith by the State of Kansas. The United States District Court dismissed the Miami Tribe's suit against the State of Kansas, citing the United States Supreme Court's ruling in *Seminole v. State of Florida*. The Supreme Court ruled that the "failure to negotiate" provision of the IGRA did not allow an Indian tribe to compel a state by litigation to negotiate a compact.

In February 1993, then Kansas Governor Finney requested a determination of the suitability of the Miami Indian land for Indian Gaming, under the IGRA, from the Bureau of Indian Affairs (the "BIA"). In May 1994, the NIGC again requested the same determination. Finally in May 1995, an Associate Solicitor within the BIA issued an opinion letter stating that the Miami Tribe has not established jurisdiction over the Miami land in Kansas. This was the first definitive statement received from the central office of the BIA in three years. That opinion was contrary to a September 1994 opinion of the Tulsa Field Solicitor, in an Indian probate, stating that the Miami Tribe has jurisdiction over the Miami Indian land in Kansas. On July 11, 1995, the U.S. Department of Justice issued a letter to the Associate Solicitor expressing concern about the conclusions reached, based upon the analysis of the case.

The Miami Tribe challenged this opinion in Federal Court. To prove and protect the sovereignty of the Miami

Tribe, and other Indian tribes, relating to their lands, on April 11, 1996, the Court ruled that the Miami Tribe did not have jurisdiction because the BIA had not approved the Tribal membership of the Princess Maria heirs, at the time the management agreement was submitted; therefore, the Court ordered that the NIGC's determination (that Reserve No. 35 is not "Indian land suitable for gaming", pursuant to IGRA) was affirmed. However, the Court noted in its ruling that nothing precludes the Tribe from resubmitting its management agreement to the NIGC, along with evidence of the current owners' consent, and newly adopted tribal amendments. On February 22, 1996, the BIA approved the Miami Tribe's constitution and the membership of the heirs. The Tribe resubmitted the management agreement. Although the Court noted that the Tribe could resubmit the management agreement, the Court did not pass on whether or not a new submission will obtain approval.

The Tribe resubmitted the management agreement and land question to the NIGC in June 1996. In July 1996, the NIGC again requested an opinion from the BIA. On July 23, 1997, the Tribe and the Company were notified that the BIA had again determined that the land was not suitable for gaming, for political policy reasons, without consideration of the membership in the Miami Tribe or recent case law, and the NIGC had to again deny the management agreement. The Tribe filed a suit in the United States District Court in Kansas City, Kansas. On May 15, 1998, the Court determined that the land may be suitable for gaming and remanded the case to the NIGC for the documentation. Therefore, even though the Company and the Tribe believe the BIA and NIGC will agree that the land is "Indian land", and in compliance with all laws and regulations, for a variety of reasons, there is no assurance that the Management Agreement will be approved.

A lawsuit was filed in the United States District Court for the District of Kansas by the State of Kansas against us, the United States, the Business Committee members of the Miami Tribe and others on October 14, 1999, challenging the determination by the NIGC and the United States District Court for the District of Kansas that the Miami Princess Maria Reserve No. 35 was Indian land. The State of Kansas requested an order by the Court preventing further development of gaming on the Indian land.

On June 25, 2002, the question in the case was remanded to the NIGC for further review. All of the defendants believe the determination of Indian land is a power reserved for the United States by the Constitution of the United States. The NIGC has not made a further determination on the question. The Miami Tribe expects to eventually receive a favorable determination.

The total advances and investment related to the Princess Maria at April 30, 2008, were \$888,802. This amount is net of a reserve of \$1,413,511.

**Stables Bingo Casino:** We have a signed Management Agreement with the Miami and Modoc Tribes. A Class III Indian Gaming Compact for a joint venture by the Miami and Modoc Tribes, both of Oklahoma, has been approved by the State of Oklahoma and by the Assistant Secretary, Bureau of Indian Affairs for the U.S. Department of the Interior. The Compact was published in the Federal Register on February 6, 1996, and is, therefore, deemed effective. The Compact authorizes Class III (Off-Track Betting "OTB") along with Class II (high stakes bingo) at a site within the boundaries of the City of Miami, Oklahoma. The Stables opened in September 1998.

We are providing consulting and construction management services in the development of the facility and manage the joint-venture operation for the tribes. The Stables facility was expanded in April 2002 to approximately 30,000 square feet and is located directly south of the Modoc Tribal Headquarters building in Miami, Oklahoma. The complex contains Class III off-track betting windows, Class III gaming machines, Class III table games, Class III bingo machines, a bar, and a restaurant. Our Management Agreement was approved by the NIGC on January 14, 1997. The Oklahoma Class III compact for off-track betting was approved in 1996 and the Oklahoma Class III compact for full casino gaming was approved June 1, 2005. The

Miami and the Modoc Tribes have agreed to amend the agreement to extend the expiration date through September 2013 and to maintain the management fee at 20% of the profits. At the end of the initial contract term, the Stables had fully paid all advances by Butler National related to the construction of the Stables. The amendment to the agreement was approved by the NIGC.

**Shawnee Reserve No. 206:** In 1992, we signed a consulting agreement and have maintained a business relationship with approximately seventy Indian and non-Indian heirs (the "Owners") of the Newton McNeer Shawnee Reserve No. 206 ("Shawnee Reserve No. 206"). This relationship includes advances for assistance in the defense of the property against adverse possession (by one family member) in exchange for being named the manager of any Indian gaming enterprises that may be established on the land. As a result of our assistance, the Owners are in the process of becoming the undisputed beneficial owners of approximately 72 acres of the Shawnee Reserve No. 206, as ordered by the United States District Court for the District of Kansas. We purchased and currently own an additional 4 acres contiguous to the Indian land providing access.

Shawnee Reserve No. 206 has been a part of the Shawnee Reservation in Kansas Territory since 1831 and was reserved as Indian land and not a part of the State of Kansas, when Kansas became a state in 1861. The Indian land is approximately 25 miles southwest from downtown Kansas City, Missouri.

We believe that there may be a significant opportunity for Indian gaming on the Shawnee Reserve No. 206. No agreements have been approved by the BIA, or the NIGC, or any other regulatory authority. There can be no assurance that these or future agreements will be approved nor that any Indian gaming will ever be established on the Shawnee Reserve, or that we will be the Management Company.

The total advances and investment related to Shawnee Reserve No. 206 at April 30, 2008, was \$805,248. This amount is net of a reserve of \$1,049,222.

**Modoc Casino:** We signed a consulting agreement with the Modoc Tribe on April 21, 1993. As a part of this project, we have a management agreement with the Modoc Tribe to construct and operate an Indian gaming facility on Modoc Reservation lands in Eastern Oklahoma. The Management Agreement was filed with the NIGC on June 7, 1994 for review and approved on July 11, 1997. The Tribe and the Company have not determined a schedule for this project.

The total advances and investment related to the Modoc Tribe at April 30, 2008, was \$112,501. This amount is net of a reserve of \$373,271.

**Associated risks:** The associated risk of Indian gaming is that a management agreement may not be approved and that the liquidation of the assets may not recover enough funds to cover our advances. We have been involved in this business since 1991 and have experienced significant project slow downs and holds but have not had any project terminate by the federal courts or regulatory agencies. All Management Agreements submitted for approval have been approved by the NIGC. There can be no assurance that current management agreements will continue in force, future management agreements will be approved and that the U.S. Congress will not outlaw Indian gaming. Should any of these events occur, we would choose alternative uses of the Indian land in cooperation with the Tribes to recover the advances. There is no assurance that all of the advances could be recovered.

**Kansas Owned Gaming (KOG):** In March of 2007 Kansas passed Senate Bill 66 for state-owned gaming in Kansas. The bill provides for state-owned casinos in at least four locations across Kansas. These locations include Ford County, Wyandotte County, Crawford or Cherokee County, and Sedgwick or Sumner County. State sponsored studies report that the implementation of this legislation could result in approximately \$200 million annually to the State of Kansas.

This positive action by the Kansas Legislature could provide substantial tourism revenue especially in destinations like historic Boot Hill in Ford County and the booming economic development in Western Wyandotte County.

On March 15, 2007, Boot Hill Gaming announced that Butler National Service Corporation of Olathe, Kansas had been selected to make application to the State of Kansas to be the casino manager for the Boot Hill Destination Casino. Butler National has been assisting Boot Hill Gaming with research, development plans, financial projections, design, and promotion of a Destination Casino at Dodge City with an All-Kansas Team.

Boot Hill Gaming, Inc. is a Dodge City community organization consisting of community volunteers of City of Dodge City, Ford County, Kansas, and many volunteer citizen support groups with the purpose of assembling an All-Kansas Team to develop a gaming establishment to enhance and recreate the world famous 1870's experience at a historic Boot Hill Destination in Dodge City.

Our subsidiary, Butler National Service Corporation received approval from the Kansas Lottery Commission of its management proposal and contract for the Southwest Gaming Zone. The Lottery Commission directed the Executive Director of the Kansas Lottery, on behalf of the State of Kansas, to forward the Management Contract with Butler National Service Corporation to the Lottery Gaming Facility Review Board.

Butler National is one of two applicants proposing to manage the Ford County/Southwest Gaming Zone Casino forwarded to the Review Board. The Contract does not become effective until approved by the Lottery Gaming Facility Review Board and the Kansas Racing and Gaming Commission. If selected by the Review Board, the approval may be completed between October and December of 2008.

There is no assurance that a Lottery Gaming Facility management contract and/or the required state licenses will be awarded to us. If a Lottery Gaming Facility management contract is not awarded to us, there could be a material adverse effect on our plans to manage a state owned casino in Kansas.

Total advances and investments related to Kansas Gaming at April 30, 2008 were \$2,450,082. The amount of the reserve is \$434,000.

There is no assurance that Butler National will be awarded a contract to manage a state-owned facility for Kansas. Senate Bill 66 provides for a fairly complex applicant review and selection process by the State of Kansas. Butler National plans to use its best efforts to acquire rights to manage a gaming facility on behalf of the State of Kansas.

### Services

#### SCADA Systems and Monitoring Services

: BNS is engaged in the sale of monitoring and control equipment and the sale of monitoring services for water and wastewater remote pumping stations through electronic surveillance by radio or telephone. BNS contracts with government and private owners of water and wastewater pumping stations to provide both monitoring and preventive maintenance services for our customers. A high percentage of BNS business comes from municipally owned pumping stations. BNS is currently soliciting business only in Florida. While we have exposure to competitive forces in the monitoring and preventive maintenance business, management believes the competition is limited in the Florida area.

Corporate

## Corporate / Professional Services:

We provide licensed architectural services through BCS Design, Inc. These services include commercial and industrial building design. We have expanded this segment to include aviation-related engineering consulting services and operate as the Butler National Aircraft Certification Center.

Through BCS Design, Inc. we are developing, for sale, single family housing units in Junction City, Kansas. The city is adjacent to the U.S. Army post at Fort Riley, Kansas. Construction started on eight units in July 2006. At April 30, 2008 two townhomes have been sold and six townhome units are for sale. During the fiscal year an additional eight single family homes were substantially completed and are currently available for sale.

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

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

**Customer Arrangements:** Most of our products are custom-made. Except in isolated situations no special inventory-storage arrangements, merchandise return and allowance policies, or extended payment practices are involved in our business. We are not dependent upon any single customer except for Switching Units and defense products. Switching Units are sold to various Boeing McDonnell Douglas and Douglas Aircraft Company customers.

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

Backlog

: Our backlog as of April 30, 2008, 2007, and 2006, was as follows:

<u>Industry Segment</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Aircraft Modifications	\$ 3,629,343	\$ 6,340,304	\$ 6,895,089
Avionics	3,504,013	5,197,103	5,158,585
Services - Monitoring Services	1,205,191	2,443,065	1,160,440
Corporate / Professional Services	211,351	262,361	1,351,696
	-----	-----	-----
Total backlog	<u>\$8,549,898</u>	<u>\$14,242,833</u>	<u>\$14,565,810</u>

Our backlog as of July 3, 2008 totaled \$7,793,529; consisting of \$3,565,465, \$3,137,573, \$996,427, and \$94,064 respectively, for Aircraft Modifications, Avionics, Monitoring Services, and Corporate / Professional Services. The backlog includes firm pending and contract orders, which may not be completed within the next fiscal year. The backlog includes orders to be delivered after fiscal year 2009 in the amount of \$608,700. This is standard for the industry in which modifications services and related contracts may take several months or years to complete. Such actions force backlog as additional customers request modifications, but must wait for other projects to be completed. There can be no assurance that all orders will be completed or that some may ever commence.

**Employees:** We employed 89 employees on April 30, 2008 compared to 88 employees on April 30, 2007, and 82 employees on April 30, 2006. As of July 3, 2008, 95 people were employed. None of our employees are subject to any collective bargaining agreements.

**Financial Information about Foreign and Domestic Operations, and Export Sales:** Information with respect to Domestic Operations may be found at Note 10 of Notes to Consolidated Financial Statements. International sales are made through authorized installation centers and direct to foreign customers to be completed and included in domestic operations. The export sales consisted of approximately \$1,466,714 in 2008, \$677,000 in 2007, and \$973,000 in 2006.

## Item 1A. RISK FACTORS

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

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

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

**Fuel and Energy Costs:** Our business depends on use of the aircraft for business transportation, freight transportation, and many special mission applications. Should our customers be unable to purchase fuel and energy and/or be unable to pass on disproportionate costs to their customers, the use of business and military aircraft by our customers may be curtailed. The value of the aircraft related assets would decrease and the revenues related to the aircraft equipment and modifications would decrease. These events could have a material adverse effect on our Company.

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

Our success depends heavily upon the continued contributions of these key persons, whose knowledge, leadership and technical expertise would be difficult to replace, and on our ability to attract and retain experienced professional staff. We entered into an employment agreement with our CEO; however, we do not maintain key person insurance on any of these key persons. If we were to lose the services of these key persons, our ability to execute our business plan would be harmed and we may be forced to cease operations until such time as we could hire suitable replacements.

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

**Major Customers:** The termination of contracts with major customers or renegotiation of these contracts at less cost-effective terms, could have a materially adverse effect on the Company. Irregularities in financial accounting procedures, financial reporting requirements and regulatory reporting requirements could cause major customers to become unstable and be unable to complete business transactions which could have a materially adverse effect on the Company.

**Product Development:** Difficulties or delays in the development, production, testing and marketing of products, could have a materially adverse effect on the Company. The Company's aviation business is subject, in part, to regulatory procedures and administration enacted by and/or administered by the FAA. Accordingly, the Company's business may be adversely affected in the event the Company is unable to comply with such regulations relative to its current products and/or if any new products and/or services to be offered by the Company can or may not be formally approved by such agency. Moreover, the Company's proposed new aviation modification products will depend upon the issuance by the FAA of a Supplemental Type Certificate with related parts manufacturing authority and repair station license, the issuance of which no assurances can

be given.

**Adverse Actions:** Adverse actions by regulators, customers, competitors and/or professionals engaged to regulate or to serve the Company may cause project delays and excessive administrative costs not controllable by the Company.

