
**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 January 30, 2016

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: 001-33261

AEROVIRONMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

95-2705790
(I.R.S. Employer Identification No.)

**900 Innovators Way
Simi Valley, California**
(Address of principal executive offices)

93065
(Zip Code)

(626) 357-9983
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of February 26, 2016, the number of shares outstanding of the registrant's common stock, \$0.0001 par value, was 23,357,076.

AeroVironment, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AeroVironment, Inc.
Consolidated Balance Sheets
(In thousands except share and per share data)

	January 30, 2016 (Unaudited)	April 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 122,706	\$ 143,410
Short-term investments	97,692	85,381
Accounts receivable, net of allowance for doubtful accounts of \$191 at January 30, 2016 and \$606 at April 30, 2015	38,991	33,607
Unbilled receivables and retentions	10,440	17,356
Inventories, net	46,434	39,414
Income tax receivable	3,901	—
Deferred income taxes	5,247	5,265
Prepaid expenses and other current assets	4,219	4,599
Total current assets	<u>329,630</u>	<u>329,032</u>
Long-term investments	38,175	46,769
Property and equipment, net	14,313	13,499
Deferred income taxes	6,720	7,426
Other assets	653	741
Total assets	<u>\$ 389,491</u>	<u>\$ 397,467</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 9,786	\$ 19,243
Wages and related accruals	13,463	13,395
Income taxes payable	—	692
Customer advances	3,213	4,235
Other current liabilities	6,408	9,170
Total current liabilities	<u>32,870</u>	<u>46,735</u>
Capital lease obligations – net of current portion	388	—
Deferred rent	1,223	1,381
Liability for uncertain tax positions	439	439
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value:		
Authorized shares — 10,000,000; none issued or outstanding	—	—
Common stock, \$0.0001 par value:		
Authorized shares — 100,000,000		
Issued and outstanding shares — 23,358,981 at January 30, 2016 and 23,314,640 at April 30, 2015	2	2
Additional paid-in capital	152,942	148,293
Accumulated other comprehensive loss	(194)	(1,358)
Retained earnings	201,821	201,975
Total stockholders' equity	<u>354,571</u>	<u>348,912</u>
Total liabilities and stockholders' equity	<u>\$ 389,491</u>	<u>\$ 397,467</u>

See accompanying notes to consolidated financial statements (unaudited).

AeroVironment, Inc.
Consolidated Statements of Operations (Unaudited)
(In thousands except share and per share data)

	Three Months Ended		Nine Months Ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Revenue:				
Product sales	\$ 53,305	\$ 56,308	\$ 129,436	\$ 141,993
Contract services	14,255	12,089	49,905	30,934
	<u>67,560</u>	<u>68,397</u>	<u>179,341</u>	<u>172,927</u>
Cost of sales:				
Product sales	31,910	32,901	73,477	91,477
Contract services	9,025	8,503	31,683	22,532
	<u>40,935</u>	<u>41,404</u>	<u>105,160</u>	<u>114,009</u>
Gross margin:				
Product sales	21,395	23,407	55,959	50,516
Contract services	5,230	3,586	18,222	8,402
	<u>26,625</u>	<u>26,993</u>	<u>74,181</u>	<u>58,918</u>
Selling, general and administrative	13,313	13,268	43,302	40,141
Research and development	8,247	8,577	27,975	24,232
Income (loss) from operations	5,065	5,148	2,904	(5,455)
Other (expense) income:				
Interest income, net	181	224	673	629
Other (expense), net	(215)	(284)	(2,796)	(276)
Income (loss) before income taxes	5,031	5,088	781	(5,102)
(Benefit) provision for income taxes	(1,133)	2,763	(2,821)	(917)
Net Income (loss)	<u>\$ 6,164</u>	<u>\$ 2,325</u>	<u>\$ 3,602</u>	<u>\$ (4,185)</u>
Earnings (loss) per share data:				
Basic	\$ 0.27	\$ 0.10	\$ 0.16	\$ (0.18)
Diluted	\$ 0.27	\$ 0.10	\$ 0.16	\$ (0.18)
Weighted average shares outstanding:				
Basic	22,890,484	22,890,502	22,941,354	22,856,962
Diluted	23,083,816	23,109,354	23,139,981	22,856,962

See accompanying notes to consolidated financial statements (unaudited).

AeroVironment, Inc.
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(In thousands)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>January 30,</u> <u>2016</u>	<u>January 31,</u> <u>2015</u>	<u>January 30,</u> <u>2016</u>	<u>January 31,</u> <u>2015</u>
Net income (loss)	\$ 6,164	\$ 2,325	\$ 3,602	\$ (4,185)
Other comprehensive income (loss):				
Unrealized gain (loss) on investments, net of tax expense of \$5 and \$(388) for the three months ended January 30, 2016 and January 31, 2015, respectively; and net of tax expense of \$23 and \$(785) for the nine months ended January 30, 2016 and January 31, 2015, respectively	7	(582)	34	(1,178)
Total comprehensive income (loss)	<u>\$ 6,171</u>	<u>\$ 1,743</u>	<u>\$ 3,636</u>	<u>\$ (5,363)</u>

See accompanying notes to consolidated financial statements (unaudited).

AeroVironment, Inc.
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended	
	January 30, 2016	January 31, 2015
Operating activities		
Net income (loss)	\$ 3,602	\$ (4,185)
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:		
Depreciation and amortization	4,547	6,368
Impairment of available-for-sale securities	2,186	—
Loss from equity method investments	248	152
Provision for doubtful accounts	(252)	(101)
Deferred income taxes	18	(202)
Loss (gain) on sale of equity securities	219	(182)
Stock-based compensation	3,170	2,714
Foreign currency losses	63	361
Increase in fair value of conversion feature of convertible bonds	—	(73)
Tax benefit from exercise of stock options	302	13
Excess tax benefit from stock-based compensation	—	(343)
Gain on sale of property and equipment	(32)	—
Amortization of held-to-maturity investments	3,086	3,388
Changes in operating assets and liabilities:		
Accounts receivable	(5,052)	(5,994)
Unbilled receivables and retentions	6,916	2,584
Inventories	(7,020)	1,900
Income tax receivable	(3,952)	4,644
Other assets	455	57
Accounts payable	(9,457)	2,309
Other liabilities	(4,746)	3,806
Net cash (used in) provided by operating activities	(5,699)	17,216
Investing activities		
Acquisitions of property and equipment	(4,259)	(2,326)
Equity method investments	(295)	(285)
Purchases of held-to-maturity investments	(75,740)	(88,074)
Redemptions of held-to-maturity investments	67,402	62,107
Acquisitions of intangible assets	—	(150)
Sales of available-for-sale investments	987	9,498
Net cash used in investing activities	(11,905)	(19,230)
Financing activities		
Purchase and retirement of common stock	(3,756)	—
Principal payments on capital lease obligations	(341)	—
Tax withholding payment related to net settlement of equity awards	(29)	(36)
Excess tax benefit from exercise of stock options	—	343
Exercise of stock options	1,026	715
Net cash (used in) provided by financing activities	(3,100)	1,022
Net decrease in cash and cash equivalents	(20,704)	(992)
Cash and cash equivalents at beginning of period	143,410	126,969
Cash and cash equivalents at end of period	<u>\$ 122,706</u>	<u>\$ 125,977</u>
Supplemental disclosure:		
Unrealized change in fair value of investments recorded in other comprehensive income (loss), net of deferred taxes of \$23 and \$785, respectively		
	\$ 34	\$ 1,178
Accrued acquisition of intangible assets	\$ —	\$ 250
Forfeiture of vested stock-based compensation	\$ —	\$ 23
Acquisitions of property and equipment financed with capital lease obligations (Note 1)	\$ 694	\$ —
Reclassification from share-based liability compensation to equity	\$ 228	\$ —

See accompanying notes to consolidated financial statements (unaudited).

AeroVironment, Inc.
Notes to Consolidated Financial Statements (Unaudited)

1. Organization and Significant Accounting Policies

Organization

AeroVironment, Inc., a Delaware corporation (the “Company”), is engaged in the design, development, production, support and operation of unmanned aircraft systems (“UAS”) and efficient energy systems (“EES”) for various industries and governmental agencies.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements have been included. The results of operations for the three and nine months ended January 30, 2016, are not necessarily indicative of the results for the full year ending April 30, 2016. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended April 30, 2015, included in the Company’s Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions, including estimates of anticipated contract costs and revenue utilized in the revenue recognition process, that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The Company’s consolidated financial statements include the assets, liabilities and operating results of wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Out-of-Period Adjustments

During the three months ended January 30, 2016, the Company identified the following errors: 1) other current liabilities and the related cost of sales, selling, general and administrative and research and development expenses were understated due to state use taxes owed for certain internally consumed tangible assets not identified on a timely basis; and 2) property and equipment, net, were understated, capital lease obligations were understated, operating cash flows were understated, and investing cash flows were overstated due to certain IT equipment and perpetual software license capital lease agreements being incorrectly classified as operating leases. The Company assessed the materiality of these errors considering the relevant quantitative and qualitative factors and concluded that the errors were not material to the consolidated financial statements taken as a whole. As such, during the three months ended January 30, 2016, the Company recorded the following out-of-period adjustments to correct the errors: 1) increased “other current liabilities” \$747,000, increased “research and development” expense \$503,000, increased “selling, general and administrative” expense \$155,000, and increased cost of sales \$89,000; and 2) increased “property and equipment, net”, \$584,000, increased “Capital lease obligations — net of current portion” \$319,000, and increased capital lease obligations — current portion \$324,000 which is included in “Other current liabilities”. In addition, \$220,000 of cash outflows were reclassified from operating activities to “Principal payments on capital lease agreements” within financing activities. The consolidated statements of operations and consolidated statements of comprehensive income (loss) for the three and nine months ended January 30, 2016, the consolidated balance sheet as of January 30, 2016 and the consolidated statement of cash flows for the nine months ended January 30, 2016 reflect the above adjustments.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Segments

The Company’s products are sold and divided among two reportable segments to reflect the Company’s strategic goals. Operating segments are defined as components of an enterprise from which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources and in assessing performance. The Company’s CODM is the Chief Executive Officer, who reviews the revenue and gross margin results for each of these segments in order to make resource allocation decisions, including the focus of research and development (“R&D”) activities and performance

AeroVironment, Inc.
Notes to Consolidated Financial Statements (Unaudited)

assessment. The Company's reportable segments are business units that offer different products and services and are managed separately.

Investments

The Company's investments are accounted for as held-to-maturity and available-for-sale and reported at amortized cost and fair value, respectively.

Fair Values of Financial Instruments

Fair values of cash and cash equivalents, accounts receivable, unbilled receivables, retentions and accounts payable approximate cost due to the short period of time to maturity.

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Notes to Consolidated Financial Statements (Unaudited)

Government Contracts

Payments to the Company on government cost reimbursable contracts are based on provisional, or estimated indirect rates, which are subject to an annual audit by the Defense Contract Audit Agency (“DCAA”). The cost audits result in the negotiation and determination of the final indirect cost rates that the Company may use for the period(s) audited. The final rates, if different from the provisional billing rates, may create an additional receivable or liability for the Company. For example, during the course of its audits, the DCAA may question the Company’s incurred project costs, and if the DCAA believes the Company has accounted for such costs in a manner inconsistent with the requirements under Federal Acquisition Regulations, the DCAA auditor may recommend to the Company’s administrative contracting officer to disallow such costs. The Company can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future.

The Defense Contract Management Agency, or (“DCMA”), has disallowed a portion of the Company’s executive compensation and other costs included in the Company’s fiscal year 2006 incurred cost claim and sought interest and penalties. The Company and DCMA have resolved most of these claims. However, the Company is vigorously defending its position on the government’s remaining claims for the fiscal 2006 incurred cost claim, which the Company has appealed to the Armed Services Board of Contract Appeals. Based on the Company’s current understanding of the facts and the amount in dispute, the Company believes that the outcome of these disputes will not have a material impact on the Company’s business. Claims related to other fiscal years were settled during the nine months ended January 30, 2016, as described in Note 9. As of January 30, 2016 and April 30, 2015, the Company had reserves for incurred cost claim audits for various fiscal years.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted-average number of common shares outstanding, excluding shares of unvested restricted stock.

The reconciliation of basic to diluted shares is as follows:

	Three Months Ended		Nine Months Ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Denominator for basic earnings (loss) per share:				
Weighted average common shares outstanding, excluding unvested restricted stock	22,890,484	22,890,502	22,941,354	22,856,962
Dilutive effect of employee stock options and unvested restricted stock	193,332	218,852	198,627	—
Denominator for diluted earnings (loss) per share	<u>23,083,816</u>	<u>23,109,354</u>	<u>23,139,981</u>	<u>22,856,962</u>

During the three months ended January 30, 2016 and January 31, 2015 and the nine months ended January 30, 2016, certain shares reserved for issuance upon exercise of stock options, shares of unvested restricted stock and restricted stock units were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive. The number of shares reserved for issuance upon exercise of stock options, shares of unvested restricted stock and restricted stock units that met this anti-dilutive criterion for the three months ended January 30, 2016 and January 31, 2015 and the nine months ended January 30, 2016 was approximately 9,000, 11,000 and 40,000, respectively. Due to the net loss for the nine months ended January 31, 2015, no shares reserved for issuance upon exercise of stock options or shares of unvested restricted stock were included in the computation of diluted loss per share as their inclusion would have been anti-dilutive.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires the lessee to recognize the assets and liabilities for the rights and obligations created by leases with terms of 12 months or more. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods therein, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-17, *Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes*. This update simplifies the presentation of deferred income taxes, by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. This update is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is evaluating the potential impact of adoption on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This ASU does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. This ASU eliminates from U.S. GAAP the requirement to measure inventory at the lower of cost or market. Market under the previous requirement could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Entities within the scope of this update will now be required to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory using LIFO or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard was originally effective for reporting periods beginning after December 15, 2016 and early adoption was not permitted. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 640)-Deferral of the Effective Date*. This update

AeroVironment, Inc.
Notes to Consolidated Financial Statements (Unaudited)

approved a one year delay of the effective date to reporting periods beginning after December 15, 2017, while permitting companies to voluntarily adopt the new standard as of the original effective date. The Company is currently evaluating when to adopt the new standard and the potential impact of adoption on its consolidated financial statements.

