

BUTLER NATIONAL CORP
Form 10-K
July 28, 2011

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

FORM 10-K

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

Mark One

[X]

For the fiscal year ended **April 30, 2011**
or

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

For the transition period from _____ to _____.

Commission File Number **0-1678**

BUTLER NATIONAL CORPORATION

(Exact name of Registrant as specified in its charter)

Kansas

41-0834293

(State of Incorporation)

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

19920 West 161st Street, Olathe, Kansas 66062

(Address of principal executive office)(Zip Code)

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

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

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

Common Stock \$.01 Par Value

(Title of Class)

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

Yes [] No [X]

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller Reporting Company ☐

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 **\$30,312,811** at July 22, 2011, when the average bid and asked prices of such stock was \$0.71.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of July 22, 2011, was **57,194,262** shares.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

This Form 10-K consists of 72 pages (including exhibits). The index to exhibits is set forth on pages 37-39.

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.

Except as expressly required by the federal securities laws, we undertake no obligation to publicly update or revise our forward looking statements, whether as a result of new information or future events, after the date of this report.

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 the interim period the Company has extended an agreement for transition services.

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

In September 2010 we expanded this division by the acquisition of Kings Avionics Inc. The acquisition of Kings Avionics allows us to transition into the new technology available in avionics. Kings Avionics sells, installs and repairs avionics equipment (airplane radio equipment and flight control systems). These systems are flight display systems which include intuitive touchscreen controls with large display to give users unprecedented access to high-resolution terrain mapping, graphical flight planning, geo-referenced charting, traffic display, satellite weather and much more. Kings is also recognized nationwide for its troubleshooting and repair work particularly on autopilots.

Services - SCADA (Supervisory Control and Data Acquisition) Systems and Monitoring Services - principally includes 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 - principally includes providing 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 provided by our subsidiary, Butler National Service Corporation ("BNSC"). We provide management services to the Boot Hill Casino and Resort which commenced operations on December 15, 2009 through our subsidiary BHCMC, LLC, a Kansas limited

liability company jointly owned by BNSC and BHC Investment Company, L.C. (BHCI). BHCI is not a related party.

Assets as of April 30, 2011 and Revenue for the year ended April 30, 2011

<u>Industry Segment</u>	<u>Assets</u>	<u>Revenue</u>
Aircraft Modifications	20.34%	29.9%
Avionics	16.24%	11.0%
Gaming	26.74%	53.7%
Monitoring Services	2.16%	3.4%
Corporate / Professional Services	34.52%	2.0%

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 and/or background investigations ("License") may be required in connection with our 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 Corporation 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 in the respective location prior to conducting operations. The failure of the Company or the key personnel to obtain or retain Licenses could have a material adverse effect on the Company or on its ability to obtain or retain Licenses in other jurisdictions. A 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 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 operates 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 satisfactorily pass a background investigation by the State of Kansas.

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.

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 ("Agency"). Any person owning or acquiring 5% or more of our common stock must be found suitable by one or more of the agencies or the Indian Tribes ("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 three year period ended April 30, 2011.

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 Modification products are handled directly through Avcon. Specialty modifications are quoted individually by job. We are geographically located in the Wichita, Kansas area, the air capital of the world for Aircraft Modifications products.

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. We received the fin STC for the Learjet 25D/F Series on March 30, 2009. We expect to have other models approved as dictated by our customer base.

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.

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 requires that aircraft are now separated by 1,000 feet vertically instead of the prior 2,000 feet.

In April 2004, the FAA issued a Learjet 20 Series RVSM Group Approval to Avcon for its Supplemental Type Certificate Number ST01195WI.

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 our business includes the Learjet model 20 and 30 series, Beechcraft King Air, Cessna turbine engine, Cessna multi-engine piston, and Dassault Falcon 20 aircraft. The Repair 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.

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 manufacturers and 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 Boeing 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 2012. However, should these customers financially reorganize or for some other reason decide not to accept shipment against these orders, we could suffer significant loss of revenue in the avionics division.

We typically purchase components for our products from third-party suppliers and assemble them in a clean room environment to reduce impurities and improve the performance of our products. Many of the components we purchase are standard products, although certain parts are made to our specifications. We continually identify alternative suppliers for important component parts. To date, we have not experienced any significant delays in delivery of our products caused by the inability to obtain either component parts or FAA approval of products incorporating new component parts.

Special Mission Electronics: We supply defense-related 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 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.

Classic Aircraft Fuel Tank Protection: We worked with the Original Equipment Manufacturer to design the Butler National Transient Suppression Device ("TSD"). The TSD is approved and certified by the Federal Aviation Administration ("FAA") under STC number ST00846SE and is owned, manufactured, and marketed by us. We sell TSDs to owners and/or operators of Boeing 747 Classic aircraft with a Capacitance and Digital based 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.

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.

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We also designed a 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.

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. One aspect of these regulations require protection for auxiliary fuel tanks. We used the basis from the 737 and 747 TSD designs to develop a TSD for auxiliary fuel tanks. We are actively working to manufacture TSDs to satisfy this market need.

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 continue to evaluate 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.

In September 2010 we expanded this division by the acquisition of Kings Avionics Inc. The acquisition of Kings Avionics allows us to transition into the new technology available in avionics. Kings Avionics sells, installs and repairs avionics equipment (airplane radio equipment and flight control systems). These systems are flight display systems which include intuitive touchscreen controls with large display to give users unprecedented access to high-resolution terrain mapping, graphical flight planning, geo-referenced charting, traffic display, satellite weather and much more. Kings is also recognized nationwide for its troubleshooting and repair work particularly on autopilots.

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.

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").

Stables Casino: We signed a Management Agreement with the Modoc Tribe. A Class III Indian Gaming Compact for The Stables 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 initial Compact authorized Class III (Off-Track

Betting "OTB") along with Class II (high stakes bingo) at an Indian land location within the boundaries of the City of Miami, Oklahoma. The Stables opened in September 1998.

We are providing consulting and construction management services for 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 II 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. While the joint venture agreement between the Miami Tribe and the Modoc Tribe expired in October of 2009, the Modoc Tribe continues to engage Butler National Service Corporation pursuant to the management agreement to provide professional management services for The Stables Casino.

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 slowdowns 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.

The Boot Hill Casino and Resort is designed to enhance and re-create the world famous 1879-1880's experience near the historic Boot Hill destination in Dodge City, Kansas. A State of Kansas research study of casino revenue in the Dodge City destination market, range from \$40 million to \$60 million per year. Phase I of the development requirement of \$50 million has been exceeded. Phase II of the development is planned to be complete in 2012 at an estimated cost is of approximately \$38 million.

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. This segment also includes administrative management services and aviation-related engineering consulting services and operates as the Butler National Aircraft Certification Center.

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 Aircraft operators.

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

Backlog

: Our backlog as of April 30, 2011, 2010, and 2009, was as follows:

<u>Industry Segment</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Aircraft Modifications	\$ 8,090,361	\$ 4,189,653	\$ 6,018,620
Avionics	1,454,925	2,039,510	4,067,592
Services - Monitoring Services	414,286	1,192,481	967,671
Corporate / Professional Services	9,145	50,000	143,444
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Total backlog	<u>\$9,968,717</u>	<u>\$7,471,644</u>	<u>\$11,197,327</u>
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Our backlog as of July 22, 2011 totaled \$8,931,000; consisting of \$6,668,000, \$1,405,000, \$758,000, and \$100,000 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 2012 in the amount of \$1,139,000. This is standard for the industry in which modifications services and related contracts may take several months or years to complete. Such actions force backlog as additional customers request modifications, but must wait for other projects to be completed. There can be no assurance that all orders will be completed or that some may ever commence.

Employees: Other than persons employed by our gaming subsidiaries there are 112 full time and 3 part time employees on April 30, 2011 compared to 89 full time and 3 part time employees on April 30, 2010. As of July 22, 2011, staffing is 107 full time and 3 part time employees. Our staffing at Boot Hill Casino & Resort on April 30, 2011 was 267 full time and 51 part time employees and at July 22, 2011 is 257 full time employees and 57 part time employees. None of the employees are subject to any collective bargaining agreements.

Financial Information about Foreign and Domestic Operations, and Export Sales: International sales are made through authorized installation centers and direct to foreign customers to be completed and included in domestic operations. The sales to our customers outside the U.S. consisted of approximately \$1,769,000 in the year ended April 30, 2011, \$3,169,000 in the year ended April 30, 2010, and \$3,008,000 in the year ended April 30, 2009. Sales from international operations are subject to changes in domestic and foreign laws, regulations and controls. All sales are made in U.S. dollars.

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

R. Warren Wagoner, 59 years old, Chairman of the Board of Directors
 Clark D. Stewart, 71 years old, President and Chief Executive Officer
 Christopher J. Reedy, 45 years old, Vice President and Secretary
 Angela D. Shinabargar, 47 years old, Chief Financial Officer

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

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

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 or management intentions, hopes, beliefs, expectations or predictions of the future, may constitute "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking

statements can often be identified by the use of forward-looking terminology, such as "could," "should," "will," "intended," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," "plan," "guidance" or "estimate" or the negative of these words, variations thereof or similar expressions. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties, and assumptions. It is important to note that any such performance and actual results, financial condition or business, could differ materially from those expressed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Item 1A. Risk Factors and elsewhere herein or in other reports filed with the SEC. Other unforeseen factors not identified herein could also have such an effect. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results, financial condition or business over time.

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

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

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

National Economy and Financing:

The recent downturn and in the national economy, the volatility and disruption of the capital and credit markets and adverse changes in the global economy could negatively impact our financial performance and our ability to access financing.

The recent severe economic downturn and adverse conditions in the local, regional, national and global markets have negatively affected our operations, and may continue to negatively affect our operations in the future. During periods of economic contraction such as the current period, our revenues may decrease while some of our costs remain fixed or even increase, resulting in decreased earnings. Gaming and Aviation activities we offer represent discretionary expenditures and participation in such activities may decline during economic downturns, during which consumers generally earn less disposable income. Even an uncertain economic outlook may adversely affect consumer spending in our gaming operations and related facilities, as

consumers spend less in anticipation of a potential economic downturn. Furthermore, other uncertainties, including national and global economic conditions, terrorist attacks or other global events, could adversely affect consumer spending and adversely affect our operations.

Acts of terrorism and war, natural disasters and severe weather may negatively impact our future profits.

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

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

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

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

Our success depends heavily upon the continued contributions of these key persons, whose knowledge, leadership and technical expertise would be difficult to replace, and on our ability to attract and retain experienced professional staff. We 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 us may have a material adverse effect on our ability to compete and on our operations.

Major Customers: The termination of contracts with major customers or renegotiation of these contracts at less cost-effective terms could have a materially adverse effect on the Company. Irregularities in financial accounting procedures, financial reporting requirements and regulatory reporting requirements could cause major customers to become unstable and be unable to complete business transactions which could have a materially adverse effect on the Company. During the fiscal year ending April 30, 2011 we derived 23.9% of our revenue from five customers.

