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BUTLER NATIONAL CORP
Form 10-Q/A
October 01, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

X Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarter ended July 31, 2001

Transition Report Pursuant to Section 13 or 15 (d) of the
Security Exchange Act of 1934

For the quarter ended July 31, 2001

Commission File Number 0-1678

BUTLER NATIONAL CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware
(State of incorporation)

41-0834293
(I.R.S. Employer
Identification No.)

19920 West 161st Street, Olathe, Kansas 66062
(Address of Principal Executive Office) (Zip Code)

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

Former name, former address and former fiscal year if changed since
last report:

Not Applicable

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 X No _____

The number of shares outstanding of the Registrant's Common
Stock, \$0.01 par value, as of July 31, 2001, was 37,283,278 shares.

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

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BUTLER NATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

ASSETS

7/31/01

(unaudited)

Current Assets:

Cash		\$	92,381
Accounts receivable, net of allowance for doubtful accounts of \$11,703 at July 31, and \$25,600 at April 30, 2001			1,903,806
Note receivable from Indian Gaming Developments Contracts in process			647,285 -
Inventories			
Raw materials			1,720,415
Work in process			143,473
Finished goods			36,447
Aircraft			295,281
			2,195,616
Prepaid expenses and other assets			3,872
			4,842,960

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Property, Plant and Equipment:	
Land & building	948,089
Machinery and equipment	1,168,961
Office furniture and fixtures	607,736
Leasehold improvements	4,249
	<hr/>
Total cost	2,729,035
	<hr/>
Accumulated depreciation	(1,631,159)
	<hr/>
Net Property, Plant and Equipment	1,097,876
	<hr/>
Supplemental Type Certificates	1,348,892
Indian Gaming:	
Note receivable from Indian Gaming Developments	1,106,178
Advances for Indian Gaming Developments	1,866,221
(net of reserves of \$2,718,928 at July 31 and April 30, 2001)	
	<hr/>
Total Indian Gaming	2,972,399
Other Assets	
Other assets	196,837
	<hr/>
Total Other Assets	196,837
	<hr/>
Total Assets	\$10,458,964
	=====

ASSETS
4/30/01
(audited)

Current Assets:	
Cash	\$ 108,071
Accounts receivable, net of allowance for doubtful accounts of \$18,227 at July 31, and \$25,600 at April 30, 2001	642,564
	<hr/>
Note receivable from Indian Gaming Developments	647,285
Due from affiliate	-
Contracts in process	-
	<hr/>
Inventories	
Raw materials	1,639,080
Work in process	208,036
Finished goods	70,920
Aircraft	1,467,771
	<hr/>
	3,385,807
	<hr/>
Prepaid expenses and other assets	9,730
	<hr/>
Total current assets	4,793,457

Property, Plant and Equipment:	
Land & building	948,089
Machinery and equipment	1,161,220
Office furniture and fixtures	607,736
Leasehold improvements	4,249

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Total cost	2,721,294
Accumulated depreciation	(1,590,048)
Net Property, Plant and Equipment	1,131,246
Supplemental Type Certificates	1,338,372
Indian Gaming:	
Note receivable from Indian Gaming Developments	1,285,326
Advances for Indian Gaming Developments (net of reserves of \$2,718,928 at July 31 and April 30, 2001)	1,861,376
Total Indian Gaming	3,146,702
Other Assets	
Other assets	196,837
Total Other Assets	196,837
Total Assets	\$10,606,614
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
7/31/01	
(unaudited)	
Current Liabilities:	
Bank overdraft payable	\$ 88,254
Promissory notes payable	621,471
Current maturities of long-term debt	879,054
Accounts Payable	695,698
Customer Deposits	31
Accrued liabilities -	
Compensation and compensated absences	99,466
Other	152,480
Total current liabilities	2,536,454
Long-Term Debt, net of current maturities	3,070,455
Convertible debentures	-
Total liabilities	5,606,908
Shareholders' equity:	
Preferred stock, par value \$5:	-
Authorized, 200,000 shares, all classes \$1,000 Class B, 6%, convertible cumulative, liquidation and redemption value \$1,000, issued and outstanding, zero shares at 7/31/01 & zero shares at 4/30/01	
Common stock, par value \$.01:	378,833
Authorized, 40,000,000 shares Issued and outstanding 37,883,278 July 31, 2001 & 27,181,828 at April 31, 2001,	
Capital contributed in excess of par	9,958,476