2. Investments

Investments consist of the following (in thousands):

	January 30, 2016	April 30, 2015
Short-term investments:		
Held-to-maturity securities:		
Municipal securities	\$ 57,716	\$ 67,173
U.S. government securities	10,991	11,536
Corporate bonds	28,985	1,314
Certificates of deposit	—	3,885
Total held-to-maturity investments	97,692	83,908
Available-for-sale securities:		
Equity securities	—	1,473
Total available-for-sale investments	—	1,473
Total short-term investments	<u>\$ 97,692</u>	<u>\$ 85,381</u>
Long-term investments:		
Held-to-maturity securities:		
Municipal securities	\$ —	\$ 30,418
U.S. government securities	11,210	5,009
Corporate bonds	24,187	8,501
Total held-to-maturity investments	35,397	43,928
Available-for-sale securities:		
Auction rate securities	2,778	2,841
Total available-for-sale investments	2,778	2,841
Total long-term investments	<u>\$ 38,175</u>	<u>\$ 46,769</u>

Held-To-Maturity Securities

As of January 30, 2016 and April 30, 2015, the balance of held-to-maturity securities consisted of state and local government municipal securities, U.S. treasury and agency securities, and corporate bonds. Interest earned from these investments is recorded in interest income.

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the held-to-maturity investments as of January 30, 2016, were as follows (in thousands):

AeroVironment, Inc.
Notes to Consolidated Financial Statements (Unaudited)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 57,716	\$ 9	\$ (12)	\$ 57,713
U.S. government securities	22,201	2	(3)	22,200
Corporate bonds	53,172	21	(75)	53,118
Total held-to-maturity investments	<u>\$ 133,089</u>	<u>\$ 32</u>	<u>\$ (90)</u>	<u>\$ 133,031</u>

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the held-to-maturity investments as of April 30, 2015, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 97,591	\$ 8	\$ (35)	\$ 97,564
U.S. government securities	16,545	12	—	16,557
Corporate bonds	9,815	—	(13)	9,802
Certificates of deposit	3,885	—	—	3,885
Total held-to-maturity investments	<u>\$ 127,836</u>	<u>\$ 20</u>	<u>\$ (48)</u>	<u>\$ 127,808</u>

The amortized cost and fair value of the held-to-maturity securities by contractual maturity at January 30, 2016, were as follows (in thousands):

	Cost	Fair Value
Due within one year	\$ 97,692	\$ 97,647
Due after one year through three years	35,397	35,384
Total	<u>\$ 133,089</u>	<u>\$ 133,031</u>

Available-For-Sale Securities

Auction Rate Securities

As of January 30, 2016 and April 30, 2015, the entire balance of available-for-sale, auction rate securities, consisted of two investment grade auction rate municipal bonds, with maturities of approximately 3 and 18 years, respectively. These investments have characteristics similar to short-term investments, because at pre-determined intervals, generally ranging from 30 to 35 days, there is a new auction process at which the interest rates for these securities are reset to current interest rates. At the end of such period, the Company chooses to roll-over its holdings or redeem the investments for cash. A market maker facilitates the redemption of the securities and the underlying issuers are not required to redeem the investment within 365 days. Interest earned from these investments is recorded in interest income.

During the fourth quarter of the fiscal year ended April 30, 2008, the Company began experiencing failed auctions on some of its auction rate securities. A failed auction occurs when a buyer for the securities cannot be obtained and the market maker does not buy the security for its own account. The Company continues to earn interest on the investments that failed to settle at auction, at the maximum contractual rate until the next auction occurs. In the event the Company needs to access funds invested in these auction rate securities, the Company may not be able to liquidate these securities at the fair value recorded on January 30, 2016, until a future auction of these securities is successful or a buyer is found outside of the auction process.

As a result of the failed auctions, the fair values of these securities are estimated utilizing a discounted cash flow analysis as of January 30, 2016. The analysis considers, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the estimated date upon which the security is expected to have a successful auction. Based on the Company's ability to access its cash and cash equivalents, expected operating cash flows, and other sources of cash, the Company does not anticipate that the current lack of liquidity of these investments will affect its ability to operate the business in the ordinary course. The Company believes the current lack of liquidity of these investments is temporary and expects that the securities will be redeemed or refinanced at some point in the future. The Company will continue to monitor the value of its auction rate securities at each reporting period for a possible impairment if a further decline in fair value occurs. The auction rate securities have been in an unrealized loss position for more than 12 months. The Company has the ability and the intent to hold these investments until a recovery of fair value, which may be at maturity and as of January 30, 2016, the Company did not consider these investments to be other-than-temporarily impaired.

AeroVironment, Inc.
Notes to Consolidated Financial Statements (Unaudited)

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the auction rate securities as of January 30, 2016, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Auction rate securities	\$ 3,100	\$ —	\$ (322)	\$ 2,778
Total available-for-sale investments	<u>\$ 3,100</u>	<u>\$ —</u>	<u>\$ (322)</u>	<u>\$ 2,778</u>

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the auction rate securities as of April 30, 2015, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Auction rate securities	\$ 3,200	\$ —	\$ (359)	\$ 2,841
Total available-for-sale investments	<u>\$ 3,200</u>	<u>\$ —</u>	<u>\$ (359)</u>	<u>\$ 2,841</u>

The amortized cost and fair value of the auction rate securities by contractual maturity at January 30, 2016, were as follows (in thousands):

	Cost	Fair Value
Due one through five years	\$ 1,100	\$ 1,054
Due after 10 years	2,000	1,724
Total	<u>\$ 3,100</u>	<u>\$ 2,778</u>

Equity Securities

At April 30, 2015, the entire balance of available-for-sale equity securities consisted of 618,042 CybAero AB (“CybAero”) common shares. The shares were classified as available-for-sale. These shares were initially acquired on August 11, 2014, when the Company converted a convertible bond into CybAero common shares. The convertible bond was in the amount of 10 million SEK and was converted into 1,062,699 common shares of CybAero at the conversion price of 9.41 SEK per share. When the Company converted the bond on August 11, 2014, the fair value per share was 37.50 SEK which became the new cost basis going forward, with all subsequent changes in fair value being recorded to other comprehensive income.

At August 1, 2015, the Company reviewed these shares for impairment based on criteria that included the extent to which the investment’s carrying value exceeds its related market value, the duration of the market decline, uncertainty as to the recovery period due to sustained losses of the investee and the Company’s intent to hold its investment until recovery. In the three months ended August 1, 2015, the Company determined it was in its best interests to liquidate the remaining shares held. As a result, during the three months ended August 1, 2015, the Company recorded an other-than-temporary-impairment loss of \$2,186,000 related to the Company’s investment in the CybAero shares which was recorded to Other expense in the consolidated statement of operations. As a result of recording the impairment charge, the investment’s fair value became its new cost basis. During the three months ended January 30, 2016, and the three and nine months ended January 31, 2015 there was no impairment charge recorded.

In August 2015, the Company sold its remaining shares in CybAero in a private sale at the price of 12.00 SEK per share, resulting in proceeds of approximately \$777,000. During the nine months ended January 30, 2016, the Company realized gains on the sale of CybAero shares of \$207,000, based on the difference between the original conversion price of 9.41 SEK per share and the sales price at the time of sale, inclusive of the final sale of all shares. During the three and nine months ended January 31, 2015, the Company realized gains on the sale of CybAero shares of approximately \$300,000 and \$4,500,000, respectively. At January 30, 2016, the Company did not hold any CybAero stock.

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the equity securities as of April 30, 2015, were as follows (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	\$ 3,357	\$ —	\$ (1,884)	\$ 1,473
Total available-for-sale investments	<u>\$ 3,357</u>	<u>\$ —</u>	<u>\$ (1,884)</u>	<u>\$ 1,473</u>

AeroVironment, Inc.
Notes to Consolidated Financial Statements (Unaudited)

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy contains three levels as follows:

- Level 1 — Inputs to the valuation based upon quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- Level 2 — Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data.
- Level 3 — Inputs to the valuation that are unobservable inputs for the asset or liability.

The Company's financial assets measured at fair value on a recurring basis at January 30, 2016, were as follows (in thousands):

Description	Fair Value Measurement Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Auction rate securities	\$ —	\$ —	\$ 2,778	\$ 2,778
Total	\$ —	\$ —	\$ 2,778	\$ 2,778

The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3) (in thousands):

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at May 1, 2015	\$ 2,841
Transfers to Level 3	—
Total gains (realized or unrealized)	—
Included in earnings	—
Included in other comprehensive loss	37
Purchases, issuances and settlements, net	(100)
Balance at January 30, 2016	\$ 2,778

The amount of total gains or (losses) for the period included in earnings (or change in net assets) attributable to the change in unrealized gains or losses relating to assets still held at January 30, 2016

\$ —

The auction rate securities are valued using a discounted cash flow model. The analysis considers, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the estimated date upon which the security is expected to have a successful auction. As of January 30, 2016, the inputs used in the Company's discounted cash flow analysis included current coupon rates of 0.47% and 0.39%, estimated redemption periods of 3 and 18 years and discount rates of 4.90% and 14.40%. The discount rates were based on market rates for municipal bond securities, as adjusted for a risk premium to reflect the lack of liquidity of these investments.

4. Inventories, net

Inventories consist of the following (in thousands):

	January 30, 2016	April 30, 2015
Raw materials	\$ 13,831	\$ 13,325
Work in process	7,278	5,140
Finished goods	29,015	25,537
Inventories, gross	50,124	44,002
Reserve for inventory obsolescence	(3,690)	(4,588)
Inventories, net	\$ 46,434	\$ 39,414

AeroVironment, Inc.
Notes to Consolidated Financial Statements (Unaudited)

5. Warranty Reserves

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The warranty reserve is included in other current liabilities. The related expense is included in cost of sales. Warranty reserve activity is summarized as follows for the three and nine months ended January 30, 2016 and January 31, 2015 (in thousands):

	Three Months Ended		Nine Months Ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Beginning balance	\$ 2,338	\$ 1,959	\$ 2,653	\$ 1,280
Warranty expense	1,032	579	2,740	1,988
Changes in estimates related to pre-existing warranties	—	—	(424)	—
Warranty claims settled	(508)	(402)	(2,107)	(1,132)
Ending balance	<u>\$ 2,862</u>	<u>\$ 2,136</u>	<u>\$ 2,862</u>	<u>\$ 2,136</u>

6. Accumulated Other Comprehensive Loss and Reclassifications Adjustments

The components of accumulated other comprehensive loss and adjustments are as follows (in thousands):

	Available-for-Sale Securities	Accumulated Other Comprehensive Loss
Balance, net of \$834 of taxes, as of April 30, 2015	\$ (1,358)	\$ (1,358)
Reclassifications out of accumulated other comprehensive loss, net of \$754 of taxes	1,130	1,130
Unrealized gains, net of \$23 of taxes	34	34
Balance, net of \$129 of taxes, as of January 30, 2016	<u>\$ (194)</u>	<u>\$ (194)</u>

7. Customer-Funded Research & Development

Customer-funded R&D costs are incurred pursuant to contracts (revenue arrangements) to perform R&D activities according to customer specifications. These costs are direct contract costs and are expensed to cost of sales when the corresponding revenue is recognized, which is generally as the R&D services are performed. Revenue from customer-funded R&D was approximately \$8,877,000 and \$35,638,000 for the three and nine months ended January 30, 2016, respectively. Revenue from customer-funded R&D was approximately \$7,989,000 and \$17,902,000 for the three and nine months ended January 31, 2015, respectively.

8. Income Taxes

For the three and nine months ended January 30, 2016, the Company recorded a (benefit) for income taxes of \$(1,133,000) and \$(2,821,000), respectively, yielding an effective tax benefit rate of (22.5)% and (361.2)%, respectively. For the three and nine months ended January 31, 2015, the Company recorded a provision (benefit) for income taxes of \$2,763,000 and \$(917,000), respectively, yielding an effective tax rate of 54.3% and (18.0)%, respectively. The variance from statutory rates for the three and nine months ended January 30, 2016, was primarily due to federal legislation reinstating the federal research and development tax credit during the current quarter.

9. Government Contract Reserves

During the nine months ended January 30, 2016, the Company entered into settlement agreements with DCMA related to the Company's incurred cost claims for fiscal years 2007 through 2009. As a result of the settlement agreements, the Company paid \$50,000 and reversed the remaining reserve amount of \$3,499,000 related to those fiscal years as a credit to cost of sales, allocated as \$3,111,000 to the UAS segment and \$388,000 to the EES segment during the three months ended October 31, 2015. No settlements or changes to reserve estimates occurred during the three months ended January 30, 2016.

