

BUTLER NATIONAL CORP
Form 10-Q
September 15, 2014

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

FORM 10-Q

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

For the quarterly period ended July 31, 2014

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

For the transition period from _____ to _____

Commission File Number 0-1678

BUTLER NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Kansas 41-0834293
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

19920 West 161st Street, Olathe, Kansas 66062
(Address of principal executive offices)(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 (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes T No o

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 T No o

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

The number of shares outstanding of the Registrant's Common Stock, \$0.01 par value, as of September 5, 2014 was 61,493,092 shares.

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

	PAGE NO.
Item 1 Financial Statements	
Condensed Consolidated Balance Sheets – July 31, 2014 and April 30, 2014	3
Condensed Consolidated Statements of Operations - Three Months Ended July 31, 2014 and 2013	4
Condensed Consolidated Statements of Cash Flows - Three Months Ended July 31, 2014 and 2013	5
Notes to Condensed Consolidated Financial Statements	6
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 3 Quantitative and Qualitative Disclosures about Market Risk	16
Item 4 Controls and Procedures	16

PART II. OTHER INFORMATION

Item 1 Legal Proceedings	17
Item 1A Risk Factors	17
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	17
Item 3 Defaults Upon Senior Securities	17
Item 4 Mine Safety Disclosures	17
Item 5 Other Information	17
Item 6 Exhibits	18
Signatures	19
Exhibit Index	20

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

As of July 31, 2014 and April 30, 2014

(in thousands except per share data)

(unaudited)

	July 31, 2014	April 30, 2014
ASSETS		
CURRENT ASSETS:		
Cash	\$5,581	\$6,261
Accounts receivable	2,966	3,109
Inventories		
Raw materials	5,308	5,102
Work in process	1,767	1,090
Finished goods	142	144
Total inventory	7,217	6,336
Prepaid expenses and other current assets	880	825
Total current assets	16,644	16,531
PROPERTY, PLANT AND EQUIPMENT:		
Land and building	4,044	4,044
Aircraft	6,723	6,723
Machinery and equipment	3,549	3,535
Office furniture and fixtures	6,577	6,447
Leasehold improvements	4,081	4,060
	24,974	24,809
Accumulated depreciation	(12,871)	(12,140)
Total property, plant and equipment	12,103	12,669
SUPPLEMENTAL TYPE CERTIFICATES (net of amortization of \$2,849 at July 31, 2014 and \$2,841 at April 30, 2014)	3,943	3,744
OTHER ASSETS:		
Deferred tax asset	1,335	1,335
Other assets (net of accumulated amortization of \$2,849 at July 31, 2014 and \$2,520 at April 30, 2014)	7,515	7,399
Total other assets	8,850	8,734
Total assets	\$41,540	\$41,678
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Promissory notes	\$1,548	\$1,757
Current maturities of long-term debts	3,670	3,908
Accounts payable	1,362	1,375
Customer deposits	1,841	982
Gaming facility mandated payment	924	1,267

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE THREE MONTHS ENDED JULY 31, 2014 AND 2013
 (in thousands, except per share data)
 (unaudited)

	THREE MONTHS ENDED July 31,	
	2014	2013
REVENUE:		
Professional Services	\$7,624	\$8,326
Aerospace Products	4,767	2,671
Total revenue	12,391	10,997
COSTS AND EXPENSES:		
Cost of Professional Services	4,561	4,778
Cost of Aerospace Products	3,498	2,510
Marketing and advertising	1,138	1,064
Employee benefits	462	568
Depreciation and amortization	861	885
General, administrative and other	1,065	1,049
Total costs and expenses	11,585	10,854
OPERATING INCOME	806	143
OTHER INCOME (EXPENSE):		
Interest expense	(289)	(390)
Other income, net	3	38
Total other income (expense)	(286)	(352)
INCOME (LOSS) BEFORE INCOME TAXES	520	(209)
PROVISION FOR INCOME TAXES		
Provision (benefit) for income taxes	136	(156)
NET INCOME (LOSS)	384	(53)
Net income attributable to noncontrolling interest in BHCMC, LLC	(132)	(236)
NET INCOME (LOSS) ATTRIBUTABLE TO BUTLER NATIONAL CORPORATION	\$252	\$(289)
BASIC EARNINGS PER COMMON SHARE	\$0.00	\$0.00
WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION	61,493,092	59,019,173
DILUTED EARNINGS PER COMMON SHARE	\$0.00	\$0.00
WEIGHTED AVERAGE SHARES USED IN PER SHARE CALCULATION	61,493,092	59,019,173