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

**Impairment of Intangible Property:** We evaluate intangible assets for impairment annually during the fourth quarter and in any interim period in which circumstances arise that indicate our intangible asset may be impaired. Indicators of impairment include, but are not limited to, the loss of significant business and, or significant adverse changes in industry or market conditions. No events occurred during the periods presented that indicated the existence of an impairment with respect to our intangible assets related to the JET acquisition. Preparation of forecasts for use in the long-range plan and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders and general market conditions. Significant changes in these forecasts or the discount rate selected could affect the estimated fair value and could result in an impairment charge in a future period. There was no indication of intangible assets impairment for continuing operations as a result of our impairment analysis. If we are required to record an impairment charge in the future, it could materially affect our results of operations.

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

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

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

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

In addition, some provisions of our Articles of Incorporation and Bylaws could make it more difficult for a potential acquirer to acquire a majority of our outstanding voting stock. This includes, but is not limited to, provisions that: provide for a classified board of directors, prohibit stockholders from taking action by written consent, and restrict the ability of stockholders to call special meetings. We are also subject to provisions of Kansas law K.S.A. 17-12, 101 that prohibit us from engaging in any business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder, unless certain conditions are met, which could have the effect of delaying or preventing a change of control.

**Regulation Under Federal Aviation Administration:** Our Avionics and Aircraft Modifications segments are



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

**Licensing and Regulation under Federal Indian Law:** Before commencing gaming operations (Class II or Class III) on Indian Land, we must obtain the approval of various regulatory entities. Gaming on Indian land is extensively regulated by Federal, State, and Tribal governments and authorities. Regulatory changes could limit or otherwise materially affect the types of gaming that may be conducted on Indian Land. All aspects of our proposed business operations on Indian Lands are subject to approval, regulation, and oversight by the Bureau of Indian Affairs ("BIA"), the Secretary of the United States Department of the Interior ("Secretary"), and the National Indian Gaming Commission ("NIGC"). Our management of Class III gaming operations is also subject to approval of a Class III Gaming Compact between the Indian Tribe and the respective state. Failure to comply with applicable laws or regulations, whether Federal, State or Tribal, could result in, among other things, the termination of any management agreements which would have a material adverse effect on us. Management agreement terms are also regulated by the Indian Gaming Regulatory Act ("IGRA"), which restricts initial terms to five years and management fees to 30% of the net profits of the casino, except in certain circumstances where the term may be extended to seven years and the management fee increased to 40%. Management agreements with Indian Tribes will not be approved by the NIGC unless, among other things, background checks of the directors and officers of the manager and its ten largest holders of capital stock have been satisfactorily completed. We will also be required to comply with background checks as specified in Tribal-State Compacts before we can manage gaming operations on Indian land. Background checks by the NIGC may take up to 180 days and may be extended to 270 days. There can be no assurance that we would continue to be successful in obtaining the necessary regulatory approvals for our proposed gaming operations on a timely basis, or at all.

**Licensing and Regulation under State Law:** Our present and future stockholders are and will continue to be subject to review by regulatory agencies. Gaming licenses may be required in connection with our proposed management of a State of Kansas owned Lottery Gaming Facility (a casino) and/or a Class III Indian casino on Indian land within the territorial boundaries of the State of Kansas. Our management personnel, Butler National and/or the managing subsidiaries, the key personnel of all entities and if applicable the appropriate Indian Tribe may be required to have gaming licenses for Class III gaming and/or a Lottery Gaming Facility gaming licenses in the respective state prior to conducting operations. The failure of the Company or the key personnel to obtain or retain a license could have a material adverse effect on the Company or on its ability to obtain or retain Class III licenses in other jurisdictions. Each such State Gaming Agency has broad discretion in granting, renewing, and revoking licenses. Obtaining such licenses and approvals will be time consuming and cannot be assured.

As a condition to obtaining and maintaining our Oklahoma Class III license or any other Class III license, we must submit detailed financial and other reports to the Indian Tribe and the respective federal and state regulatory Agencies ("the Agency"). Any person owning or acquiring 5% or more of the Common Stock of the Company must be found suitable by one or more of the agencies or the Indian Tribes ("the Interest"). Any Agency has the authority to require a finding of suitability with respect to any stockholder regardless of the percentage of ownership. If found unsuitable by any Agency or the Indian Tribe, the stockholder must offer all of the Ownership Interest in Company stock held by such stockholder to the Company for cash at the current market bid price less a fifteen percent (15%) administrative charge and the Company must purchase such Interest within ten days of the offer. The stockholder is required to pay all costs of investigation with respect to a determination of his/her suitability. In addition, regardless of ownership, each member of the board of

directors and certain officers of the Company are subject to a finding of suitability by any Agency and the Indian Tribe.

The State of Kansas has approved state owned Lottery Gaming Facilities, pari-mutuel dog and/or horse racing for non-Indian organizations. The State of Kansas operates a state lottery, keno games, and plans to operate state owned Lottery Gaming Facilities for the benefit of the State. The Lottery Gaming Facility management contract approval process requires that any entity or person owning one-half of one percent (0.5%) of the ownership interest of the management company must be found suitable to be an owner by the State of Kansas. Our subsidiary, Butler National Service Corporation, is planned to be the applicant. However, the State of Kansas has the right to require a finding of suitability for any individuals or entity associated with Butler National Corporation as the parent of Butler National Service Corporation.

There is no assurance that a Tribal/State Compact between the Tribes and the State of Kansas can be completed. If the Compact is not approved, there could be a material adverse effect on our plans for management of Class III gaming on Indian lands within the territorial boundaries of Kansas.

There is no assurance that a Lottery Gaming Facility management contract and/or the required state licenses will be awarded to us. If a Lottery Gaming Facility management contract is not awarded to us, there could be a material adverse effect on our plans to manage a state owned casino in Kansas.

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## Item 2. PROPERTIES

### Corporate:

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

**Avionics:** Butler National Corporation has its principal offices and manufacturing operations at 4654 South Ash Ave, Tempe, Arizona in a 16,110 square foot owned facility.

**Modifications:** Our Company's Aircraft Modifications Division is located at 714 North Oliver Road, Newton, Kansas, in a 42,700 square foot leased facility of hangar and office space at the municipal airport in Newton, Kansas, at an annual rent of approximately \$144,400.

Butler National Aircraft Certification Center is located at One Aero Plaza, New Century, Kansas in a 1,000 square foot plus three hangar spaces leased facility at the New Century Airport in New Century, Kansas, at an annual rent of approximately \$49,500.

**Services:** Butler National Services, Inc. has its principal offices at 2772 NW 31<sup>st</sup> Ave, Ft. Lauderdale, Florida at an annual rent of approximately \$38,000.

These facilities are adequate for current and anticipated operations.

### Item 3. LEGAL PROCEEDINGS

A lawsuit was filed in the United States District Court for the District of Kansas by the State of Kansas against us, the United States, the Business Committee members of the Miami Tribe and others on October 14, 1999, challenging the determination by the NIGC and the United States District Court for the District of Kansas that the Miami Princess Maria Reserve No. 35 is Indian Land for the purposes of gaming under the Indian Gaming Regulatory Act. The State of Kansas requested an order by the Court preventing further development of gaming on the Indian land.

The question in the case has been remanded to the NIGC for further review. The BIA has issued a negative opinion concerning jurisdiction over the land. An interim lawsuit was filed to protect rights related to the opinion and the federal court of appeals dismissed the lawsuit as premature. The NIGC has not made a further determination on the question. The Miami Tribe expects to eventually receive a favorable determination. We cannot reliably predict the outcome of the case.

Our subsidiary, Avcon Industries, received a complaint from the Kansas Human Rights Commission filed by a former employee alleging that he was involved in a work-related injury and further alleging he was dismissed from his employment because of his race, age, and alleged disability. Avcon denies the allegations. Avcon will vigorously defend against the allegations. We cannot reliably predict the outcome of this dispute.

Our subsidiary, BCS Design Inc. has asserted claims against Poole Leasing Solutions, LLC for breaches of contract related to BCS Design and construction of an office building. Poole demanded Arbitration and alleged damages of approximately \$431,000.00. Following arbitration, the arbitrator awarded Poole the net amount of \$186,041, on November 29, 2007, which award has been satisfied by BCS Design, Inc.

As of July 3, 2008, there are no other significant known legal proceedings pending against us. We consider all such unknown proceedings, if any, to be ordinary litigation incident to the character of the business. We believe that the resolution of any claims will not, individually or in the aggregate, have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

### Item 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

On April 10, 2008 the Company held its annual meeting for the fiscal year ended April 30, 2007. Stockholders voted by proxy or in person to ratify the selection of Weaver & Martin, LLC as auditors for the fiscal year ending April 30, 2008.

## PART II

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

#### COMMON STOCK (BUKS):

(a) **Market Information:** We were initially listed in the national over-the-counter market in 1969, under the symbol "BUTL." Effective June 8, 1992, the symbol was changed to 'BLNL.' On February 24, 1994, we were listed on the NASDAQ Small Cap Market under the symbol "BUKS." Our common stock was delisted from the small cap category effective January 20, 1999 and is now quoted in the over-the-counter (OTCBB) category. Approximately eighteen (18) market makers offer and trade the stock.

The range of the high and low bid prices per share of the our common stock, for fiscal years 2008 and J007, as reported by NASDAQ, is set forth below. Such market quotations reflect intra-dealer prices, without retail mark-up, markdown or commissions, and may not necessarily represent actual transactions.

	Year Ended April 30, 2008		Year Ended April 30, 2007	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
First Quarter	\$ .350	\$ .490	\$ .280	\$ .720
Second Quarter	\$ .220	\$ .430	\$ .250	\$ .640
Third Quarter	\$ .260	\$ .390	\$ .270	\$ .530
Fourth Quarter	\$ .250	\$ .390	\$ .260	\$ .650

- b. Holders: The approximate number of holders of record of our common stock, as of July 3, 2008, was 2,900. The price of the stock as of July 3, 2008 was approximately \$0.44 per share.
- c. Dividends: We have not paid any cash dividends on common stock, and the Board of Directors does not expect to declare any cash dividends in the foreseeable future.

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**SECURITIES CONVERTIBLE TO COMMON STOCK:**

As of July 3, 2008 there were no Convertible Preferred shares or Convertible Debenture notes outstanding.

**Equity Compensation Plan Information**

Plan Category	Number of securities to be		Weighted-average exercise price of	Number of securities remaining available

	issued upon exercise of outstanding options, warrants, and rights		outstanding options, warrants, and rights	for future issuances under equity compensation plans (excluding securities reflected in column (a))	
	(a)		(b)	(c)	
Equity compensation plans approved by stockholders	1,320,763 20,000 153,000	\$	.9000 ..0625 ..1400	5,768,300	(1)
Equity compensation plans not approved by stockholders	0		0	0	
Total	1,493,763	\$	.8100	5,768,300	

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

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

Period	Total Number of Shares Purchased		Average Price Paid per Share	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased under the Plans or Programs	
	(a)		(b)	(c)	
May 1, 2007 through April 30, 2008	0		0	5,768,300 shares	(1)
Total	0	\$	0	5,768,300 shares	

(1) Shares that may yet be purchased under the Butler National Board action as reported on Form 8-K by the Company on March 28, 2005.

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## Item 6. SELECTED FINANCIAL DATA

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

	Year Ended April 30 (In thousands except per share data)									
	<u>2008</u>		<u>2007</u>		<u>2006</u>		<u>2005</u>		<u>2004</u>	
Net Sales	\$	17,647	\$	14,681	\$	5,307	\$	23,390	\$	10,122
Net Income (Loss)	\$	1,274	\$	606	\$	366	\$	2,446	\$	735
Basic Per Share										
Net Income (Loss)	\$	0.02	\$	0.01	\$	0.01	\$	0.06	\$	0.02
Selected Balance Sheet Information										
Total Assets	\$	27,104	\$	20,445	\$	8,138	\$	17,279	\$	12,666
Long-term Obligations (excluding current maturities)	\$	6,416	\$	2,521	\$	1,844	\$	2,089	\$	1,528
Cash dividends declared per common share		None		None		None		None		None

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

Fiscal 2008 compared to Fiscal 2007

## Revenue and Operating Profit

Our sales for fiscal 2008 were \$17,646,565, an increase of 20% from fiscal 2007 sales of \$14,681,042. We experienced a 128% increase in earnings before taxes from fiscal 2007 to fiscal 2008. Our operating profit for 2008 was \$2,202,560 compared to \$1,251,330 in 2007, an increase of 76%. Discussion of specific changes by segment are as follows.

**Aircraft Modifications:** Sales from the Aircraft Modifications including modified aircraft increased 29.1% from \$6,696,737 in fiscal 2007, to \$8,646,562 in 2008. The modifications segment had an operating profit of \$814,599 in 2008, compared to a loss of \$227,368 in 2007. Avcon RVSM sales decreased by approximately \$553,000. Revenues generated from other modification services increased \$2,054,645 in fiscal 2008.

We believe we may sell and install approximately 25 to 35 Lear 20 & 30 series RVSM kits during the next two years. In addition to the RVSM sales, we expect to experience some increase in our base modification sales. During the past few years we have seen a significant increase in aircraft camera modification. Custom engineering projects and aircraft modifications have also attributed to our increase in sales. As the economy grows aircraft owners may elect to update, modify, and purchase business aircraft. A shift to business aircraft ownership positively impacts our aircraft modification revenues. Although we cannot anticipate the future we must always consider the negative impact of items such as the 9-11 event, increases in fuel prices, and general economic downturns.

**Aircraft Acquisitions and Sales:** There were no aircraft sales in fiscal 2008 or fiscal 2007. We acquired no aircraft during fiscal 2008. Management expects this business segment to have increased sales in the next year. FAA required modifications to the business aircraft fleet may increase customer demand for company owned aircraft.

**Avionics:** Sales from Avionics increased 42%, from \$3,538,422 in fiscal 2007, to \$5,024,781 in fiscal 2008. This increase is directly related to sales of defense products. Operating profits increased from \$286,995 in fiscal 2007 to \$842,553 in fiscal 2008. The 194% increase in operating profit is related to streamlined assembly processes and a stable and experienced production staff. Management expects increased sales for the fuel system protection devices, when certified, like the TSD, GFI, and other classic aviation and defense products.

**Services - SCADA Systems and Monitoring Services:** Revenue from Monitoring Services decreased from \$2,403,065 in fiscal 2007 to \$1,557,792 in fiscal 2008, a decrease of 35.2%. During fiscal 2008, we maintained a relatively level volume of long-term contracts with municipalities. We had decreased revenues due to budget cuts faced by the municipalities resulting from the decrease in property taxes in the State of Florida. We anticipate the revenues from additional lift station rehabilitations to resume and generate additional revenue over the next four years. Revenue fluctuates due to the introduction of new products and services and the related installations of these types of products. Our contracts with our two largest customers have been renewed through fiscal 2009. An operating profit of \$138,133 in Monitoring Services was recorded in fiscal 2008, compared to a fiscal 2007 profit of \$185,736 a decrease of 25.6%. We believe the service business has had revenue stability over the past few years and we expect this to continue.