10. Share Repurchase

In September 2015, the Company's Board of Directors authorized a program to repurchase up to \$25,000,000 of the Company's common stock with no specified termination date for the program. During the nine months ended January 30, 2016, the Company

AeroVironment, Inc.
Notes to Consolidated Financial Statements (Unaudited)

repurchased and retired 183,261 shares of the Company's common stock for a total of \$3,756,000. No shares were repurchased under the program during the three months ended January 30, 2016. All shares repurchased were executed in the open market and no shares were repurchased from related parties. Repurchased shares were retired and assumed the status of authorized and unissued shares.

11. Segment Data

The Company's product segments are as follows:

- Unmanned Aircraft Systems — The UAS segment focuses primarily on the design, development, production, support and operation of innovative UAS and tactical missile systems that provide situational awareness, multi-band communications, force protection and other mission effects to increase the security and effectiveness of the operations of the Company's customers.
- Efficient Energy Systems — The EES segment focuses primarily on the design, development, production, marketing, support and operation of innovative efficient electric energy systems that address the growing demand for electric transportation solutions.

The accounting policies of the segments are the same as those described in Note 1, "Organization and Significant Accounting Policies." The operating segments do not make sales to each other. Depreciation and amortization related to the manufacturing of goods is included in gross margin for the segments. The Company does not discretely allocate assets to its operating segments, nor does the CODM evaluate operating segments using discrete asset information. Consequently, the Company operates its financial systems as a single segment for accounting and control purposes, maintains a single indirect rate structure across all segments, has no inter-segment sales or corporate elimination transactions, and maintains limited financial statement information by segment. The segment results are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Revenue:				
UAS	\$ 61,086	\$ 58,026	\$ 157,842	\$ 142,257
EES	6,474	10,371	21,499	30,670
Total	<u>67,560</u>	<u>68,397</u>	<u>179,341</u>	<u>172,927</u>
Cost of sales:				
UAS	36,488	33,259	91,268	91,849
EES	4,447	8,145	13,892	22,160
Total	<u>40,935</u>	<u>41,404</u>	<u>105,160</u>	<u>114,009</u>
Gross margin:				
UAS	24,598	24,767	66,574	50,408
EES	2,027	2,226	7,607	8,510
Total	<u>26,625</u>	<u>26,993</u>	<u>74,181</u>	<u>58,918</u>
Selling, general and administrative	13,313	13,268	43,302	40,141
Research and development	8,247	8,577	27,975	24,232
Income (loss) from operations	5,065	5,148	2,904	(5,455)
Other (expense) income:				
Interest income, net	181	224	673	629
Other (expense), net	(215)	(284)	(2,796)	(276)
Income (loss) before income taxes	<u>\$ 5,031</u>	<u>\$ 5,088</u>	<u>\$ 781</u>	<u>\$ (5,102)</u>

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

This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions. Such forward-looking statements are based on current expectations, estimates and projections about our industry, our management's beliefs and assumptions made by our management. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A, "Risk Factors."

Unless required by law, we expressly disclaim any obligation to update publicly any forward-looking statements, whether as result of new information, future events or otherwise.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When we prepare these consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Some of our accounting policies require that we make subjective judgments, including estimates that involve matters that are inherently uncertain. Our most critical estimates include those related to revenue recognition, inventories and reserves for excess and obsolescence, self-insured liabilities, accounting for stock-based awards, and income taxes. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes made to the critical accounting estimates during the periods presented in the consolidated financial statements from those disclosed in the Form 10-K for the fiscal year ended April 30, 2015.

We review cost performance and estimates to complete at least quarterly and in many cases more frequently. Adjustments to original estimates for a contract's revenue, estimated costs at completion and estimated profit or loss are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur. The impact of revisions in profit estimates for all types of contracts are recognized on a cumulative catch-up basis in the period in which the revisions are made. During the three and nine months ended January 30, 2016 and January 31, 2015, changes in accounting estimates on fixed-price contracts recognized using the percentage of completion method of accounting are presented below.

For the three months ended January 30, 2016 and January 31, 2015, favorable and unfavorable cumulative catch-up adjustments included in cost of sales were as follows (in thousands):

	Three Months Ended	
	January 30, 2016	January 31, 2015
Gross favorable adjustments	\$ 458	\$ 976
Gross unfavorable adjustments	(203)	(257)
Net favorable adjustments	<u>\$ 255</u>	<u>\$ 719</u>

For the three months ended January 30, 2016, favorable cumulative catch-up adjustments of \$0.5 million were primarily due to final cost adjustments on 14 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$0.2 million were primarily related to higher than expected costs on 15 contracts, which individually were not material.

For the three months ended January 31, 2015, favorable cumulative catch-up adjustments of \$1.0 million were primarily due to final cost adjustments on 29 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$0.3 million were primarily related to higher than expected costs on 235 contracts, which individually were not material.

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For the nine months ended January 30, 2016 and January 31, 2015, favorable and unfavorable cumulative catch-up adjustments included in cost of sales were as follows (in thousands):

	Nine Months Ended	
	January 30, 2016	January 31, 2015
Gross favorable adjustments	\$ 473	\$ 992
Gross unfavorable adjustments	(245)	(933)
Net favorable adjustments	<u>\$ 228</u>	<u>\$ 59</u>

For the nine months ended January 30, 2016, favorable cumulative catch-up adjustments of \$0.5 million were primarily due to final cost adjustments on 16 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$0.2 million were primarily related to higher than expected costs on 15 contracts, which individually were not material.

For the nine months ended January 31, 2015, favorable cumulative catch-up adjustments of \$1.0 million were primarily due to final cost adjustments on 27 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$0.9 million were primarily related to higher than expected costs on 171 contracts, which individually were not material.

Fiscal Periods

Due to our fixed year end date of April 30, our first and fourth quarters each consist of approximately 13 weeks. The second and third quarters each consist of exactly 13 weeks. Our first three quarters end on a Saturday. Our 2016 fiscal year ends on April 30, 2016 and our fiscal quarters end on August 1, 2015, October 31, 2015 and January 30, 2016.

Results of Operations

Our operating segments are Unmanned Aircraft Systems, or UAS, and Efficient Energy Systems, or EES. The accounting policies for each of these segments are the same. In addition, a significant portion of our research and development, or R&D, selling, general and administrative, or SG&A, and general overhead resources are shared across our segments.

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The following table sets forth our revenue and gross margin generated by each operating segment for the periods indicated (in thousands):

Three Months Ended January 30, 2016 Compared to Three Months Ended January 31, 2015

	Three Months Ended	
	January 30, 2016	January 31, 2015
Revenue:		
UAS	\$ 61,086	\$ 58,026
EES	6,474	10,371
Total	<u>67,560</u>	<u>68,397</u>
Cost of sales:		
UAS	36,488	33,259
EES	4,447	8,145
Total	<u>40,935</u>	<u>41,404</u>
Gross margin:		
UAS	24,598	24,767
EES	2,027	2,226
Total	<u>26,625</u>	<u>26,993</u>
Selling, general and administrative	13,313	13,268
Research and development	8,247	8,577
Income from operations	5,065	5,148
Other (expense) income:		
Interest income, net	181	224
Other (expense), net	(215)	(284)
Income before income taxes	<u>\$ 5,031</u>	<u>\$ 5,088</u>

Revenue. Revenue for the three months ended January 30, 2016 was \$67.6 million, as compared to \$68.4 million for the three months ended January 31, 2015, representing a decrease of \$0.8 million, or 1%. The decrease in revenue was due to a decrease in product deliveries of \$3.0 million, partially offset by an increase in service revenue of \$2.2 million. UAS revenue increased \$3.1 million, or 5%, to \$61.1 million for the three months ended January 30, 2016, primarily due to an increase in service revenue of \$1.3 million, an increase in customer-funded R&D work of \$0.9 million, and an increase in product deliveries of \$0.9 million. The increase in service revenue was primarily due to an increase in services for small UAS. The increase in customer-funded R&D was primarily due to an increase in development programs related to tactical missile systems. The increase in product deliveries was primarily due to an increase in product deliveries of small UAS. EES revenue decreased \$3.9 million, or 38%, to \$6.5 million for the three months ended January 30, 2016, primarily due to a decrease in product deliveries of our industrial fast charge systems and in product deliveries of our passenger electric vehicle charging systems.

Cost of Sales. Cost of sales for the three months ended January 30, 2016 was \$40.9 million, as compared to \$41.4 million for the three months ended January 31, 2015, representing a decrease of \$0.5 million, or 1%. As a percentage of revenue, cost of sales was consistent at 61% during the three months ended January 30, 2016 and January 31, 2015. The decrease in cost of sales was primarily due to a decrease in product costs of \$1.0 million, primarily due to the decrease in product deliveries, partially offset by an increase in cost of services of \$0.5 million primarily due to the increase in services revenue. UAS cost of sales increased \$3.2 million, or 10%, to \$36.5 million for the three months ended January 30, 2016, primarily due to the increase in sales volume. As a percentage of revenue, cost of sales for UAS increased from 57% to 60%, primarily due to product mix. EES cost of sales decreased \$3.7 million, or 45%, to \$4.4 million for the three months ended January 30, 2016, primarily due to the decreased sales volume. As a percentage of revenue, cost of sales for EES decreased from 79% to 69% primarily due to product mix.

Gross Margin. Gross margin for the three months ended January 30, 2016 was \$26.6 million, as compared to \$27.0 million for the three months ended January 31, 2015, representing a decrease of \$0.4 million, or 1%. The decrease in gross margin was due to a decrease in product margins of \$2.0 million, largely offset by an increase in service revenue margins of \$1.6 million. As a percentage of revenue, gross margin was consistent at 39% during the three months ended January 30, 2016 and January 31, 2015. UAS gross margin decreased to \$24.6 million for the three months ended January 30, 2016 from \$24.8 million. As a percentage of revenue, gross margin for UAS decreased from 43% to 40%, primarily due to product mix. EES gross margin decreased \$0.2 million, or 9%, to \$2.0 million for the three months ended January 30, 2016 primarily due to the decreased sales volume. As a percentage of revenue, EES gross margin increased from 21% to 31%, primarily due to product mix.

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Selling, General and Administrative. SG&A expense for the three months ended January 30, 2016 was \$13.3 million, or 20% of revenue, compared to SG&A expense of \$13.3 million, or 19% of revenue, for the three months ended January 31, 2015.

Research and Development. R&D expense for the three months ended January 30, 2016 was \$8.2 million, or 12% of revenue, compared to R&D expense of \$8.6 million, or 13% of revenue, for the three months ended January 31, 2015. R&D expense decreased by \$0.3 million for the three months ended January 30, 2016, primarily due to decreased development activities for certain strategic initiatives.

Interest Income, net. Interest income, net for the three months ended January 30, 2016 was \$0.2 million compared to interest income, net of \$0.2 million for the three months ended January 31, 2015.

Other Expense, net. Other expense, net for the three months ended January 30, 2016 was \$0.2 million compared to other expense, net of \$0.3 million for the three months ended January 31, 2015.

(Benefit) Provision for Income Taxes. Our effective income tax benefit rate was (22.5)% for the three months ended January 30, 2016, as compared to an effective income tax rate of 54.3% for the three months ended January 31, 2015. The tax benefit for the three months ended January 30, 2016, was primarily due to federal legislation reinstating the federal research and development tax credit during the three months ended January 30, 2016.

Nine Months Ended January 30, 2016 Compared to Nine Months Ended January 31, 2015

	Nine Months Ended	
	January 30, 2016	January 31, 2015
Revenue:		
UAS	\$ 157,842	\$ 142,257
EES	21,499	30,670
Total	<u>179,341</u>	<u>172,927</u>
Cost of sales:		
UAS	91,268	91,849
EES	13,892	22,160
Total	<u>105,160</u>	<u>114,009</u>
Gross margin:		
UAS	66,574	50,408
EES	7,607	8,510
Total	<u>74,181</u>	<u>58,918</u>
Selling, general and administrative	43,302	40,141
Research and development	27,975	24,232
Income (loss) from operations	2,904	(5,455)
Other (expense) income:		
Interest income, net	673	629
Other (expense), net	(2,796)	(276)
Income (loss) before income taxes	<u>\$ 781</u>	<u>\$ (5,102)</u>

Revenue. Revenue for the nine months ended January 30, 2016 was \$179.3 million, as compared to \$172.9 million for the nine months ended January 31, 2015, representing an increase of \$6.4 million, or 4%. The increase in revenue was due to an increase in service revenue of \$19.0 million, partially offset by a decrease in product deliveries of \$12.6 million. UAS revenue increased \$15.6 million, or 11%, to \$157.8 million for the nine months ended January 30, 2016, primarily due to an increase in customer-funded R&D work of \$17.7 million, and an increase in service revenue of \$1.8 million, partially offset by a decrease in product deliveries of \$4.0 million. The increase in customer-funded R&D work was primarily due to an increase in development programs related to tactical missile systems and large UAS. The increase in service revenue was primarily due to an increase in services for small UAS. The decrease in product deliveries was primarily due to a decrease in deliveries of our tactical missile systems. EES revenue decreased \$9.2 million, or 30%, to \$21.5 million for the nine months ended January 30, 2016, primarily due to a decrease in product deliveries of our industrial fast charge systems and in product deliveries of our passenger electric vehicle charging systems.