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

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

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

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

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

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

Impairment of Intangible Property: We evaluate intangible assets for impairment annually during the fourth quarter and in any interim period in which circumstances arise that indicate our intangible asset may be impaired. Indicators of impairment include, but are not limited to, the loss of significant business and, or significant adverse changes in industry or market conditions. No events occurred during the periods presented that indicated the existence of an impairment with respect to our intangible assets related to the JET acquisition. Preparation of forecasts for use in the long-range plan and the selection of the discount rate involve significant judgments that we base primarily on existing firm orders, expected future orders and general market conditions. Significant changes in these forecasts or the discount rate selected could affect the estimated fair value and could result in an impairment charge in a future period. 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 and/or background investigations ("license") may be required in connection with our management of a State of Kansas owned Lottery Gaming Facility (a casino) and/or a Class III Indian casino on Indian land. 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

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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. The Kansas Supreme Court announced its ruling affirming the constitutionality of the Kansas Expanded Lottery Act (KELA) as the law was enacted. There can be no assurances that other constitutionality challenges will not occur.

As a condition to obtaining and maintaining our various gaming approvals, we must submit reports to the Indian Tribe and the respective federal and state regulatory Agencies ("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.

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.

Item 2. PROPERTIES

Corporate:

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

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.

Kings Avionics, Inc. has its principal facility at 280 Gardner Dr., Ste. 3, New Century, Kansas in a 19,500 square foot facility with annual rent of approximately \$168,500.

Modifications: Our 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 \$143,000.

Butler National Aircraft Certification Center is located at One Aero Plaza, New Century, Kansas in a 1,000 square foot plus three hangar spaces with a month to month lease at the New Century Airport in New Century, Kansas. The expected annual rent is approximately \$75,000.

Services: Butler National Services, Inc. has its principal offices at 2772 NW 31st Ave, Ft. Lauderdale, Florida at an annual rent of approximately \$43,000.

Gaming: Butler National Services Corporation through its subsidiary, BHCMC, LLC rents real property, improvements and equipment at 4000 W. Comanche in Dodge City, Kansas of approximately 60,000 square feet related to the Boot Hill Casino and Resort facility at an annual rent of approximately \$4,515,000 in fiscal year ended April 30, 2011 and an estimate of \$4,924,000 in fiscal year ended April 30, 2012.

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

Item 3. LEGAL PROCEEDINGS

Butler National Service Corporation and BHCMC, LLC filed a lawsuit on September 4, 2009 in the United States District Court for the District of Kansas against Larry J. Woolf and Navegante, Inc. a Las Vegas based consulting firm for damages for failing to perform and defective performance related to a written and executed consulting agreement. In October of 2009, Navegante filed a lawsuit with the District Court against Butler National Service Corporation, seeking damages for breach of an alleged oral agreement to provide management services. Navegante has alleged damages in excess of \$75,000. Butler National Service Corporation denies the Navegante allegations and is vigorously defending the matter. Butler National Service Corporation is pursuing the recovery of its damages for breaches of contract.

As of July 22, 2011, 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

Butler National Corporation Annual Meeting of Shareholders was held on March 8, 2011 (the "Annual Meeting"). At the Annual Meeting, 38,981,118 shares of common stock, or approximately 69% of the 56,756,448 shares of common stock outstanding and entitled to vote at the Annual Meeting, were present in person or by proxies.

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 was quoted in the over-the-counter (OTCBB) category. On March 2, 2011 we announced that our shares were now being exclusively quoted on OTC Markets Group's OTC Link™ platform.

There are three tiers in the OTC Marketplace. The first tier is OTCQX, the quality-controlled marketplace for companies that meet certain financial standards. The second tier is OTCQB, the U.S. reporting marketplace

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tier where Butler National currently trades. Companies within this tier are current in their reporting requirements with the SEC. The third tier is designated OTC Pink, which is the market for speculative trading.

The range of the high and low bid prices per share of the our common stock, for fiscal years 2011 and 2010, as reported by OTC Markets Group, is set forth below. Such market quotations reflect intra-dealer prices, without retail mark-up, markdown or commissions, and may not necessarily represent actual transactions.

	Year Ended April 30, 2011		Year Ended April 30, 2010	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
First Quarter	\$.310	\$.440	\$.190	\$.440
Second Quarter	\$.320	\$.480	\$.210	\$.380
Third Quarter	\$.330	\$.500	\$.260	\$.450
Fourth Quarter	\$.380	\$.620	\$.330	\$.480

- b. Holders: The approximate number of holders of record of our common stock, as of July 22, 2011, was 2,900. The price of the stock as of July 22, 2011 was approximately \$0.71 per share.
- c. Dividends: We have not paid any cash dividends on common stock, and the Board of Directors does not expect to declare any cash dividends in the foreseeable future.

SECURITIES CONVERTIBLE TO COMMON STOCK:

As of July 22, 2011 there were no Convertible Preferred shares or Convertible Debenture notes outstanding.

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	7,262,064	\$	.49	0	(1)
Equity compensation plans not approved by stockholders	0		0	0	

Total	7,262,064	\$	.49	0
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(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, 2010 through April 30, 2011	0		0	0	
Total	0	\$	0	0	

Item 6. SELECTED FINANCIAL DATA

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

		Year Ended April 30 (In thousands except per share data)								
		<u>2011</u>		<u>2010</u>		<u>2009</u>		<u>2008</u>		<u>2007</u>
Net Revenue	\$	46,335	\$	32,577	\$	18,093	\$	17,647	\$	14,681
Operating Income	\$	2,829	\$	3,344	\$	1,832	\$	2,203	\$	1,251
Net Income	\$	1,260	\$	2,890	\$	829	\$	1,274	\$	606

Basic Per Share											
Net Income	\$	0.02	\$	0.05	\$	0.02	\$	0.02	\$	0.01	
Selected Balance Sheet Information											
Total Assets	\$	32,158	\$	29,566	\$	25,798	\$	27,104	\$	20,445	
Long-term Obligations (excluding current maturities)	\$	4,940	\$	4,305	\$	5,345	\$	6,416	\$	2,521	
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 2011 compared to Fiscal 2010

Revenue and Operating Profit

Our revenue for fiscal 2011 was \$46,335,328, an increase of 42.2% from fiscal 2010 revenue of \$32,576,708. We experienced a 16% decrease in earnings before taxes from fiscal 2010 to fiscal 2011. Our operating profit for 2011 was \$2,828,527 compared to \$3,343,748 in 2010, a decrease of 15%.

Discussion of the specific changes by operation at each business segment follows the results of operations are based on pre-corporate allocations and minority interest.

Aircraft Modifications:

Revenue from Aircraft Modifications segment for the fiscal year ending April 30, 2011, was \$13,872,659, an increase of 3% from fiscal 2010 with revenue of \$13,486,358, and an increase of 18.4% from fiscal 2009, with revenue of \$11,713,497. The modifications segment operating profit for the fiscal year ending April 30, 2011, was \$4,393,029, an increase of 105% from fiscal 2010 with an operating profit of \$2,146,533, and an increase of 118% from fiscal 2009 with an operating profit of \$2,012,085.

During the past few years we have seen a significant increase in aircraft camera modification. The repetitive nature of our current aircraft modifications has significantly increased our operating profits. 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 September 11, 2001 event, increases in fuel prices, and general economic downturns.

Avionics:

Revenue from Avionics for the fiscal year ending April 30, 2011 was \$5,072,298, a decrease of 8% from fiscal 2010 with revenue of \$5,497,408, and an increase of 125% from fiscal 2009 with revenue of \$2,255,776. The avionics segment had an operating profit of \$339,881 in fiscal 2011, \$2,169,643 for fiscal 2010, and \$338,468 for fiscal 2009. Many economic and political uncertainties can impact the avionics product line.

Services - SCADA Systems and Monitoring Services:

Revenue decreased 3% from \$1,608,468 for fiscal 2010 to \$1,562,294 for fiscal 2011. During fiscal 2011, we maintained a relatively level volume of long-term contracts with municipalities. We anticipate increases in revenue from additional lift station rehabilitations over the next three to 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 2012. An operating profit of \$253,780 in Monitoring Services was recorded for fiscal 2011, compared to a profit of \$297,301 for fiscal 2010, a decrease of 14.6%. We believe the service business has had revenue stability over the past few years and we expect this to continue.

Corporate / Professional Services:

Services in this segment include the architectural services related to gaming and other real estate development, administrative management services, and engineering consulting services.

Revenue consisting of architectural services and revenue related to completed construction projects were \$849,100 for the fiscal year ended April 30, 2010 and \$281,900 for the fiscal year ended April 30, 2011. Projects related to architectural services decreased \$524,309 for the twelve months to revenue of \$644,434 at April 30, 2011. An operating loss of \$264,212 for the fiscal year ended April 30, 2011 was recorded compared to a profit of \$59,631 for the fiscal year ended April 30, 2010.

Revenue related to gaming and other real estate development, on site contract management of gaming establishments for the fiscal year ended April 30, 2011 was \$2,223,337 compared to \$1,691,860 for the fiscal year ended April 30, 2010, an increase of 31.4%. Operating profits from management services related to gaming increased \$524,611 from \$352,784 for the fiscal year ended April 30, 2010, to \$877,395 for the fiscal year ended April 30, 2011.

Boot Hill Casino and Resort opened for business on December 15, 2009. In the fiscal year ended April 30, 2011 the Gaming Facility received gross revenue including funds for the State of Kansas of \$42,200,370 compared to \$16,068,838 in fiscal year ended April 30, 2010. Mandated fees, taxes and distributions reduced gross revenue by \$19,521,963 leaving net revenue to us, as the manager, of \$22,678,406 compared to \$8,314,043 in fiscal year ended April 30, 2010. Net income before taxes and minority interest were \$397,147 in fiscal year ended April 30, 2010 compared to a loss of \$577,353 in fiscal year ended April 30, 2011.

Selling General and Administrative

Expenses were \$23,106,774, or 49.9% of revenue, for the fiscal year ended April 30, 2011 compared to \$13,534,872 or 41.5% of revenue for the fiscal year ended April 30, 2010. Of these costs, \$16,215,408 was directly related to the Gaming Facility in fiscal 2011 and \$5,596,889 in fiscal 2010. Non related facility gaming costs decreased approximately \$1,060,000.

As we grow, we anticipate that overhead expenses may increase. We continue to monitor and evaluate our

overhead expenses in order to efficiently manage our operations.

Other Income (Expense)

Other interest income and expense decreased from \$443,455 in fiscal 2010 to \$399,074 in fiscal 2011. Interest expense decreased by \$91,668 from \$455,827 in fiscal 2010.

Earnings

Our operating profit for fiscal 2011 was \$2,828,526 compared to \$3,343,748 in 2010, a decrease of 15.4%. Approximately \$496,000 of the operating profit in fiscal year 2010 can be attributed to the sale of land in Dodge City, Kansas.