The accompanying notes are an integral part of these financial statements

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE THREE MONTHS ENDED JULY 31, 2014 AND 2013

(in thousands)

(unaudited)

	THREE MONTHS ENDED July 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$384	\$(53)
Adjustments to reconcile cash flows from operating activities		
Depreciation and amortization	1,068	1,100
Stock options issued to employees and directors	-	8
Gain and loss on disposal of other assets	-	(36)
Changes in assets and liabilities		
Accounts receivable	143	(182)
Income tax receivable	-	(37)
Inventories	(881)	(306)
Prepaid expenses and other current assets	(143)	2
Accounts payable	(13)	41
Customer deposits	859	391
Accrued liabilities	(69)	9
Gaming facility mandated payment	(343)	(342)
Other liabilities	218	52
Cash flows from operating activities	1,223	647
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(372)	(106)
Cash flows from investing activities	(372)	(106)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings of promissory notes, net	(209)	87
Repayments of promissory notes and long-term debt	(1,322)	(1,215)
Cash flows from financing activities	(1,531)	(1,128)
NET DECREASE IN CASH	(680)	(587)
CASH, beginning of period	6,261	5,148
CASH, end of period	\$5,581	\$4,561
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$290	\$389
Income taxes paid	\$-	\$-
NON CASH OPERATING ACTIVITY		
Non cash stock options issued to employees and directors	\$-	\$8
Intangible gaming equipment and notes	\$357	\$1,070

The accompanying notes are an integral part of these financial statements

5

BUTLER NATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share data)
(unaudited)

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the annual report on Form 10-K for the fiscal year ended April 30, 2014. In our opinion, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three months ended July 31, 2014 are not indicative of the results of operations that may be expected for the fiscal year ended April 30, 2015.

Certain reclassifications within the condensed financial statement captions have been made to maintain consistency in presentation between years. Financial amounts are in thousands of dollars except per share amounts.

2. Net Income (Loss) Per Share: The Company follows ASC 260 that requires the reporting of both basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with ASC 260, any anti-dilutive effects on net earnings (loss) per share are excluded. The number of potential common shares as of July 31, 2014 is 66,281,237.

3. Research and Development: We invested in research and development activities. The amount invested in the three months ended July 31, 2014 and 2013 was \$405 and \$557 respectively.

4. Debt: At July 31, 2014, the Company was utilizing three lines of credit totaling \$4.0 million. The unused line at July 31, 2014 was \$2.5 million. These funds were primarily used for the purchase of inventory and aircraft modification STC development costs for modifications and avionics.

Our \$1,000 million line of credit has been extended to August 2015. Our \$2,500 million line of credit matures April 2015. Our \$500 million line of credit matures June 2015. The lines of credit are collateralized by the first and second positions on all assets of the Company.

At July 31, 2014, there were several notes collateralized by aircraft security agreements totaling \$1,117. These notes were used for the purchase and modifications of these collateralized aircraft and Kings Avionics, Inc.

There are three notes at a bank totaling \$1,354 for real estate located in Olathe, Kansas and Tempe, Arizona. The due date for these notes is March 2019 and August 2019.

One note totaling \$316 remains for real estate purchased in November 2007 and June 2009 in Dodge City, Kansas.

One note collateralized by automobiles and equipment totals an additional \$71 and matures in June 2016.

BHCMC entered into an obligation with Konami Gaming Inc. effective August 1, 2012 in the amount of \$1,733. The purchase of the gaming system was installed at Boot Hill Casino and has a current balance of \$75.

The Kansas Lottery acquired additional gaming machines. BHCMC, as manager under the management contract with the State of Kansas, was required to remit payment for the gaming equipment. The balance of this financed payable is \$768.

BHCMC, LLC ("BHCMC") entered into an agreement dated May 1, 2011, and amended via an addendum dated January 1, 2012, with BHC Investment Company, L.C. ("BHCI") for a total obligation of \$7,423. BHCI provided funds to BHCMC for the purchase of certain intangible items and gaming items related to the Boot Hill Casino. Commencing on January 1, 2012, BHCMC is obligated to make a minimum payment to BHCI of \$177 per month until September 30, 2017. The remaining balance on the obligation is \$4,274.

6

On August 24, 2012 BHCMC and BHCI entered into a second agreement of \$2,500 for tenant improvements related to expansion of the Boot Hill Casino. Commencing on November 1, 2012. BHCMC is obligated to make a minimum payment to BHCI of approximately \$55 per month until November 30, 2017. The remaining obligation is \$1,788.