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Cost of Sales. Cost of sales for the nine months ended January 30, 2016 was \$105.2 million, as compared to \$114.0 million for the nine months ended January 31, 2015, representing a decrease of \$8.8 million, or 8%. Cost of sales was impacted by a government contract accounting reserve reduction of \$3.5 million recorded in the nine months ended January 30, 2016 for the settlement of prior year incurred cost audits. As a percentage of revenue, cost of sales decreased from 66% to 59%. The decrease in cost of sales was primarily due to a decrease in product costs of \$18.0 million due to a decrease in product deliveries, partially offset by an increase in cost of services of \$9.2 million, primarily due to an increase in services revenue. UAS cost of sales decreased \$0.6 million, or 1%, to \$91.3 million for the nine months ended January 30, 2016, primarily due to product mix. As a percentage of revenue, cost of sales for UAS decreased from 65% to 58% due to product mix and the government contract reserve reduction. EES cost of sales decreased \$8.3 million, or 37%, to \$13.9 million for the nine months ended January 30, 2016 primarily due to the decrease in sales volume. As a percentage of revenue, cost of sales for EES decreased from 72% to 65%, primarily due to product mix and the government contract reserve reduction.

Gross Margin. Gross margin for the nine months ended January 30, 2016 was \$74.2 million, as compared to \$58.9 million for the nine months ended January 31, 2015, representing an increase of \$15.3 million, or 26%. The increase in gross margin was due to an increase in service revenue margins of \$9.8 million and product margins of \$5.4 million, both of which were impacted by the government contract reserve reduction. As a percentage of revenue, gross margin increased from 34% to 41%. UAS gross margin increased \$16.2 million, or 32%, to \$66.6 million for the nine months ended January 30, 2016. The increase was primarily due to an increase in margins on product sales and service-related contracts, and the government contract reserve reduction. As a percentage of revenue, gross margin for UAS increased from 35% to 42%. EES gross margin decreased \$0.9 million, or 11%, to \$7.6 million for the nine months ended January 30, 2016 primarily due to lower sales volume. As a percentage of revenue, EES gross margin increased from 28% to 35%, primarily due to product mix and the government contract reserve reduction.

Selling, General and Administrative. SG&A expense for the nine months ended January 30, 2016 was \$43.3 million, or 24% of revenue, compared to SG&A expense of \$40.1 million, or 23% of revenue, for the nine months ended January 31, 2015. SG&A expense increased by \$3.2 million primarily due to higher bid and proposal costs, as well as other increases which were not individually significant.

Research and Development. R&D expense for the nine months ended January 30, 2016 was \$28.0 million, or 16% of revenue, compared to R&D expense of \$24.2 million, or 14% of revenue, for the nine months ended January 31, 2015. R&D expense increased by \$3.7 million for the nine months ended January 30, 2016, primarily due to increased development activities for certain strategic initiatives.

Interest Income, net. Interest income, net for the nine months ended January 30, 2016 was \$0.7 million compared to interest income, net of \$0.6 million for the nine months ended January 31, 2015.

Other Expense, net. Other expense, net for the nine months ended January 30, 2016 was \$2.8 million compared to other expense, net of \$0.3 million for the nine months ended January 31, 2015. The increase was primarily due to the recording of an other-than-temporary impairment loss of \$2.2 million related to available-for-sale equity securities in the nine months ended January 30, 2016. No impairment loss was recorded in the nine months ended January 31, 2015.

(Benefit) Provision for Income Taxes. Our effective income tax benefit rate was (361.2)% for the nine months ended January 30, 2016, as compared to an effective income tax benefit rate of (18.0)% for the nine months ended January 31, 2015. The tax benefit for the nine months ended January 30, 2016, was primarily due to federal legislation reinstating the federal research and development tax credit during the three months ended January 30, 2016.

Backlog

We define funded backlog as unfilled firm orders for products and services for which funding currently is appropriated to us under the contract by the customer. As of January 30, 2016 and April 30, 2015, our funded backlog was approximately \$79.7 million and \$64.7 million, respectively.

In addition to our funded backlog, we also had unfunded backlog of \$16.7 million and \$19.1 million as of January 30, 2016 and April 30, 2015, respectively. We define unfunded backlog as the total remaining potential order amounts under cost reimbursable and fixed price contracts with multiple one-year options, and indefinite delivery, indefinite quantity, or IDIQ contracts. Unfunded backlog does not obligate the U.S. government to purchase goods or services. There can be no assurance that unfunded backlog will result in any orders in any particular period, if at all. Management believes that unfunded backlog does not provide a reliable measure of future estimated revenue under our contracts. Unfunded backlog does not include the remaining potential value associated with a U.S. Army IDIQ-type contract for small UAS because the contract was awarded to five companies in 2012, including AeroVironment, and we cannot be certain that we will receive task orders issued against the contract.

Because of possible future changes in delivery schedules and/or cancellations of orders, backlog at any particular date is not necessarily representative of actual sales to be expected for any succeeding period, and actual sales for the year may not meet or

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exceed the backlog represented. Our backlog is typically subject to large variations from quarter to quarter as existing contracts expire, or are renewed, or new contracts are awarded. A majority of our contracts, specifically our IDIQ contracts, do not currently obligate the U.S. government to purchase any goods or services. Additionally, all U.S. government contracts included in backlog, whether or not they are funded, may be terminated at the convenience of the U.S. government.

Liquidity and Capital Resources

We currently have no material cash commitments, except for normal recurring trade payables, accrued expenses and ongoing R&D costs, all of which we anticipate funding through our existing working capital and funds provided by operating activities. The majority of our purchase obligations are pursuant to funded contractual arrangements with our customers. In addition, we do not currently anticipate significant investment in property, plant and equipment, and we believe that our existing cash, cash equivalents, cash provided by operating activities and other financing sources will be sufficient to meet our anticipated working capital and capital expenditure requirements during the next twelve months. There can be no assurance, however, that our business will continue to generate cash flow at current levels. If we are unable to generate sufficient cash flow from operations, then we may be required to sell assets, reduce capital expenditures or obtain financing. We anticipate that existing sources of liquidity and cash flows from operations will be sufficient to satisfy our cash needs for the foreseeable future.

Our primary liquidity needs are for financing working capital, investing in capital expenditures, supporting product development efforts, introducing new products, enhancing existing products and marketing to stimulate acceptance and adoption of our products and services. Our future capital requirements, to a certain extent, are also subject to general conditions in or affecting the defense, commercial and electric vehicle industries and are subject to general economic, political, financial, competitive, legislative and regulatory factors that are beyond our control. To the extent that existing cash, cash equivalents, and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. We may also need to seek additional equity funding or debt financing if we become a party to any agreement or letter of intent for potential investments in, or acquisitions of, businesses, services or technologies.

Our working capital requirements vary by contract type. On cost-plus-fee programs, we typically bill our incurred costs and fees monthly as work progresses, and therefore working capital investment is minimal. On fixed-price contracts, we typically are paid as we deliver products, and working capital is needed to fund labor and other expenses incurred during the lead time from contract award until contract deliveries begin.

Cash Flows

The following table provides our cash flow data for the nine months ended January 30, 2016 and January 31, 2015 (in thousands):

	Nine Months Ended	
	January 30, 2016	January 31, 2015
	(Unaudited)	
Net cash (used in) provided by operating activities	\$ (5,699)	\$ 17,216
Net cash (used in) investing activities	\$ (11,905)	\$ (19,230)
Net cash (used in) provided by financing activities	\$ (3,100)	\$ 1,022

Cash (Used in) Provided by Operating Activities. Net cash used in operating activities for the nine months ended January 30, 2016, increased by \$22.9 million to \$5.7 million, compared to net cash provided by operating activities of \$17.2 million for the nine months ended January 31, 2015. The increase in net cash used in operating activities was primarily due to an increase in working capital needs of \$32.2 million and lower depreciation and amortization expense of \$1.8 million, partially offset by increased net income of \$7.8 million and an other-than-temporary impairment loss of \$2.2 million on available-for-sale equity securities.

Cash Used in Investing Activities. Net cash used in investing activities decreased by \$7.3 million to \$11.9 million for the nine months ended January 30, 2016, compared to net cash used in investing activities of \$19.2 million for the nine months ended January 31, 2015. The decrease in net cash used in investing activities was primarily due to an increase in net redemptions and sales of investments of \$9.1 million, partially offset by increased acquisitions of property and equipment of \$1.9 million.

Cash (Used in) Provided by Financing Activities. Net cash used in financing activities increased by \$4.1 million to \$3.1 million for the nine months ended January 30, 2016, compared to net cash provided by financing activities of \$1.0 million for the nine months ended January 31, 2015. The increase in cash used in financing activities was primarily due to the purchase and retirement of common stock of \$3.8 million during the nine months ended January 30, 2016.

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Off-Balance Sheet Arrangements

During the third quarter, there were no material changes in our off-balance sheet arrangements or contractual obligations and commercial commitments from those disclosed in the Form 10-K for the fiscal year ended April 30, 2015.

Inflation

Our operations have not been, and we do not expect them to be, materially affected by inflation. Historically, we have been successful in adjusting prices to our customers to reflect changes in our material and labor costs.

New Accounting Standards

Please refer to Note 1 “Organization and Significant Accounting Policies” to our unaudited consolidated financial statements in Part I, Item 1 of this quarterly report for a discussion of new accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are exposed to various market risk factors, including fluctuations in interest rates, changes in general economic conditions, domestic and foreign competition, and foreign currency exchange rates.

Interest Rate Risk

It is our policy not to enter into interest rate derivative financial instruments. We do not currently have any significant interest rate exposure.

Foreign Currency Exchange Rate Risk

Since a significant part of our sales and expenses are denominated in U.S. dollars, we have not experienced significant foreign exchange gains or losses to date, and do not expect to incur significant foreign exchange gains or losses in the future. We occasionally engage in forward contracts in foreign currencies to limit our exposure on non-U.S. dollar transactions.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures.

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective due to the material weakness in internal control over financial reporting described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of interim or annual financial statements will not be prevented or detected on a timely basis by the company’s internal controls.

We identified a material weakness in internal control over financial reporting during the quarter ended January 30, 2016 with respect to our state use tax process. Specifically, our controls were not properly designed to appropriately identify, calculate, and assess our obligation of state use tax for certain procured and internally consumed tangible property on a timely basis.

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We are committed to remediating the material weakness and are in the process of taking steps to enhance our internal control environment. Our remediation plan includes, but is not limited to: updating our internal controls surrounding state use tax; training our procurement, accounts payable and accounting teams with a focus on the proper identification and recording of state use tax obligations on a timely basis; and implementing new controls related to expanding our review of the state use tax process.

We believe these actions will remediate the material weakness in internal control over financial reporting described above. We will test the ongoing operating effectiveness of the new controls during the fourth fiscal quarter of 2016 as well as in future periods. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness may be completed as early as April 30, 2016.

Changes in Internal Control over Financial Reporting

Except as described above, there were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended January 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to any material legal proceedings. We are, however, subject to lawsuits, government investigations, audits and other legal proceedings from time to time in the ordinary course of our business. It is not possible to predict the outcome of any legal proceeding with certainty. The outcome or costs we incur in connection with a legal proceeding could adversely impact our operating results and financial position.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended April 30, 2015. Please refer to that section for disclosures regarding the risks and uncertainties related to our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities**

The following table provides information about repurchases by us of shares of our common stock during the quarter ended January 30, 2016:

Period	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Share Repurchase Program (1)	Maximum Dollar Value of Shares Available for Purchase Under Share Repurchase Program (1) (in millions)
Nov. 1, 2015 – Nov. 28, 2015	—	\$ —	—	\$ 21.2
Nov. 29, 2015 – Dec. 26, 2015	—	\$ —	—	\$ 21.2
Dec. 27, 2015 – Jan. 30, 2016	—	\$ —	—	\$ 21.2
Total	—	—	—	\$ 21.2

(1) On September 24, 2015, the Company announced that on September 23, 2015 its Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which the Company may repurchase up to \$25 million of its common stock from time to time, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. Share repurchases may be executed through open market transactions or negotiated purchases and may be made under a Rule 10b5-1 plan. There is no expiration date for the program. The Share Repurchase Program does not obligate the Company to acquire any particular amount of common stock and may be suspended at any time by the Company's Board of Directors. No shares were repurchased in the fiscal quarter ended January 30, 2016.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Severance Protection Agreement dated as of December 10, 2015, by and between AeroVironment, Inc. and Timothy E. Conner.
10.2	Form of Severance Protection Agreement dated as of December 10, 2015, by and between AeroVironment, Inc. and each non-CEO executive officer.
10.3	Form of Director Letter Agreement by and between AeroVironment, Inc. and each non-employee director.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

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31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.

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.

Date: March 8, 2016

AEROVIRONMENT, INC.

By: /s/ Timothy E. Conver
Timothy E. Conver
Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ Raymond D. Cook
Raymond D. Cook
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

SEVERANCE PROTECTION AGREEMENT

SEVERANCE PROTECTION AGREEMENT (this "Agreement") dated as of December 10, 2015, by and between AeroVironment, Inc., a Delaware corporation (the "Company"), and Timothy E. Conver (the "Executive").

PURPOSE

The Board of Directors of the Company (the "Board") recognizes that executives can be concerned about the possibility of a Change in Control (as hereinafter defined) of the Company and that the perceived threat or occurrence of a Change in Control may result in the distraction of its key management personnel because of the uncertainties inherent in such a situation.

The Board has determined that it is essential and in the best interests of the Company and its stockholders to retain the services of the Executive in the event of the threat or occurrence of a Change in Control and to ensure the Executive's continued dedication and efforts in such event without undue concern for the Executive's personal financial and employment security.