Consolidated Net Income

As a result of the factors described above, our net income for fiscal year 2011 was \$1,259,659 compared to \$2,890,126 in fiscal 2010, a decrease of \$1,630,467 or 56%. The decrease in net income before taxes and minority interest for fiscal 2011 was \$2,429,452 compared to \$2,900,293 in fiscal year ended April 30, 2010, a decrease of 16%. Casino operations in Dodge City reduced the net income before taxes by \$577,352 or 19%, resulting in an increase in all other operations of 20%.

Fiscal 2010 compared to Fiscal 2009

Revenue and Operating Profit

Our revenue for fiscal 2010 was \$32,576,708, an increase of 80.1% from fiscal 2009 revenue of \$18,093,088. We experienced a 117% increase in earnings before taxes from fiscal 2009 to fiscal 2010. Our operating profit for 2010 was \$3,343,748 compared to \$1,831,882 in 2009, an increase of 82.5%. Approximately \$496,000 of the operating profit can be attributed to the sale of land in Dodge City, Kansas.

Discussion of the specific changes by operation at each business segment follows (the results of operations are based on pre-corporate allocations and minority interest of \$874).

Aircraft Modifications:

Revenue from Aircraft Modifications segment for the fiscal year ending April 30, 2010, was \$13,486,358, an increase of 15.1% from fiscal 2009 with revenue of \$11,713,497, and an increase of 56% from fiscal 2008, with revenue of \$8,646,562. The modifications segment had an operating profit of \$2,146,533 in the fiscal year ended April 30, 2010, an operating profit of \$2,012,085 in fiscal 2009, and \$1,394,599 in fiscal 2008. The reclassification of aircraft to a long term asset resulted in additional depreciation expense of approximately \$561,000, reducing our operating profit for fiscal 2010.

Avionics:

Revenue from Avionics for the fiscal year ending April 30, 2010 was \$5,497,407, an increase of 144% from fiscal 2009 with revenue of \$2,255,776, and an increase of \$9.4% from fiscal 2008 with revenue of \$5,024,781. The avionics segment had an operating profit of \$2,169,643 in fiscal 2010, \$338,468 for fiscal 2009, and \$1,762,553 for fiscal 2008. The increase in operating profit is directly related to the significant increases in revenue. Management expects increased revenue for the fuel system protection devices when regulatory requirements necessitate the TSD, GFI, and other classic aviation products.

Services - SCADA Systems and Monitoring Services:

Revenue decreased from \$1,771,755 for fiscal 2009 to \$1,608,468 for fiscal 2010. During fiscal 2010, we maintained a relatively level volume of long-term contracts with municipalities. We anticipate increases in revenue from additional lift station rehabilitations over the next three to 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 2010. An operating profit of \$297,301 in Monitoring Services was recorded for fiscal 2010, compared to a profit of \$354,316 for fiscal 2009, a decrease of 16.1%. We believe the service business has had revenue stability over the past few years and we expect this to continue.

Corporate / Professional Services:

Services in this segment include the architectural services related to gaming and other real estate development, administrative management services, and engineering consulting services.

Revenue consisting of architectural services and revenue related to completed construction projects were \$567,020 for the fiscal year ended April 30, 2009 and \$849,100 for the fiscal year ended April 30, 2010. Projects related to architectural services increased \$561,591 for the fiscal year to revenue of \$1,168,742 at April 30, 2010. An operating income of \$59,631 for the fiscal year ended April 30, 2010 was recorded compared to a loss of \$315,719 for the fiscal year months ended April 30, 2009.

Revenue related to gaming and other real estate development, on site contract management of gaming establishments for the fiscal year ended April 30, 2010 was \$1,691,860 compared to \$1,293,284 for the fiscal year ended April 30, 2009, an increase of 31%. Operating profits from management services related to gaming decreased \$757,297 from \$1,110,081 for the fiscal year ended April 30, 2009, to \$352,784 for the fiscal year ended April 30, 2010.

Boot Hill Casino and Resort opened for business on December 15, 2009. In the fiscal year ended April 30, 2010 the Gaming Facility received gross revenue including funds for the State of Kansas of \$16,068,838. Mandated fees, taxes and distributions reduced gross revenue by \$7,754,797 leaving net revenue to us, as the manager, of \$8,341,043. The net profit from the Gaming Facility for the fiscal year ended April 30, 2010 was \$217,557.

Selling General and Administrative

Expenses were \$13,534,872, or 41.5% of revenue, for the three months ended April 30, 2011 compared to \$4,759,470 or 26.3% of revenue for the fiscal year ended April 30, 2009.

Other Income (Expense)

Other interest income and expense decreased from \$497,422 in fiscal 2009 to \$443,454 in fiscal 2010. Interest expense decreased by \$49,002 from \$504,829 in fiscal 2009 as a result of a reduction of our financing activities of more than \$3,942,000.

Earnings

Our operating profit for fiscal 2010 was \$3,343,747 compared to \$1,831,882 in 2009, an increase of 82.5%. Approximately \$496,000 of the operating profit can be attributed to the sale of land in Dodge City, Kansas.

Consolidated Net Income

As a result of the factors described above, our net income for fiscal year 2010 was \$2,890,126 compared to \$829,315 in fiscal 2009, an increase of \$2,061,685 or 249%. The increase in net income before taxes for fiscal 2010 was \$1,565,832 of which casino operations in Dodge City contributed 25%.

Liquidity and Capital Resources

At April 30, 2011, the Company was utilizing one line of credit totaling \$1,000,000. The unused line at April 30, 2011 was \$908,201. During the current year these funds were primarily used for the purchase of inventory for the modifications and avionics operations.

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 2012. Our line of credit has been extended to August 2011. The line of credit is collateralized by the first and second positions on all assets of the Company.

At April 30, 2011, there were several notes collateralized by aircraft security agreements totaling \$2,859,480. These notes were used for the purchase and modifications of these collateralized aircraft and Kings Avionics, Inc.

There are two notes at a bank totaling \$1,628,102 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 remains for the business location totaling \$86,660.

Two notes totaling \$524,705 remain for real estate purchased in November 2007 and June 2009 in Dodge City, Kansas.

One note with a balance of \$688,749 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 \$126,857.

In March 2008 we acquired an avionics product line. As part of this acquisition we have remaining obligations of \$473,339. In September 2010 we acquired an additional Avionics business with a remaining balance of \$360,000 in loan obligations.

We are not in default of any of our notes as of July 22, 2011.

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 2011 and beyond.

The terms of the agreement between the Kansas Lottery and BNSC/BHCMC require the completion of an addition to the Boot Hill Casino and Resort. We may need additional funding to complete this expansion if not completed by a franchised vendor.

Analysis and Discussion of Cash Flow

During fiscal year 2011 our cash position decreased by \$231,021. Cash provided by operating activities contributed \$2,545,888. We reported net income of \$1,258,389 during fiscal year 2011. Non-cash charges to income for depreciation, amortization, and stock issues were \$1,975,484. Net change in inventory, including obsolete inventories and fixed assets used \$129,361. We returned a deposit from BHC Development, LC (an unrelated development company) totaling \$1,700,000 at part of the build-to-suit agreement in the initial Boot Hill Casino vault bank balance. Accounts payable and accrued liabilities and other liabilities resulted in a net contribution of \$1,332,866. Prepaid expenses and other current assets reduced cash by \$511,509. Customers deposits and Accounts receivable contributed \$276,569. Disposal of assets contributed \$43,450.

Cash used in investing activities was \$3,753,459. We invested approximately \$85,000 towards the purchase of 20 acres in Dodge City and approximately \$17,000 towards building improvements. We purchased used machinery and equipment of approximately \$1,370,000. We purchased a Learjet 60 aircraft for the development of future STC's for approximately \$1,820,000. We purchased two aircraft engines for approximately \$358,000 and a small Piper aircraft for \$105,000.

Cash provided by financing activities was \$976,549. We reduced our debt by more than \$1,927,000 and increased our debt by more than \$2,880,000, approximately \$1,200,000 was for business development and approximately \$1,700,000 was for the Lear 60 aircraft purchase.

Critical Accounting Policies and Estimates:

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

Revenue Recognition: Generally, we perform aircraft modifications under fixed-price contracts. Revenues from fixed-price contracts are recognized on the percentage-of-completion method, measured by the direct labor and material costs incurred compared to total estimated direct labor costs. Each quarter our management reviews the progress and performance of our significant contracts. Based on this analysis, any adjustment to sales, cost of sales and/or profit is recognized as necessary in the period they are earned. Changes in estimates of contract sales, cost of sales and profits are recognized using a cumulative catch-up, which is recognized in the current period of the cumulative effect of the change on current or prior periods. Revenue for off-the-shelf items and aircraft sales is recognized on the date of sale.

Casino gaming revenue is the gross gaming win as reported by the Kansas Lottery casino reporting systems less the mandated distributions by and for the State of Kansas.

Revenue from Avionics products are recognized when shipped. Payment for these Avionics products are due within 30 days of the invoice date after shipment. Revenue for SCADA services, Gaming Management, and other Corporate/Professional Services is recognized as the service is rendered and invoiced. Payments for these service invoices are usually received within 30 days.

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

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.

Long-lived Assets: The Company accounts for its long-lived assets in accordance with ASC Topic 360-10, formerly SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." ASC Topic 360-10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value.

Supplemental Type Certificates: Supplemental Type Certificates (STCs) are authorizations granted by the Federal Aviation Administration (FAA) for specific modification of a certain aircraft. The STC authorizes us to perform modifications, installations, and assemblies on applicable customer-owned aircraft. Costs incurred to obtain STCs are capitalized and subsequently amortized against 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.

Changing Prices and Inflation

We have experienced upward pressure from inflation in 2011. From fiscal year 2010 to fiscal year 2011 a majority of the increases we experienced were in material costs. This additional cost may not be transferable to our customers resulting in lower income in the future. We anticipate fuel costs and possibly interest rates to rise in fiscal 2011 and 2012.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations:

Tabular Disclosure of Contractual Obligations

	Payments Due By Period (Dollars in thousands)												
Contractual Obligations		Total		Less than 1 Year		2 Years FY 2011		3 Years FY 2012		4 Years FY 2013		5 Years FY 2014	More than 5 Years
Long-Term Debt/Capital Lease Obligations	\$	6,748	\$	1,807	\$	2,633	\$	892	\$	787	\$	414	\$
Operating Lease Obligations	\$	1,774	\$	350	\$	350	\$	350	\$	245	\$	176	\$
Facility Rent Obligations	\$	132,004	\$	4,924	\$	6,791	\$	6,837	\$	6,883	\$	6,930	\$
Promissory Notes	\$	92	\$	92	\$	0	\$	0	\$	0	\$	0	\$
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TOTAL	\$	140,618	\$	7,173	\$	9,774	\$	8,079	\$	7,915	\$	7,520	\$
		=====		=====		=====		=====		=====		=====	

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

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

For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity date. 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>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>There-after</u>		<u>Total</u>
Assets														
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	\$	92	\$	0	\$	0	\$	0	\$	0	\$	0	\$	92
Long-term debt:	\$	1,807	\$	2,633	\$	892	\$	787	\$	414	\$	215	\$	6,748
Variable rate Average interest rate		7.0%		7.5%		8.0%		8.0%		8.5%		8.5%		7.9%
Interest Payments														
Est. Interest Payments:	\$	133	\$	197	\$	71	\$	63	\$	35	\$	18	\$	517

Scheduled interest payments are calculated on a fixed rate basis, if known, and the remaining interest will be calculated on the average current rate, including imputed interest calculations at 7%.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements of the Registrant are set forth on pages 42 through 61 of this report.