### Gaming

: Revenues from management services related to gaming decreased 9.7% from \$1,668,227 in fiscal 2007, to \$1,507,049 in fiscal 2008. The decrease is primarily related to the forced closing during the flood in July 2007 and extreme inclement weather during the winter months in Northeast Oklahoma.

We have advanced and invested a total of \$5,153,174 at April 30, 2008 and \$4,718,991 at April 30, 2007 in gaming developments. We have reserves of \$3,346,623, at April 30, 2008 and \$2,912,440 at April 30, 2007. We believe that our advances for gaming developments will be totally reimbursed as casinos are opened. We believe it is necessary to establish reserves against the advances because all of the proposed casinos are involved in legal and governmental actions whose outcome is not certain nor is there any time frame for resolution. The reserve amount is an estimate of the value we would receive if a casino was not opened and we were forced to liquidate the assets that we have acquired with our advances. These assets were intended to be used with casinos and consist of the purchase of land and land improvements related to the development of Gaming facilities. We believe that these tracts could be developed and sold for residential and commercial

use to recover our advances if the gaming enterprises do not open.

In fiscal year 2008 we added a reserve of approximately \$434,000 for Dodge City gaming developments. We determine annually the amount of any increase in reserves based on our determination of the fair value of assets acquired by our advances for gaming developments.

#### Corporate / Professional Services

: These services include the architectural services of BCS Design, Inc., arrangements for financing, on site contract management of gaming establishments, flight, and engineering services. Management consulting and professional fees, including sales related to completed projects, were \$579,381 in fiscal 2008 and \$374,591 in fiscal 2007. Sales related to construction projects were approximately \$331,000 at April 30, 2008.

#### Selling General and Administrative

Expenses were \$5,343,755, or 30.3% of revenue, in fiscal 2008, and \$3,795,772, or 25.8% of revenue in fiscal 2007. Sales, General and Administrative costs increased by approximately \$1,548,000 in fiscal 2008 compared to fiscal year 2007. During fiscal 2008 we increased expenses related to gaming by approximately \$633,000. We experienced an increase related to building and occupancy expenses of approximately \$75,000. Throughout the year our overall personnel costs increased by approximately \$300,000, 25% of the personnel expenses were related to an increase in healthcare expenses.

As sales and our employment continue to grow we would anticipate overhead expenses to increase. We continue to monitor and evaluate our overhead expenses in order to efficiently manage our operations.

#### Other Income (Expense)

Other interest and expense increased from \$534,105 in fiscal 2007 to \$567,560 in fiscal 2008. Interest expense increased by \$71,020 from \$568,712 in fiscal 2007 as a result of financing additional real estate purchases.

#### Fiscal 2007 compared to Fiscal 2006

Our sales for fiscal 2007 were \$14,681,042, a decrease of 4.1% from fiscal 2006 sales of \$15,307,127. We experienced a 63.8% increase in earnings before taxes from fiscal 2006 to fiscal 2007. Our operating profit for 2007 was \$1,251,330, compared to \$936,879 in 2006, an increase of 33.6%. Discussion of specific changes by segment are as follows.

**Aircraft Modifications:** Sales from the Aircraft Modifications including modified aircraft decreased 11.7% from \$7,580,980 in fiscal 2006, to \$6,696,737 in 2007. The modifications segment had an operating loss of \$227,368 in 2007, compared to a loss of \$303,064 in 2006. Avcon RVSM sales decreased by approximately \$553,000. Revenues generated from other modification services decreased \$330,886 in fiscal 2007.

We believe we may sell and install approximately 25 to 50 Lear 20 & 30 series RVSM kits during the next two years. In addition to the RVSM sales, we expect to experience some increase in our base modification sales. As the economy grows aircraft owners may elect to update, modify, and purchase business aircraft. A shift to business aircraft ownership positively impacts our aircraft modification revenues. Although we cannot anticipate the future we must always consider the negative impact of items such as the 9-11 event, increases in fuel prices, and general economic downturns.



**Aircraft Acquisitions and Sales:** There were no aircraft sales in fiscal 2007 or fiscal 2006. We acquired no aircraft during fiscal 2007. Management expects this business segment to have increased sales in the next year. FAA required modifications to the business aircraft fleet may increase customer demand for company owned aircraft.

**Avionics:** Sales from Avionics increased 22.3%, from \$2,894,086 in fiscal 2006, to \$3,538,422 in fiscal 2007. This increase is directly related to sales of defense products. Operating profits decreased from \$292,761 in fiscal 2006 to \$286,995 in fiscal 2007. The 2% decrease in operating profit is related to additional material cost, material spoilage, additional labor requirements, and rework labor costs on a major lower margin "build-to-print" contract. Further additional costs from this contract may be experienced in fiscal 2008. Management expects this business segment to significantly increase in future years due to the addition of new fuel system protection devices like the TSD, GFI, and other classic aviation and defense products.

**Services - SCADA Systems and Monitoring Services:** Revenue from Monitoring Services increased from \$1,440,400 in fiscal 2006 to \$2,403,065 in fiscal 2007, an increase of 66.8%. During fiscal 2007, we maintained a relatively level volume of long-term contracts with municipalities. We had increased revenue due to a significant contract for the rehabilitation of city lift stations. We anticipate the revenues from additional lift station rehabilitations to continue for the next few years. Revenue fluctuates due to the introduction of new products and services and the related installations of these types of products. Our contracts with our two largest customers have been renewed through fiscal 2008. An operating profit of \$185,736 in Monitoring Services was recorded in fiscal 2007, compared to a fiscal 2006 profit of \$134,109 an increase of 38.5%. We believe the service business has had revenue stability over the past few years and we expect this to continue.

**Gaming:** Revenues from management services related to gaming increased 29.1% from \$1,292,222 in fiscal 2006, to \$1,668,227 in fiscal 2007. We believe the increase is related to the approval of Class III casino gaming in Oklahoma.

We have advanced and invested a total of \$4,718,991 in Indian gaming developments. We have reserves of \$2,912,440, at April 30, 2007 and at April 30, 2006. Based on the information available to us we believe that our advances for Indian gaming developments will be totally reimbursed as casinos are opened. Due to the fact that all of the proposed casinos are involved in legal and governmental actions whose outcome is not certain nor is there any time frame for resolution we believe it is necessary to establish reserves against the advances. The reserve amount is an estimate of the value we would receive if Tribal casinos were not opened and we were forced to liquidate the assets that we have acquired with our advances. These assets were intended to be used with Tribal casinos and consist of the purchase of land and land improvements. The land purchases are located adjacent to residential developments. We believe that these tracts could be developed and sold for residential and commercial use to recover advances if the gaming enterprises do not open.

In the years ended April 30, 2006 through 2007 there has been no change in reserves. We determine annually the amount of any increase in reserves based on our determination of the fair value of assets acquired by our advances for Indian developments.

**Corporate / Professional Services:** These services include the architectural services of BCS Design, Inc., arrangements for financing, on site contract management of gaming establishments, flight, and engineering services. Management consulting and professional fees, including sales related to completed projects, were \$374,591 in fiscal 2007 and \$2,099,438 in fiscal 2006. Projects under construction were approximately \$1,532,000 at April 30, 2007.

### Selling General and Administrative

Last year we increased aircraft and promotional expenses by \$193,000. This past year we concentrated our efforts on increased international sales. Expenses were \$3,795,772, or 25.8% of revenue, in fiscal 2007, and \$3,517,125, or 23.0% of revenue in fiscal 2006. Sales, General and Administrative costs increased by approximately \$279,000 in fiscal 2007 compared to fiscal year 2006. During fiscal 2007 we reduced expenses related to gaming by approximately \$85,000. We anticipate using these savings in fiscal 2008 to promote gaming in Kansas. Last year we reduced the aircraft and promotional expenses by \$525,000, however this year we began a campaign to increase sales at our avionics and architectural division which increased their fiscal 2007 travel and promotional expenses by approximately \$194,000. Aircraft carrying cost for the company increased by slightly over \$87,000 due to increased insurance costs and required maintenance of the aircraft. We experienced an increase related to building and occupancy expenses of approximately \$150,000. Five percent of the increase in occupancy expenses were related to utility costs. Throughout the year we were able to reduce our overall personnel costs by \$37,000. This reduction was attributed primarily to management's decision to control our insurance cost through the self funded Butler National Corporation Employee Health Care Plan.

In an effort to control our insurance costs and maintain quality health care coverage for our employees, our health insurance policy became self funded on April 1, 2006 as the Butler National Corporation Employee Health Care Plan. The Plan has contracted with a managed care network of medical providers whose members have agreed to charge the Plan reduced or discounted charges for covered services provided to our employees and their families. Although our employees have the freedom to choose to receive care from any Physician, Hospital or other medical care provider, as a general rule the amount or percentage of an otherwise covered expense payable by the Plan will vary, depending on whether the provider from whom the

employee receives care is a member of the Plan's PPO network(s). Generally, the Plan will pay a higher percentage of a covered expense if the care is received by a network provider. The Plan Document, through a third party administrator controls all determinations related to coverage.

As sales and our employment continue to grow we would anticipate overhead expenses to increase. We continue to monitor and evaluate our overhead expenses in order to efficiently manage our operations.

#### Other Income (Expense)

Other expense increased from \$499,018 in fiscal 2006 to \$534,105 in fiscal 2007. Interest expense increased by \$60,808 as a result of financing additional inventory and asset projects.

#### Liquidity and Capital Resources

At April 30, 2008, the Company had one line of credit totaling \$1,000,000. The unused line at April 30, 2008 was \$288,919. During the current year these funds were primarily used for the development of the Gaming segment.

We believe the line of credit will be extended when it is due and do not anticipate the full repayment of this note in fiscal 2009. Our line of credit has been extended to January 2009. If the Bank were to demand repayment of all notes payable, we currently do not have enough cash to pay off the notes without materially adversely affecting the financial condition of the Company. These notes are collateralized by the first and second positions on all assets of the Company.

At April 30, 2008 there were several notes collateralized by aircraft security agreements totaling \$2,221,341. These notes were used for the purchase and modifications of these collateralized aircraft.

There are two notes at a bank totaling \$2,048,842 for real estate located in Olathe, Kansas and Tempe, Arizona. The due date for these notes is in March 2013.

Four notes to a bank were entered into between March and April 2006 for the purchase of a building and several vacant lots in Junction City, Kansas. One note has been paid in full and the remaining notes total \$2,076,237. The construction notes have renewed biannually over the past two years.

One note totaling \$1,363,175 was made in November 2007 for real estate purchased in Dodge City, Kansas.

One note totaling \$1,301,624, is collateralized by the first and second position on all assets of the company. This was used as capital for our daily business operations in 2006. There are several other notes collateralized by automobiles and equipment totaling an additional \$48,581.

In March 2008 we acquired an avionics product line. As part of this acquisition we added additional debt of \$2,000,000 to make and support this acquisition.

We are not in default of any of our notes as of July 3, 2008.

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 2009 and beyond.

Other than obligations related to the potential management of a gaming facility in Dodge City, Kansas we do not, as of

April 30, 2008, have any material commitments for other capital expenditures other than the terms of the Indian Management Agreements should any additional casinos be authorized. We will need additional funds to complete our planned Indian gaming opportunities. We will use current cash available as well as additional funds, for the start up and construction of gaming facilities. We anticipate initially obtaining these funds from internally generated working capital and borrowings.

After a few gaming facilities become operational, gaming operations will generate additional working capital for the start up and construction of other gaming facilities. We expect that our start up and construction financing of gaming facilities will be replaced by other financial lenders, long term financing through debt issues, or equity issues.

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

During Fiscal Year 2008 our cash position increased by \$ \$1,180,546 and can be attributed to the following. Cash provided by operating activities was by \$610,739. During fiscal year 2008 we reported net income of \$1,274,478. Adjustments to net income provided by operations consisted of non-cash deduction of depreciation of \$160,933, an impairment of Junction City properties of \$302,537, amortization for STC's of \$258,156, additional obsolescence of \$20,130, and a loss on disposal of fixed assets of \$70,224. Issued common stock as a match to the employee contribution to their 401(k) benefits plan resulted in an additional \$268,020. Cash used for operation activities resulted in a reduction of accounts receivable of \$328,394. Cash used for inventories was \$811,991 of which we used funds for real-estate projects under construction a net of \$601,155. Aircraft inventory decreased by approximately \$258,000 as a result of high fuel costs. Accounts payables and accrued liabilities increased by approximately \$207,000 of which most can be attributed to accrued income taxes. Current assets increased by approximately \$1,669,000 as a result of the purchase of additional product lines. Our customers increased deposits with us by approximately \$859,000 during the last months of the fiscal year to support engineering expenses for several large custom modification projects in process at Avcon.

We invested \$2,659,520 for the purchase of land in Dodge City, and additional equipment. Included in this were additional investments of approximately \$150,000 towards building improvements and computer system upgrades. We acquired additional STC's and other intellectual property of \$820,000.

Cash provided by financing activities contributed \$4,049,327. We had new and additional real estate borrowing totaling approximately \$4,327,000 which included property in Junction City, Dodge City and additional borrowings collateralized by our offices located in Olathe, Kansas and Tempe, Arizona.

### **Critical Accounting Policies and Estimates:**

The Company believes that there are several accounting policies that are critical to understanding the Company's historical and future performance, as these policies affect the reported amount of revenue and other significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, bad debts, the use of estimates, long-lived assets, Supplemental Type Certificates, advances to Indian gaming developments, and advances to state owned Lottery Gaming Facilities. These policies and the Company's procedures related to these policies are described in detail below and under specific areas within this "Management Discussion and Analysis of Financial Condition and Results of Operations." In addition, Note 1 to the consolidated financial statements expands upon discussion of the Company's accounting policies.

**Revenue Recognition:** We perform aircraft modifications under fixed-price contracts. Revenues from fixed-price contracts are recognized on the percentage-of-completion method, measured by the direct labor costs incurred compared to total estimated direct labor costs. Revenue for off-the-shelf items and aircraft sales is recognized on the date of sale.

Revenue from Avionics are recognized when shipped and payment for materials are due within 30 days of invoicing. Revenue for SCADA services, Gaming Management, and other Corporate/Professional Services are recognized on a

monthly basis as services are rendered. Payments for these services are usually received within 30 days of invoicing.

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

**Allowance for Doubtful Accounts:** Allowance for doubtful accounts are calculated on the historical write-off of doubtful accounts of the individual subsidiaries. Invoices are generally considered a doubtful account if no payment has been made in the past 90 days. We review these policies on a quarterly basis, and based on these reviews, we believe we maintain adequate reserves.

**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 revenues 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.

**Impairment of Goodwill, Other Intangible Assets and Long-lived Assets:** We comply with the provisions of Statement of Financial Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), which requires that we evaluate our goodwill and other assets for impairment at least annually or whenever events or circumstances indicate the carrying value of that asset may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. We determined that as of April 30, 2008 an impairment of \$302,537 was necessary.