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Treasury stock, at cost (No preferred at 7/31 & no preferred at 4/30 and common 600,000 at 7/31 & 600,000 at 4/30)	(732,000)
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Retained deficit (deficit of \$11,938,813 eliminated October 31, 1992)	(4,753,254)
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Total shareholders' equity	4,852,055
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Total liabilities and shareholders' equity	\$10,458,964
	=====

4/30/01
(audited)

Current Liabilities:

Bank overdraft payable	\$ 148,859
Promissory notes payable	348,590
Current maturities of long-term debt	1,321,030
Accounts Payable	807,114
Customer Deposits	167,530
Accrued liabilities -	
Compensation and compensated absences	120,304
Other	118,837

Total current liabilities	3,033,264
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Long-Term Debt, net of current maturities	3,253,612
Convertible debentures	78,000

Total liabilities	6,364,876
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Shareholders' equity:

Preferred stock, par value \$5: Authorized, 200,000 shares, all classes \$1,000 Class B, 6%, convertible cumulative, liquidation and redemption value \$1,000, issued and outstanding, 283.5 shares at 7/31/01 & 283.5 shares at 4/30/01	-
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Common stock, par value \$.01: Authorized, 40,000,000 shares Issued and outstanding 27,806,828 July 31, 2001 & 27,181,828 at April 31, 2001,	369,041
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Capital contributed in excess of par	9,890,268
Treasury stock, at cost (No preferred at 7/31 & no preferred at 4/30 and common 600,000 at 7/31 & 600,000 at 4/30)	(732,000)

Retained deficit (deficit of \$11,938,813 eliminated October 31, 1992)	(5,285,571)
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Total shareholders' equity	4,241,738
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Total liabilities and shareholders' equity	\$10,606,614
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The accompanying notes are an integral part of these balance sheets.

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED	
	July 31,	
	2001	2000
	(unaudited)	(unaudited)
Net sales	\$ 3,254,990	\$ 982,586
Cost of sales	2,192,562	837,423
	<u>1,062,428</u>	<u>145,163</u>
Selling, general and administrative expenses	486,529	484,921
Operating income (loss)	\$ 575,899	\$ (339,758)
Other income (expense):		
Interest expense	(89,975)	(83,545)
Interest revenue	42,958	36,360
Other	3,435	2,005
Other expense	\$ (43,582)	\$ (45,180)
Income (loss) from continuing operations before taxes	532,317	(384,938)
Provision for income taxes from continuing operations	5,000	-
Income (loss) from continuing operations	\$ 527,317	\$ (384,938)
Net income (loss)	\$ 527,317	\$ (384,938)
Basic earnings (loss) per common share:		
Continuing operations	\$ 0.02	\$ (0.02)
	<u>\$ 0.02</u>	<u>\$ (0.02)</u>
Shares used in per share calculation	31,337,597	21,438,725
Diluted earnings (loss) per common share	<u>0.02</u>	<u>(0.02)</u>
Continuing operations	\$ 0.02	\$ (0.02)

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Shares used in per share calculation	31,337,597	21,438,725
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The accompanying notes are an integral part of these statements.

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED	
	July 31,	
	2001	2000
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income (loss)	\$ 527,317	\$ (384,938)
Income (loss) from discontinued operations	-	-
Income from continuing operations	527,317	(384,938)
Adjustments to reconcile net income (loss) to net cash (used in) operations:		
Depreciation	41,111	51,037
Amortization	-	16,808
Other noncash expenses	5,000	-
Changes in assets and liabilities:		
Accounts receivable	(1,261,242)	126,627
Contracts in process	-	326,250
Inventories	1,190,191	(122,109)
Prepaid expenses and other current assets	5,858	648
Other assets and other	-	3,018
Accounts payable	(173,021)	37,195
Customer deposits	(167,500)	(81,228)
Accrued liabilities	12,806	(19,239)
Cash provided by (used in) operations	\$ 180,520	\$ (45,931)
Cash flows from investing activities:		
Capital expenditures, net	(7,741)	-
Indian Gaming Developments	174,303	42,099
Supplemental Type Certificates	(10,520)	-
Cash used in investing activities	156,042	\$ 42,099
Cash flows from financing		