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

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

Item 9A. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified by 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 our disclosure controls and procedures are effective, based on criteria in Internal Control-Integrated Framework, issued by COSO.

Evaluation of disclosure controls and procedures: Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Form 10-K, our Chief Executive Officer and our Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2011. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of April 30, 2011.

Internal Control Over Financial Reporting

Management Report on Internal Control Over Financial Reporting: Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control -Integrated Framework issued by 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, 2011.

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

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's registered public accounting firm because Section 989G(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act exempts us, a company with a public float of less than \$75 million from the requirement that our registered public accounting firm attest to our financial controls.

Limitations on Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls

based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness over future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration of the degree of compliance with policies or procedures.

Changes in Internal Control Over Financial Reporting: In our opinion there were no material changes in the Company internal controls over financial reporting during the three months ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Item 9B. Other Information

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

PART III

Qualifications and Skills of Directors:

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

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

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

Diversity as a Factor in Selection of Board Candidates: The board does not have a formal policy with respect to diversity. However, the Board believes that it is essential that the Board members represent diverse viewpoints, with a broad array of experiences, professions, skills and backgrounds that, when considered as a group, provide a sufficient mix of perspectives to enable the Board to best fulfill its responsibilities to the long-term interests of the Company's stockholders.

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

The board as a whole has responsibility for risk oversight, with reviews of certain areas being conducted by the relevant board committees. These committees then provide reports to the full board. The oversight responsibility of the board and its committees is enabled by management reporting processes that are designed to provide visibility to the board about the identification,

assessment, and management of critical risks. These areas of focus include strategic, operational, financial and reporting, succession and compensation, compliance, and other risks. The board and its committees oversee risks associated with their respective areas of responsibility, as summarized above.

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 Director, Age and Term</u>	<u>Served Since</u>	<u>Principal Occupation for Last Five Years and Other Directorships</u>
Clark D. Stewart (71) Up for re-election for fiscal year end 2012	1989	President of the Company from September 1, 1989 to present.
R. Warren Wagoner (59) Up for re-election for fiscal year end 2012	1986	Chairman of the Board of Directors of the Company since August 30, 1989.
David B. Hayden (65) Up for re-election for fiscal year end 2011	1996	Co-owner and President of Kings Avionics, Inc. since 1974 prior to its acquisition in 2010. Director since 1996.
Michael J. Tamburelli (48) Up for re-election for fiscal year end 2014	2010	General Manager of the Isle of Capri Kansas City, Missouri 2004-2008, General Manager Boot Hill Casino & Resort 2009-2010, General Manager of Cherokee National Casino, West Siloam Springs, Oklahoma since 2010. Director since May 1, 2010.
Bradley K. Hoffman (37) Up for re-election for fiscal year end 2013	2010	Regional Manager of ISG Technology, Inc. in Kansas City, Kansas since 2005. Director since June 9, 2010.

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
R. Warren Wagoner	59	Chairman of the Board of Directors
Clark D. Stewart	71	President and Chief Executive Officer
Christopher J. Reedy	45	Vice President and Secretary
Angela D. Shinabargar	47	Chief Financial Officer

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 as Vice President of the, and became Secretary of the Company in 2005.

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 as Chief Financial Officer in October 2001.

Directorships Held within the Past Five Years:

Current Directorships:		
<u>Name</u>	<u>Company</u>	<u>Date(s) of Directorship</u>
Clark D. Stewart	Butler National Corporation	Since 1989
R. Warren Wagoner	Butler National Corporation	Since 1986
David B. Hayden	Butler National Corporation	Since 1996
Michael J. Tamburelli	Butler National Corporation	Since June 9, 2010

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Bradley K. Hoffman	Butler National Corporation	Since May 1, 2010
Past Directorships:		
Clark D. Stewart	None	
R. Warren Wagoner	None	
David B. Hayden	None	
Michael J. Tamburelli	None	
Bradley K. Hoffman	None	
Legal Proceedings Involving a Director or Executive Officer		
During the past ten years no director or officer has been convicted in a criminal proceeding or is a named subject of a pending criminal proceeding, exclusive of traffic violations. No petitions under the Federal bankruptcy laws have been filed by or against any business or property of any director or officer of the Company nor has any bankruptcy petition been filed against a partnership or business association where these persons were general partners or executive officers. No director or officer has been permanently or temporarily enjoined, barred, suspended or otherwise limited from involvement in any type of business, securities or banking activities. No director or officer been convicted of violating a federal or state securities or commodities law.		
Section 16(a) Beneficial Ownership Reporting Compliance		
Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company pursuant to Rule 16(a)-3(e) during the most recent fiscal year and Form 5 and amendments thereto furnished to the Company with respect to the most recent fiscal year, the Company believes that no person who at any time during the fiscal year was a director, officer, beneficial owner of more than 10% of any class of equity securities registered pursuant to Section 12 of the Exchange Act failed to file on a timely basis reports required by Section 16(a) of the Exchange Act during the most recent fiscal year or prior fiscal years. Code of Ethics The Company has adopted a code of ethics for our executive and senior financial officers, violations of which are required to be reported to the audit committee. The Company will furnish a copy without charge upon written request to the Company at 19920 West 161st Street, Olathe, Kansas 66062, Attn: Secretary or a copy is available on our website at www.butlernational.com/codeofethics.pdf.		
Audit Committee and Audit Committee Expert of the Company		

The current members of the Audit Committee are Mr. David B. Hayden, Mr. Bradley K. Hoffman, and Mr. Tad McMahon. Mr. Hoffman is an independent member under the Nasdaq listing standards. The Audit Committee met five times during fiscal year 2011, excluding actions by unanimous written consent.

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

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

Audit Committee Financial Expert

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

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, Vice President, and Chairman of the Board. There are only four executive officers of Butler National Corporation. The "Executive Compensation" section presents compensation earned by the listed officers for fiscal years ending April 30, 2011, 2010 and 2009.

The Compensation Committee of the Board of Directors determines the compensation for Butler National executive officers. Our executive officers have the broadest job responsibilities and policy-making authority in the company. The Committee reviews and determines all components of executive officer compensation, including making individual compensation decisions and reviewing and revising the executive officer compensation plans, programs, and guidelines as appropriate. The 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 executive officers. The Committee process for determining compensation includes a review of Butler 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 February 2011, 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/Option Awards	Option Awards are granted by the Compensation Committee to align management objective toward improved earnings and retention of the management team.
Employee Stock Purchase Plan	Any employee may purchase the Company stock at the fair market value at the date of purchase without broker or issue fees. The stock is restricted and not considered a stock reward. We have the 1981 Employee Stock Purchase plan. No shares have been purchased under this plan since 1988.
Retirement Benefits	We pay the required federal and state retirement contributions, the required unemployment contributions and match the employee's contribution to their account in the Butler National Corporation 401(k) plan according to the parameters set forth in the plan.
Health and Welfare Benefits	Employees electing to participate in the various insurance plans offered by the Company receive a payment for a share of the health, dental, vision and life insurance costs for the employee.

Grant Date Fair Value of Stock Option Awards

The following table summarizes compensation paid to non-employee directors during fiscal year 2011. We paid \$10,000 in cash compensation to Mr. David Hayden, Mr. Michael Tamburelli, and Mr. Bradley Hoffman, our non-employee directors in fiscal year 2011.

Name	Stock Awards	
David B. Hayden	0 / 125,000(a) 0 / 125,000(b) 0 / 125,000(c)	
Michael J. Tamburelli	0 / 125,000(a) 0 / 125,000(b)	

	0 / 125,000(c)	
Bradley K. Hoffman	0 / 125,000(a) 0 / 125,000(b) 0 / 125,000(c)	

The unexercised options at April 30, 2011 listed in the table above have an exercise price of \$0.49 and will expire on December 31, 2020. The options were granted under and are expressly subject to all the terms and provisions of the Plans, and the terms of such Plans are incorporated herein by reference. The terms are included but not limited to the following restrictions:

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

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

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

Material Adverse Effect of Compensation Policies and Procedures

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

Performance Measures and Decision-Making Process for Fiscal Year 2011

The Committee set base salaries for executive officers for 2011 in April 2010, with payment beginning in April 2010.

- The performance measures used by the Committee in determining executive compensation for fiscal year 2011 were:
- the absolute one-year and multi-year company performance as measured by market share, revenue growth, profit from operations and total shareholder return;
- one-year and multi-year performance on the same measures as compared with competitors in the comparator group; and
- Company progress toward its strategic goals.

To make its decisions on executive compensation, the 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 2011. 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 2011, 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 Company performance, both absolute and relative to competition and the executive officers contribution 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 2011 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 base salary decisions for fiscal year 2011 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 four most highly compensated executive officers in the Company, SEC rules require disclosure of his compensation. In making the determinations, the Committee considered his role as Chairman, his contribution to the Company performance and strategic direction, and the compensation of employee-chairmen of comparator companies.

Report of the Compensation Committee

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

Compensation Committee

Mr. David B. Hayden	Mr. R. Warren Wagoner
Mr. Clark D. Stewart	Mr. Bradley K. Hoffman (effective June 9, 2010)
Mr. Michael J. Tamburelli (effective May 1, 2010)	

Executive Compensation

SUMMARY

The following table below sets forth certain compensation information concerning the Chief Executive Officer, Vice President, and our two additional most highly compensated executive officers for the fiscal years ended April 30, 2011, 2010 and 2009. Our listed officers are the CEO, CFO, Vice President, and Chairman of the Board. There are only four executive officers of Butler National Corporation. The "Executive Compensation" section presents compensation earned by the listed officers for fiscal years ending April 30, 2011, 2010 and 2009:

Summary Compensation Table

-									
Name and Principal Position	YR	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards and Non-Equity Incentive Plan Compensation (\$)(4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(\$)	All Other Compensation (\$)(1)	Total (\$)(2)	
Clark D. Stewart, CEO President and Director (Contract back pay)	11	443,554	8,904	---	174,795	---	---	39,469	666,723
		419,391	---	---	---	---	---	39,412	506,459
	10	47,656	---	---	---	---	---	---	---
	09	367,633	---	---	---	---	---	34,582	402,215
R. Warren Wagoner Director - Chairman of the Board	11	255,066	4,468	---	36,740	---	---	25,988	322,422
	10	248,719	---	---	---	---	---	24,233	272,952
	09	228,984	---	---	---	---	---	20,702	249,686

Christopher J. Reedy	11	203,827	---	---	36,740	---	---	24,530	265,097
Vice President and Secretary	10	192,542	---	---	---	---	---	22,378	214,920
	09	178,418	---	---	---	---	---	21,205	199,623
Angela D. Shinabargar	11	150,093	5,000	---	36,740	---	---	9,738	201,571
Chief Financial Officer	10	133,380	10,000	---	---	---	---	8,916	152,296
	09	123,583	20,000	---	---	---	---	10,386	153,969

Name	Year	Airplane and Automobile Usage	Health Benefits	Memberships	Matching Contributions to 401(k) (3)
Clark D. Stewart	2011	7,200	7,654	9,915	14,700
R. Warren Wagoner	2011	---	11,288	---	14,700
Christopher J. Reedy	2011	---	4,256	8,091	12,183
Angela D. Shinabargar	2011	---	606	---	9,132

(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, and Director Compensation Table.