In order to induce the Executive to remain in the employ of the Company, particularly in the event of the threat or occurrence of a Change in Control, the Company desires to enter into this Agreement to provide the Executive with certain benefits in the event the Executive's employment is terminated as a result of, or in connection with, a Change in Control or, under certain circumstances, apart from a Change in Control.

NOW, THEREFORE, in consideration of the respective agreements of the parties contained herein, it is agreed as follows:

SECTION 1. Definitions.

For purposes of this Agreement, the following terms have the meanings set forth below:

"Accrued Compensation" means an amount which includes all amounts earned or accrued by the Executive through and including the Termination Date but not paid to the Executive on or prior to such date, including (a) all base salary, (b) reimbursement for all reasonable and necessary expenses incurred by the Executive on behalf of the Company during the period ending on the Termination Date, (c) all vacation, and (d) all bonuses and incentive compensation (other than the Pro Rata Bonus).

"Base Salary Amount" means the greater of the Executive's annual base salary (a) at the rate in effect on the Termination Date or (b) if the Executive's termination occurs within eighteen months following a Change in Control, at the highest rate in effect at any time during the 180-day period prior to a Change in Control, and will include all amounts of the Executive's base salary that are deferred under any qualified or non-qualified employee benefit plan of the Company or any other agreement or arrangement.

"Beneficial Owner" has the meaning as used in Rule 13d-3 promulgated under the Securities Exchange Act. The terms "Beneficially Owned" and "Beneficial Ownership" each have a correlative meaning.

"Board" means the Board of Directors of the Company.

"Bonus Amount" means the annual target bonus established and payable to the Executive pursuant to any annual bonus or incentive plan maintained by the Company in respect of the fiscal year in which the Termination Date occurs (or actual annual bonus paid or payable in respect of the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs). Bonus Amount includes only the short-term incentive portion of the annual bonus and does not include restricted stock awards, options or other long-term incentive compensation awarded to the Executive.

"Cause" for the termination of the Executive's employment with the Company will be deemed to exist if (a) the Executive has been convicted for committing an act of fraud, embezzlement, theft or other act constituting a

felony (other than traffic related offenses or as a result of vicarious liability), (b) the Executive willfully engages in illegal conduct or gross misconduct that is significantly injurious to the Company; however, no act or failure to act, on the Executive's part shall be considered "willful" unless done or omitted to be done, by the Executive not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company or (c) failure to perform his or her duties in a reasonably satisfactory manner after the receipt of a notice from the Company detailing such failure if the failure is incapable of cure, and if the failure is capable of cure, upon the failure to cure such failure within 30 days of such notice or upon its recurrence.

"Change in Control" of the Company means, and shall be deemed to have occurred upon, any of the following events:

(a) The acquisition by any Person of Beneficial Ownership of twenty-five percent (25%) or more of the outstanding voting power; provided, however, that the following acquisitions shall not constitute a Change in Control for purposes of this subparagraph (a): (A) any acquisition directly from the Company; (B) any acquisition by the Company or any of its Subsidiaries; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subparagraph (c) below; or

(b) Individuals who at the beginning of any two year period constitute the Board (the **"Incumbent Board"**) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two year period and whose election, or whose nomination for election by the Company's stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a **"Business Combination"**), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners' ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination shall not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, twenty-five percent (25%) or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned twenty-five percent (25%) or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the Board of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or the action of the Board, providing for such Business Combination; or

(d) Approval by the Company's stockholders of a complete liquidation or dissolution of the Company.

For purposes of clause (c), any Person who acquires outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination, of outstanding voting securities of both the Company and the entity or entities with which the Company is combined shall be treated as

two Persons after the Business Combination, who shall be treated as owning outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination of, respectively, outstanding voting securities of the Company, and of the entity or entities with which the Company is combined.

In addition, if a Change in Control constitutes a payment event with respect to any payment under Section 3 of this Agreement which constitutes a deferral of compensation and is subject to Code Section 409A, the transaction or event described above with respect to such payment must also constitute a "change in control event," as defined in Treasury Regulation Section 1.409A-3(i)(5) to the extent required by Code Section 409A.

"Code" means the Internal Revenue Code of 1986, as amended.

"Code Section 409A" has the meaning set forth in Section 18.

"Company" means AeroVironment, Inc., a Delaware corporation, or by another direct or indirect Subsidiary of AeroVironment, Inc. The term **"Company"** when referring to the employment relationship and the compensation or benefits related thereto shall include the employer of Executive as the context requires.

"Continuation Period" has the meaning set forth in Section 3.1(b)(iii).

"Disability" means the status of disability determined conclusively by the Company based upon certification of disability by the Social Security Administration or upon such other proof as the Company may reasonably require, effective upon receipt of such certification or other proof by the Company.

"Full Release" means a written release, in a form satisfactory to the Company (and similar to the Agreement set forth in Exhibit A (with such changes as may be reasonably required to such form to help ensure its enforceability in light of any changes in applicable law) pursuant to which the Executive fully and completely releases the Company from all claims that the Executive may have against the Company (other than any claims that may or have arisen under this Agreement). The Executive's Full Release must become effective in accordance with its terms prior to the date that is thirty (30) days following the Termination Date (including the expiration of any revocation period thereunder without the Executive's revocation of the Full Release).

"Good Reason" means the occurrence of any of the events or conditions described in clauses (a) through (d) hereof, without the Executive's prior written consent:

(a)(i) any material adverse change in the Executive's authority, duties or responsibilities (including reporting responsibilities) from the Executive's authority, duties or responsibilities as in effect at any time within three months preceding the date of the Change in Control or at any time thereafter, or (ii) in the case of an Executive who is an executive officer of the Company a significant portion of whose responsibilities relate to the Company's status as a public company, the failure of such Executive to continue to serve as an executive officer of a public company, in each case except in connection with the termination of the Executive's employment for Disability, Cause, as a result of the Executive's death or by the Executive other than for Good Reason;

(b) a material reduction in Executive's base salary;

(c) the imposition of a requirement that the Executive be based at any place outside a 60-mile radius from the Executive's principal place of employment immediately prior to the Change in Control except for reasonably required travel on Company business which is not materially greater in frequency or duration than prior to the Change in Control; or

(d) any material breach by the Company of any provision of this Agreement.

Notwithstanding anything to the contrary in this Agreement, no termination will be deemed to be for Good Reason hereunder unless (i) the Executive provides written notice to the Company identifying the applicable event or condition within 90 days of the occurrence of the event or the initial existence of the condition, and (ii) the Company fails to remedy the event or condition within a period of 30 days following such notice.

"LTIP Amount" means the sum of the amounts that the Executive would receive pursuant to each outstanding Long-Term Incentive Plan Award assuming that the target amount for each such award had been earned.

“Notice of Termination” means a written notice from the Company or the Executive of the termination of the Executive’s employment which indicates the specific termination provision in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated.

“Person” has the meaning as defined in Section 3(a)(9) of the Securities Exchange Act and used in Section 13(d) or 14(d) of the Securities Exchange Act, and will include any “group” as such term is used in such sections.

“Pro Rata Bonus” means an amount equal to the target or actual Bonus Amount multiplied by a fraction, the numerator of which is the number of days elapsed in the then-current fiscal year through and including the Termination Date and the denominator of which is 365.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Subsidiary” means any corporation with respect to which another specified corporation has the power under ordinary circumstances to vote or direct the voting of sufficient securities to elect a majority of the directors.

“Successor” means a corporation or other entity acquiring all or substantially all the assets and business of the Company, whether by operation of law, by assignment or otherwise.

“Termination Date” means (a) in the case of the Executive’s death, the Executive’s date of death, (b) in the case of the termination of the Executive’s employment with the Company by the Executive for Good Reason, the date the Company’s 30-day cure period expires without a cure of the underlying event or condition constituting Good Reason, and (c) in all other cases, the date specified in the Notice of Termination; provided that if the Executive’s employment is terminated by the Company for Cause or due to Disability, the date specified in the Notice of Termination will be at least 30 days after the date the Notice of Termination is given to the Executive. Notwithstanding anything to the contrary herein, to the extent necessary to comply with or secure an exemption from Code Section 409A, an Executive’s employment shall not be considered to have terminated unless the executive has experienced a “separation from service,” as defined in Code Section 409A and the regulations thereunder.

SECTION 2. Term of Agreement.

The term of this Agreement (the **“Term”**) will commence on the date of this Agreement, and will continue in effect until December 31, 2018; provided that in the event a Change in Control occurs during the Term, the Term will be extended to the date 18 months after the date of the occurrence of such Change in Control.

SECTION 3. Termination of Employment.

3.1 If, during the Term, the Executive’s employment with the Company is terminated within 18 months following a Change in Control, the Executive will be entitled to the following compensation and benefits:

(a) If the Executive’s employment with the Company is terminated (i) by the Company for Cause, (ii) by reason of Disability, (iii) by reason of the Executive’s death or (iv) by the Executive other than for Good Reason, the Company will pay to the Executive the Accrued Compensation and, if such termination is by reason of the Executive’s Disability or the Executive’s death, a Pro Rata Bonus.

(b) If the Executive’s employment with the Company is terminated by the Company without Cause or by the Executive for Good Reason, the Executive will be entitled to the following:

(i) the Company will pay the Executive all Accrued Compensation and a Pro Rata Bonus;

(ii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will pay the Executive as severance pay, and in lieu of any further compensation for periods subsequent to the Termination Date, in a single payment an amount in cash equal to 1.5 times the sum of (A) the Base Salary Amount, (B) the Bonus Amount and (C) the LTIP Amount;

(iii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will, for a period of 12 months (the "**Continuation Period**"), at its expense provide to the Executive and the Executive's dependents and beneficiaries the same or equivalent life insurance, disability, medical, dental, and hospitalization benefits (the "**Continuation Period Benefits**") provided to other similarly situated executives who continue in the employ of the Company during the Continuation Period ("**similarly situated executives**"). The obligations of the Company to provide the Executive and the Executive's dependents and beneficiaries with the Continuation Period Benefits shall not restrict or limit the Company's right to terminate or modify the benefits made available by the Company to its similarly situated executives or other employees and following any such termination or modification, the Continuation Period Benefits that Executive (and the Executive's dependents and beneficiaries) shall be entitled to receive shall be so terminated or modified. If any of the Company's insurance benefits are self-funded as of the Termination Date, or if the Company cannot provide the foregoing insurance benefits in a manner that is exempt from Code Section 409A (as defined below) or that is otherwise compliant with applicable law (including, without limitation, Section 2716 of the Public Health Service Act), instead of providing the insurance benefits as set forth above, the Company shall instead pay to the Executive the Executive's monthly premium amount for such benefits (determined by reference to the premiums in effect immediately prior to the Termination Date) as a taxable monthly payment for the Continuation Period (or any remaining portion thereof). The Company's obligation hereunder with respect to the foregoing benefits will be limited to the extent that the Executive becomes eligible to obtain any such benefits pursuant to a subsequent employer's benefit plans, in which case the Company may reduce the coverage of any benefits it is required to provide the Executive hereunder as long as the coverages and benefits of the combined benefit plans are no less favorable to the Executive than the coverages and benefits required to be provided hereunder. This Section 3.1(b)(iii) will not be interpreted so as to limit any benefits to which the Executive or the Executive's dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Executive's termination of employment, including the Company's commitment to provide certain retirement health benefits to Executive and his spouse upon his retirement described in the Company's proxy statement;

(iv) the Company shall provide the Executive with outplacement services suitable to the Executive's position for a period of 12 months following the Termination Date or, if earlier, until the first acceptance by the Executive of an offer of employment; and

(v) the acceleration of vesting, exercisability and other similar benefits under award agreements regarding options to purchase Company stock, restricted stock, restricted stock units or other equity compensation awards granted to or otherwise applicable to Executive effective as of the Termination Date. You expressly acknowledge and agree that any equity award agreement(s) between you and the Company evidencing your outstanding equity compensation awards are hereby amended to the extent necessary to reflect the terms and conditions of this Section 3.1(b)(v), and that this Agreement supersedes any contrary provision of any such equity compensation award agreement(s) with respect to the subject matter of this Section 3.1(b)(v).

The benefits set forth in subsections (iii) and (iv) above and Section 3.3(a)(iii) below, shall be subject to the following conditions and restrictions: (1) the payment or provision of a benefit in any particular year shall not (except as may be provided in the medical, dental and hospitalization plans in which the Executive participates) affect the benefits to be provided in any other year, (2) to the extent the Executive is entitled to reimbursement of any expenses, the reimbursement shall be made no later than the Executive's taxable year following the taxable year in which the expense was incurred, and (3) no right to reimbursement or in-kind benefits may be subject to liquidation or exchange for any other benefit.

(c) The amounts provided for in Section 3.1(a) and Sections 3.1(b)(i) and (ii) will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the Termination Date (or such earlier date as may be required under applicable law with respect to the Accrued Compensation).

(d) The Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, and no such payment will be offset or reduced by the amount of any compensation or benefits provided to the Executive in any subsequent employment, except as specifically provided in Section 3.1(b)(iii) and 3.1(b)(iv).

3.2 Notwithstanding anything in this Agreement to the contrary, if, the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason, and a Change in Control occurs prior to the earlier of (a) the date that is three (3) months following the Termination Date or (b) the February 14 of the calendar year following the calendar year in which the Termination Date occurs, the Executive will be entitled to the amounts provided for in Sections 3.1(b) above; provided, however, that the amounts payable pursuant to Section 3.1(b)(ii) that are in excess of the amounts to which the Executive is entitled pursuant to Section 3.3 below as a result of such termination will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the later of (i) the Termination Date or (ii) the Change in Control; and provided, further, that the equity compensation award acceleration pursuant to Section 3.1(b)(v) shall be effective on the later of (i) the Termination Date or (ii) the Change in Control.