We are not in default of any of our notes as of July 31, 2014.

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 2014 and beyond.

5. Other Assets: Our other asset account includes assets of \$5,500 related to the Kansas Expanded Lottery Act Management Contract privilege fee, \$2,252 of gaming equipment we were required to pay for ownership by the State of Kansas Lottery, and JET autopilot intellectual property of \$1,417. BHCMC expects the \$5,500 privilege fee to have a value over the remaining life of the Management Contract with the State of Kansas which will end in December 2024. There is no assurance of the Management Contract renewal. The Managers Certificate asset for use of gaming equipment is being amortized over a period of three years based on the estimated useful life of gaming equipment. The JET intellectual property is being amortized over a period of 15 years.

6. Stock Options: At July 31, 2014 we had 7,262,064 outstanding stock options that were issued on December 31, 2010 all of which expire on December 31, 2015.

The exercise price for the incentive stock options is \$0.49. The Board of Directors approved the issuance of incentive stock options on December 31, 2010 with the goals of increasing shareholder value, expanding the number of managers participating in the program, and increasing the percentage of compensation tied to share price performance.

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. There are 2,420,688 options at \$0.49 that may be exercised if and when the share price reaches \$0.92, and 2,420,688 options at \$0.49 that may be exercised if and when the share price reaches \$1.41, and 2,420,688 options at \$0.49 that may be exercised on or after December 31, 2013 if and when the share price reaches \$1.90

7. Contingencies: In the ordinary course of business, the Company is at times subject to various legal proceedings and claims. BHCMC, LLC and BHC Development LC ("BHCD") filed a lawsuit in the United States District Court on June 21, 2012 against Bally Gaming Inc. doing business as Bally Technologies for negligent misrepresentation, among other claims related to the performance of computer software systems. On March 7, 2014 a jury verdict in favor of BHCMC, LLC and BHC Development against Bally was entered for \$1,424. The jury rejected the Bally alleged counter claim of \$441 and awarded no damages to Bally. Bally has filed an appeal to the United States Court of Appeals for the Tenth Circuit. Butler National Corporation does not believe any such matters that are currently pending will have a material effect on its results of operation or financial position.

Butler National Corporation, its management, or subsidiaries have no ownership interest in BHCI or BHCD.

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

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

Forward Looking Statements

Statements made in this report, 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. These risks, uncertainties and other factors include those set forth in Item 1A. (Risk Factors) of this Quarterly Report on Form 10-Q, and Item 1A. (Risk Factors) to the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2014 and reference to the Cautionary Statements filed by us as Exhibit 99 to the most recent Annual Report on Form 10-K, as well as the following factors:

7

- the impact of general economic trends on the Company's business;
- the deferral or termination of programs or contracts for convenience by customers;
- market acceptance of the Company's Aerospace Products and or other planned products or product enhancements;
- increased fuel and energy costs and the downward pressure on demand for our aircraft business;
- the ability to gain and maintain regulatory approval of existing products and services and receive regulatory approval of new businesses and products;
- the actions of regulatory, legislative, executive or judicial decisions of the federal, state or local level with regard to our business and the impact of any such actions;
- failure to retain/recruit key personnel;
- the availability of government funding;
- any delays in receiving components from third party suppliers;
- the competitive environment;
- the bankruptcy or insolvency of one or more key customers;
- new product offerings from competitors;
- protection of intellectual property rights;
- the ability to service the international market;
- acts of terrorism and war and other uncontrollable events;
- joint ventures and other arrangements;
- low priced penny-stock regulations;
- general governance features;
- United States and other country defense spending cuts;
- our estimated effective income tax rates; estimated tax benefits; and merits of our tax position potential future acquisitions;
- changes in laws, including increased tax rates, smoking bans, regulations or accounting standards, third-party relations and approvals, and decisions, disciplines and fines of courts, regulators and governmental bodies;
- the ability to timely and cost-effectively integrate companies that we acquire into our operations;
- construction factors, including delays, increased costs of labor and materials, availability of labor and materials, zoning issues, environmental restrictions, soil and water conditions, weather and other hazards, site access matters and building permit issues;
- litigation outcomes and judicial and governmental body actions, including gaming legislative action, referenda, regulatory disciplinary actions and fines and taxation;
- access to insurance on reasonable terms for our assets;
- cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations;
- as a supplier of military and other equipment to the U.S. Government, we are subject to unusual risks, such as the right of the U.S. Government contractor to terminate contracts for convenience and to conduct audits and investigations of our operations and performance;
- our reputation and ability to do business may be impacted by the improper conduct of employees, vendors, agents or business partners;
- changes in legislation or government regulations or policies can have a significant impact on our results of operations; and
- other factors disclosed from time to time in the Company's filings with the Securities and Exchange Commission.

Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the Cautionary Statements and Risk Factors, filed as Exhibit 99 and Item 1A. Risk Factors to the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2014 are incorporated herein by reference. 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.

Management Overview

Management is focused on increasing long-term shareholder value from increased cash generation, earnings growth, and prudently managing capital expenditures. We plan to do this by continuing to drive increased revenues from product and service innovations, strategic acquisitions, and targeted marketing programs.

Our revenues are primarily derived from two very different business segments; Aerospace Products and Professional Services. These segments operate through various Butler National subsidiaries and affiliates listed in the Company's fiscal year 2014 annual report on Form 10-K.

Aerospace Products

Aerospace Products derives its revenue by designing system integration, engineering, manufacturing, installing, servicing, and repairing products for classic and current production aircraft. These products include JET autopilot service and repairs, Avcon provisions and system integration for special mission equipment installations, Kings Avionics equipment sales and installation, and Butler National electronic controls and safety equipment manufacture and sales. Aerospace customers range in size from owners and operators of small single engine airplanes to owners and operators of large commercial and military aircraft. Aerospace Products are sold to and serviced for customers located in many countries of the world.

Aerospace is the legacy part of the Butler National business. Organized over 50 years ago, this business is based upon design engineering and installation innovations to enhance and support products related to airplanes and ground support equipment. These new products included: in the 1960's, aircraft electronic load sharing and system switching equipment, a number of airplane electronic navigation instruments, radios and transponders; in the 1970's, ground based VOR navigation equipment sold worldwide and GPS equipment as we know it today in civilian use; in the 1980's, special mission modifications to business jets for aerial surveillance and conversion of passenger configurations to cargo; in the 1990's, classic aviation support of aging airplanes with enhanced protection of electrical systems through transient suppression devices (TSD), control electronics for military weapon systems and improved aerodynamic control products (Avcon Fins) allowing stability at higher gross weights for additional special mission applications; in the 2000's, improved accuracy of the airspeed and altimeter systems to allow less vertical separation between flying airplanes (RVSM) and acquisition of the JET autopilot product line to support and replace aged electronic equipment in the classic fleet of Learjet airplanes; and in the 2010's, the acquisition of Kings Avionics to provide additional classic airplane support by retrofit of avionics from the past 40 years to modern state of the art equipment for sale worldwide using FAA supplemental type certification to make the installations (STC) acceptable to foreign governments for installation abroad.

Aerospace continues to be a focus for new product design and development. Our recent approval is noise suppression for Learjet 20 series aircraft. We expect this segment will continue to grow in the future. To address the three to five year business cycles related to the Aerospace industry, in the 1990's, we began providing Professional Services to markets outside the Aerospace industry.

Professional Services

Professional Services derives its revenue from (a) professional management services in the gaming industry through Butler National Service Corporation ("BNSC") and BHCMC, LLC ("BHCMC"), and (b) licensed architectural services to the business community through BCS Design ("BCS").

In the early 1990's, management determined that more revenue stable business units were needed to sustain the Company. Members of the Board of Directors had contacts with several American Indian tribes and other members of the Board were associated with gaming operators in Las Vegas. After enactment of the 1988 Indian Gaming Regulatory Act (IGRA) we reached out to various Indian tribes with land in the area to explore the opportunities for

operations under IGRA. This resulted in the "Stables" an Indian owned casino on Modoc Indian land opened in September 1998 developed and managed by BNSC. The Stables Management Agreement has been available on the website maintained by the National Indian Gaming Commission ("NIGC"). The Stables Management Agreement was subsequently amended by various amendments dated April 30, 2003 (the "First Amendment"), November 30, 2006 (the "Second Amendment"), October 19, 2009 (the "Third Amendment") and September 22, 2011 (the "Fourth Amendment"). The result of the First Amendment, Second Amendment, Third Amendment and Fourth Amendment is to provide that twenty (20%) of net profits from The Stables are distributed to BNSC, to end per the joint venture agreement the participation of the Miami Indian tribe from the business and to extend the duration of the Stables Management Agreement through September 30, 2018. BCS Design assisted with the design, construction and continued refurbishment of the Stables.