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

(4) The aggregate grant date fair value was computed in accordance with FASB ASC Topic 718 for each of the option tranches for each of the three years of the plan. The value is calculated by using the fair market value at the date of grant times the probability the receiving individual will be an employee of Butler National at the time the option may be exercised, times the probability that the price of the BUKS stock will reach the trigger price within the option period, times the Black Scholes value factor for the time to the trigger date for each year.

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 our last fiscal year:

Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year 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	-	-	0 / 618,488(a) 0 / 618,488(b) 0 / 618,488(c)	0 / 0 0 / 0 0 / 0
R. Warren Wagoner, Director - Chairman of the Board	-	-	0 / 130,000(a) 0 / 130,000(b) 0 / 130,000(c)	0 / 0 0 / 0 0 / 0
Christopher J. Reedy, Vice President and Secretary	-	-	0 / 130,000(a) 0 / 130,000(b) 0 / 130,000(c)	0 / 0 0 / 0 0 / 0
Angela D. Shinabargar, Chief Financial Officer	-	-	0 / 130,000(a) 0 / 130,000(b) 0 / 130,000(c)	0 / 0 0 / 0 0 / 0
David B. Hayden, Director	-	-	0 / 125,000(a) 0 / 125,000(b) 0 / 125,000(c)	0 / 0 0 / 0 0 / 0
Michael J. Tamburelli, Director	-	-	0 / 125,000(a) 0 / 125,000(b) 0 / 125,000(c)	0 / 0 0 / 0 0 / 0

Bradley K. Hoffman, Director	-	-	0 / 125,000(a) 0 / 125,000(b) 0 / 125,000(c)	0 / 0 0 / 0 0 / 0

The unexercised options at April 30, 2011 listed in the table above have an exercise price of \$0.49 and will expire on December 31, 2020. The options were granted under and are expressly subject to all the terms and provisions of the Plans, and the terms of such Plans are incorporated herein by reference. The terms are included but not limited to the following restrictions:

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

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

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

COMPENSATION OF DIRECTORS

Each non-officer director is entitled to a director's fee for meetings of the Board of Directors which he attends. Officer-directors are not entitled to receive fees for attendance at meetings.

Fees of \$10,000 were paid to Michael Tamburelli, David Hayden, and Bradley Hoffman in fiscal 2011. No fees were paid in fiscal 2010.

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

On April 30, 2001, the Company extended the Employment Agreement through August 31, 2006 with Clark D. Stewart under the terms of which Mr. Stewart was employed as the President and Chief Executive Officer of the Company. On February 24, 2009 the Company extended the Employment Agreement with Mr. Stewart with the terms as currently provided including annual increases of 5% through December 31, 2021. 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 \$11,542 and \$33,148 as of April 30, 2011, and 2010 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 Board member, and Mr. Hayden, Board member, Mr. Tamburelli, Board member and Mr. Hoffman, Board member

. The company does not employ the use of any compensation consultants in determining or recommending the amount or form of executive and director compensation.

In the normal course of business, we purchased modifications services and avionics of approximately \$1,144, \$88,142, and \$74,442 from a company partially owned by David Hayden, a director for the Company during fiscal 2011, 2010, and 2009 respectively.

In September 2010 we acquired Kings Avionics, Inc. in support of our "Classic" commercial and military product lines. As part of the acquisition Mr. Hayden received \$90,000 in fiscal 2011.

In the normal course of business we purchased business system components totaling \$158,528 in fiscal 2011 and \$6,653 in fiscal 2010 from ISG, the employer of Bradley Hoffman.

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

The following table sets forth, with respect to the Company common stock (the only class of voting securities), the only persons known to be beneficial owners of more than five percent (5%) of any class of the Company voting securities as of July 22, 2011.

Name and Address of	Amount and Nature of <u>Beneficial Ownership (1)</u>	Percent <u>of Class</u>
<u>Beneficial Owner</u>		
Clark D. Stewart 19920 West 161 st Street Olathe, Kansas 66062	5,016,627(2)	8.8%
R. Warren Wagoner 19920 West 161 st Street Olathe, Kansas 66062	4,290,586(3)	7.5%

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

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

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

The following table sets forth as of April 30, 2011, with respect to the Company common stock (the only class of voting securities), (i) shares beneficially owned by all directors and named executive officers of the Company, and (ii) total shares beneficially owned by directors and officers as a group, as of April 30, 2011.

<u>Name of Beneficial</u>	Amount and Nature of <u>Beneficial Ownership (1)</u>	<u>Percent of Class</u>
---------------------------	---	-------------------------

Owner

David B. Hayden	1,732,225	3.0%
Christopher J. Reedy	1,108,593	1.9%
Clark D. Stewart	5,016,627 (2)	8.8%
R. Warren Wagoner	4,290,586 (3)	7.5%
Angela D. Shinabargar	723,558	1.3%
Bradley K. Hoffman	375,000	0.7%
Michael J. Tamburelli	375,000	0.7%
All Directors and Executive Officers as a Group (7 persons)	13,621,589 (4)	23.8%

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

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

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

(4) Includes 4,150,464 shares for all directors and executive officers as a group, which may be acquired pursuant to the exercise of stock options, which are exercisable.

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

Equity Compensation Plan Information					
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		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	7,262,064	\$	.49	0	(1)
Equity compensation plans not approved by stockholders	0		0	0	
Total	7,262,064	\$	.49	0	

(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, 2010 through April 30, 2011	0		0	0	
Total	0	\$	0	0	

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

In the normal course of business we purchased modification services and avionics of approximately \$1,144, \$88,142, and \$74,442 from a company partially owned by David Hayden, a director for Butler National Corporation during fiscal 2011, 2010, and 2009 respectively.

In September 2010 we acquired Kings Avionics, Inc. in support of our "Classic" commercial and military product lines. As part of the acquisition Mr. Hayden received \$90,000 in fiscal 2011.

In the normal course of business we purchased business system components \$158,528 in fiscal 2011 and \$6,653 in fiscal 2010 from ISG, the employer of Bradley Hoffman, a director of Butler National Corporation during fiscal 2011.

Included in accrued liabilities are \$44,649 and \$56,646 as of April 30, 2011, and 2010 respectively for amounts owed to our CEO for accrued compensation.

In fiscal 2011, 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 \$186,800, \$220,200 and \$155,487, respectively, for fiscal 2011, \$180,886, \$215,653 and \$133,483, respectively, for fiscal 2010 and \$166,699, \$205,070, and \$118,805, respectively for fiscal 2009.

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 2011</u>	<u>Fiscal 2010</u>	
	Audit fees (a)	\$91,256	\$86,450	
	Audit related fees	2,640	1,250	
	(b)	20,125	18,900	
	Tax fees (c)	-	-	
	All other fees (d)	-----	-----	
	Total	\$114,021	\$105,350	
		=====	=====	

(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 financial statements, including the audits of Butler 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 2012. Each year stockholders are asked to affirm the selection of the auditor by a vote requested in the proxy.

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

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(1) **Financial Statements:**

<u>Description</u>	<u>Page No.</u>
Report of Independent Registered Public Accounting Firm	41
Consolidated Balance Sheets as of April 30, 2011 and 2010	42
Consolidated Statement of Operations for the years ended April 30, 2011, 2010, and 2009	43
Consolidated Statements of Stockholders' Equity for the years ended April 30, 2011, 2010, and 2009	44
Consolidated Statements of Cash Flows for the years ended April 30, 2011, 2010, and 2009	45
Notes to Consolidated Financial Statements	46-61

(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, 2011, 2010, and 2009	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:**

<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 our Form DEF 14A filed on December 26, 2001.	*

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3.2	Bylaws, as amended, are incorporated by reference to Exhibit A of our 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 our 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 our Form 8-A (12G) filed on December 7, 1998.	*
10.1	1989 Nonqualified Stock Option Plan is incorporated by reference to our Form 8-K filed on September 1, 1989 and as amended on Exhibit 4(a) of our Form S-8 filed on February 20, 1998.	*
10.2	Nonqualified Stock Option Agreement dated September 8, 1989 between the Company and Clark D. Stewart is incorporated by reference to our 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 our 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 our 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 our Form 8-K filed on January 24, 1994.	*
10.6	Stock Acquisition Agreement of RFI dated April 21, 1994, is incorporated by reference to our 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 our 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 our Form 10-K/A, as amended, for the year ended April 30, 1994.*	*
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 our 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 our 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 our Form 10-K/A, as amended, for the year ended April 30, 1994 and as amended on	*

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Exhibit 4(a) of our 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 our Form 10-K/A, as amended, for the year ended April 30, 1994 and as amended on Exhibit 4(a) of our Form S-8 filed on February 20, 1998. | * |
| 10.13 | Industrial State Bank principal amount of \$500,000 revolving credit line, as amended, are incorporated by reference to Exhibit 10.13 of our 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 our 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 our 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 our 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 our 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 our 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 our Form 10-K, as amended for the year ended April 30, 1996 and as amended on Exhibit 4(a) of our Form S-8 filed on February 20, 1998. | * |
| 10.20 | Settlement Agreement and Release - Marvin J. Eisenbath and the Company dated April 30, 1997, is incorporated by reference to Exhibit 10.20 of our Form 10-K, as amended for the year ended April 30, 1997. | * |
| 10.21 | Settlement Agreement and Release - Brenda Shadwick and the Company dated May 1, 1997, is incorporated by reference to Exhibit 10.21 of our 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 our Form 8-A filed on December 7, 1998. | * |
| 10.23 | Stock Purchase Agreement with Gary Morris and David Hayden for the acquisition of Kings Avionics, incorporated by reference to Exhibit 10.1 of the Company's current report on Form 8-K dated September 27, 2010 | * |

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14	Standards of Business Conduct and Ethics, incorporated by reference to Exhibit 14 of the Company's Form 10-K for the year ended April 30, 2008.	*
21	List of Subsidiaries.	62
23.1	Consent of Independent Public Accountants.	63
99	Cautionary Statement for Purpose of the "Safe Harbor" Provisions of the Private Securities Reform Act of 1995.	64-68
31.1	Certificate pursuant to 18 U.S.C 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	69
31.2	Certificate pursuant to 18 U.S.C 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	70
32.1	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	71
32.2	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	72

* Relates to executive officer employment compensation.