3.3 (a) If, during the Term, the Executive's employment with the Company is (i) terminated by the Company for any reason other than Cause or by the Executive for Good Reason and not within 18 months following a Change in Control, (ii) terminated by reason of Disability, or (iii) terminated by reason of the Employee's death, the Executive will be entitled to the following:

(i) the Company will pay the Executive all Accrued Compensation and a Pro Rata Bonus;

(ii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will pay the Executive as severance pay, and in lieu of any further compensation for periods subsequent to the Termination Date, in a single payment an amount in cash equal to the Base Salary Amount; and

(iii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will, for the Continuation Period, at its expense provide to the Executive and the Executive's dependents and beneficiaries the Continuation Period Benefits provided to similarly situated executives. The obligations of the Company to provide the Executive and the Executive's dependents and beneficiaries with the Continuation Period Benefits shall not restrict or limit the Company's right to terminate or modify the benefits made available by the Company to its similarly situated executives or other employees and following any such termination or modification, the Continuation Period Benefits that Executive (and the Executive's dependents and beneficiaries) shall be entitled to receive shall be so terminated or modified. If any of the Company's insurance benefits are self-funded as of the Termination Date, or if the Company cannot provide the foregoing insurance benefits in a manner that is exempt from Code Section 409A (as defined below) or that is otherwise compliant with applicable law (including, without limitation, Section 2716 of the Public Health Service Act), instead of providing the insurance benefits as set forth above, the Company shall instead pay to the Executive the Executive's monthly premium amount for such benefits (determined by reference to the premiums in effect immediately prior to the Termination Date) as a taxable monthly payment for the Continuation Period (or any remaining portion thereof). The Company's obligation hereunder with respect to the foregoing benefits will be limited to the extent that the Executive becomes eligible to obtain any such benefits pursuant to a subsequent employer's benefit plans, in which case the Company may reduce the coverage of any benefits it is required to provide the Executive hereunder as long as the coverages and benefits of the combined benefit plans are no less favorable to the Executive than the coverages and benefits required to be provided hereunder. This Section 3.3(a)(iii) will not be interpreted so as to limit any benefits to which the Executive or the Executive's dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Executive's termination of employment, including the Company's commitment to provide certain retirement health benefits to Executive and his spouse upon his retirement described in the Company's proxy statement;

(b) The amounts provided for in Section 3.3(a)(i) and (ii) will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the Termination Date (or such earlier date as may be required under applicable law with respect to the Accrued Compensation).

(c) The Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, and no such payment will be offset or reduced by the amount of any compensation or benefits provided to the Executive in any subsequent employment, except as specifically provided in Section 3.3(a)(iii).

3.4 Except as otherwise noted herein, the compensation to be paid to the Executive pursuant to this Agreement will be in lieu of any similar severance or termination compensation (i.e., compensation based directly on the Executive's annual salary or annual salary and bonus) to which the Executive may be entitled under this Agreement, any other Company severance or termination agreement, plan, program, policy, practice or arrangement. The Executive's entitlement to any compensation or benefits of a type not provided in this Agreement will be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices as in effect from time to time.

SECTION 4. Notice of Termination. Following a Change in Control, any purported termination of the Executive's employment by the Company will be communicated by a Notice of Termination to the Executive. For purposes of this Agreement, no such purported termination will be effective without such Notice of Termination.

SECTION 5. Excise Tax Adjustments.

5.1 In the event Executive becomes entitled to receive the benefits provided pursuant to this Agreement, and the Company determines that such benefits (the "**Total Payments**") will be subject to the tax (the "**Excise Tax**") imposed by Section 4999 of the Code, or any similar tax that may hereafter be imposed, the Company shall compute the "**Net After-Tax Amount**," and the "**Reduced Amount**," and shall adjust the Total Payments as described below. The Net After-Tax Amount shall mean the present value of all amounts payable to the Executive hereunder, net of all federal income, excise and employment taxes imposed on the Executive by reason of such payments. The Reduced Amount shall mean the largest aggregate amount of the Total Payments that if paid to the Executive would result in the Executive receiving a Net After-Tax Amount that is equal to or greater than the Net After-Tax Amount that the Executive would have received if the Total Payments had been made. If the Company determines that there is a Reduced Amount, the Total Payments will be reduced to the Reduced Amount. Such reduction to the Total Payments shall be made by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options, then by reducing or eliminating any accelerated vesting of other equity awards, then by reducing or eliminating any other remaining Total Payments, in each case in reverse order beginning with the payments which are to be paid the farthest in time from the date of the transaction triggering the Excise Tax.

5.2 For purposes of determining whether the Total Payments will be subject to the Excise Tax and the amounts of such Excise Tax and for purposes of determining the Reduced Amount and the Net After-Tax Amount:

(a) Any other payments or benefits received or to be received by the Executive in connection with a Change in Control of the Company or the Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company, or with any individual, entity, or group of individuals or entities (individually and collectively referred to in this subsection (a) as "**Persons**") whose actions result in a change in control of the Company or any Person affiliated with the Company or such Persons) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless in the opinion of a tax advisor selected by the Company and reasonably acceptable to the Executive ("**Tax Counsel**"), such other payments or benefits (in whole or in part) should be treated by the courts as representing reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code), or otherwise not subject to the Excise Tax;

(b) The amount of the Total Payments that shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Total Payments; or (ii) the amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (a) above);

(c) In the event that the Executive disputes any calculation or determination made by the Company, the matter shall be determined by Tax Counsel, the fees and expenses of which shall be borne solely by the Company; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Change in Control of the Company occurs, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the effective date of the Change in Control of the Company, net of the maximum reduction in federal income taxes

which could be obtained from deduction of such state and local taxes, taking into account the reduction in itemized deduction under Section 68 of the Code.

SECTION 6. Covenants.

(a) During the Continuation Period pursuant to which the Executive receives the benefits pursuant to Section 3.1(b)(iii) or Section 3.3(b)(iii), the Executive covenants and agrees as follows:

(i) the Executive agrees to comply with his or her obligations under the Patent and Confidentiality Agreement that he or she entered into with the Company;

(ii) the Executive acknowledges that the Executive has knowledge of confidential and proprietary information concerning the current salary, benefits, skills, and capabilities of Company employees and that it would be improper for the Executive to use such Company proprietary information in any manner adverse to the Company's interests. The Executive agrees that he or she will not recruit or solicit for employment, directly or indirectly, any employee of the Company during the Continuation Period; and

(iii) the Executive agrees not to make, directly or indirectly, any oral or written public statements that are disparaging of, or are intended to disparage, discredit or injure, the Company, the products and services it offers or any of its partners, affiliates, successors, assigns, including any of its present or former officers, directors, partners, agents, or employees.

(b) The Company agrees to pay to the Executive all cash compensation to which the Executive is entitled from the Company by the applicable payment date specified in any agreement with the Company or applicable law. Any failure to pay any such cash compensation by the Company shall constitute a material breach of this Agreement by the Company.

SECTION 7. Successors; Binding Agreement.

This Agreement will be binding upon and will inure to the benefit of the Company and its Successors, and the Company will require any Successors to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. The Company's failure to obtain, as contemplated by this Section 7, an agreement from any Successor to assume and agree to perform this Agreement shall constitute a material breach of this Agreement by the Company. Neither this Agreement nor any right or interest hereunder will be assignable or transferable by the Executive or by the Executive's beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement will inure to the benefit of and be enforceable by the Executive's legal representatives.

SECTION 8. Fees and Expenses.

The Company will pay as they become due all legal fees and related expenses (including the costs of experts) incurred by the Executive, in good faith, in (a) contesting or disputing, any such termination of employment and (b) seeking to obtain or enforce any right or benefit provided by this Agreement or by any other plan or arrangement maintained by the Company under which the Executive is or may be entitled to receive benefits. If the dispute is resolved by a final decision of an arbitrator pursuant to Section 15 in the favor of the Company, the Executive shall reimburse the Company for all such legal fees and related expenses (including costs of experts) paid by the Company on behalf of the Executive. To the extent necessary to comply with Code Section 409A, any reimbursements pursuant to this Section 8 shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred. Such reimbursements are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Executive receives in any other taxable year.

SECTION 9. Notice.

For the purposes of this Agreement, notices and all other communications provided for in the Agreement (including the Notice of Termination) will be in writing and will be deemed to have been duly given (i) when personally delivered, (ii) upon acknowledgment of receipt when sent by e-mail or other electronic transmission

(excluding acknowledgements generated automatically without an affirmative act by the recipient), or (iii) when sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other, provided that all notices to the Company will be directed to the attention of the Board with a copy to the Secretary of the Company. All notices and communications will be deemed to have been received on the date of delivery thereof or on the third business day after the mailing thereof, except that notice of change of address will be effective only upon receipt.

SECTION 10. *Dispute Concerning Termination.*

If prior to the Termination Date (as determined without regard to this Section 10), the party receiving the Notice of Termination notifies the other party that a dispute exists concerning the termination, the Termination Date shall be extended until the earlier of (i) the date on which the Term ends or (ii) the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of an arbitrator or a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Termination Date shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence; provided, further, that the foregoing extension shall not apply to the extent it would cause the payments or benefits under this Agreement to fail to be exempt from, or to fail to comply with, Code Section 409A and would result in the imposition of additional taxes on the Executive with respect to such payments under Code Section 409A.

SECTION 11. *Compensation During Dispute.*

If a purported termination occurs and during the Term and the Termination Date is extended in accordance with Section 10 hereof, the Company shall continue to pay the Executive the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, salary) and continue the Executive as an employee and a participant in all compensation, benefit and insurance plans in which the Executive was participating when the Notice of Termination was given, until the Termination Date, as determined in accordance with Section 10 hereof. Amounts paid under this Section 11 are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement or otherwise.

SECTION 12. *Nonexclusivity of Rights.*

Nothing in this Agreement will prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company for which the Executive may qualify, nor will anything herein limit or reduce such rights as the Executive may have under any other agreements with the Company (except for any severance or termination agreement). Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company will be payable in accordance with such plan or program, except as specifically modified by this Agreement.

SECTION 13. *No Set-Off.*

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder will not be affected by any circumstances, including any right of set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others, except for any obligation under the Dodd Frank Act or similar provisions of applicable law to recoup incentive-based compensation erroneously paid to the Executive following a required accounting restatement as reflected in the Company's existing Compensation Recoupment Policy (as such policy may be in effect from time to time) or the terms of any other recoupment, clawback or similar policy of the Company as it may be in effect from time to time.

SECTION 14. *Miscellaneous.*

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representation, oral or otherwise, express or implied, with respect to the subject matter hereof has been made by either party which is not expressly set forth in this Agreement.

SECTION 15. *Governing Law and Binding Arbitration.*

This Agreement will be governed by and construed and enforced in accordance with the laws of the State of California without giving effect to the conflict of laws principles thereof. All disputes relating to this Agreement, including its enforceability, shall be resolved by final and binding arbitration before an arbitrator appointed by the Judicial Arbitration and Mediation Service (JAMS), in accordance with the rules and procedures of arbitration under the Company's Dispute Resolution Program, attached hereto as Exhibit C, with the arbitration to be held in Simi Valley, California. Judgment upon the award may be entered in any court having jurisdiction thereof.

SECTION 16. *Severability.*

The provisions of this Agreement will be deemed severable and the invalidity or unenforceability of any provision will not affect the validity or enforceability of the other provisions hereof.

SECTION 17. *Entire Agreement.*

This Agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto with respect to severance protection.

SECTION 18. *Code Section 409A.*

It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("**Code Section 409A**") so as not to subject the Executive to payment of any interest or additional tax imposed under Code Section 409A and any ambiguities herein will be interpreted to ensure that such payments and benefits be so exempt or, if not so exempt, comply with Section 409A of the Code. To the extent that any amount payable under this Agreement would trigger the additional tax, penalty or interest imposed by Code Section 409A, this Agreement shall be modified to avoid such additional tax, penalty or interest yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive. If the Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the Termination Date, the Executive shall not be entitled to any payment or benefit pursuant to Section 3.1(b) until the earlier of (i) the date which is six months after the Termination Date, or (ii) the date of the Executive's death. The provisions of this Section 18 shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A. Any amounts otherwise payable to the Executive upon or in the six month period following the Executive's Termination Date that are not so paid by reason of this Section 18 shall be paid (without interest) as soon as practicable (and in all events within five days) after the date that is six months after the Executive's Termination Date (or, if earlier, as soon as practicable, and in all events within five days, after the date of the Executive's death). Each series of installment payments made under this Agreement is hereby designated as a series of "separate payments" within the meaning of Section 409(A) of the Code.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

AEROVIRONMENT, INC.

/s/ Raymond D. Cook

Name: Raymond D. Cook

Title: Senior Vice President

EXECUTIVE

/s/ Timothy E. Conver

Timothy E. Conver

Exhibit A

RELEASE OF ALL CLAIMS AND POTENTIAL CLAIMS

1. This Release of All Claims and Potential Claims (“**Release**”) is entered into by and between (“ ”) and AeroVironment, Inc., a Delaware corporation (hereinafter the “**Company**”). and the Company have previously entered into a Severance Protection Agreement dated (“**Severance Agreement**”). In consideration of the promises made herein and the consideration due under the Severance Agreement, this Release is entered into between the parties.