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activities:

Net borrowings under promissory note	272,881	23,727
Repayments of long-term debt and lease obligations	(625,133)	(84,676)
Cash provided by financing activities	\$ (352,252)	\$ (60,949)
Net increase (decrease) in cash	(15,690)	(64,781)
Cash, beginning of period	108,071	160,090
Cash, end of period	\$ 92,381	\$ 95,309

Supplemental disclosures of cash flow information:

Interest paid	486,104	83,545
Income taxes paid	-	-

The accompanying notes are an integral part of these statements.

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the management of the Company, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three months ended July 31, 2001 are not indicative of the results of operations that may be expected for the year ending April 30, 2002.

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

2. Indian Gaming: The Company is advancing funds for the establishment of Indian gaming. These funds have been capitalized in accordance with Statements of Financial Accounting Standards (SFAS) 67 "Accounting for Costs and Initial Rental Operations of Real Estate Projects." Such standard requires costs associated with the acquisition, development, and construction of real estate and real estate-related projects to be capitalized as part of that project. The realization of these advances is predicated on the ability of the Company and their Indian gaming clients to successfully open and operate the proposed casinos. There is no assurance that the Company will be successful. The inability of the Company to recover these advances could have a material adverse effect on the Company's financial position and results of operations.

Advances to the tribes and for gaming developments are capitalized and

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recorded as receivables from the tribes. These receivables, shown as Advances for Indian Gaming Development on the balance sheet, represent costs to be reimbursed to the Company pending approval of Indian gaming in several locations. The Company has agreements in place which require payments to be made to the Company for the respective projects upon opening of Indian gaming facilities. Once gaming facilities have gained proper approvals, the Company will enter into note receivable arrangements with the tribe to secure reimbursement of advanced funds to the Company for the particular project. The Company currently has one note receivable shown as Note Receivable From Indian Gaming Development on the balance sheet.

Reserves are recorded for Indian Gaming Development costs that cannot be determined whether reimbursement from the Tribes will occur. We have agreements with the Tribes to be reimbursed for all costs incurred by us to develop gaming when the facilities are constructed and opened. Because the Stables represents the only operations opened, there is uncertainty as to whether reimbursement on all remaining costs that have been reserved will occur. It is our policy therefore, to reduce the respective reserves as reimbursement from the Tribes is collected.

The Company has capitalized approximately \$1,866,322 and \$1,861,376 at July 31, 2001 and April 30, 2001 respectively, related to the development of Indian gaming facilities. These amounts are net of reserves of \$2,718,928 in fiscal year 2001 and 2000, which were established to reserve for potentially unreimbursable costs. In the opinion of management, the net advances will be recoverable through the gaming activities. Current economic projections for the gaming activities indicate adequate future cash flows to recover the advances. In the event the Company and its Indian clients are unsuccessful in establishing such operations, these net recorded advances will be recovered through the liquidation of the associated assets. The Company has title to land purchased for Indian gaming. These tracts, currently owned by the Company, could be sold to recover costs in the projects.

As a part of a Management Contract approved by the National Indian Gaming Commission (NIGC) on January 14, 1997, between the Company's (then) wholly owned subsidiary, Butler National Service Corporation, and the Miami Tribe of Oklahoma and the Modoc Tribe of Oklahoma (the Tribes), the Company agreed to convert their current unsecured receivable from the Tribes to a secured note receivable with the Tribes of \$3,500,000 at 2 percent over prime, to be repaid over five years, for the construction of the Stables gaming establishment and reimbursement for previously advanced funds. Security under the contract includes the Tribes' profits from all tribal gaming enterprises and all assets of the Stables except the land and building. In conjunction with the dividend of Butler National Services Corporation (BNSC) shares to Company shareholders in May, 1999 \$1,607,642 of the note was an asset of BNSC and \$1,770,351 was an asset of the Company. The Company is currently receiving payments on the note on the Stables' operation. Amounts to be received on the notes are 2002 - \$468,137; 2003 - \$647,285 and 2004 - \$638,041.