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 28, 2011

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 28, 2011

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/s/ R. Warren Wagoner R. Warren Wagoner	Chairman of the Board and Director	July 28, 2011
/s/ David B. Hayden David B. Hayden	Director	July 28, 2011
/s/ Michael J. Tamburelli Michael J. Tamburelli	Director	July 28, 2011
/s/ Bradley K. Hoffman Bradley K. Hoffman	Director	July 28, 2011
/s/ Angela D. Shinabargar Angela D. Shinabargar	Chief Financial Officer (Principal Accounting Officer)	July 28, 2011

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, 2011 and 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Butler National Corporation as of April 30, 2011 and 2010 and the consolidated results of its operations, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2011 in conformity with U.S. generally accepted accounting principles.

Weaver & Martin, LLC

Kansas City Missouri

July 28, 2011

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF APRIL 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>
ASSETS			LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash	\$,475,525	\$,706,546	Line of Credit	\$ 91,799	\$ 69,800
Accounts receivable			Current maturities of long-term debt and capital lease obligations	1,807,490	1,488,343
(net of allowance for doubtful accounts of \$146,502 in 2011 and \$229,969 in 2010)	2,127,865	2,139,835			
			Accounts payable	2,093,992	970,495
			Customer deposits	1,091,043	826,443
			Deposits other	-	1,700,000

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Inventories -

(net of
obsolete of
\$1,792,681 in
2011 and
\$1,244,216

in 2010)

Raw materials 5,202,476 4,669,138
Work in process 1,088,235 1,129,907
Finished goods 723,972 1,086,276

Gaming facility mandated
payment

2,028,015 1,659,683

Accrued liabilities

Compensation and
compensated absences 1,605,283 1,091,973

Accrued income tax 252,623 847,419

Other

221,584 299,063

7,014,683 6,885,321

Total current liabilities 9,191,829 8,953,219

Prepaid expenses and other current assets 964,117 452,609

LONG-TERM DEBT, AND
CAPITAL LEASE NET OF

4,940,402 4,304,999

CURRENT
MATURITIES:

18,582,190 18,184,311
Total current assets

Total liabilities 14,132,231 13,258,218

PROPERTY, PLANT AND
EQUIPMENT:

Land and building 3,142,486 3,057,144

COMMITMENTS AND
CONTINGENCIES

Aircraft 5,951,859 3,766,059

STOCKHOLDERS' EQUITY:

Machinery and equipment 3,497,763 2,372,382

Preferred stock, par value \$5:

Office furniture and fixtures 1,024,612 823,493

Authorized
50,000,000
shares, all classes

Leasehold 31,389 4,249

Designated

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improvements			Classes A and B 200,000 shares		
			\$1,000 Class A, 9.8%, cumulative if earned		
	13,648,109	10,023,327	liquidation and redemption value \$100,		
	(4,769,307)	(3,483,811)		-	-
Accumulated depreciation			no shares issued and outstanding		
			\$1,000 Class B, 6%, convertible cumulative,		
	8,878,802	6,539,516	liquidation and redemption value \$1,000,	-	-
			no shares issued and outstanding		
SUPPLEMENTAL TYPE CERTIFICATES:	1,696,202	1,774,057	Common stock, par value \$.01:		
(net of amortization of \$2,464,183 in 2011 and \$2,349,328 in 2010)			Authorized 100,000,000 shares		
			issued and outstanding 57,194,262 shares		
				571,943	565,627
			in 2011 and 56,562,698 in 2010		

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			Common stock, owed but not issued 278,573 shares		
			in 2011 and in 2010	2,786	2,786
OTHER ASSETS:			Capital contributed in excess of par	11,911,838	11,458,809
Deferred tax asset	1,226,000	1,226,000	Treasury stock at cost, 600,000 shares	(732,000)	(732,000)
	1,774,500	1,842,063	Minority Interest	(396)	874
Other assets (net of accumulated amortization of \$292,465 in 2011 and \$198,727 in 2010)	-----		Retained earnings	6,271,292	5,011,633
	3,000,500	3,068,063		-----	
				18,025,463	16,307,729
				Total stockholders' equity	-----
Total Assets	3,157,694	29,565,947	Total liabilities and stockholders' equity	\$2,157,694	\$9,565,947
	=====			=====	

The accompanying notes are an integral part of these financial statements

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED APRIL 30, 2011, 2010 AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUE			
Aircraft / Modifications	\$13,872,659	\$ 13,486,358	\$ 11,713,497
Avionics / Defense	5,072,298	5,497,407	2,255,776
Management / Professional Services	4,711,965	5,278,900	4,123,815
Gaming facility	22,678,406	8,314,043	-
	-----	-----	
Net Revenue	46,335,328	32,576,708	18,093,088
COST OF SALES			
Aircraft / Modifications	8,195,500	9,046,653	8,444,622
Avionics / Defense	3,576,376	2,447,289	1,135,310
Management / Professional Services	1,587,800	2,380,572	1,921,804

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Gaming facility	7,040,351	2,320,007	-
	-----	-----	
Total Cost of Sales	20,400,027	16,194,521	11,501,736
	-----	-----	
GROSS PROFIT	25,935,301	16,382,187	6,591,352
OPERATING EXPENSES MARKETING, GENERAL & ADMINISTRATIVE	23,106,774	11,222,100	4,759,470
IMPAIRMENT OF INDIAN ADVANCES	-	1,259,091	-
LOSS ON RETIREMENT OF AIRCRAFT	-	1,053,681	-
GAIN ON SALE OF LAND	-	(496,433)	-
	-----	-----	
OPERATING INCOME	2,828,527	3,343,748	1,831,882
OTHER INCOME (EXPENSE)			
Interest Expense	(364,159)	(455,827)	(504,829)
Other	(34,916)	12,372	7,407
	-----	-----	
		(443,455)	(497,422)
Other Income (Expense)	(399,075)		
INCOME BEFORE PROVISION FOR INCOME TAXES	2,429,452	2,900,293	1,334,460
PROVISION FOR INCOME TAXES			
Deferred Income Tax Benefit	-	(1,226,000)	-
Income Tax Expense	1,171,063	1,235,293	505,146
	-----	-----	
Total Income Tax Expense	1,171,063	9,293	505,146
	-----	-----	
NET INCOME BEFORE MINORITY INTEREST	1,258,389	2,891,000	829,314
MINORITY INTEREST	1,270	(874)	-
	-----	-----	
NET INCOME	\$ 1,259,659	\$ 2,890,126	\$ 829,314
	=====	=====	=====
BASIC EARNINGS PER COMMON SHARE	\$ 0.02	\$ 0.05	\$ 0.02
	=====	=====	=====

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Shares used in per share calculation 56,108,812 55,398,581 54,864,138

DILUTED EARNINGS PER COMMON SHARE \$ 0.02 \$ 0.05 \$ 0.02

Shares used in per share calculation 56,108,812 55,502,899 54,934,092

The accompanying notes are an integral part of these financial statements

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED APRIL 30, 2011, 2010, AND 2009															
			Common Stock		Common Stock Owed but Not Issued		Capital Contributed in Excess of Par		Treasury Stock		Minority Interest		Retained Earnings		Total Stockholders' Equity
BALANCE, April 30, 2008		\$	550,911	\$	2,786	1	\$,076,238	\$	(732,000)	\$	-	\$	292,193	\$	12,190,128
	Issuance of stock owed from prior period														
	Issuance of stock Benefit Plan		9,059		-		190,244		-		-		-		199,303
	Net income		-		-		-		-		-		829,314		829,314

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BALANCE, April 30, 2009		559,970		2,786	11,266,482	(732,000)		-	2,121,507		13,218,745
Issuance of stock owed from prior period											
Issuance of stock Benefit Plan		5,657		-	192,327		-	-	-		197,984
Net income		-		-	-		-	874	2,890,126		2,891,000
-----											-----
BALANCE, April 30, 2010		565,627		2,786	11,458,809	(732,000)		874	5,011,633		16,307,729
Issuance of stock for Services		1,938		-	75,562		-	-	-		77,500
Stock Options issued to employees and directors		-		-	167,316		-	-	-		167,316
		4,378		-	210,151		-	-	-		214,529

	Issuance of stock Benefit Plan																
	Net income		-		-		-		-		(1,270)		1,259,659				1,258,389

BALANCE, April 30, 2011	\$	571,943	\$	2,786	\$	911,838	\$	732,000	\$	(396)	\$	271,292	\$				18,025,463
		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, 2011, 2010, AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,258,389	\$ 2,891,000	\$ 829,314
Adjustments to reconcile cash flows from operating activities			
Depreciation and amortization	1,401,284	942,192	391,826
Amortization (Supplemental Type Certificates)	114,855	98,064	184,898
Provision for obsolete inventories and fixed assets	589,154	130,209	717,723
Stock issued for services	77,500	-	-
Stock options issued to employees and directors	167,316	-	-
Stock issued for benefit plan	214,529	197,984	199,303
Impairment of Indian advances	-	1,259,091	-
Loss on retirement of aircraft	-	1,053,681	-
Deferred income tax asset	-	(1,226,000)	-
Disposal of fixed assets	43,450	(496,433)	(500)

Changes in assets and liabilities

-

Accounts receivable	11,970	(1,595,810)	745,872
Inventories	(718,515)	1,327,898	(1,472,780)
Prepaid expenses and other current assets	(511,509)	(25,688)	(54,607)
Accounts payable	1,123,497	352,250	(83,864)
Customer deposits	264,599	(293,514)	(297,546)
Deposits other	(1,700,000)	1,700,000	-
Accrued liabilities	(160,822)	1,169,845	12,631
Gaming facility mandated payment	368,332	1,659,683	-
Other liabilities	1,860	32,691	-
	-----	-----	-----
Cash flows from operating activities	2,545,889	9,177,143	1,172,270
	-----	-----	-----

CASH FLOWS FROM INVESTING
ACTIVITIES

Capital expenditures	(3,792,459)	(506,485)	(198,407)
Proceeds from sale of land/other assets	39,000	2,000,000	-
	-----	-----	-----
Cash flows from investing activities	(3,753,459)	1,493,515	(198,407)
	-----	-----	-----

CASH FLOWS FROM FINANCING
ACTIVITIES

Borrowings line of credit, net	21,999	(614,808)	(26,473)
Borrowings of promissory notes, long-term debt and capital lease obligations	2,881,909	375,000	5,701,562
Repayments of promissory notes, long-term debt and capital lease obligations	(1,927,359)	(3,702,342)	(7,640,629)
	-----	-----	-----
Cash flows from financing activities	976,549	(3,942,150)	(1,965,540)
	-----	-----	-----

NET INCREASE (DECREASE) IN
CASH

CASH, beginning of year	8,706,546	1,978,038	2,969,715
	-----	-----	-----
CASH, end of year	\$ 8,475,525	\$ 8,706,546	\$ 1,978,038
	=====	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW
INFORMATION

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Interest paid	\$ 363,618	\$ 462,687	\$ 510,633
	=====	=====	=====
Income taxes paid	\$ 1,796,859	\$ 662,874	\$ 554,789
	=====	=====	=====

NON CASH OPERATING ACTIVITY

Stock issued for services	\$ 77,500	\$ -	\$ -
	=====	=====	=====
Stock options issued to employees and directors	\$ 167,316	\$ -	\$ -
	=====	=====	=====
Stock issued for benefit plan	\$ 214,529	\$ 197,984	\$ 199,303
	=====	=====	=====

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, Kings Avionics, Inc., Butler National, Inc., Butler Temporary Services, Inc., Kansas International Corporation, Kansas International DDC, LLC, and a majority owned subsidiary, BHCMC, LLC (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. Kings Avionics sells, installs and repairs avionics equipment (airplane radio equipment and flight control systems). Butler National Inc. acquires airplanes, principally Learjets, to refurbish and sell. Butler National Corporation-Tempe is primarily engaged in the manufacture of airborne switching units used in Boeing McDonnell Douglas aircraft, electronic upgrades for classic weapon control systems used by the military, and transient suppression devices for Boeing Classic aircraft. Butler National 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. BHCMC, LLC is majority-owned and provides management services for the Boot Hill Casino & Resort under a management agreement with the State of Kansas. 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 accounting principles generally accepted in the United States of America 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.