2.(a) The purposes of this Release are to settle completely and release the Company, its individual and/or collective officers, directors, stockholders, agents, parent companies, subsidiaries, affiliates, predecessors, successors, assigns, employees (including all former employees, officers, directors, stockholders and/or agents), attorneys, representatives and employee benefit programs (including the trustees, administrators, fiduciaries and insurers of such programs) (referred to collectively as “**Releasees**”) in a final and binding manner from every claim and potential claim for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, that has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730, but excluding any rights or benefits to which is entitled under the Severance Agreement.

(b) This is a compromise settlement of all such claims and potential claims, known or unknown, and therefore this Release does not constitute either an admission of liability on the part of and the Company or an admission, directly or by implication, that and/or the Company, its subsidiaries, affiliates or predecessors, have violated any law, rule, regulation, contractual right or any other duty or obligation. The parties hereto specifically deny that they have violated any law, rule, regulation, contractual right or any other duty or obligation.

(c) This Release is entered into freely and voluntarily by and the Company solely to avoid further costs, risks and hazards of litigation and to settle all claims and potential claims and disputes, known or unknown, in a final and binding manner.

3. For and in consideration of the promises and covenants made by to the Company and the Company to , contained herein, and the Company have agreed and do agree as follows:

(a) waives, releases and forever discharges Releasees from any claims and potential claims for relief, causes of action and liabilities, known or unknown, that [he/she] has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from the employment relationship between and the Company and its subsidiaries, affiliates and predecessors, and the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730 but excluding any rights or benefits to which is entitled under the Severance Agreement. In addition, this Release does not cover, and nothing in this Release shall be construed to cover, any claim that cannot be so released as a matter of applicable law.

(b) agrees that [he/she] will not directly or indirectly institute any legal proceedings against Releasees before any court, administrative agency, arbitrator or any other tribunal or forum whatsoever by reason of any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act.

(c) is presently unaware of any injuries that [he/she] may have suffered as a result of working at the Company or its subsidiaries, affiliates or predecessors, and has no present intention of filing a workers' compensation claim. Should any such claim arise in the future, waives and releases any right to proceed against the Company or its subsidiaries, affiliates or predecessors, for such a claim. also waives any right to bring any disability claim against the Company or its subsidiaries, affiliates or predecessors, or its or their carriers.

4. As a material part of the consideration for this Agreement, and [his/her] agents and attorneys, agree to keep completely confidential and not disclose to any person or entity, except immediate family, attorney, accountant, or tax preparers, or in response to a court order or subpoena, the terms and/or conditions of this Release and/or any understandings, agreements, provisions and/or information contained herein or with regard to the employment relationship between and the Company and its subsidiaries, affiliates and predecessors.

5. Any dispute, claim or controversy of any kind or nature, including but not limited to the issue of arbitrability, arising out of or relating to this Release, or the breach thereof, or any disputes which may arise in the future, shall be settled in a final and binding before an arbitrator appointed by the Judicial Arbitration and Mediation Service in accordance with the rules and procedures of arbitration under the Company's Dispute Resolution Program attached as Exhibit C to the Severance Agreement. The prevailing party shall be entitled to recover all reasonable attorneys' fees, costs and necessary disbursements incurred in connection with the arbitration proceeding. Judgment upon the award may be entered in any court having jurisdiction thereof.

6. It is further understood and agreed that has not relied upon any advice whatsoever from the Company and/or its attorneys individually and/or collectively as to the taxability, whether pursuant to Federal, State or local income tax statutes or regulations, or otherwise, of the consideration transferred hereunder and that [he/she] will be solely liable for all of [his/her] tax obligations. understands and agrees that the Company or its subsidiaries, affiliates or predecessors, may be required by law to report all or a portion of the amounts paid to [him/her] and/or [his/her] attorney in connection with this Release to federal and state taxing authorities. waives, releases, forever discharges and agrees to indemnify, defend and hold the Company harmless with respect to any actual or potential tax obligations imposed by law.

7. acknowledges that [he/she] has read, understood and truthfully completed the Business Ethics and Conduct Disclosure Statement attached hereto as Exhibit B.

8. It is further understood and agreed that Releasees and/or their attorneys shall not be further liable either jointly and/or severally to and/or [his/her] attorneys individually or collectively for costs and/or attorneys fees, including any provided for by statute, nor shall and/or [his/her] attorneys be liable either jointly and/or severally to the Company and/or its attorneys individually and/or collectively for costs and/or attorneys' fees, including any provided for by statute.

9. understands and agrees that if the facts with respect to which this Release are based are found hereafter to be other than or different from the facts now believed by [him/her] to be true, [he/she] expressly accepts and assumes the risk of such possible difference in facts and agrees that this Release shall be and remain effective notwithstanding such difference in facts.

10. understands and agrees that there is a risk that the damage and/or injury suffered by may become more serious than [he/she] now expects or anticipates. expressly accepts and assumes this risk, and agrees that this Release shall be and remains effective notwithstanding any such misunderstanding as to the seriousness of said injuries or damage.

11. understands and agrees that if [he/she] hereafter commences any suit arising out of, based upon or relating to any of the claims and potential claims for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, [he/she] has released herein, agrees to pay Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit.

12. It is further understood and agreed that this Release shall be binding upon and will inure to the benefit of 's spouse, heirs, successors, assigns, agents, employees, representatives, executors and administrators and shall be binding upon and will inure to the benefit of the individual and/or collective successors and assigns of Releasees and their successors, assigns, agents and/or representatives.

13. This Release shall be construed in accordance with and governed for all purposes by the laws of the State of California.

14. agrees that [he/she] will not seek future employment with, nor need to be considered for any future openings with the Company, any division thereof, or any subsidiary or related corporation or entity.

15. and Releasees waive all rights under Section 1542 of the California Civil Code, which section has been fully explained to them by their respective legal counsel and which they fully understand, and any other similar provision or the law of any other state or jurisdiction. Section 1542 provides as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

16. Notwithstanding anything in this Agreement to the contrary, does not waive, release or discharge any rights to indemnification for actions occurring through [his/her] affiliation with the Company or its subsidiaries, affiliates or predecessors, whether those rights arise from statute, corporate charter documents or any other source nor does waive, release or discharge any right may have pursuant to any insurance policy or coverage provided or maintained by the Company or its subsidiaries, affiliates or predecessors.

17. If any part of this Agreement is found to be either invalid or unenforceable, the remaining portions of this Agreement will still be valid.

18. This Agreement is intended to release and discharge any claims of under the Age Discrimination and Employment Act. To satisfy the requirements of the Older Workers' Benefit Protection Act, 29 U.S.C. section 626(f), the parties agree as follows:

- A. acknowledges that [he/she] has read and understands the terms of this Agreement.
- B. acknowledges that [he/she] has been advised in writing to consult with an attorney, if desired, concerning this Agreement and has received all advice [he/she] deems necessary concerning this Agreement.
- C. acknowledges that [he/she] has been given twenty-one (21) days to consider whether or not to enter into this Agreement, has taken as much of this time as necessary to consider whether to enter into this Agreement, and has chosen to enter into this Agreement freely, knowingly and voluntarily.
- D. For a seven day period following the execution of this Agreement, may revoke this Agreement by delivering a written revocation to at the Company. This Agreement shall not become effective and enforceable until the revocation period has expired.

19. acknowledges that [he/she] has been encouraged to seek the advice of an attorney of [his/her] choice with regard to this Release. Having read the foregoing, having understood and agreed to the terms of this Release, and having had the opportunity to and having been advised by independent legal counsel, the parties hereby voluntarily affix their signatures.

20. This Agreement is to be interpreted without regard to the draftsperson. The terms and intent of the Agreement shall be interpreted and construed on the express assumption that all parties participated equally in its drafting.

21. This Release constitutes a single integrated contract expressing the entire agreement of the parties hereto. Except for the Severance Agreement, which defines certain obligations on the part of both parties, and this Release, there are no agreements, written or oral, express or implied, between the parties hereto, concerning the subject matter herein.

Dated: , 20

[Signature]

[Print Name]

AeroVironment, Inc.

By: _____
Name: _____
Its: _____

CODE OF BUSINESS CONDUCT AND ETHICS
DISCLOSURE STATEMENT

Are you aware of any illegal or unethical practices or conduct anywhere within AeroVironment, Inc. or its subsidiaries, affiliates or predecessors (the "**Company**") (including, but not limited to, improper charging practices, or any violations of the Company's Code of Business Conduct and Ethics

Yes No

(Your answer to all questions on this form will not have any bearing on the fact or terms of your Release with the Company.)

If the answer to the preceding question is "yes," list here, in full and complete detail, all such practices or conduct. (Use additional pages if necessary.)

Have any threats or promises been made to you in connection with your answers to the questions on this form?

Yes No

If "yes," please identify them in full and complete detail. Also, notify the Company's General Counsel at 805 581-2198 ext. 2694 immediately.

I declare under penalty of perjury, under the laws of the State of California and of the United States, that the foregoing is true and correct.

Executed this of , 20

EXHIBIT C
ARBITRATION

Capitalized terms not defined in this Exhibit C (this “Exhibit”) are defined in the Severance Protection Agreement (the “Award Agreement”) with respect to which this Exhibit C is a part. AeroVironment, Inc., a Delaware limited liability company (the “Company”), and (the “Participant”) hereby agree as follows:

1. **Agreement to Arbitrate Disputes.**

The Company, on behalf of itself and its employees, and the Participant, on behalf of him or herself and any assistant(s) employed or utilized by the Participant, agree to resolve any and all timely and legally cognizable past, present and future controversies, disputes or claims of any nature in any way arising out of or relating to the Plan or the Award Agreement or the relationship between the parties (hereinafter, a “Claim” or “Claims”), by mandatory, binding, individual arbitration. This agreement to arbitrate covers claims of any nature, whether at law or equity, statute or common law.

2. **Mandatory Dispute Resolution Process Prior to Arbitration.**

Each party shall notify the other of any dispute arising under Paragraph 1 of this Exhibit prior to filing a claim in arbitration. The Company will notify the Participant of such dispute by informing the Participant in writing at the Company’s office where the Participant is primarily headquartered (or at the Participant’s last known address if no longer employed by the Company). The Participant will notify the Company of any dispute in writing addressed to the attention of General Counsel. Within a reasonable period of time, the parties shall meet informally, either in person or by telephone to attempt to resolve the dispute in good faith.

3. **Arbitration Procedural Rules**

In the event the parties are unable to resolve their dispute under Paragraph 2 of this Exhibit, either party may initiate an arbitration under the then-current JAMS’ Streamlined or Comprehensive Arbitration Rules and Procedures. The applicable arbitral rules are available for review at www.jamsadr.com (under the Rules/Clauses tab).

- 3.1. The parties will make reasonable efforts to agree upon a mutually satisfactory arbitrator chosen from the JAMS panels. If the parties are unable to agree upon an arbitrator, the Company will request from JAMS a list of qualified arbitrators. The parties will then select an arbitrator in accordance with JAMS Streamlined or Comprehensive Arbitration Rules and Procedures. Unless otherwise mutually agreed, the arbitrator shall be a practicing attorney with at least 15 years of experience and at least five years of experience as an arbitrator.
- 3.2. The Company and the Participant agree that the arbitration will be conducted by a single arbitrator in the JAMS office (as applicable) closest to Simi Valley, California (or such other location as is mutually agreed to by the parties).
- 3.3. The nature of the substantive claims asserted will determine which body of substantive laws will apply. In the event that there is a dispute regarding which substantive laws apply, the arbitrator shall decide that issue.

3.4. The parties agree that all proceedings before the arbitrator will remain confidential between the parties, including but not limited to any depositions, discovery, pleadings, exhibits, testimony, or award. The parties will inform third parties (including witnesses) necessary to the proceeding that the proceeding is confidential, and use reasonable efforts to secure that individual's agreement to maintain such confidentiality. The requirement of confidentiality, however, will not apply in the event that either party seeks to confirm an arbitral award and enter a judgment thereon in an appropriate court, or if any such arbitral award is appealed to an appropriate court.

4. **Injunctive or Other Interim Relief.**

The Company or the Participant may apply to the arbitrator seeking injunctive relief until the arbitration award is rendered or the controversy is otherwise resolved. Either party also may, without waiving any remedy under this Paragraph 4, seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights of that party, pending the establishment of the arbitral tribunal (or pending the arbitral tribunal's determination of the merits of the controversy).

5. **Remedies, Written Decision, Fees.**

Final resolution of any dispute through arbitration may include any remedy or relief available under applicable law. At the conclusion of the arbitration, if either party requests, the arbitrator will issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any costs unique to arbitration (such as the costs of the arbitrator and room fees) will be paid by the Company and the parties will otherwise bear their own fees and costs, including attorneys' fees and expert fees. The Company and the Participant acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or related to the Plan and the Award Agreement or their relationship. A successful party may make application to the arbitrator for an award of fees and/or costs and the arbitrator may award such fees and costs consistent with applicable law.

6. **Class Action Waiver.**

The Company and the Participant agree that all Claims pursued against each other will be on an individual basis. To that end, the Company and the Participant hereby waive their right to commence, to become a party to, or to remain a participant in, any group, representative, class, collective, or hybrid class/collective action in any court, arbitration proceeding, or any other forum, against the other. The parties agree that any claim by or against the Company or the Participant shall be heard in arbitration without joinder of parties or consolidation of such claim with any other person or entity's claim, except as otherwise agreed to in writing by the Company and the Participant.