9

From this experience with IGRA and the success of the Indian gaming industry, we determined that the IGRA model may be applicable for state owned gaming. We spent Butler National Corporation innovation, legal and market development funds to design and encourage the use of an Indian owned gaming model in the State of Kansas. From these efforts, Kansas enacted the Kansas Expanded Lottery Act (KELA) in 2007 allowing four state owned casinos to be developed in Kansas. In 2007, BNSC made application to manage a state owned casino. In 2008, BNSC was awarded a fifteen year term to manage the Boot Hill Casino in Dodge City, Kansas pursuant to a Lottery Gaming Facility Management Contract (the "Boot Hill Casino Management Contract"). The Boot Hill Casino Management Contract was amended on December 29, 2009 (the "First Amendment to the Boot Hill Casino Management Contract") to bring the definition of "Fiscal Year" in line with the fiscal year of BNSC (May 1 to April 30). BHCMC was organized to be the manager of the Boot Hill Casino in Dodge City, Kansas. The casino opened in December 2009. BCS Design assisted with the design, construction and continued refurbishment of Boot Hill Casino.

The Phase II expansion of Boot Hill Casino began in early 2012 and was completed in January 2013. The unfinished gaming floor space built during Phase I construction and tenant improvements was funded by tenant improvement leases, gaming machine leases, and casino earnings, with minimum exposure to Butler National Corporation. The Phase II expansion included the interior finish of 15,000 square feet of casino shell and 216 additional gaming machines. Part of the expansion included a breezeway connecting the Boot Hill Casino and the Dodge City special events center (United Wireless Arena). In late January 2013 the snack bar was reopened with additional seating and space as the "Cowboy Cafe." BCS Design assisted with the design, construction and continued refurbishment of Boot Hill Casino.

By 2009, Butler National Corporation was clearly established into two segments; the Professional Services and Aerospace Products business segments.

Results Overview

The three months ending July 31, 2014 revenue increased 13% to \$12.4 million compared to \$11 million in the three months ending July 31, 2013. In the three months ending July 31, 2014 the professional services revenue was \$7.6 million compared to \$8.3 million in the three months ending July 31, 2013, a decrease of 8%. In the three months ending July 31, 2014 the Aerospace Products revenue was \$4.8 million compared to \$2.7 million in the three months ending July 31, 2013, an increase of 78%.

The three months ending July 31, 2014 net income increased to a net income of \$252 compared to a loss of \$289 in the three months ending July 31, 2013. We continue focusing on our margin expansion initiatives, including implementation of efficiencies in our operational processes and controlling general and administrative expenses. The three months ending July 31, 2014, operating income was \$806, an increase of 464% from our operating income of \$143 in the three months ending July 31, 2013.

RESULTS OF OPERATIONS

THREE MONTHS ENDING JULY 31, 2014 COMPARED TO THREE MONTHS ENDING JULY 31, 2013

(dollars in thousands)	Three Months Ended July 31, 2014	Percent of Total Revenue	%	Three Months Ended July 31, 2013	Percent of Total Revenue	%	Percent Change 2013-2014	%
Revenue:								
Professional Services	\$7,624	62	%	\$8,326	76	%	(8)	%
Aerospace Products	4,767	38	%	2,671	24	%	78	%
Total revenue	12,391	100	%	10,997	100	%	13	%
Costs and expenses:								
Cost of Professional Services	4,561	37	%	4,778	43	%	(5)	%
Cost of Aerospace Products	3,498	28	%	2,510	23	%	39	%
Marketing and advertising	1,138	9	%	1,064	10	%	7	%
Employee benefits	462	4	%	568	5	%	(19)	%
Depreciation and amortization	861	7	%	885	8	%	(3)	%
General, administrative and other	1,065	9	%	1,049	10	%	2	%
Total costs and expenses	11,585	93	%	10,854	99	%	7	%
Operating income	\$806	7	%	\$143	1	%	464	%

Revenue:

Revenue increased 13% to \$12.4 million in the three months ended July 31, 2014, compared to \$11 million in the three months ended July 31, 2013. See "Operations by Segment" below for a discussion of the primary reasons for the increase in revenue.

Professional Services derives its revenue from (a) professional management services in the gaming industry through Butler National Service Corporation ("BNSC") and BHCMC, LLC ("BHCMC"), and (b) licensed architectural services to the business community through BCS Design ("BCS"). Revenue from Professional Services decreased 8% to \$7.6 million in the three months ended July 31, 2014 from \$8.3 million in the three months ended July 31, 2013.