Inventory obsolescence is examined on a regular basis. Inventory that has been inactive for a period of three 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. **Long-Lived Assets:** The Company accounts for its long-lived assets in accordance with ASC Topic 360-10, Formerly SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." ASC Topic 360-10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value.
- f. **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:

			2011		2010	
			-----		-----	
	Direct labor	\$	417,514	\$	417,514	
	Direct materials		1,100,262		1,100,262	
	Consultant costs		1,951,829		1,914,829	
	Overhead		690,780		690,780	

			-----	-----	
			4,160,385	4,123,385	
	Less-Amortized costs		2,464,183	2,349,328	
			-----	-----	
	STC balance	\$	1,696,202	\$ 1,774,057	
			=====	=====	

g. Revenue Recognition: Generally, 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 and material costs incurred compared to total estimated direct labor costs. Each quarter our management reviews the progress and performance of our significant contracts. Based on this analysis, any adjustment to sales, cost of sales and/or profit is recognized as necessary in the period they are earned. Changes in estimates of contract sales, cost of sales and profits are recognized using a cumulative catch-up, which is recognized in the current period of the cumulative effect of the change on current or prior periods. Revenue for off-the-shelf items and aircraft sales is recognized on the date of sale.

Casino gaming revenue is the gross gaming win as reported by the Kansas Lottery casino reporting systems less the mandated distributions by and for the State of Kansas.

Revenue from Avionics products are recognized when shipped. Payment for these Avionics products are due within 30 days of the invoice date after shipment. Revenue for SCADA services, Gaming Management, and other Corporate/Professional Services is recognized as the service is rendered and invoiced. Payments for these service invoices are usually received within 30 days.

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

h. Slot Machine Jackpots: If the Company is unable to avoid payment of the jackpot (i.e. the incremental amount on a progressive machine) due to legal requirements, the jackpot is accrued as the obligation becomes unavoidable. This liability is accrued over the time period in which the incremental progressive jackpot amount is generated with a related reduction in casino revenue. No liability is accrued with respect to the base jackpot.

i. 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.

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

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

			2011			2010			2009	
Net income		\$	1,259,659		\$	2,890,126		\$	829,314	
Weighted average common shares outstanding			56,108,812			55,398,581			54,864,138	
			-			104,318			69,954	

Dilutive effect of non-qualified stock option plans										
Weighted average common shares outstanding, assuming dilution			56,108,812		55,502,899			54,934,092		
Potential common shares if all options were exercised and shares issued			63,856,326		57,787,532			57,241,865		
Basic earnings per common share		\$	.02		\$	.05		\$	.02	
Diluted earnings per common share		\$	.02		\$	.05		\$	.02	

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

l. 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.

m. 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, 2011 we had \$4,353,281 in bank deposits that exceeded the federally insured limits.

n. 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.

o. Research and Development:

We invested in research and development activities. The amount invested in the year ended April 30, 2011 and 2010 was approximately \$1,651,657 and \$1,720,168 respectively.

p. 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, 2011, 2010, 2009 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, 2011, 2010, 2009 our warranty expense was immaterial.

- Recent Accounting Pronouncements: We do not believe there are any recently issued accounting standards that have not yet been adopted that will have a material impact on the Company's financial statements.
- 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.
- 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, 2011 and 2010, consist of the following:

<u>Promissory Notes</u>	<u>2011</u>	<u>2010</u>
Bank Line of Credit, available LOC \$1,000,000		
interest at prime plus 2% (7.0% at April 30, 2011 - with a	\$ 91,799	\$ 69,800
floor of 7%) due August 2011, collateralized by a		
first or second position on all assets of the Company.		
	-----	-----
	\$ 91,799	\$ 69,800
	=====	=====

Long-Term Debt and Capital Lease Obligations

Note payable, interest at 6% due February 2016 collateralized	1,622,390	-
by Aircraft Security Agreements		
Note payable, interest at prime plus 1%, (4.25% at April	-	269,841
30, 2011) due June 2011 collateralized by Aircraft		
and Engine Security Agreements		
	587,555	-

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Note payable, interest at prime plus 3%, with a floor of

6.25% due September 2017 collateralized by Aircraft Security

Agreements

Note payable, interest at bank prime (3.25% at April	456,122	498,579
--	---------	---------

30, 2011) due March 2013, collateralized by real estate.

Note payable, interest at bank prime (3.25% at April	1,171,981	1,281,072
--	-----------	-----------

30, 2011) due March 2013, collateralized by real estate.

Note payable, interest at 6.0% due February 28,	86,660	91,023
---	--------	--------

2024 collateralized by real estate.

Note payable, interest at 5.0% at April 30, 2010,	-	20,671
---	---	--------

renewed and due October 2011, collateralized by real estate.

Note payable, interest at 5.0% at April 30, 2011,	-	121,765
---	---	---------

renewed and due August 2011, collateralized by real estate.

Note payable, interest at 7.5% at April 30, 2011,	168,781	346,611
---	---------	---------

due November 2012, collateralized by real estate.

Note payable, interest at 6.25% at April 30, 2011,	355,923	366,596
--	---------	---------

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due June 14, 2014, collateralized by real estate.

Note payable, interest at prime plus 2% (7.0% at April	688,749	907,698
--	---------	---------

30, 2011 - with a floor of 7.0%), due January 2014,

collateralized by a first or second position on all assets.

Notes payable, interest Libor rate plus 9.715%, (10.8% at April	649,534	825,441
---	---------	---------

30, 2011) renewed May 2009, due May 2014, collateralized

by Aircraft and Engine Security Agreements.

Note payable, with quarterly payments of \$125,000 through	473,339	908,874
--	---------	---------

2012. Imputed interest calculated at 7.0%

Other Notes Payable and Capital Lease Obligations	486,858	155,171 0
---	---------	--------------

Due May 2011 to May 2013 with interest rates between

3.9% and 8.5%.

	\$ 6,747,892	\$ 5,793,342
Less: Current maturities	1,807,490	1,488,343

	\$ 4,940,402	\$ 4,304,999
	=====	=====

Maturities of long-term debt and capital lease obligations are as follows:

Year Ending April 30	Amount
-----	-----
2012	\$ 1,807,490
2013	2,632,678
2014	891,611
2015	786,811
2016	414,156
Thereafter	215,146

	\$ 6,747,892
	=====

3. INCOME TAXES:

Deferred taxes are determined based on the estimated future tax effects of differences between the financial statements and tax basis of assets and liabilities given the provision of the enacted tax laws. Significant components of the Company's deferred tax liabilities and assets as of April 30, 2011 and 2010 are as follows:

	<u>April 30, 2011</u>	<u>April 30, 2010</u>
Deferred tax liabilities:		
Depreciation	\$ (248,000)	\$ (160,000)
	-----	-----
Deferred tax assets:		
Accounts receivable reserve	56,000	89,000
Inventory and other reserves	1,338,000	1,225,000
Vacation accruals	80,000	72,000
	-----	-----

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Total gross deferred tax assets	1,474,000	1,386,000
Less valuation allowance	-	-
	-----	-----
Net deferred tax assets	\$ 1,226,000	\$ 1,226,000
	=====	=====

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

	<u>April 30, 2011</u>	<u>April 30, 2010</u>
Statutory federal income tax rate	34.00%	34.00%
State income tax	9.70%	-
Permanent tax	2.70%	3.00%
Change in valuation reserve	-	15.00%
Other	1.80%	(11.00%)
	-----	-----
	48.20%	41.00%
	=====	=====

Income tax expense:

Deferred income tax benefit	\$ -	\$ (1,226,000)
Current income tax	1,171,063	1,235,293
	-----	-----
Total income tax expense	\$ 1,171,063	\$ 9,293
	=====	=====

Current income tax expense of \$1,171,063 and \$1,235,293 are comprised of \$925,000 and \$1,100,000 in federal

income tax and \$246,063 and \$135,293 in state income tax for the years ended April 30, 2011 and 2010, respectively.

The Company has accrued income taxes due to federal and state taxing authorities of approximately \$252,000 and \$847,000 for the years ended April 30, 2011 and 2010, respectively.

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

4. STOCKHOLDERS' EQUITY:

Common Stock Transactions

During the year ended April 30, 2011, we issued 437,814 shares valued at \$214,529 as the match to the Company 401(k) plan.

During the year ended April 30, 2011, we issued 193,750 shares of Company common stock at a value of \$77,500 for marketing and consulting services.

During the year ended April 30, 2010, we issued 565,667 shares valued at \$197,984 as the match to the Company 401(k) plan.

During the year ended April 30, 2009, we issued 905,922 shares valued at \$199,303 as the match to the Company 401(k) plan.

5. STOCK OPTIONS AND INCENTIVE PLANS

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

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

Year 1: Target \$0.92

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

Year 2: Target \$1.41

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

Year 3: Target \$1.90

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

We used the Black-Scholes model to value the options and used assumptions of ultimately how many option shares would vest based on our experience. The value of the option shares is \$684,131 and this will be expensed over the vesting term using the active employment to determine monthly expense. For the fiscal year ended April 30, 2011 we expensed \$167,316. The remaining amount will be expensed through fiscal 2014. The fair value of the option shares used the following weighted average assumptions: Strike Price \$1.36; Stock Price \$0.49; Volatility 125%; Term 3.1 years; Dividend yield 0% and Interest Rate 1.01%.