3. Quasi Reorganization: After completing a three-year program of restructuring the Company's operation, on October 31, 1992, the Company adjusted the accumulated deficit (earned surplus benefit) to a zero balance thereby affording the Company a "fresh start." No assets or liabilities required adjustment in this process as they had been recorded at fair value. The amount of accumulated deficit eliminated as of October 31, 1992, was \$11,938,813. Upon consummation of the reorganization, all deficits in the surplus accounts were eliminated

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against paid-in capital.

4. **New Accounting Standards:** The American Institute of Certified Public Accountants has issued SOP 98-5, "Reporting on the costs of start-up activities." This standard provides a change in the capitalization policy for start up costs. The standard is required for the Company's fiscal year-end 1999. The Company has evaluated this standard and concluded its adoption will have no material effect to the financial statements.

5. **Earnings Per Share:** Earnings per common share is based on the weighted average number of common shares outstanding during the year. Stock options, convertible preferred, and convertible debentures have been considered in the dilutive earnings per share calculation, but not used in 2001 and 2000 because they are anti-dilutive.

7. **Research and Development:** The Company charges to operations research and development costs. The amount charged in the quarter ended July 31, 2001 was approximately \$208,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

First quarter fiscal 2002 compared to first quarter fiscal 2001

Overview: Consolidated sales were \$3,254,990 for the three months ended July 31, 2001, compared to \$982,586 for the three months ended July 31, 2000, an increase of (231%). Sales increased in the Avionics segment (374%), increased in the Aircraft Modifications segment (36.4%), and increased in the Monitoring Services segment (11.5%).

The Company recorded a net profit from continuing operations of \$527,317 in the current quarter compared to a \$384,937 net loss in the comparable period of fiscal 2001.

Selling, General and Administrative expenses were \$486,529 for the current quarter, an increase of \$1,608 from the prior year.

Discussion of the specific changes by operation at each business segment follows:

Aircraft Modifications: Sales from the Aircraft Modifications business segment increased \$206,088 (36.4%) from \$565,479 in the first quarter of the prior fiscal year to \$771,567 in the current first quarter of fiscal 2002. Modified aircraft sales were \$1,425,000 for the current fiscal current fiscal quarter. First quarter operating profit was \$255,021 in fiscal 2002 and \$(195,915) in fiscal 2001. Additional emphasis is being placed on the purchase, modify and resale product line to increase market share of all modification products.

Avionics: Avionics unit sales were \$588,718 for the three months ended July 31, 2001 compared to \$124,301 in the comparable period of the preceding year, an increase of (374%). The increase resulted from increased sales of aviation safety products. Operating profits for the three months ended July 31, 2001, were \$134,017 compared to \$(8,480) for

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the three months ended July 31, 2000. The Company believes the sales volume will remain relatively stable with growth from new projects for the next few years.

SCADA Systems and Monitoring Services: Sales for the three months ended July 31, 2001 were \$296,893 compared to sales of \$266,237 for the comparable period of the prior year an increase of 11.5%. Operating profit for the three months was \$27,870 compared to \$45,567 for the three months ended July 31, 2000. Fluctuations above the basic service business revenues are expected from quarter to quarter and year to year.

Temporary Services: This segment did not recognize any revenue in the first quarter of fiscal 2002 and fiscal 2001.

Management Services:

-General-

Indian Gaming Management (a division of Butler National Corporation): This segment received \$45,851 in interest income and incurred no expenses during the current quarter.

COSTS AND EXPENSES

Operating expenses (selling, general and administrative): Expenses in the three months ended July 31, 2001, were \$486,529 or 15% of sales compared to \$484,921 or 49% of sales for the three months ended July 31, 2000, an increase of \$1,608 or 0.3%.