Aerospace Products derives its revenue by designing, engineering, manufacturing, installing, servicing and repairing products for classic and current production aircraft. Aerospace Products revenue increased 78% for the three months to \$4.8 million at July 31, 2014 compared to \$2.7 million at July 31, 2013. We anticipate future domestic military spending reductions and continued slow growth of the United States economy.

Costs and expenses:

Costs and expenses related to Professional Services and Aerospace Products include the cost of engineering, labor, materials, equipment utilization, control systems, security and occupancy.

Costs and expenses increased 7% in the three months ended July 31, 2014 to \$11.6 million compared to \$10.9 million in the three months ended July 31, 2013. Costs and expenses were 93% of total revenue in the three months ended July 31, 2014, as compared to 99% of total revenue in the three months ended July 31, 2013. The increase in costs and expenses in the three months ended July 31, 2014 was primarily due to the increased spending on Aerospace Products due to the increase in segment revenue.

Marketing and advertising expenses as a percent of total revenue was 9% in the three months ended July 31, 2014, as compared to 10% in the three months ended July 31, 2013. These expenses increased 7% to \$1,138 in the three months ended July 31, 2014, from \$1,064 in the three months ended July 31, 2013. Marketing and advertising expenses include advertising, sales and marketing labor, gaming development costs, and casino and product promotions.

11

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Employee benefits expenses as a percent of total revenue was 4% in the three months ended July 31, 2014, compared to 5% in the three months ended July 31, 2013. These expenses decreased 19% to \$462 in the three months ended July 31, 2014, from \$568 in the three months ended July 31, 2013. These expenses include the employers' share of all federal, state and local taxes, paid time off for vacation, holidays and illness, employee health and life insurance programs and employer matching contributions to retirement plans.

Depreciation and amortization expenses as a percent of total revenue was 7% in the three months ended July 31, 2014, compared to 8% in the three months ended July 31, 2013. These expenses decreased 3% to \$861 in the three months ended July 31, 2014, from \$885 in the three months ended July 31, 2013. These expenses include depreciation related to owned assets being depreciated over various useful lives and amortization of intangible items including the Kansas privilege fee related to the Boot Hill Casino being expensed over the term of the gaming contract with the State of Kansas. Phase II expansion to Boot Hill Casino was formally completed in early January 2013 and we began depreciation on \$4.9 million of assets with various useful lives. BHCMC, LLC depreciation and amortization expense for the three months ended July 31, 2014 was \$397 compared to \$404 at July 31, 2013.

General, administrative and other expenses as a percent of total revenue was 9% in the three months ended July 31, 2014, compared to 10% in the three months ended July 31, 2013. These expenses increased 2% to \$1,065 in the three months ended July 31, 2014, from \$1,049 in the three months ended July 31, 2013. These costs have decreased as a percentage of revenue due to our reduction plan to align overall expenses with the current level of revenue.

Other income (expense):

Interest expense and other income were \$286 in the three months ended July 31, 2014, compared with interest expense and other income of \$352 in the three months ended July 31, 2013. The decrease in interest expense is due directly to the reduction in debt. Interest of \$231 was related to obligations of BHCMC, LLC.

Operations by Segment

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

The following table presents a summary of our operating segment information for the three months ended July 31, 2014 and July 31, 2013:

(dollars in thousands)	Three Months Ended July 31, 2014	Percent of Revenue	Three Months Ended July 31, 2013	Percent of Revenue	Percent Change 2013-2014
Professional Services Revenue					
Boot Hill Casino	\$7,426	97 %	\$8,015	96 %	(7) %
Management/Professional Services Revenue	198	3 %	311	4 %	(36) %
	7,624	100 %	8,326	100 %	(8) %
Costs of Professional Services Expenses					
	4,561	60 %	4,778	57 %	(5) %
	2,620	34 %	2,756	33 %	(5) %
Total costs and expenses	7,181	94 %	7,534	90 %	(5) %
	\$443	6 %	\$792	10 %	(44) %

Professional Services operating income before noncontrolling
interest in BHCMC, LLC
12

(dollars in thousands)	Three Months Ended July 31, 2014	Percent of Revenue	Three Months Ended July 31, 2013	Percent of Revenue	Percent Change 2013-2014
Aerospace Products Revenue	\$4,767	100 %	\$2,671	100 %	78 %
Costs of Aerospace Products Expenses	3,498 906	73 % 19 %	2,510 810	94 % 30 %	39 % 12 %
Total costs and expenses	4,404	92 %	3,320	124 %	33 %
Aerospace Products operating income (loss)	\$363	8 %	\$(649)	(24) %	(156) %

Professional Services

Revenue from Professional Services decreased 8% to \$7.6 million for the three months ended July 31, 2014, compared to \$8.3 million for the three months ended July 31, 2013. The decrease in Professional Services revenue was driven by decreased revenue in gaming activities of \$589 and other management and Professional Services of \$113.