A summary of stock options and warrants is as follows:

		<u>2011</u>	<u>2010</u>	<u>2009</u>	
Options exercisable at April 30		0	1,224,834	1,244,834	
Weighted average fair value per share Options granted per year		.49	.80	.79	
Range of Exercise Prices	Number Outstanding and Exercisable	Weighted Average Remaining Contract Life		Weighted Average Exercise and Outstanding Price	
\$0.49	0	3.1 years		.49	
		<u>Options</u>		<u>Average Price</u>	
Outstanding Beginning 04/30/2008		1,493,763		\$	0.81
Granted			-		-
Expired			248,929	0.90	
Exercised			-		-
Outstanding Ending 04/30/2009			1,244,834		0.79
Outstanding Beginning 04/30/2009		1,244,834		0.79	
Granted			-		-
Expired		20,000		.0625	

Exercised		-		-
Outstanding Ending 04/30/2010		1,224,834		0.80
Outstanding Beginning 04/30/2010		1,224,834		0.80
Granted		7,262,064		0.49
Expired		1,224,834		0.79
Exercised		-		-
Outstanding Ending 04/30/2011		7,262,064	\$	0.49

6. COMMITMENTS

:

Lease and Rent Commitments

We lease and rent space with initial terms of three (3) years, (5) years and ten (10) years. Total rental expense incurred for the years ended April 30, 2011, 2010, and 2009, was \$1,774,429, \$1,672,603, and \$243,133, respectively.

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

<u>Year Ending April 30</u>		<u>Amount</u>
2012	\$	4,924,312
2013		6,790,723
2014		6,836,780
2015		6,883,298
2016		6,930,281
	\$	32,365,394

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 financial position or results of operations.

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 \$1,143, \$88,142, and \$74,442 from a company partially owned by David Hayden, a director for Butler National Corporation during fiscal 2011, 2010, and 2009 respectively.

In September 2010 we acquired Kings Avionics, Inc. in support of our "Classic" commercial and military product lines. As part of the acquisition Mr. Hayden received \$90,000 in fiscal 2011.

In the normal course of business we purchased business system components \$158,528 in fiscal 2011 and \$6,653 in fiscal 2010 from ISG, the employer of Bradley Hoffman, a director for Butler National Corporation during fiscal 2011.

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 2011, 2010, and 2009 was approximately \$214,529, \$197,984, and \$199,303 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

Company operations are classified into six segments in Fiscal Years 2011, 2010, and 2009.

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 the interim period the Company has extended an agreement for transition services.

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

Products", "Safety Products", or "Switching Units").

In September 2010 we expanded this division by the acquisition of Kings Avionics Inc. The acquisition of Kings Avionics allows us to transition into the new technology available in avionics. Kings Avionics sells, installs and repairs avionics equipment (airplane radio equipment and flight control systems). These systems are flight display systems which include intuitive touchscreen controls with large display to give users unprecedented access to high-resolution terrain mapping, graphical flight planning, geo-referenced charting, traffic display, satellite weather and much more. Kings is also recognized nationwide for its troubleshooting and repair work particularly on autopilots.

Services - SCADA (Supervisory Control and Data Acquisition) Systems and Monitoring Services - principally includes 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 - principally includes providing 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 provided by our subsidiary, Butler National Service Corporation ("BNSC"). We provide management services to the Boot Hill Casino and Resort which commenced operations on December 15, 2009 through our subsidiary BHCMC, LLC, a Kansas limited liability company jointly owned by BNSC and BHC Investment Company, L.C. (BHCI). BHCI is not a related party.

Year ended April 30, 2011

	Gaming	Avionics	Modifications	Services	Corporate	Consolidated
Net Revenue	24,901,743	5,072,298	\$ 13,872,659	9,562,294	\$ 926,334	\$ 46,335,328
Depreciation/Amortization	18,917	175,675	1,062,779	17,526	241,242	1,516,139
Operating income	(217,958)	(183,359)	2,153,029	13,780	1,063,035	2,828,527
Capital Expenditures, net	224,982	999,466	2,486,601	18,233	26,177	3,755,459
Interest Expense						(364,159)
Other income						(34,914)
Income before tax						2,429,452
Income tax expense						1,171,063

Net Income						1,259,659
Identifiable assets	8,597,798	5,220,991	6,540,463	694,553	11,103,889	32,157,694

Year ended April 30, 2010

	Gaming	Avionics	Modifications	Services	Corporate	Consolidated
Net Revenue	10,005,903	5,497,408	\$ 13,486,358	8,608,468	\$ 1,978,571	\$ 32,576,708
Depreciation/Amortization	-	69,191	812,045	18,313	140,705	1,040,254

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Operating income	53,215	1,293,643	806,533	2,301	1,188,056	3,343,748
Capital Expenditures, net	(1,062,298)	-	60,000	-	5,215	(997,083)
Interest Expense						(455,827)
Other income						12,372
Income before tax						2,900,293
Income tax expense						9,293

Net Income						2,890,126
Identifiable assets	7,897,464	4,262,775	6,009,939	958,821	10,436,948	29,565,947

Year ended April 30, 2009

	Gaming	Avionics	Modifications	Services	Corporate	Consolidated
Net Revenue	\$293,284	\$255,776	\$ 11,713,497	\$1,755	\$ 1,058,776	\$ 18,093,088
Depreciation/Amortization	-	82,444	172,040	18,598	303,642	576,724
Operating income	655,581	(87,532)	967,085	24,316	272,432	1,831,882
Capital Expenditures, net	(96,879)	24,375	223,488	21,021	26,902	198,907
Interest Expense						(504,829)
Other income						7,407
Income before tax						1,334,460
Income taxes						505,146

Net Income						829,314
Identifiable assets	4,388,715	4,159,006	5,504,679	424,579	11,321,178	25,798,157

Major Customers:

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	
Modifications	11.2%	N/A*	10.9%	
Avionics	N/A*	N/A*	N/A*	
Management Services	N/A*	N/A*	N/A*	
Environmental Services	N/A*	N/A*	N/A*	

*Revenue represented less than 10% of consolidated revenue.

In fiscal 2011 the Company derived 23.9% of total sales from five customers. The top customer provided 11.2% of total sales while the next top four customers ranged from 2.6% to 4.0%.

12. FAIR VALUE MEASUREMENTS

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

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

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

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

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of April 30, 2011:

		Level 1			Level 2		Level 3			Fair Value
Line of credit	\$		-	\$	91,799	\$		-	\$	91,799
Long term debt and capital lease obligations			-		6,747,892			-		6,747,892
		-----			-----		-----			-----
	\$		-	\$	6,839,691	\$		-	\$	6,839,691

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis as of April 30, 2010:

		Level 1			Level 2		Level 3			Fair Value
Line of credit	\$		-	\$	69,800	\$		-	\$	69,800
Long term debt and capital lease obligations			-		5,793,342			-		5,793,342
		-----			-----		-----			-----
	\$		-	\$	863,142	\$		-	\$	5,863,142

13. ACQUISITIONS

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. On December 7, 2009 we signed an amendment to the purchase agreement that L-3 communication would provide "Transition Services" through December 2010. We signed two additional amendments to extend the transition agreement on December 9, 2008 and June 5, 2009.

On September 1, 2010, we acquired Kings Avionics Inc. for \$540,000. The acquisition of Kings Avionics allows us to transition into the new technology available in avionics today.

In February 2011, we purchased a Learjet 60 aircraft for approximately \$1,820,000. This acquisition was made for the STC development of Lear 60 products.

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 \$1,919,020 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.

In June 2009 we sold 104 acres of land to BHC Development as a part of the build-to-suit agreement for \$2,000,000. The cost associated with this sale was \$1,503,567. On June 15, 2009, our subsidiary, Kansas International DDC, LLC exercised our option to purchase approximately 49 acres east of Highway 50 Bypass across from the future location of the Boot Hill Casino and Resort in Dodge City, Kansas. After option fee payments and additional deposits we borrowed approximately \$375,000 to make this purchase.

In May 2010 we purchased approximately 20 acres of land in Dodge City, Kansas, known as Glenridge Estates for approximately \$85,000. This land was purchased in support of future developments in Dodge City, Kansas.

15. SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure.

On May 6, 2011 BHCMC, LLC and BHC Investments entered into a lease agreement beginning March 1, 2012 and ending September 30, 2017 in the monthly amount of \$182,081, for additional items provided to the Tenant by the landlord.

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

Membership Interest		Members of BOM	Equity Ownership	Income (Loss) Sharing
Class A		3	20%	40%
Class B		4	80%	60%

16. SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth selected unaudited financial information for each quarter of fiscal 2011, 2010, and 2009 (in thousands, except per share amounts).

<u>2011</u>		<u>First</u>		<u>Second</u>		<u>Third</u>		<u>Fourth</u>		<u>Total</u>
Revenue	\$	9,546	\$	11,016	\$	12,860	\$	12,913	\$	46,335
Operating Income (Loss)		(64)		780		1,514		598		2,828
Nonoperating Income (Expense)		(130)		(89)		(84)		(96)		(399)
Net Income (Loss)		(112)		473		867		32		1,260
Basic Earnings (Loss) per Share*		.00		.01		.01		.00		.02
Diluted Earnings (Loss) per Share*		N/A		.01		.01		.00		.02

*Rounded to nearest tenth

<u>2010</u>		<u>First</u>		<u>Second</u>		<u>Third</u>		<u>Fourth</u>		<u>Total</u>
Revenue	\$	6,069	\$	4,411	\$	8,924	\$	13,173	\$	32,577

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Operating Income (Loss)	1,198	113	977	1,056	3,344
Nonoperating Income (Expense)	(480)	(94)	(334)	455	(453)
Net Income (Loss)	718	19	643	1,510	2,890
Basic Earnings (Loss) per Share*	.01	.00	.01	.03	.05
Diluted Earnings (Loss) per Share*	.01	.00	.01	.03	.05

*Rounded to nearest tenth

<u>2009</u>		<u>First</u>		<u>Second</u>		<u>Third</u>		<u>Fourth</u>		<u>Total</u>
Revenue	\$	5,204	\$	4,056	\$	4,545	\$	4,288	\$	18,093
Operating Income (Loss)		656		(5)		503		678		1,832
Nonoperating Income (Expense)		(338)		(41)		(225)		(398)		(1,002)
Net Income (Loss)		318		(46)		278		279		829
Basic Earnings (Loss) per Share*		.01		.01		.01		.01		.02
Diluted Earnings (Loss) per Share*		.01		.01		.01		.01		.02

*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.

SCHEDULE II
BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE YEARS ENDED APRIL 30, 2011, 2010 AND 2009									
		Balance at Beginning of Year		Additions Charged to Costs and Expenses		Deductions		Balance at End of Year	
Description									
Year ended April 30, 2011									
Allowance for doubtful accounts	\$	229,969	\$	-	\$	83,467	\$	146,502	
Reserve for inventory obsolescence		1,244,216		548,466		-		1,792,681	
Year ended April 30, 2010									
Allowance for doubtful accounts	\$	111,840	\$	118,129	\$	-	\$	229,969	
Reserve for inventory obsolescence		1,114,007		165,384		-		1,244,216	
Income tax valuation allowance		749,000		-		749,000		-	
Year ended April 30, 2009									
Allowance for doubtful accounts	\$	75,040	\$	36,800	\$	-	\$	111,840	
Reserve for inventory obsolescence		477,254		636,753		-		1,114,007	
Income tax valuation allowance		784,000		-		35,000		749,000	