Interest expense for the three months ended July 31, 2001, increased \$6,430 from \$83,545 in the first quarter of the prior year to \$83,545. The Company continues to use its line of credit to maintain operations.

Other income(expense) is income of \$3,435 in the quarter ended July 31, 2001, versus income of \$2,005 in the quarter ended July 31, 2000.

The Company employed 48 at July 31, 2001, and 69 at July 31, 2000.

EARNINGS

The Company recorded a profit of \$527,317 in the three months ended July 31, 2001. This is comparable to a loss of \$384,937 (see note 2) in the three months ended July 31, 2000. Income per share is \$0.02 and income per share is \$(.02) for the three months ending July 31, 2001, and July 31, 2000, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Borrowed funds have been used primarily for working capital. Bank (Industrial State Bank) debt related to the Company's operating line was \$421,471 at July 31, 2001, and was \$438,902 at July 31, 2000.

The Company's unused line of credit was approximately \$78,529 as of July 31, 2001 and approximately \$61,098 as of July 31, 2000. The interest rate on the Company's line of credit is prime plus two, as of September 15, 2001, the interest rate is 9.0%.

The Company plans to continue using the promissory notes payable to fund working capital. The Company believes the extensions will continue and does not anticipate the repayment of these notes in fiscal 2002. The extensions of the promissory notes payable is consistent with prior years. If the Bank were to demand repayment of the notes payable

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the Company currently does not have enough cash to pay off the notes without materially adversely affecting the financial condition of the Company.

The Company does not, as of July 31, 2001 have any material commitments for other capital expenditures other than the Management Services segment's requirements under the terms of the Indian gaming Management Agreements. These requirements are further described in this section.

Depending upon the development schedules, the Company, through Management Services, will need additional funds to complete its currently planned Indian gaming opportunities. The Company will use current cash available, and additional funds, for the start up and construction of gaming facilities. The Company anticipates initially obtaining these funds from: internally generated working capital and borrowings. After a few gaming facilities become operational, gaming operations will generate additional working capital for the start up and construction of other gaming facilities. The Company expects that its start up and construction financing of gaming facilities will be replaced by other financial lenders, long term financing through debt issue, or equity issues.

The Company was 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, it was listed on the small cap market under the symbol "BUKS". The Company's common stock was delisted from the small cap category effective January 1, 1999, and is now listed in the over-the-counter (OTCBB) category.

FORWARD LOOKING INFORMATION

The information set forth below includes "forward-looking" information as outlined in the Private Securities Litigation Reform Act of 1995. The Cautionary Statements, filed by the Company as Exhibit 99 to this Form 10-K, are incorporated herein by reference and you are specifically referred to such Cautionary Statements for a discussion of factors which could affect the Company's operations and forward-looking statements contained herein.

PART II.

OTHER INFORMATION

Responses to items 1, 3, and 5 are omitted since these items are either inapplicable or the response thereto would be negative.

Item 2. Changes in Securities

The Company issued 979,167 shares of common stock related to the convertible debenture.

Item 4 . Submission of Matters to Vote of Security Holders
None

Item 6. Exhibits and reports on Form 8-K.

(A) Exhibits.

3.1 Articles of Incorporation, as amended are incorporated by reference to Exhibit 3.1 of the Company's Form 10-K for the year ended April 30, 1988

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- 3.2 Bylaws, as amended, are incorporated by reference to Exhibit 3.2 of the Company's Form 10-K for the Statement dated August 16, 1996.
- 99 Exhibit Number 99.
Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995, are incorporated by reference to Exhibit 99 of the Form 10-K for the fiscal year ended April 30, 1998.
- 27.1 Financial Data Schedule (EDGAR version only).
Filed herewith.

The Company agrees to file with the Commission any agreement or instrument not filed as an exhibit upon the request of the Commission.

- (B) Reports on Form 8-K.
None

SIGNATURES

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

BUTLER NATIONAL CORPORATION

(Registrant)

September 28, 2001
Date

/S/ Clark D. Stewart
Clark D. Stewart
(President and Chief
Executive Officer)

September 28, 2001
Date

/S/ Stanley Nolind
Stanley Nolind
(Chief Financial Officer)