In the three months ended July 31, 2014 Boot Hill Casino received gross receipts for the State of Kansas of \$10.0 million compared to \$8.7 million for the three months ended July 31, 2013. Mandated fees, taxes and distributions reduced gross receipts by \$3.4 million resulting in gaming revenue of \$6.6 million for the three months ended July 31, 2014, compared to a reduction to gross receipts of \$7.3 million for the three months ended July 31, 2013, a decrease of 8%.

The remaining management and Professional Services revenue includes professional management services in the gaming industry, and licensed architectural services. Professional Services revenue excluding Boot Hill casino decreased 36% to \$198 in the three months ended July 31, 2014. The decrease is due to a decrease in architectural services.

Costs of Professional Services decreased 5% in the three months ended July 31, 2014 to \$4.6 million compared to \$4.8 million in the three months ended July 31, 2013. Costs were 60% of segment total revenue in the three months ended July 31, 2014, as compared to 57% of segment total revenue in the three months ended July 31, 2013. The decrease in direct costs were a result of reductions of electronic gaming machines.

Expenses decreased 5% in the three months ended July 31, 2014 to \$2.6 million compared to \$2.8 million in the three months ended July 31, 2013. Expenses were 34% of segment total revenue in the three months ended July 31, 2014, as compared to 33% of segment total revenue in the three months ended July 31, 2013.

Aerospace Products

Revenue increased 78% to \$4.8 million in the three months ended July 31, 2014, compared to \$2.7 million in the three months ended July 31, 2013. This increase is attributable to increased revenue of \$2.4 million in the modification business. We anticipate future domestic military spending reductions and continued slow growth of the United States economy. In an effort to offset decreased domestic military spending, we have invested in the development of several STCs. These STCs are state of the art avionics and we are aggressively marketing both domestically and internationally.

Costs of Aerospace Products increased by 39% in the three months ended July 31, 2014 to \$3.5 million compared to \$2.5 million for the three months ended July 31, 2013. Costs were 73% of segment total revenue in the three months

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ended July 31, 2014, as compared to 94% of segment total revenue in the three months ended July 31, 2013.

Expenses increased 12% in the three months ended July 31, 2014 at \$906 compared to \$810 in the three months ended July 31, 2013. Expenses were 19% of segment total revenue in the three months ended July 31, 2014, as compared to 30% of segment total revenue in the three months ended July 31, 2013.

13

Employees

Other than persons employed by our gaming subsidiaries there were 83 full time and 2 part time employees on July 31, 2014, compared to 84 full time and 1 part time employees on July 31, 2013. As of September 5, 2014, staffing is 84 full time and 2 part time employees. Our staffing at Boot Hill Casino & Resort on July 31, 2014 was 190 full time and 46 part time employees. At September 5, 2014 there are 192 full time employees and 40 part time employees. None of the employees are subject to any collective bargaining agreements.

Liquidity and Capital Resources

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 fiscal 2015 and beyond.

The ownership structure of BHCMC, LLC is now:

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

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

BHCMC, LLC, rents the casino building under the terms of a 25 year lease from BHC Development L.C. "BHCD". Butler National Corporation, its management, or subsidiaries have no ownership interest in BHCI or BHCD.

The terms of the agreement between the Kansas Lottery and BNSC/BHCMC required the completion of an addition to the Boot Hill Casino. The Phase II development of an adjacent hotel and community owned special events center was funded by BHI, is completed, and open to the public. The Phase II expansion of Boot Hill Casino began in early 2012 and was completed in January 2013. Phase II expansion of the unfinished gaming floor space built during Phase I construction and tenant improvements was funded by tenant improvement leases, gaming machine acquisitions, and casino earnings, with minimum exposure to Butler National Corporation. The Phase II expansion included the interior finish of 15,000 square feet of casino shell and 216 additional gaming machines. Part of the expansion included a breezeway connecting the Boot Hill Casino and the Dodge City special events center (United Wireless Arena). Boot Hill Casino now has approximately 690 gaming machines on the floor.