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

**Advances for Gaming Developments:** We are advancing funds for the establishment of gaming. These funds have been capitalized in accordance with Statements of Financial Accounting Standards (SFAS) 67 "Accounting for Costs and Initial Rental Operations of Real Estate Projects." Such standard requires costs associated with the acquisition, development, and construction of real estate and real estate-related projects to be capitalized as part of that project.

Our advances represent costs to be reimbursed upon approval of gaming in several locations. We have agreements in place which require payments to be made to us for the respective projects upon opening of Indian gaming facilities. Once gaming facilities have gained proper approvals, we plan to enter into a note receivable arrangement with the Tribe to secure reimbursement of advanced funds for that particular project.

We have advanced and invested a total of \$5,153,174 at April 30, 2008 and \$4,718,991 at April 30, 2007 in gaming developments. We have reserves of \$3,346,623, at April 30, 2008 and \$2,912,440 at April 30, 2007. We believe that our advances for gaming developments will be totally reimbursed as casinos are opened. We believe it is necessary to establish reserves against the advances because all of the proposed casinos are involved in legal and governmental actions whose outcome is not certain nor is there any time frame for resolution. The reserve amount is an estimate of the value we would receive if a casino was not opened and we were forced to liquidate the assets that we have acquired with our advances.

These assets were intended to be used with casinos and consist of the purchase of land and land improvements related to the development of Gaming facilities. We believe that these tracts could be developed and sold for residential and commercial use to recover our advances if the gaming enterprises do not open.

In fiscal year 2008 we added a reserve of approximately \$434,000 for Dodge City gaming developments. We determine annually the amount of any increase in reserves based on our determination of the fair value of assets acquired by our advances for gaming developments.

#### Changing Prices and Inflation

We did experience some pressure from inflation in 2008. From fiscal year 2007 to fiscal year 2008 we have experienced an increase in airplane travel, fuel, material, and transportation costs. This additional cost may not be transferable to our customers resulting in lower income. We anticipate long-term fuel costs and possibly interest rates to rise in fiscal 2009 and 2010.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### Contractual Obligations:

#### Tabular Disclosure of Contractual Obligations

	Payments Due By Period (Dollars in thousands)											
	Total	Less than 1 Year	2 Years FY 2010	3 Years FY 2011	4 Years FY 2012	5 Years FY 2013	More than 5 Years					
Long-Term Debt Obligations	\$ 9,060	\$ 4,144	\$ 528	\$ 470	\$ 485	\$ 1,596	\$ 1,837					
Capital Lease Obligations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0					
Operating Lease Obligations	\$ 1,141	\$ 175	\$ 181	\$ 175	\$ 136	\$ 136	\$ 338					

Purchase Obligations	\$	2,000	\$	500	\$	500	\$	500	\$	500	\$	0	\$	0
Promissory Notes Payable	\$	711	\$	711	\$	0	\$	0	\$	0	\$	0	\$	0
		-----		-----		-----		-----		-----		-----		-----
TOTAL	\$	12,912	\$	5,530	\$	1,209	\$	1,145	\$	1,121	\$	1,732	\$	2,175
		=====		=====		=====		=====		=====		=====		=====

For additional information please refer to Note 2 DEBT found in the Notes to Consolidated Financial Statements on page 51.

Item 7(a). QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

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

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

Expected Maturity Date  
(Dollars in thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>There-after</u>	<u>Total</u>	<u>Fair</u>	<u>Valu</u>
Assets									

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Note receivable:	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0
Variable rate Average interest rate		N/A		N/A		N/A		N/A		N/A		N/A		N/A
Liabilities														
Promissory Notes	\$	711	\$	0	\$	0	\$	0	\$	0	\$	0	\$	711
Long-term debt:	\$	4,644	\$	1,028	\$	970	\$	985	\$	1,596	\$	1,837	\$	11,060
Variable rate Average interest rate		7.25%		8.0%		8.25%		9.0%		9.5%		10.0%		8.4%
Interest Payments														
Est. Interest Payments:	\$	388	\$	82	\$	80	\$	89	\$	152	\$	184	\$	975

Scheduled interest payments are calculated on a fixed rate basis, if known, and the remaining interest will be calculated on the average current rate.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements of the Registrant are set forth on pages 43 through 61 of this report.

Item 9. CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

We have had no changes in or disagreements with the accountants.

Item 9(A). 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 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Our principal executive and financial officers have evaluated our disclosure controls and procedures as of the end of the period covered by this Report on Form 10-K and have determined that such disclosure controls and procedures are

effective.

**Evaluation of disclosure controls and procedures:** The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by the Annual Report (the "Evaluation Date"). In our opinion, as of the Evaluation Date, these disclosure controls and procedures were effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis. The CEO and CFO have concluded that the Company's disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the time period specified in the rules and forms of the SEC. They have also concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act are accumulated and communicated to the Company's management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control Over Financial Reporting:** Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control -Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of April 30, 2008.

The Company's internal control over financial reporting includes policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

#### Limitations on Controls

Our management, including our 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 errors 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. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. In addition, the design of any system of controls is based in part on certain assumptions about the likelihood of future events, and controls may become inadequate if conditions change. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.



**Changes to company internal controls:** In our opinion there were no material changes in the Company's internal controls over financial reporting during the three months ended April 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

**Item 9(B). Other Information**

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

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PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

<u>Name of Nominee and Director and Age</u>	<u>Served Since</u>	<u>Principal Occupation for Last Five Years and Other Directorships</u>
Clark D. Stewart (68)	1989	President of the Company from September 1, 1989 to present.
R. Warren Wagoner (56)	1986	Chairman of the Board of Directors of the Company since August 30, 1989.
William E. Logan (70) Deceased 1/4/08	1990	Retired Vice President and Treasurer of WH of KC, Inc. (Wendy's franchisee).
David B. Hayden (62)	1996	Co-owner and President of Kings Avionics, Inc. since 1974.

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
R. Warren Wagoner	56	Chairman of the Board of Directors
Clark D. Stewart	68	President and Chief Executive Officer
Christopher J. Reedy	42	Vice President and Secretary
Angela D. Shinabargar	44	Chief Financial Officer
Larry W. Franke	64	President of Avcon Industries, Inc., a wholly-owned subsidiary of the Company

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

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

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

Angela D. Shinabargar was the controller of A&M products, a subsidiary of First Brands Corporation from 1995 to 1998. From 1998 to 2000 Ms. Shinabargar was a Senior Business Systems Analyst for Black & Veatch of Kansas, the largest privately held engineering firm in the United States. Ms. Shinabargar was the CFO of Peerless Products, Inc. a manufacturer of customized windows from 2000 to 2001. Ms. Shinabargar joined the Company in October 2001.

Larry W. Franke was Vice President and General Manager of Kansas City Aviation Center from 1984 to 1992. From 1993 to 1994 he was Vice President of Operations and Sales for Marketlink, an aircraft marketing company. Mr. Franke joined the Company in July 1994 as Director of Marketing and was promoted in August 1995 to Vice President of Operations and Sales. Mr. Franke is currently Vice President of Aircraft Modifications at Avcon.

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

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

Act during the most recent fiscal year or prior fiscal years.

### **Code of Ethics**

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

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

The current members of the Audit Committee are David B. Hayden and interim member Christopher J. Reedy, neither of whom is an independent director under the Nasdaq listing standards. The Audit Committee met five times during fiscal year 2008, excluding actions by unanimous written consent. Mr. William E. Logan, a professional accountant, serves as Chairman of the Audit Committee until his death on January 4, 2008. He attended three of the five meetings.

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

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## **Item 11. EXECUTIVE COMPENSATION**

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

Our compensation programs are designed to support our business goals and promote both short-term and long-term growth. This section of the proxy statement explains how our compensation programs are designed and operate in practice with respect to our listed officers. Our listed officers are the CEO, CFO, and three most highly compensated executive officers in a particular year. The "Executive Compensation" section presents compensation earned by the listed officers for fiscal years ending April 30, 2008, 2007 and 2006.

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

## Our Compensation Philosophy

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

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

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

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

- ◆ base salary
- ◆ annual and semiannual incentive cash payments
- ◆ equity grants (no grants since fiscal 2003)
- ◆ employee stock purchase plan
- ◆ retirement benefits
- ◆ health and welfare benefits

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

### **Determining Executive Compensation**

The Committee reviews and determines the compensation for Butler's executive officers. The Committee's process for determining compensation includes a review of Butler's executive compensation and practices, and an analysis, for each Butler executive officer, of all elements of compensation. The Committee compares these compensation components separately and in total to compensation in the industry and each geographic location. In determining base salary the Committee reviews company and individual performance information.

### **Base Salary**

The Committee establishes executive officers' base salaries at levels that it believes are reasonable for comparable positions. When the Committee determines the executive officers' base salaries during the first

quarter of the year, the Committee takes into account each officer's role and level of responsibility at the company. In general, executive officers with the highest level and amount of responsibility have received the highest base salaries. In January 2008, the Committee increased base salaries for the listed officers based on the Committee's review of the officers' current performance and expected future contributions.

PAY COMPONENT	BRIEF DESCRIPTION
Base Salary	Described in detail in separate paragraph above titled Base Salary.
Annual and Semiannual Incentive Cash Payments	Paid as discretionary cash bonuses to individual employees for outstanding performance of a task.
Equity Grants	Regulatory provisions since 2003 are too complex to allow us to safely award equity grants.
Employee Stock Purchase Plan	Any employee may purchase the Company stock at the fair market value at the date of purchase without broker or issue fees. The stock is restricted and not considered a stock reward. We have the 1981 Employee Stock Purchase plan. No shares have been purchased under this plan since 1988.
Retirement Benefits	We pay the required federal and state retirement contributions, the required unemployment contributions and match the employee's contribution to their account in the Butler National Corporation 401(k) plan.
Health and Welfare Benefits	Employees electing to participate in the various insurance plans offered by the Company receive a payment for a share of the health, dental, vision and life insurance costs for the employee.

Compensation Committee Report

**Performance Measures and Decision-Making Process for fiscal year 2008**

The Committee set base salaries for executive officers for 2008 in April 2007, with payment beginning in April 2007.

- The performance measures used by the Committee in determining executive compensation for fiscal year 2008 were:

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

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

- the company's progress toward its strategic goals.

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

The CEO provided the entire board of directors with an assessment of his own performance with respect to the performance measures listed above, which the board considered in its assessment of his performance for fiscal year 2007. The CEO reviewed the performance of the other executive officers (except the Chairman) with the Committee and made recommendations regarding the components of their compensation.

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

#### Determination of CEO Compensation

In fiscal year 2007, Butler National Corporation reached projected levels of revenue, profit from operations, operating margin and operating cash flow.

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

Taking into account the company's performance, both absolute and relative to competition, and the executive officers' contributions to that performance, the Committee set its targeted compensation levels so as to be commensurate with that relative performance. The Committee made the following determinations for fiscal year 2008 with respect to each component of compensation for the CEO and his existing contract and the other executive officers:

#### Base Salary -

In keeping with its strategy, the Committee's base salary decisions for fiscal year 2008 were generally intended to provide salaries somewhat lower than the median level of salaries for similarly situated executives of the comparator companies.

#### Performance Bonus -

In general, the Committee granted no annual performance awards

#### Long-Term Compensation -

The Committee granted no equity compensation.

#### Compensation of the Chairman

Because Mr. Wagoner was among the Company's five most highly compensated executive officers, SEC rules require disclosure of his compensation. In making the determinations, the Committee considered his role as Chairman, his contribution to the company's performance and strategic direction, and the compensation of employee-chairmen of comparator companies.

**SUMMARY**

The following table below sets forth certain compensation information concerning the Chief Executive Officer, Chief Financial Officer, and our three additional most highly compensated executive officers for the fiscal years ended April 30, 2008, 2007 and 2006:

Summary Compensation Table

Name and Principal Position	YR	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards and Stock Appreciation Rights (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(1)	Total (\$)(2)
Clark D. Stewart, (Contract back pay) President, CEO, and Director	08	361,250	---	---	---	---	---	37,236	588,486
	08	190,000	---	---	---	---	---	---	---
	07	345,479	---	---	---	---	---	47,035	392,514
	06	332,063	---	---	---	---	---	---	---
R. Warren Wagoner Director - Chairman of the Board	08	219,961	---	---	---	---	---	22,420	242,381
	07	161,010	---	---	---	---	---	18,232	179,242
	06	127,391	---	---	---	---	---	---	---
Christopher J. Reedy Vice President and Secretary	08	175,245	---	---	---	---	---	21,353	196,598
	07	168,141	---	---	---	---	---	25,444	193,585
	06	155,579	2,500	---	---	---	---	---	---
Larry W. Franke President of Avcon	08	212,424	---	---	---	---	---	17,536	229,960
	07	203,258	---	---	---	---	---	19,663	222,921
	06	190,584	5,000	---	---	---	---	---	---

Industries									
Angela D. Shinabargar Chief Financial Officer	08 07 06	121,382 112,334 99,584	--- --- 1,250	--- --- ---	--- --- ---	--- --- ---	---	13,880 7,651 ---	135,263 119,985 ---

Name	Year	Airplane and Automobile Usage	Health Benefits	Memberships	Matching Contributions to 401(k) (3)
Clark D. Stewart	2008	7,200	5,093	9,175	15,769
R. Warren Wagoner	2008	---	6,920	---	15,500
Christopher J. Reedy	2008	---	3,397	7,161	10,795
Larry W. Franke	2008	---	5,086	---	12,450
Angela D. Shinabargar	2008	---	3,412	---	10,468

(1) All Other Compensation includes the amounts in the tables above.

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

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

**OPTION GRANTS, EXERCISES AND HOLDINGS**

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

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

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR  
AND FY-END OPTION VALUES**

			Number of Securities Underlying Unexercised Options at FY-End (no.)	Value of Unexercised In-the-Money Options at FY-End (\$)



Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Exercisable/ Unexercisable	Exercisable/ Unexercisable
Clark D. Stewart, Chief Executive Officer	-	-	886,429 / 0	0 / 0
R. Warren Wagoner, Director - Chairman of the Board	-	-	12,143 / 0	0 / 0
Christopher J. Reedy, Vice President and Secretary	-	-	0 / 0	0 / 0
Angela D. Shinabargar, Chief Financial Officer	-	-	0 / 0	0 / 0
Larry W. Franke, President of Avcon Industries, Inc.	-	-	80,877 / 0	0 / 0

#### COMPENSATION OF DIRECTORS

Each non-officer director is entitled to a director's fee of \$100 for meetings of the Board of Directors which he attends. Officer-directors are not entitled to receive fees for attendance at meetings. No fees were paid in fiscal 2008 or fiscal 2007.

#### EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS.

On April 30, 2001, the Company extended the Employment Agreement through August 31, 2006 with Clark D. Stewart under the terms of which Mr. Stewart was employed as the President and Chief Executive Officer of the Company. On January 27, 2004 the Company extended the Employment Agreement with Mr. Stewart with the terms as currently provided including annual increases of 5% through December 31, 2013. In the event Mr. Stewart is terminated from employment with the Company other than "for cause," Mr. Stewart shall receive as severance pay an amount equal to the unpaid salary for the remainder of the term of the Employment Agreement. Mr. Stewart is also granted an automobile allowance of \$600 per month which is reported by us as Salary Expense and to Mr. Stewart as Wages. Under the terms of the Employment Agreement with Mr. Stewart, the Company is obligated to

pay company related expenses and salary. Included in accrued liabilities are \$73,758 and \$245,538 as of April 30, 2008, and 2007 respectively for amounts owed to our CEO for accrued compensation.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The Compensation Committee of the Board of Directors is comprised of Mr. Wagoner, Chairman of the Board, Mr. Stewart, CEO, President and Executive Board member, Mr. Hayden, Board member, and Mr. Logan, Board member (deceased January 4, 2008).

In the normal course of business, we purchased modifications services and avionics of approximately \$89,398, \$127,661, and \$163,800 from a company partially owned by David Hayden, a director for the Company during fiscal 2008, 2007, and 2006 respectively.

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

The following table sets forth, with respect to the Company's common stock (the only class of voting securities), the only persons known to be beneficial owners of more than five percent (5%) of any class of the Company's voting securities as of July 3, 2008.

Name and Address of	Amount and Nature of <u>Beneficial Ownership (1)</u>	<u>Percent of Class</u>
<b><u>Beneficial Owner</u></b>		
Clark D. Stewart 19920 West 161 <sup>st</sup> Street Olathe, Kansas 66062	3,101,819(2)	5.7%
R. Warren Wagoner 19920 West 161 <sup>st</sup> Street Olathe, Kansas 66062	3,655,074(3)	6.7%

- (1) Unless otherwise indicated by footnote, nature of beneficial ownership of securities is direct, and beneficial ownership as shown in the table arises from sole voting power and sole investment power.
- (2) Includes 886,429 shares which may be acquired by Mr. Stewart pursuant to the exercise of stock options which are exercisable.
- (3) Includes 12,143 shares which may be acquired by Mr. Wagoner pursuant to the exercise of stock options which are exercisable.

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The following table sets forth, with respect to the Company's common stock (the only class of voting securities), (i) shares beneficially owned by all directors and named executive officers of the Company, and (ii) total shares beneficially owned by directors and officers as a group, as of April 30, 2008.

<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership (1)</u>	<u>Percent of Class</u>
Larry W. Franke	481,277(5)	0.9%
David B. Hayden	1,357,225	2.5%
William E. Logan (deceased January 4, 2008)	823,929(3)	1.5%
Christopher J. Reedy	260,747	0.5%
Clark D. Stewart	3,101,819(2)	5.7%
R. Warren Wagoner	3,655,074(4)	6.7%
Angela D. Shinabargar	131,092	0.2%
All Directors and Executive Officers as a Group (7 persons)	10,087,715(6)	18.4%

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

(2) Includes 886,429 shares, which may be acquired by Mr. Stewart pursuant to the exercise of stock options, which are exercisable.

(3) Includes 148,929 shares, which may be acquired by Mr. Logan (deceased 1/4/08) pursuant to the exercise of stock options which are exercisable.

(4) Includes 12,143 shares, which may be acquired by Mr. Wagoner pursuant to the exercise of stock options, which are exercisable.

(5) Includes 80,877 shares, which may be acquired by Mr. Franke pursuant to the exercise of stock options, which are exercisable.

(6) Includes 1,128,378 shares for all directors and executive officers as a group, which may be acquired pursuant to the exercise of stock options, which are exercisable.

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

Equity Compensation Plan Information					
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a))	

	(a)		(b)	(c)	
Equity compensation plans approved by stockholders	1,320,763 153,000 20,000	\$	.9000 ..1400 ..0625	5,768,300	(1)
Equity compensation plans not approved by stockholders	0		0	0	
Total	1,493,763	\$	.8100	5,768,300	

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

Period	Total Number of Shares Purchased		Average Price Paid per Share	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased under the Plans or Programs	
	(a)		(b)	(c)	
May 1, 2007 through April 30, 2008	0		0	5,768,300 shares	(1)
Total	0	\$	0	5,768,300 shares	

(1) Shares that may yet be purchased under the Butler National Board action as reported on Form 8-K by the Company on March 28, 2005.

### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In the normal course of business we purchased modifications services and avionics of approximately \$89,398, \$127,661, and \$163,800 from a company partially owned by David Hayden, a director for the Company during fiscal 2008, 2007, and 2006 respectively.

Included in accrued liabilities are \$73,758 and \$245,538 as of April 30, 2008, and 2007 respectively for amounts owed to our CEO for accrued compensation.

In fiscal 2008, there were three related-person transactions under the relevant standards: Butler National employed the brother (Wayne Stewart), son (Craig Stewart) and son-in-law (Jeff Shinkle) of Clark D. Stewart, an executive officer, as an engineer, a sales representative and public relations person, and an architect. Compensation for these related-persons was calculated in the same manner as the Summary Compensation table resulting in compensation of \$168,452, \$181,079, and \$120,428, respectively, for fiscal 2008, \$185,746, \$157,505, and \$126,791, respectively for fiscal 2007 and \$147,742, \$126,765, and \$122,331, respectively for fiscal 2006.

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

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

	<u>Fee Type</u>	<u>Fiscal 2008</u>	<u>Fiscal 2007</u>	
	Audit fees (a)	\$93,185	\$92,939	
	Audit related fees (b)	7,820	-	
	Tax fees (c)	18,715	19,377	
	All other fees (d)	-	-	
		-----	-----	
	Total	\$119,720	\$112,316	
		=====	=====	

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

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

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

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

The Audit Committee has adopted a policy requiring pre-approval by the committee of all services (audit and non-audit) to be provided to Butler by its independent auditor. In accordance with that policy, the Audit Committee has given its approval for the provision of audit services by Weaver and Martin LLC for fiscal 2009. Each year stockholders are asked to affirm the selection of the auditor by a vote requested in the proxy.

The audit committee has approved 100% of the fees listed in the above table.

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## PART IV

### Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

##### (1) Financial Statements:

<u>Description</u>	<u>Page No.</u>
Report of Independent Registered Public Accounting Firm	42
Consolidated Balance Sheet as of April 30, 2008 and 2007	43
Consolidated Income Statement for the years ended April 30, 2008, 2007, and 2006	44
Consolidated Statements of Stockholders' Equity for the years ended April 30, 2008, 2007, and 2006	45
Consolidated Statements of Cash Flows for the years ended April 30, 2008, 2007, and 2006	46
Notes to Consolidated Financial Statements	47-61

##### (2) Financial Statement Schedules

<u>Schedule</u>	<u>Description</u>	<u>Page No.</u>
II.	Valuation and Qualifying Accounts and Reserves for the years ended April 30, 2008, 2007, and 2006	61

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

##### (3) Exhibits Index:

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<u>No.</u>	<u>Description</u>	<u>Page No.</u>
3.1	Articles of Incorporation, as amended and restated, are incorporated by reference to Exhibit 3.1 of the Company's Form DEF 14A filed on December 26, 2001.	*
3.2	Bylaws, as amended, are incorporated by reference to Exhibit A of the Company's Form DEF 14A filed on December 15, 2003.	*
4.1	Certificate of Rights and Preferences of \$100 Class A Preferred Shares of the Company, are incorporated by reference to Exhibit 4.1 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994.	*
4.2	Certificate to Set Forth Designations, Preferences and Rights of Series C Participating Preferred Stock of the Company, are incorporated by reference to Exhibit 1 of the Company's Form 8-A (12G) filed on December 7, 1998.	*
10.1	1989 Nonqualified Stock Option Plan is incorporated by reference to the Company's Form 8-K filed on September 1, 1989 and as amended on Exhibit 4(a) of the Company's Form S-8 filed on February 20, 1998.	*
10.2	Nonqualified Stock Option Agreement dated September 8, 1989 between the Company and Clark D. Stewart is incorporated by reference to the Company's Form 8-K filed on September 1, 1989.	*
10.3	Agreement dated March 10, 1989 between the Company and Woodson Electronics, Inc. is incorporated by reference to the Company's Form 10-K for the fiscal year ended April 30, 1989.	*
10.4	Agreement of Stockholder to Sell Stock dated January 1, 1992, is incorporated by reference to the Company's Form 8-K filed on January 15, 1992.	*
10.5	Private Placement of Common Stock pursuant to Regulation D, dated December 15, 1993, is incorporated by reference to the Company's Form 8-K filed on January 24, 1994.	*
10.6	Stock Acquisition Agreement of RFI dated April 21, 1994, is incorporated by reference to Company's Form 8-K filed on July 21, 1994.	*
10.7	Employment Agreement between the Company and Brenda Lee Shadwick dated July 6, 1994, are incorporated by reference to Exhibit 10.7 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994.**	*
10.8	Employment Agreement between the Company and Clark D. Stewart dated March 17, 1994, are incorporated by reference to Exhibit 10.8 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994.**	*

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- 10.9 Employment Agreement among the Company, R.F., Inc. and Marvin J. Eisenbath dated April 22, 1994, are incorporated by reference to Exhibit 10.9 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994.\*\* \*
- 10.10 Real Estate Contract for Deed and Escrow Agreement between Wade Farms, Inc. and the Company, are incorporated by reference to Exhibit 10.10 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994. \*
- 10.11 1993 Nonqualified Stock Option Plan, are incorporated by reference to Exhibit 10.11 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994 and as amended on Exhibit 4(a) of the Company's Form S-8 filed on February 20, 1998. \*
- 10.12 1993 Nonqualified Stock Option Plan II, are incorporated by reference to Exhibit 10.12 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994 and as amended on Exhibit 4(a) of the Company's Form S-8 filed on February 20, 1998. \*
- 10.13 Industrial State Bank principal amount of \$500,000 revolving credit line, as amended, are incorporated by reference to Exhibit 10.13 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994. \*
- 10.14 Bank IV guaranty for \$250,000 dated October 14, 1994, are incorporated by reference to Exhibit 10.14 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994. \*
- 10.15 Bank IV loan in principal amount of \$300,000 dated December 30, 1993, are incorporated by Reference to Exhibit 10.15 of the Company's Form 10-K/A, as amended, for the year ended April 30, 1994. \*
- 10.16 Letter of Intent to acquire certain assets of Woodson Electronics, Inc., is incorporated by reference to Exhibit 10.16 of the Company's Form 10-K, as amended for the year ended April 30, 1995. \*
- 10.17 Asset Purchase Agreement between the Company and Woodson Electronics, Inc. dated May 1, 1996, is incorporated by reference to Exhibit 10.17 of the Company's Form 10-K, as amended for the year ended April 30, 1996. \*
- 10.18 Non-Exclusive Consulting, Non-Disclosure and Non-Compete agreement with Thomas E. Woodson dated May 1, 1996, is incorporated by reference to Exhibit 10.18 of the Company's Form 10-K, as amended for the year ended April 30, 1996. \*
- 10.19 1995 Nonqualified Stock Option Plan dated December 1, 1995, is incorporated by reference to Exhibit 10.19 of the Company's Form 10-K, as amended for the year ended April 30, 1996 and as amended on Exhibit 4(a) of the Company's Form S-8 filed on February 20, 1998. \*
- 10.20 Settlement Agreement and Release - Marvin J. Eisenbath and the Company dated April 30, 1997, is incorporated by reference to Exhibit 10.20 of the Company's Form 10-K, as amended for the year ended April 30, 1997. \*
- 10.21 \*



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Settlement Agreement and Release - Brenda Shadwick and the Company dated May 1, 1997, is incorporated by reference to Exhibit 10.21 of the Company's Form 10-K, as amended for the year ended April 30, 1997.

10.22	Preferred Stock Purchase Rights and Rights Agreement dated October 26, 1998 between the Company and Norwest Bank Minnesota are incorporated by reference to Exhibit 4(a) of the Company's Form 8-A filed on December 7, 1998.	*
14	Standards of Business Conduct and Ethics (EDGAR version only). Filed herewith*	*
21	List of Subsidiaries.	62
23.1	Consent of Independent Public Accountants.	63
27.1	Financial Data Schedule (EDGAR version only). Filed herewith.*	*
99	Cautionary Statement for Purpose of the "Safe Harbor" Provisions of the Private Securities Reform Act of 1995.	64-67
31.1	Certificate pursuant to 18 U.S.C 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	68
31.2	Certificate pursuant to 18 U.S.C 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	69
32.1	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	70
32.2	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	71

\* Incorporated by reference.

\*\* Relates to executive officer employment compensation.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

July 29, 2008

BUTLER NATIONAL CORPORATION

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Clark D. Stewart Clark D. Stewart	President, Chief Executive Officer and Director (Principal Executive Officer)	July 29, 2008
/s/ R. Warren Wagoner R. Warren Wagoner	Chairman of the Board and Director	July 29, 2008
/s/ David B. Hayden David B. Hayden	Director	July 29, 2008
/s/ Angela D. Shinabargar Angela D. Shinabargar	Chief Financial Officer (Principal Accounting Officer)	July 29, 2008

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

FINANCIAL STATEMENTS

AS OF APRIL 30, 2008

Report of Independent Registered Public Accounting Firm

Stockholders and Directors

Butler National Corporation

Olathe, Kansas

We have audited the accompanying consolidated balance sheets of Butler National Corporation as of April 30, 2008 and 2007 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended April 30, 2008, and the financial statement schedule listed as Schedule II on page 61. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Butler National Corporation as of April 30, 2008 and 2007 and the consolidated results of its operations, stockholder's equity, and cash flows for each of the three years in the period ended April 30, 2008 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Valuation and Qualifying Accounts and Reserves (Schedule II) on page 61 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/S/ Weaver & Martin, LLC

Kansas City Missouri

July 29, 2008

BUTLER NATIONAL CORPORATION  
 CONSOLIDATED BALANCE SHEETS  
 as of April 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>		<u>2008</u>	<u>2007</u>
ASSETS			LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash	\$2,969,715	\$1,789,169	Bank overdraft payable	\$ 144,024	\$ 186,646

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Accounts receivable, net of allowance for doubtful			Promissory notes payable	711,081	749,784
	1,289,898	961,504			
accounts of \$75,040 in 2008 and \$154,233 in 2007			Current maturities of long-term debt and capital lease obligations	4,643,567	4,450,341
			Accounts payable	558,085	487,551
Inventories -			Customer deposits	1,417,503	558,020
Raw materials	5,094,274	4,977,229	Accrued liabilities		
Work in process	370,345	286,278	Compensation and compensated absences	428,775	500,843
	-	1,532,344	Accrued income tax	324,643	60,000
Real estate construction in process			Other	269,868	283,281
Finished goods	2,170,723	73,817			
Aircraft	4,772,767	5,049,118			
	-----		Total current liabilities	8,497,546	7,276,466
	12,408,109	11,918,786			
			LONG-TERM DEBT, AND CAPITAL LEASE NET OF CURRENT MATURITIES	6,416,184	2,521,380
Prepaid expenses and other current assets	207,419	112,333			
	-----				
	16,875,141	14,781,792		14,913,730	9,797,846
Total current assets			Total liabilities		