Analysis and Discussion of Cash Flow

During three months ended July 31, 2014 our cash position decreased by \$680. Net income was \$384. Cash flows from operating activities provided \$1,223. Non-cash activities consisting of depreciation and amortization contributed \$1,068. Customer deposits increased our cash position by \$859 while inventories decreased our cash position by \$881. Accounts receivable increased our cash position by \$143. Prepaid expenses and other current assets decreased our

cash by \$143, while a decrease in accounts payable and accrued expenses decreased our cash by an additional \$82.

Cash used in investing activities was \$372. We invested \$14 to purchase equipment, \$207 towards STCs, and \$151 to equipment purchases and leasehold improvements at Boot Hill Casino.

Cash used in financing activities was \$1,531. We reduced our debt by \$1,322 and decreased our line of credit by \$209.

14

Critical Accounting Policies and Estimates:

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amount of revenue and other significant areas involving management judgments and estimates. These significant accounting policies relate to revenue recognition, the use of estimates, long-lived assets, and Supplemental Type Certificates. These policies and our procedures related to these policies are described in detail below and under specific areas within this "Management Discussion and Analysis of Financial Condition and Results of Operations."

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

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

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

Gaming revenue is the gross gaming win as reported by the Kansas Lottery casino reporting systems, less the mandated payments by and for the State of Kansas. Electronic games-slots and table games revenue is the aggregate of gaming wins and losses. Liabilities are recognized for chips and "ticket-in, ticket-out" coupons in the customers' possession, and for accruals related to anticipated payout of progressive jackpots. Progressive gaming machines, which contain base jackpots that increase at a progressive rate based on the number of coins played, are deducted from revenue as the amount of jackpots increase. Food, beverage, and other revenue is recorded when the service is received and paid for.

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

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

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

15

Changing Prices and Inflation

We have experienced upward pressure from inflation in fiscal year 2014. From fiscal year 2013 to fiscal year 2014 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 2015 and 2016.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Our principal executive and financial officers have evaluated our disclosure controls and procedures as of the end of the period covered by this report on Form 10-K and have determined that such disclosure controls and procedures are effective, based on criteria in 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-Q, our Chief Executive Officer and our Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of July 31, 2014. 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 July 31, 2014.

Internal Control Over Financial Reporting

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 quarter covered in this report that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Limitations on Controls

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

PART II. - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

BHCMC, LLC and BHC Development LC filed a lawsuit in the United States District Court on June 21, 2012 against Bally Gaming Inc. doing business as Bally Technologies for negligent misrepresentation, among other claims related to the performance of computer software systems. On March 7, 2014 a jury verdict in favor of BHCMC, LLC and BHC Development against Bally was entered for \$1,424. The jury rejected the Bally alleged counter claim of \$441 and awarded no damages to Bally. Bally has filed an appeal to the United States Court of Appeals for the Tenth Circuit.

As of September 5, 2014, 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 1A. RISK FACTORS.

There are no material changes to the risk factors disclosed under Item 1A of our Form 10-K or to the Cautionary Statements filed by us as Exhibit 99 to the Form 10-K for the fiscal year ended April 30, 2014.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

None.

Item 5. OTHER INFORMATION.

None.

17

Item 6. EXHIBITS

- 3.1 Articles of Incorporation, as amended and restated are incorporated by reference to Exhibit 3.1 of our Form DEF 14A filed on December 26, 2001.
- 3.2 Bylaws, as amended, are approved by the Board of Directors on March 12, 2013.
- 31.1 Certificate of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).
- 31.2 Certificate of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a).
- 32.1 Certifications of Chief Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certifications of Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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, 2014.

- 101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2014, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Condensed Consolidated Balance Sheets as of July 31, 2014 and April 30, 2014, (ii) Condensed Consolidated Statements of Operations for the three months ended July 31, 2014, (iii) Condensed Consolidated Statements of Cash Flows for the three months ended July 31, 2014 and 2013, and (iv) the Notes to Consolidated Financial Statements, with detail tagging.

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 15, 2014 /s/ Clark D. Stewart

Date Clark D. Stewart
(President and Chief Executive Officer)

September 15, 2014 /s/ Craig D. Stewart

Date Craig D. Stewart
(Chief Financial Officer)

Exhibit Index

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation, as amended and restated are incorporated by reference to Exhibit 3.1 of our Form DEF 14A filed on December 26, 2001.
3.2	Bylaws, as amended, are incorporated by reference to Exhibit A of this Form 10Q filed on March 12, 2013.
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