PROPERTY, PLANT AND EQUIPMENT			COMMITMENTS AND CONTINGENCIES		
			STOCKHOLDERS' EQUITY:		
	4,216,320	2,311,656	Preferred stock, par value \$5:		
Land and building					
	2,069,332	1,598,468	Authorized		
Machinery and equipment			50,000,000		
			shares, all classes		
	802,127	688,823	Designated		
Office furniture and fixtures			Classes A and B		
			200,000 shares		
	4,249	4,249			
Leasehold improvements			\$1,000		
			Class A,		
			9.8%,		
			cumulative		
			if earned		
	-----		liquidation and		
			redemption value		
	7,092,028	4,603,196	\$100,		
			no shares		
			issued and		
			outstanding		
	(2,385,105)	(2,324,637)			
Accumulated depreciation			\$1,000		
			Class B,		
			6%,		
			convertible		
			cumulative,		
	-----				
			liquidation		
			and		
			redemption		
			value		
	4,706,923	2,278,559	\$1,000		
			no		
			shares		
			issued		
			and		
			outstanding		
SUPPLEMENTAL TYPE CERTIFICATES	2,057,019	1,495,175	Common stock, par value \$.01:		

			Authorized 100,000,000 shares		
			issued and outstanding 55,091,109 shares		
				550,911	538,247
ADVANCES FOR GAMING DEVELOPMENTS			in 2008 and 53,824,701 in 2007		
	1,806,551	1,806,551			
(net of reserves of \$3,346,623 in 2008 and 2,912,440 in 2007)			Common stock, owed but not issued 278,573 shares		
			in 2008 and 587,768 shares in 2007	2,786	5,877
			Capital contributed in excess of par	11,076,238	10,817,792
			Treasury stock at cost (600,000 shares)	(732,000)	(732,000)
OTHER ASSETS	1,658,224	83,400	Retained earnings	1,292,193	17,715
				-----	-----
				12,190,128	10,647,631
				Total stockholders' equity	
	-----	-----		-----	-----
Total Assets	\$7,103,858	\$0,445,477	Total liabilities and stockholders' equity	\$7,103,858	\$0,445,477
	=====	=====		=====	=====

The accompanying notes are an integral part of these financial statements  
**BUTLER NATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEARS ENDED APRIL 30, 2008, 2007 AND 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>			
Aircraft / Modifications	\$ 8,646,562	\$ 6,696,737	\$ 7,580,980
Avionics / Defense	5,024,781	3,538,422	2,894,086
Management / Professional Services	3,975,222	4,445,883	4,832,061
	-----	-----	-----
Net Revenues	17,646,565	14,681,042	15,307,127

COST OF  
SALES

Aircraft / Modifications	6,084,283	5,927,713	6,972,593
Avionics / Defense	2,362,073	2,061,196	1,265,592
Management / Professional Services	1,653,894	1,645,031	2,614,938
	-----	-----	-----
Total Cost of Sales	10,100,250	9,633,940	10,853,123
	-----	-----	-----
GROSS PROFIT	7,546,315	5,047,102	4,454,004
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(5,343,755)	(3,795,772)	(3,517,125)
	-----	-----	-----
OPERATING INCOME	2,202,560	1,251,330	936,879
OTHER INCOME (EXPENSE)			
Interest expense	(639,732)	(568,712)	(507,904)
Other	72,172	34,607	8,886
	-----	-----	-----
		(534,105)	(499,018)
Other expense	(567,560)		
	-----	-----	-----
INCOME BEFORE PROVISION FOR INCOME TAXES	1,635,000	717,225	437,861
PROVISION FOR INCOME TAXES	360,522	111,680	72,316
	-----	-----	-----
NET INCOME	\$ 1,274,478	\$ 605,545	\$ 365,545
	=====	=====	=====
BASIC EARNINGS PER COMMON SHARE	\$ 0.02	\$ 0.01	\$ 0.01
	=====	=====	=====
Shares used in per share calculation	53,815,092	53,055,224	52,577,348
	=====	=====	=====
DILUTED EARNINGS PER COMMON SHARE	\$ 0.02	\$ 0.01	\$ 0.01
	=====	=====	=====





Issuance of stock Benefit Plan																				
Net income			-		-			-			-			605,545			605,545			
	-----		-----		-----		-----		-----		-----		-----		-----		-----		-----	
BALANCE, April 30, 2007	\$	538,247	\$	5,877	\$	10,817,792	\$	(732,000)	\$	17,715	\$	18,647,631								
Issuance of stock owed from prior period		3,091		(3,091)				-												
Issuance of stock Benefit Plan		9,573		-		258,446														268,019
Net income				-				-						1,274,478			1,274,478			
	=====		=====		=====		=====		=====		=====		=====		=====		=====		=====	
BALANCE, April 30, 2008	\$	550,911	\$	2,786	\$	11,076,238	\$	(732,000)	\$	1,292,193	\$	12,901,28								

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

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED APRIL 30, 2008, 2007, AND 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,274,478	\$ 605,545	\$ 365,545

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Adjustments to reconcile net income (loss) to net cash

provided by (used in) operations

-			
Depreciation	160,933	158,084	119,797
Impairment of fixed assets	302,537	-	-
Amortization	258,156	232,504	168,729
Provision for obsolete inventories	20,130	21,166	36,759
Stock issued for Benefit Plan	268,019	212,977	144,345
Loss on disposal of fixed asset	70,224	-	-

Changes in assets and liabilities

-			
Accounts receivable	(328,394)	(282,418)	651,197
Inventories	(811,991)	(941,398)	(1,821,242)
Prepaid expenses and other current assets	(1,669,910)	(44,769)	(37,534)
Accounts payable	27,912	(218,816)	(369,938)
Customer deposits	859,483	538,020	(104,614)
Accrued liabilities	179,162	61,885	(8,886)
	-----	-----	-----
Cash provided by (used in) operating activities	610,739	342,780	(855,842)
	-----	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	(2,659,520)	(80,682)	(218,406)
Supplemental Type Certificates	(820,000)	(506,244)	100,000
	-----	-----	-----
Cash provided by (used in) investing activities	(3,479,520)	(586,926)	(118,406)
	-----	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES

Borrowings under promissory notes, net	(38,703)	(1,643,823)	(813,345)
Borrowings under long-term debt and capital lease obligations	7,838,718	3,570,587	2,089,885
Repayments of long-term debt and capital lease obligations	(3,750,688)	(819,026)	(443,669)
	-----	-----	-----
Cash provided by (used in) financing activities	4,049,327	1,107,738	832,871
	-----	-----	-----

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NET INCREASE (DECREASE) IN CASH	1,180,546	863,592	(141,378)
CASH, beginning of year	1,789,169	925,577	1,066,955
CASH, end of year	\$ 2,969,715	\$ 1,789,169	\$ 925,577
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	\$ 615,649	\$ 555,492	\$ 490,585
Income taxes paid	95,879	51,680	122,257
NON CASH FINANCING ACTIVITIES			
Stock Issued for benefit plan	\$ 268,019	\$ 212,977	\$ 144,345

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

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The accompanying consolidated financial statements include the accounts of Butler National Corporation (BNC) and its wholly-owned active subsidiaries, Avcon Industries, Inc., AVT Corporation, BCS Design, Inc., Butler National Services, Inc., Butler National Service Corporation, Butler National Corporation-Tempe, Butler National, Inc., Butler Temporary Services, Inc., and Kansas International Corporation (collectively, The Company). All significant intercompany transactions have been eliminated in consolidation.

Avcon Industries, Inc. modifies business category aircraft at its Newton, Kansas facility. Modifications can include passenger-to-freighter configuration, addition of aerial photography capability, and stability enhancing modifications. Butler National Inc. acquires airplanes, principally Learjets, to refurbish and sell. Butler National Corporation-Tempe is primarily engaged in the manufacture of airborne switching units used in Boeing McDonnell Douglas aircraft, electronic upgrades for classic weapon control systems used by the military, and transient suppression devices for Boeing 747 Classic aircraft. Butler National Services is principally engaged in monitoring remote water and wastewater pumping stations through electronic surveillance. Butler National Service Corporation is a management consulting and administrative services firm providing business planning and financial coordination to Indian tribes interested in owning and operating casinos under the terms of the Indian Gaming Regulatory Act of 1988. BCS Design provides professional architectural services.

- a. Allowance for Doubtful Accounts: Allowance for doubtful accounts are calculated on the historical write-off of doubtful accounts of the individual subsidiaries. Invoices are generally considered a doubtful account if no payment has been made in the past 90 days. We review these policies on a quarterly basis, and based on these reviews, we believe we maintain adequate reserves.
- b. Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting

principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our financial statements.

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

Inventory obsolescence is examined on a regular basis. Inventory that has been inactive for a period of two years without use in normal and current productions are reserved as obsolete. The obsolete inventory generally consists of Falcon and Learjet parts and electrical components.

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

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

- e. Impairment of Goodwill, Other Intangible Assets and Long-lived Assets: We comply with the provisions of Statement of Financial Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), which requires that we evaluate our goodwill and other assets for impairment at least annually or whenever events or circumstances indicate the carrying value of that asset may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. We determined that as of April 30, 2008 an impairment of \$302,537 was necessary for properties in Junction City as a result of the decline in the housing market.
- f. Advances for Gaming Developments: We are advancing funds for the establishment of gaming. These funds have been capitalized in accordance with Statements of Financial Accounting Standards (SFAS) 67 "Accounting for Costs and Initial Rental Operations of Real Estate Projects." Such standard requires costs associated with the acquisition, development, and construction of real estate and real estate-related projects to be capitalized as part of that project.

Our advances represent costs to be reimbursed upon approval of gaming in several locations. We have agreements in place which require payments to be made to us for the respective projects upon opening of Indian gaming facilities. Once gaming facilities have gained proper approvals, we plan to enter into a note receivable arrangement with the Tribe to secure reimbursement of advanced funds for that particular project.

We have advanced and invested a total of \$5,153,174 at April 30, 2008 and \$4,718,991 at April 30, 2007 in gaming developments. We have reserves of \$3,346,623, at April 30, 2008 and \$2,912,440 at April 30, 2007. We believe that our advances for gaming developments will be totally reimbursed as casinos are opened. We believe it is necessary to establish reserves against the advances because all of the proposed casinos are involved in legal and governmental actions whose outcome is not certain nor is there any time frame for resolution. The reserve amount is an estimate of the value we would receive if a casino was not opened and we were forced to liquidate the assets that we have acquired with our advances. These assets were intended to be used with casinos and consist of the purchase of land and land improvements related to the development of Gaming facilities. We believe that these tracts could be developed and sold for residential and commercial use to recover our advances if the gaming enterprises do not open.

In fiscal year 2008 we added a reserve of approximately \$434,000 for the proposed Dodge City gaming developments. We determine annually the amount of any increase in reserves based on our determination of the fair value of assets acquired by our advances for gaming developments.

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

			2008		2007	
			-----		-----	
	Direct labor	\$	417,514	\$	417,514	
	Direct materials		280,262		280,262	
	Consultant costs		,914,829		1,914,829	
	Overhead		690,780		690,780	
	STC - acquisition		820,000		-	
			-----		-----	
			4,123,385		3,303,385	
	Less-Amortized costs		2,066,366		1,808,210	
			-----		-----	
	STC balance	\$	2,057,019	\$	1,495,175	
			=====		=====	

- h. Bank Overdraft Payable: Our cash management program results in checks outstanding in excess of bank balances in the general disbursement account. When checks are presented to the bank for payment, cash deposits in amounts sufficient to fund the checks are made from funds provided under the terms of our promissory notes agreement.
- i. Financial Instruments: The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses, and accrued employee costs approximate fair value because of the short-term maturity of these instruments. Fair values are based on quoted market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of perceived risk. Based upon borrowing rates currently available, the carrying value of notes payable long-term debt and capital lease obligations approximate fair value.

j. Revenue Recognition: We perform aircraft modifications under fixed-price contracts. Revenues from fixed-price contracts are recognized on the percentage-of-completion method, measured by the direct labor costs incurred compared to total estimated direct labor costs. Revenue for commercial off-the-shelf items and aircraft sales is recognized on the date of sale.

Revenue from Avionics are recognized when shipped and payment for materials are due within 30 days of invoicing. Revenue for SCADA services, Gaming Management, and other Corporate/Professional Services are recognized on a monthly basis as services are rendered. Payments for these services are received within 30 days of invoicing.

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

k. Advanced Payments and Billings in Excess of Costs Incurred: We receive advances, performance-based payments and progress payment from customers which may exceed costs incurred on certain contracts. We classify advance payments and billings in excess of costs incurred, other than those reflected as a reduction of contracts in process, as current liabilities.

l. Earnings Per Share: Earnings per common share is based on the weighted average number of common shares outstanding during the year. Stock options have been considered in the dilutive earnings per share calculation.

The computation of the company's basic and diluted earnings per common share is as follows:

			2008			2006			2005	
Net income		\$	1,274,478		\$	605,545		\$	365,545	
Weighted average common shares outstanding			53,815,092			53,055,224			52,577,348	
Dilutive effect of non-qualified stock option plans			113,342			124,766			116,325	
Weighted average common shares outstanding, assuming dilution			53,928,434			53,179,990			52,693,673	
Basic earnings per common share		\$	.02		\$	.01		\$	.01	
Diluted earnings per common share		\$	.02		\$	.01		\$	.01	

- m. Stock-based Compensation: We account for non-employee stock-based awards in which goods or services are the consideration received for the equity instruments issued in accordance with the provisions of SFAS No. 123(R).

We have nonqualified stock option plans which provide key employees and consultants an opportunity to acquire ownership in the Company. Options are granted under these plans at exercise prices equal to fair market value at the date of the grant, generally exercisable immediately, and expire in 10 years. We account for these plans under Statement of Financial Accounting Standards No. 123(R). The Company did not grant options for the fiscal years ending 2008, 2007, and 2006; therefore, there are no expenses relating to option grants for those periods. There are 5,768,300 approved option shares available to grant under these plans. The approved plan expiration date is December 31, 2010.

- n. Income Taxes: Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred taxes, which arise principally from temporary differences between the period in which certain income and expense items are recognized for financial reporting purposes and the period in which they affect taxable income, are included in the amounts provided for income taxes. Under this method, the computation of deferred tax assets and liabilities give recognition to enacted tax rates in effect in the year the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that we expect to realize.
- o. Cash and Cash Equivalents: Cash and cash equivalents consist primarily of cash and investments in a money market fund. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. We maintain cash in bank deposit accounts that, at times, may exceed federally insured limits. At April 30, 2008 we had \$2,663,419 in bank deposits that exceeded the federally insured limits.
- p. Concentration of Credit Risk: We extend credit to customers based on an evaluation of their financial condition and collateral is not required. We perform ongoing credit evaluations of our customers and maintain an allowance for doubtful accounts.
- q. Research and Development: We charge to operations research and development costs. The amount charged in the year ended April 30, 2008 and 2007 was approximately \$4,265,743 and \$1,945,839 respectively.
- r. Warranties: We warrant to our customer that our products and services are in good working order at the time of delivery. We warrant that these products will continue to be serviceable for periods from 90 days to up to a maximum of 36 months. Our products are tested and accepted by the customer prior to their release. For the years ended April 30, 2008, 2007, 2006 we had no beginning warranty reserve, no additions to warranty reserves, and no reductions to the warranty reserve.

In each of the three years ended April 30, 2008, 2007, 2006 our warranty expense was immaterial.

- s. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 allows the company to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is not effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company's financial position, results of operation or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, rather, its application will be made pursuant to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. The provisions of SFAS No. 157 are to be applied prospectively upon adoption, except for limited specified exceptions. We are evaluating the requirements of SFAS No. 157 and do not expect the adoption to have a material impact on our Consolidated Balance Sheet or Statement of Operations.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations". SFAS 141 (Revised) establishes principals and requirements for how an acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquirer. This statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective for the fiscal year beginning after December 15, 2008. The adoption of SFAS 141 (Revised) is not expected to have a material impact on the Company's financial position, results of operation or cash flows.

- t. Accounts receivable: Accounts receivable are carried on a gross basis, with no discounting, less the allowance for doubtful accounts. Management estimates the allowance for doubtful accounts based on existing economic conditions, the financial conditions of the customers, and the amount and the age of past due accounts. Receivables are considered past due if full payment is not received by the contractual due date. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted.
- u. Real estate construction in progress: We are building some residential housing on real estate that we own. We account for each structure separately and recognize our revenues and expenses on the percentage of completion method of accounting. We have some real estate that we have not begun construction and have allocated costs on a per lot basis.

Reclassifications: Certain reclassifications within the financial statement captions have been made to maintain consistency in presentation between years.

## 2. DEBT:

Principal amounts of debt at April 30, 2008 and 2007, consist of the following:

<u>Promissory Notes</u>		<u>2008</u>	<u>2007</u>
Bank Line of Credit, available LOC \$1,000,000			
interest at prime plus 2% (7.25% at April 30, 2008 - with a	\$711,081	\$	749,784
floor of 7%) due January 16, 2009, collateralized by a			
first or second position on all assets of the Company.			
	-----		-----
	\$ 711,081	\$	749,784
	=====		=====
<u>Other Notes Payable and Capital Lease Obligations</u>			
Notes payable, interest at prime plus 2% - with a floor	\$	-	\$ 89,486
of 6%) notes were paid off and assets released at April			
30 2008. Collateralized by Aircraft Security			
Agreements.			
Note payable, interest at prime plus 1%, (6.00% at April	200,000		320,000
30, 2008 - with a floor of 6%) due date August 2009			
collateralized by Aircraft Security Agreements.			
Note payable, interest at prime plus 1%, (6.00% at April	509,841		629,841
30, 2008 - with a floor of 6%) due June 17, 2010			
collateralized by Aircraft and Engine Security Agreements.			
Agreements.			



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Note payable, interest at 9.50% due July 11, 2007		-	553,431
collateralized by Aircraft and Engine Security Agreements.			
Note payable, interest at 9.50% due July 11, 2007		-	1,116,231
collateralized by Aircraft and Engine Security Agreements.			
Note payable, interest at bank prime (5.0% at April 30, 2008) due March 1013, collateralized by real estate.	573,995		263,454
Note payable, interest at bank prime (5.0% at April 30, 2008) due March 1013, collateralized by real estate.	1,474,848		831,129
Note payable, interest rate fixed at 6.5% due February 28, 2009 collateralized by real estate.	98,070		100,897
Note payable, interest at 7.25% at April 30, 2008, Renewed and due October 2008, collateralized by real estate.	1,053,646		436,007
Note payable, interest at 6.5% at April 30, 2008, Renewed and due August 2008, collateralized by real estate.	924,521		940,955
Note payable, interest at 7.5% at April 30, 2008, Due November 2012, collateralized by real estate.	1,363,75		-
Note payable, interest at prime plus 2% (7.2% at April 30, 2008 - with a floor of 7%) due January 2014, collateralized by a first or second position on all assets	1,301,624		1,462,505



	2011		970,331	
	2012		985,499	
	2013		1,215,294	
	Thereafter		1,836,720	
			-----	
		\$	11,059,751	
			=====	

## 3. INCOME TAXES:

Deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provision of the enacted tax laws. We have cumulative temporary differences which would result in the recognition of net deferred tax assets. A valuation allowance has been provided which reduces the net deferred tax asset to zero.

The deferred taxes are comprised of the following components:

	<u>April 30, 2008</u>	<u>April 30,</u> <u>2007</u>
Deferred tax assets		
Accounts receivable reserve	\$ 29,000	\$ 59,000
Inventory and other reserves	739,000	523,000
Reserves for Advances for gaming developments	63,000	597,000
Net operating loss carryforwards	-	436,000
	-----	-----
Total gross deferred tax assets	831,000	1,615,000
Valuation allowance	(784,000)	(1,551,000)
	-----	-----
Total deferred tax assets	\$ 47,000	\$ 64,000
	=====	=====

Deferred tax liabilities

:			
Depreciation	\$	47,000	\$ 58,000
Accrued interest		-	6,000
		-----	-----
Total deferred tax liabilities	\$	47,000	\$ 64,000
		=====	=====

Net deferred tax assets at April 30, 2008 and 2007 have been fully offset by a valuation allowance as management feels it is more likely than not that the Company will not ultimately realize any benefits.

A reconciliation of the provision for income taxes to the statutory federal rate for continuing operations is as follows:

		<u>2008</u>	<u>2007</u>	<u>2006</u>	
	Statutory federal income tax rate	34.0%	34.0%	34.0%	
	Change in valuation allowance	(46.9%)	(72.9%)	(102.7%)	
	Nondeductible expenses	34.9%	40.1%	70.2%	
	Effective tax rate	22.0%	1.2%	1.5%	

Tax expenses of \$360,522 are comprised of \$239,467 in federal income tax and \$121,055 in state income tax for the year ended April 30, 2008.

As of April 30, 2008, the Company has accrued income taxes due to the federal and state government of \$324,643.

#### 4. STOCKHOLDERS' EQUITY:

##### Common Stock Transactions

During the year ended April 30, 2008, we issued 309,195 shares of common stock that were owed as of April 30, 2007. As of April 30, 2008, we had 278,573 shares of common stock owed but not issued.

During the year ended April 30, 2008, we issued 957,213 shares valued at \$268,019 as the match to the Company's 401(k) plan.

During the year ended April 30, 2007, we issued 3,683,066 shares of common stock that were owed as of April 30, 2006. As of April 30, 2007, we had 587,768 shares of common stock owed but not issued.

During the year ended April 30, 2007, we issued 760,632 shares valued at \$212,978 as the match to the Company's 401(k) plan.

During the year ended April 30, 2006, we issued 471,149 shares valued at \$141,345 as the match to the Company's 401(k) plan.

During the year ended April 30, 2005, we agreed to issue, in a cashless exercise, 11,825,598 shares in connection with the exercise of employee stock options granted through the Company's Non Qualified Stock Option Plans. As of April 30, 2008, 11,237,864 of these shares have been issued and 278,573 shares have not been issued and are shown on the financial statements as "Stock owed but not issued".

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5. STOCK OPTIONS AND INCENTIVE PLANS

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

We have nonqualified stock option plans which provide key employees and consultants an opportunity to acquire ownership in the Company. Options are granted under these plans at exercise prices equal to fair market value at the date of the grant, generally exercisable immediately, and expire in 10 years. We account for these plans under Statement of Financial Accounting Standards No. 123(R). The Company did not grant options for the fiscal years ending 2008, 2007, and 2006; therefore, there are no expenses relating to option grants for those periods. There are 5,768,300 approved option shares available to grant under these plans. The approved plan expiration date is December 31, 2010.

	<u>2008</u>	<u>2007</u>	<u>2006</u>	
Options exercisable at April 30	1,493,763	1,493,763	1,493,763	
Weighted average fair value per share	.81	.81	.81	
Options granted per year				
Range of Exercise Prices	Number Outstanding and Exercisable	Weighted Average Remaining Contract Life	Weighted Average Exercise and Outstanding Price	
\$0.9000	1,320,763	2.7 years	.9000	
\$0.1400	153,000	2.7 years	.1400	

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\$0.0625	20,000	2.7 years	.0625	
		<u>Options</u>	<u>Average Price</u>	
Outstanding Beginning 04/30/2005		1,493,763	\$	0.81
Granted		-		
Cancelled		-		
Exercised		-		
Outstanding Ending 04/30/2006		1,493,763	\$	0.81
Outstanding Beginning 04/30/2006		1,493,763	\$	0.81
Granted		-		
Cancelled		-		
Exercised		-		
Outstanding Ending 04/30/2007		1,493,763	\$	0.81
Outstanding Beginning 04/30/2007		1,493,763	\$	0.81
Granted		-		
Cancelled		-		
Exercised		-		
Outstanding Ending 04/30/2008		1,493,763	\$	0.81

There are 5,768,300 approved option shares available to grant under these plans. The approved plan expiration date is December 31, 2010.

**6. COMMITMENTS**

:

**Lease Commitments**

We lease space under operating leases with initial terms of three (3) years for Florida and ten (10) years in Kansas. Total rental expense incurred for the years ended April 30, 2008, 2007, and 2006, was \$239,600, \$242,411, and \$191,441, respectively.

Minimum lease commitments under noncancellable operating leases for the next five (5) years are as follows:

<u>Year Ending Apr-30</u>		<u>Amount</u>
2009	\$	175,455
2010		180,545
2011		175,137
2012		135,911
2013		135,911
Thereafter		337,698
	\$	1,140,657

**7. CONTINGENCIES:**

We are involved in various lawsuits incidental to our business. Management believes the ultimate liability, if any, will not have an adverse effect on the Company's financial position or results of operations.

Due to our financial condition, and the need to reduce expenses, the board of directors approved the elimination of product liability insurance in August, 1989.

**8. RELATED-PARTY TRANSACTIONS:**

In the normal course of business we purchased modifications services and avionics of approximately \$89,398, \$127,661, and \$163,800 from a company partially owned by David Hayden, a director for the Company during fiscal 2008, 2007, and 2006 respectively.

Included in accrued liabilities are \$73,758 and \$245,538 as of April 30, 2008, and 2007 respectively for amounts

owed to our CEO for accrued compensation.

#### 9. 401(K) SAVINGS PLAN

We have a defined contribution plan authorized under Section 401(k) of the Internal Revenue Code. All benefits-eligible employees with at least thirty days of service are eligible to participate in the plan; however there are only two entry dates per calendar year. Employees may contribute up to twelve percent of their pre-tax covered compensation through salary deductions. The Plan may match subject to the annual approval of the Board of Directors, 100 percent of every pre-tax dollar an employee contributes up to 6% of the employee's salary. Employees are 100 percent vested in the employer's contributions immediately. Our matching share contribution, at the then current market value, in 2008, 2007, and 2006 was approximately \$268,020, \$212,977, and \$141,345 respectively. If approved by the Board of Directors, the Company match is paid in common stock of the Company.

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

##### Industry Segmentation

The Company's operations have been classified into six segments in 2008, 2007, and 2006.

##### Aircraft Modifications

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

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

**Aircraft - Acquisition, Modification and Sales** - Our subsidiary, Butler National, Inc., purchases airplanes, principally Learjets, modifies the planes and sells the planes directly to customers or receives a broker fee for placing an airplane with a customer. Also, the Company-owned aircraft are sometimes used to prove the design, testing and compliance of STC modifications during the FAA approval process

**Services - SCADA (Supervisory Control and Data Acquisition) Systems and Monitoring Services** - Principally includes the monitoring and related repair services of water and wastewater remote pumping stations through electronic surveillance for municipalities and the private sector. We provide these services through our subsidiary, Butler National Services, Inc. ("Monitoring Services" or "BNS").

**Corporate / Professional Services** - Provides as a management service licensed architectural services through our subsidiary, BCS Design, Inc. These services include commercial and industrial building design. We have expanded this segment to include aviation-related engineering consulting services and operate as the Butler



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National Aircraft Certification Center ("BNACC").

**Gaming** - Principally includes business management services and advances to Indian tribes in connection with the Indian Gaming Regulatory Act of 1988. We provide these management services and advances through our subsidiary, Butler National Service Corporation ("Management Services", "Gaming" or "BNSC").

Year ended April 30, 2008

	Gaming	Avionics	Modifications	Services	Aircraft	Corporate
Net Sales	\$ 1,507,049	\$ 5,024,781	\$ 8,646,562	\$ 1,557,792	\$ 0	\$ 910,381
Depreciation	0	85,679	26,476	18,154	0	30,624
Operating profit (loss) (a)	380,979	842,553	814,599	138,133	0	26,296
Capital Expenditures, net	2,015,899	11,019	14,047	0	0	618,555
Interest, net						
Other income						
Income before tax						
Income taxes						
Net profit						
Identifiable assets	4,302,662	5,927,915	4,924,442	364,198	4,856,167	6,728,474

Year ended April 30, 2007

	Gaming	Avionics	Modifications	Services	Aircraft	Corporate
Net Sales	\$ 1,668,227	\$ 3,538,422	\$ 6,696,737	\$ 2,403,065	\$ 0	\$ 374,591
Depreciation	0	69,421	32,130	26,291	0	30,242
	890,465	286,995	(227,368)	185,736	0	115,502

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Operating  
profit (loss)  
(a)

Capital Expenditures	0	63,629	0	17,053	0	0
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Interest, net

Other income

Income before  
tax

Income taxes

Net profit

Identifiable assets	1,989,676	4,719,138	5,598,200	377,595	5,132,518	2,628,349
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Year ended April 30, 2006

	Gaming	Avionics	Modifications	Services	Aircraft	Corporate
Net Sales	\$ 1,292,222	\$ 2,894,086	\$ 7,580,980	\$ 1,440,400	\$ 0	\$ 2,099,439
Depreciation	0	64,145	34,299	(5,772)	0	27,125
Operating profit (loss) (a)	634,248	292,761	(303,064)	134,109	0	178,825
Capital Expenditures	0	30,461	22,728	30,267	0	134,950

Interest, net

Other income

Income before  
tax

Income taxes

Net profit

Identifiable assets	2,024,452	3,746,318	5,719,644	316,881	4,933,230	1,397,604
---------------------	-----------	-----------	-----------	---------	-----------	-----------

(a) Operating expenses not specifically identifiable are allocated based upon sales, costs of sales, square footage or other factors as considered appropriate.

#### Major Customers:

Sales to major customers (10 percent or more of consolidated sales) were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Avionics	15.8%	14.3%	10.7%
Indian Management Services	N/A*	10.7%	N/A*
Environmental Services (City Contract)	N/A*	12.2%	N/A*

\*Sales represented less than 10% of consolidated sales.

## 11. SELF FUNDED INSURANCE

In an effort to control our insurance costs and maintain quality health care coverage for our employees our health insurance policy became self funded on April 1, 2006, as the Butler National Corporation Employee Health Care Plan. The Plan has contracted with a managed care network of medical providers whose members have agreed to charge the Plan reduced or discounted charges for covered services provided to our employees and their families. Although our employees have the freedom to choose to receive care from any physician, hospital or other medical care provider, as a general rule the amount or percentage of an otherwise covered expense payable by the Plan will vary, depending on whether the provider from whom the employee receives care is a member of the Plan's PPO network(s). Generally, the Plan will pay a higher percentage of a covered expense if the care is received by a network provider. The Plan document, through a third party administrator controls all determinations related to coverage.

To be eligible for coverage under this Plan you must be both an employee and an eligible employee. An eligible employee must be regularly scheduled to work at least 32 hours per week, must have completed at least three months of employment and pay the employee's contribution share of the cost. Coverage is effective at 12:01 a.m. on the first day of the month coincident with or first following the date of eligibility.

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

The following table sets forth selected unaudited financial information for each quarter of fiscal 2008, 2007, and 2006 (in thousands, except per share amounts).

<u>2008</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
Revenue	\$ 4,707	\$ 4,234	\$ 4,259	\$ 4,446	\$ 17,646
Operating Income (Loss)	410	335	442	1,015	2,202
Nonoperating Income (Expense)	(178)	(148)	(249)	(353)	(928)
Net Income (Loss)	232	187	193	662	1,274
	.00	.01	.01	.01	.02

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Basic Earnings (Loss) per  
Share\*

Diluted Earnings (Loss) per Share*	.00	.01	.01	.01	.02
---------------------------------------	-----	-----	-----	-----	-----

\*Rounded to nearest  
tenth

<u>2007</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
Revenue	\$ 3,076	\$ 4,355	\$ 3,344	\$ 3,906	\$ 14,681
Operating Income (Loss)	164	432	28	627	1,251
Nonoperating Income (Expense)	(120)	(167)	(147)	(212)	(646)
Net Income (Loss)	44	265	(119)	415	605
Basic Earnings (Loss) per Share*	.01	.01	.01	.01	.01
Diluted Earnings (Loss) per Share*	.01	.01	.01	.01	.01

\*Rounded to nearest  
tenth

<u>2006</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
Revenue	\$ 4,112	\$ 5,053	\$ 3,071	\$ 3,072	\$ 15,307
Operating Income (Loss)	309	240	201	187	937

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Nonoperating Income (Expense)	(103)	(133)	(164)	(171)	(571)
Net Income (Loss)	206	107	37	15	365
Basic Earnings (Loss) per Share*	.01	.01	.02	.00	.01
Diluted Earnings (Loss) per Share*	.01	.01	.01	.00	.01

\*Rounded to nearest  
tenth

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

### 13. PRODUCT LINE ACQUISITION

On April 10, 2008, our subsidiary Avcon Industries, Inc. acquired the JET product line to add to our product line of "Classic Aviation Products". This product line includes product inventory, test equipment, technical documentation, intellectual property and other assets totaling approximately \$3,000,000. We paid cash for a portion of this product line and signed an obligation to the seller for the payment of the balance in four annual payments. We expect to fully transition the operations supporting the product to our facilities by January 2009.

### 14. DODGE CITY LAND ACQUISITION

On November 15, 2007, our subsidiary Butler National Service Corporation closed the purchase of property in Dodge City, Kansas. We invested \$2,015,899 in this property including the land, architecture fees, engineering fees, legal fees and related expenses to annex the property into the City of Dodge City and zone the property suitable for gaming under the KELA. This land investment was in support of the Gaming Management Contract signed by the Kansas Lottery Commission and forwarded to the KRGC Review Board on May 25, 2008.

### 15. SUBSEQUENT EVENTS

On June 24, 2008, our subsidiary Butler National Service Corporation borrowed a total of \$5,500,000 from a bank and an investor to advance the privilege fee deposit to the Kansas Lottery as required by the Gaming Management Contract signed by the Kansas Lottery Commission and forwarded to the KRGC Review Board on May 25, 2008. The deposit should be returned to us if we are not the successful applicant for the Southwest Gaming Zone. If we are the selected applicant, the deposit is the payment of the privilege fee to the State of Kansas.

## SCHEDULE II

## BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

## SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE YEARS ENDED APRIL 30, 2008, 2007 AND 2006

Description	Balance at Beginning of Year	Additions Charged to Costs and <u>Expenses</u>	<u>Deductions</u>	Balance at End of <u>Year</u>
Year ended April 30, 2008				
Allowance for doubtful accounts	\$ 154,233	\$ -	\$ 79,193	\$ 75,040
Reserve for inventory obsolescence	452,942	24,312	-	477,254
Reserve for Indian gaming development	2,912,440	434,183	-	3,346,623
Deferred interest (1)	15,446	-	15,446	-
Income tax valuation allowance	1,551,000	-	767,000	784,000
Year ended April 30, 2007				
Allowance for doubtful accounts	\$ 149,577	\$ 4,656	\$ -	\$ 154,233
Reserve for inventory obsolescence	431,776	21,166	-	452,942
Reserve for gaming development	2,912,440	-	-	2,912,440
Deferred interest (1)	31,620	-	16,174	15,446
Income tax valuation allowance	1,839,000	-	288,000	1,551,000

Year ended April 30, 2006

Allowance for doubtful accounts	\$	88,250	\$	61,327	\$	-	\$	149,577
Reserve for inventory obsolescence		395,020		36,756		-		431,776
Reserve for Indian gaming development		2,912,440		-		-		2,912,440
Deferred interest (1)		54,404		-		22,784		31,620
Income tax valuation allowance		2,068,000		-		229,000		1,839,000

(1) Interest to be paid as part of the note payable on discontinued operations.

Exhibit 21

Subsidiaries

Avcon Industries, Inc., a Kansas Corporation

Butler National Services, Inc., a Florida Corporation

BCS Design, Inc., a Kansas Corporation

Butler National, Inc., a Nevada Corporation

Butler Temporary Services, Inc., a Missouri Corporation

Butler National Corporation, a Nebraska Corporation

Kansas International Inc., a Kansas Corporation

Butler National Service Corporation, a Kansas Corporation

AVT Corporation, a Texas Corporation

Indian Gaming Corporation, a Kansas Corporation

HMRS Holdings, LLC, a Kansas Corporation



Consent of Independent Public Accountants

We consent to the incorporation by reference in the Form S-8 Registration Statements, File Numbers, 033-65256, 033-65254, 033-65890, 333-07735, 333-46791, 333-46795, 333-46797, and 333-46809 of our report dated July 29, 2008 with respect to the consolidated financial statements and schedule of Butler National Corporation included in the Annual Report Form 10-K for the year ended April 30, 2008.

/s/ Weaver & Martin, LLC

Kansas City, Missouri

July 29, 2008

Exhibit 99

CAUTIONARY STATEMENTS FOR PURPOSE OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Company desires to take advantage of the new "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is filing this exhibit in order to do so. The following important factors, among others, could affect the Company's actual results and could cause such results to differ materially from those expressed in the Company's forward-looking statements:

Factors That May Affect Future Results of Operations, Financial Condition or Business:

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

financial condition or business over time.

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

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

**Fuel and Energy Costs:** Our business depends on use of the aircraft for business transportation, freight transportation, and many special mission applications. Should our customers be unable to purchase fuel and energy and/or be unable to pass on disproportionate costs to their customers, the use of business and military aircraft by our customers may be curtailed. The value of the aircraft related assets would decrease and the revenues related to the aircraft equipment and modifications would decrease. These events could have a material adverse effect on our Company.

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

We are highly dependent upon our CEO and President, qualified executives, key electrical, mechanical, and structural engineers, technical staff, sales and marketing representatives, financial and administrative staff and production personnel. The loss of these key persons, whose knowledge, leadership and technical expertise upon which we rely, would harm our ability to execute our business plan.

Our success depends heavily upon the continued contributions of these key persons, whose knowledge, leadership and technical expertise would be difficult to replace, and on our ability to attract and retain experienced professional staff. We entered into an employment agreement with our CEO; however, we do not maintain key person insurance on any of these key persons. If we were to lose the services of these key persons, our ability to execute our business plan would be harmed and we may be forced to cease operations until such time as we could hire suitable replacements.

**Competition:** Increased competition, including the entry of new competitors, the introduction of

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

**Major Customers:** The termination of contracts with major customers or renegotiation of these contracts at less cost-effective terms, could have a materially adverse effect on the Company. Irregularities in financial accounting procedures, financial reporting requirements and regulatory reporting requirements could cause major customers to become unstable and be unable to complete business transactions which could have a materially adverse effect on the Company.

**Product Development:** Difficulties or delays in the development, production, testing and marketing of products, could have a materially adverse effect on the Company. The Company's aviation business is subject, in part, to regulatory procedures and administration enacted by and/or administered by the FAA. Accordingly, the Company's business may be adversely affected in the event the Company is unable to comply with such regulations relative to its current products and/or if any new products and/or services to be offered by the Company can or may not be formally approved by such agency. Moreover, the Company's proposed new aviation modification products will depend upon the issuance by the FAA of a supplemental type certificate with related parts manufacturing authority and repair station license, the issuance of which no assurances can be given.

**Adverse Actions:** Adverse actions by regulators, customers, competitors and/or professionals engaged to regulate or to serve the Company may cause project delays and excessive administrative costs not controllable by the Company.

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

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

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

- ◆ Deliver to the customer, and obtain a written receipt for, a disclosure document;
- ◆ Disclose certain price information about the stock;
- ◆ Disclose the amount of compensation received by the broker-dealer or any associated person of the broker-dealer;
- ◆ Send monthly statements to customers with market and price information about the penny stock; and

- ◆ In some circumstances, approve the purchaser's account under certain standards and deliver written statements to the customer with information specified in the rules.

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

In addition, some provisions of our Articles of Incorporation and Bylaws could make it more difficult for a potential acquirer to acquire a majority of our outstanding voting stock. This includes, but is not limited to, provisions that: provide for a classified board of directors, prohibit stockholders from taking action by written consent, and restrict the ability of stockholders to call special meetings. We are also subject to provisions of Kansas law K.S.A. 17-12, 101 that prohibit us from engaging in any business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder, unless certain conditions are met, which could have the effect of delaying or preventing a change of control.

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

**Licensing and Regulation under Federal Indian Law:** Before commencing gaming operations (Class II or Class III) on Indian Land, we must obtain the approval of various regulatory entities. Gaming on Indian land is extensively regulated by Federal, State, and Tribal governments and authorities. Regulatory changes could limit or otherwise materially affect the types of gaming that may be conducted on Indian Land. All aspects of our proposed business operations on Indian Lands are subject to approval, regulation, and oversight by the Bureau of Indian Affairs ("BIA"), the Secretary of the United States Department of the Interior ("Secretary"), and the National Indian Gaming Commission ("NIGC"). Our management of Class III gaming operations is also subject to approval of a Class III Gaming Compact between the Indian Tribe and the respective state. Failure to comply with applicable laws or regulations, whether Federal, State or Tribal, could result in, among other things, the termination of any management agreements which would have a material adverse effect on us. Management agreement terms are also regulated by the Indian Gaming Regulatory Act ("IGRA"), which restricts initial terms to five years and management fees to 30% of the net profits of the casino, except in certain circumstances where the term may be extended to seven years and the management fee increased to 40%. Management agreements with Indian Tribes will not be approved by the NIGC unless, among other things, background checks of the directors and officers of the manager and its ten largest holders of capital stock have been satisfactorily completed. We will also be required to comply with background checks as specified in Tribal-State Compacts before we can manage gaming operations on Indian land. Background checks by the NIGC may take up to 180 days and may be extended to 270 days. There can be no assurance that we would continue to be successful in obtaining the necessary regulatory approvals for our proposed gaming operations on a timely basis, or at all.

**Licensing and Regulation under State Law:** Our present and future stockholders are and will

continue to be subject to review by regulatory agencies. Gaming licenses may be required in connection with our proposed management of a State of Kansas owned Lottery Gaming Facility (a casino) and/or a Class III Indian casino on Indian land within the territorial boundaries of the State of Kansas. Our management personnel, Butler National and/or the managing subsidiaries, the key personnel of all entities and if applicable the appropriate Indian Tribe may be required to have gaming licenses for Class III gaming and/or a Lottery Gaming Facility gaming licenses in the respective state prior to conducting operations. The failure of the Company or the key personnel to obtain or retain a license could have a material adverse effect on the Company or on its ability to obtain or retain Class III licenses in other jurisdictions. Each such State Gaming Agency has broad discretion in granting, renewing, and revoking licenses. Obtaining such licenses and approvals will be time consuming and cannot be assured.

The State of Kansas has approved state owned Lottery Gaming Facilities, pari-mutuel dog and/or horse racing for non-Indian organizations. The State of Kansas operates a state lottery, keno games, and plans to operate state owned Lottery Gaming Facilities for the benefit of the State. The Lottery Gaming Facility management contract approval process requires that any entity or person owning one-half of one percent (0.5%) of the ownership interest of the management company must be found suitable to be an owner by the State of Kansas. Our subsidiary, Butler National Service Corporation, is planned to be the applicant. However, the State of Kansas has the right to require a finding of suitability for any individuals or entity associated with Butler National Corporation as the parent of Butler National Service Corporation.

There is no assurance that a Tribal/State Compact between the Tribes and the State of Kansas can be completed. If the Compact is not approved, there could be a material adverse effect on our plans for management of Class III gaming on Indian lands within the territorial boundaries of Kansas.

There is no assurance that a Lottery Gaming Facility management contract and/or the required state licenses will be awarded to us. If a Lottery Gaming Facility management contract is not awarded to us, there could be a material adverse effect on our plans to manage a state owned casino in Kansas.

If for some reason we are not awarded a management contract after selection by the Lottery Gaming Facility Review Board, there is no assurance that the State of Kansas will promptly refund the management fee deposit.

As a condition to obtaining and maintaining our Oklahoma Class III license or any other Class III license, we must submit detailed financial and other reports to the Indian Tribe and the respective federal and state regulatory Agencies ("the Agency"). Any person owning or acquiring 5% or more of the Common Stock of the Company must be found suitable by one or more of the agencies or the Indian Tribes ("the Interest"). Any Agency has the authority to require a finding of suitability with respect to any stockholder regardless of the percentage of ownership. If found unsuitable by any Agency or the Indian Tribe, the stockholder must offer all of the Ownership Interest in Company stock held by such stockholder to the Company for cash at the current market bid price less a fifteen percent (15%) administrative charge and the Company must purchase such Interest within ten days of the offer. The stockholder is required to pay all costs of investigation with respect to a determination of his/her suitability. In addition, regardless of ownership, each member of the board of directors and certain officers of the Company are subject to a finding of suitability by any Agency and the Indian Tribe.