7. **Right to Enforce or Challenge Class Action Waiver In Court.**

All parties agree that this Exhibit does not limit any party's right to initiate an action in state or federal court enforcing or challenging the enforceability of the group, representative, class, collective, or hybrid action waiver set forth herein. If the Participant chooses to exercise that right, the Company will not retaliate against the Participant for doing so. The Company, however, reserves the right to oppose such a challenge to enforcement of this Exhibit.

8. **Void if Class Action Waiver Void.**

If the waivers in Paragraph 6 of this Exhibit are found to be unenforceable in their entirety for any reason in a case in which class action, representative action or similar allegations have been made, the remainder of this arbitration clause in this Exhibit shall also be void. If, however, some, but not all, of the waivers in Paragraph 6 of this Exhibit are found to be unenforceable for any reason in a case in which class action, representative action or similar allegations have been made, the Participant's individual claims shall be decided in arbitration. Any class action, representative action or similar action as to which the class action waiver in Paragraph 6 of this Exhibit is found to be unenforceable shall be decided in court and not in arbitration.

9. **Application of FAA and Questions of Arbitrability.**

The Company and the Participant agree that the Federal Arbitration Act, 9 U.S.C. § 1 et seq. ("FAA") governs the enforceability of any and all of the arbitration provisions in this Exhibit and judgment upon the award rendered by the arbitrator may be entered by any court of competent jurisdiction. Questions related to procedures (including venue and choice of arbitrator), timeliness, and arbitrability (that is whether an issue is subject to arbitration under this Exhibit) shall be decided by the arbitrator, except any issues related to the enforceability of Paragraphs 6 and 7 shall be decided solely by a court of law having jurisdiction over the issue, and except as provided in Paragraphs 7 and 8. Claims filed must be timely, i.e., within the time set by the applicable statute(s) of limitations.

10. **Administrative Remedies.**

The parties further agree that nothing in this Exhibit precludes any party from filing or participating in administrative proceedings before the California Unemployment Insurance Appeals Board, California Workers Compensation Appeals Board, California Labor Commissioner, California Division of Labor Standards Enforcement, the California Department of Fair Employment & Housing, or similar California or federal administrative agencies, to address alleged violations of law enforced by those agencies. If the Participant exercises such administrative remedies, the Company will not retaliate against the Participant for doing so. The Company, however, reserves the right to oppose any such administrative proceeding, including on the grounds that such agency(ies) lack jurisdiction over any dispute, because of the parties' independent contractor relationship. Notwithstanding the foregoing, to the extent permitted by law, if the Participant or the Company seeks to appeal any such administrative award to a court of competent jurisdiction and/or for a trial de novo in such a court, the Participant and the Company agree that that such appeal or trial de novo is subject to the binding arbitration requirement described above in this Exhibit.

11. **The Participant Understands His/Her Agreement to Arbitrate.**

The Participant represents and warrants that he/she understands the meaning and effect of the agreement to arbitrate and has been provided reasonable time and opportunity to consult with legal counsel regarding this agreement to arbitrate.

SEVERANCE PROTECTION AGREEMENT

SEVERANCE PROTECTION AGREEMENT (this "Agreement") dated as of December 10, 2015, by and between AeroVironment, Inc., a Delaware corporation (the "Company"), and (the "Executive").

PURPOSE

The Board of Directors of the Company (the "Board") recognizes that executives can be concerned about the possibility of a Change in Control (as hereinafter defined) of the Company and that the perceived threat or occurrence of a Change in Control may result in the distraction of its key management personnel because of the uncertainties inherent in such a situation.

The Board has determined that it is essential and in the best interests of the Company and its stockholders to retain the services of the Executive in the event of the threat or occurrence of a Change in Control and to ensure the Executive's continued dedication and efforts in such event without undue concern for the Executive's personal financial and employment security.

In order to induce the Executive to remain in the employ of the Company, particularly in the event of the threat or occurrence of a Change in Control, the Company desires to enter into this Agreement to provide the Executive with certain benefits in the event the Executive's employment is terminated as a result of, or in connection with, a Change in Control or, under certain circumstances, apart from a Change in Control.

NOW, THEREFORE, in consideration of the respective agreements of the parties contained herein, it is agreed as follows:

SECTION 1. Definitions.

For purposes of this Agreement, the following terms have the meanings set forth below:

"Accrued Compensation" means an amount which includes all amounts earned or accrued by the Executive through and including the Termination Date but not paid to the Executive on or prior to such date, including (a) all base salary, (b) reimbursement for all reasonable and necessary expenses incurred by the Executive on behalf of the Company during the period ending on the Termination Date, (c) all vacation and (d) all bonuses and incentive compensation (other than the Pro Rata Bonus).

"Base Salary Amount" means the greater of the Executive's annual base salary (a) at the rate in effect on the Termination Date or (b) if the Executive's termination occurs within eighteen months following a Change in Control, at the highest rate in effect at any time during the 180-day period prior to a Change in Control, and will include all amounts of the Executive's base salary that are deferred under any qualified or non-qualified employee benefit plan of the Company or any other agreement or arrangement.

"Beneficial Owner" has the meaning as used in Rule 13d-3 promulgated under the Securities Exchange Act. The terms "Beneficially Owned" and "Beneficial Ownership" each have a correlative meaning.

"Board" means the Board of Directors of the Company.

"Bonus Amount" means the annual target bonus established and payable to the Executive pursuant to any annual bonus or incentive plan maintained by the Company in respect of the fiscal year in which the Termination Date occurs (or actual annual bonus paid or payable in respect of the most recently completed fiscal year if the Termination Date occurs prior to the establishment of an annual target bonus for the fiscal year in which the Termination Date occurs). Bonus Amount includes only the short-term incentive portion of the annual bonus and does not include restricted stock awards, options or other long-term incentive compensation awarded to the Executive.

"Cause" for the termination of the Executive's employment with the Company will be deemed to exist if (a) the Executive has been convicted for committing an act of fraud, embezzlement, theft or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability), (b) the Executive willfully engages in illegal conduct or gross misconduct that is significantly injurious to the Company; however, no act or failure to act,

on the Executive's part shall be considered "willful" unless done or omitted to be done, by the Executive not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company or (c) failure to perform his or her duties in a reasonably satisfactory manner after the receipt of a notice from the Company detailing such failure if the failure is incapable of cure, and if the failure is capable of cure, upon the failure to cure such failure within 30 days of such notice or upon its recurrence.

"**Change in Control**" of the Company means, and shall be deemed to have occurred upon, any of the following events:

(a) The acquisition by any Person of Beneficial Ownership of twenty-five percent (25%) or more of the outstanding voting power; provided, however, that the following acquisitions shall not constitute a Change in Control for purposes of this subparagraph (a): (A) any acquisition directly from the Company; (B) any acquisition by the Company or any of its Subsidiaries; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subparagraph (c) below; or

(b) Individuals who at the beginning of any two year period constitute the Board (the "**Incumbent Board**") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two year period and whose election, or whose nomination for election by the Company's stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "**Business Combination**"), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners' ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination shall not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, twenty-five percent (25%) or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned twenty-five percent (25%) or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the Board of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or the action of the Board, providing for such Business Combination; or

(d) Approval by the Company's stockholders of a complete liquidation or dissolution of the Company.

For purposes of clause (c), any Person who acquires outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination, of outstanding voting securities of both the Company and the entity or entities with which the Company is combined shall be treated as two Persons after the Business Combination, who shall be treated as owning outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination of,

respectively, outstanding voting securities of the Company, and of the entity or entities with which the Company is combined.

In addition, if a Change in Control constitutes a payment event with respect to any payment under Section 3 of this Agreement which constitutes a deferral of compensation and is subject to Code Section 409A, the transaction or event described above with respect to such payment must also constitute a "change in control event," as defined in Treasury Regulation Section 1.409A-3(i)(5) to the extent required by Code Section 409A.

"Code" means the Internal Revenue Code of 1986, as amended.

"Code Section 409A" has the meaning set forth in Section 18.

"Company" means AeroVironment, Inc., a Delaware corporation, or by another direct or indirect Subsidiary of AeroVironment, Inc. The term **"Company"** when referring to the employment relationship and the compensation or benefits related thereto shall include the employer of Executive as the context requires.

"Continuation Period" has the meaning set forth in Section 3.1(b)(iii).

"Disability" means the status of disability determined conclusively by the Company based upon certification of disability by the Social Security Administration or upon such other proof as the Company may reasonably require, effective upon receipt of such certification or other proof by the Company.

"Full Release" means a written release, in a form satisfactory to the Company (and similar to the Agreement set forth in Exhibit A (with such changes as may be reasonably required to such form to help ensure its enforceability in light of any changes in applicable law) pursuant to which the Executive fully and completely releases the Company from all claims that the Executive may have against the Company (other than any claims that may or have arisen under this Agreement). The Executive's Full Release must become effective in accordance with its terms prior to the date that is thirty (30) days following the Termination Date (including the expiration of any revocation period thereunder without the Executive's revocation of the Full Release).

"Good Reason" means the occurrence of any of the events or conditions described in clauses (a) through (d) hereof, without the Executive's prior written consent:

(a)(i) any material adverse change in the Executive's authority, duties or responsibilities (including reporting responsibilities) from the Executive's authority, duties or responsibilities as in effect at any time within three months preceding the date of the Change in Control or at any time thereafter, or (ii) in the case of an Executive who is an executive officer of the Company a significant portion of whose responsibilities relate to the Company's status as a public company, the failure of such Executive to continue to serve as an executive officer of a public company, in each case except in connection with the termination of the Executive's employment for Disability, Cause, as a result of the Executive's death or by the Executive other than for Good Reason;

(b) a material reduction in Executive's base salary;

(c) the imposition of a requirement that the Executive be based at any place outside a 60-mile radius from the Executive's principal place of employment immediately prior to the Change in Control except for reasonably required travel on Company business which is not materially greater in frequency or duration than prior to the Change in Control; or

(d) any material breach by the Company of any provision of this Agreement.

Notwithstanding anything to the contrary in this Agreement, no termination will be deemed to be for Good Reason hereunder unless (i) the Executive provides written notice to the Company identifying the applicable event or condition within 90 days of the occurrence of the event or the initial existence of the condition, and (ii) the Company fails to remedy the event or condition within a period of 30 days following such notice.

"LTIP Amount" means the sum of the amounts that the Executive would receive pursuant to each outstanding Long-Term Incentive Plan Award assuming that the target amount for each such award had been earned.

“Notice of Termination” means a written notice from the Company or the Executive of the termination of the Executive’s employment which indicates the specific termination provision in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated.

“Person” has the meaning as defined in Section 3(a)(9) of the Securities Exchange Act and used in Section 13(d) or 14(d) of the Securities Exchange Act, and will include any “group” as such term is used in such sections.

“Pro Rata Bonus” means an amount equal to the target or actual Bonus Amount multiplied by a fraction, the numerator of which is the number of days elapsed in the then-current fiscal year through and including the Termination Date and the denominator of which is 365.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Subsidiary” means any corporation with respect to which another specified corporation has the power under ordinary circumstances to vote or direct the voting of sufficient securities to elect a majority of the directors.

“Successor” means a corporation or other entity acquiring all or substantially all the assets and business of the Company, whether by operation of law, by assignment or otherwise.

“Termination Date” means (a) in the case of the Executive’s death, the Executive’s date of death, (b) in the case of the termination of the Executive’s employment with the Company by the Executive for Good Reason, the date the Company’s 30-day cure period expires without a cure of the underlying event or condition constituting Good Reason, and (c) in all other cases, the date specified in the Notice of Termination; provided that if the Executive’s employment is terminated by the Company for Cause or due to Disability, the date specified in the Notice of Termination will be at least 30 days after the date the Notice of Termination is given to the Executive. Notwithstanding anything to the contrary herein, to the extent necessary to comply with or secure an exemption from Code Section 409A, an Executive’s employment shall not be considered to have terminated unless the executive has experienced a “separation from service,” as defined in Code Section 409A and the regulations thereunder.

SECTION 2. Term of Agreement.

The term of this Agreement (the **“Term”**) will commence on the date of this Agreement, and will continue in effect until December 31, 2018; provided that in the event a Change in Control occurs during the Term, the Term will be extended to the date 18 months after the date of the occurrence of such Change in Control.

SECTION 3. Termination of Employment.

3.1 If, during the Term, the Executive’s employment with the Company is terminated within 18 months following a Change in Control, the Executive will be entitled to the following compensation and benefits:

(a) If the Executive’s employment with the Company is terminated (i) by the Company for Cause, (ii) by reason of Disability, (iii) by reason of the Executive’s death or (iv) by the Executive other than for Good Reason, the Company will pay to the Executive the Accrued Compensation and, if such termination is by reason of the Executive’s Disability or the Executive’s death, a Pro Rata Bonus.

(b) If the Executive’s employment with the Company is terminated by the Company without Cause or by the Executive for Good Reason, the Executive will be entitled to the following:

(i) the Company will pay the Executive all Accrued Compensation and a Pro Rata Bonus;

(ii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will pay the Executive as severance pay, and in lieu of any further compensation for periods subsequent to the Termination Date, in a single payment an amount in cash equal to the sum of (A) the Base Salary Amount, (B) the Bonus Amount and (C) the LTIP Amount;

(iii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will, for a period of 12 months (the "**Continuation Period**"), at its expense provide to the Executive and the Executive's dependents and beneficiaries the same or equivalent life insurance, disability, medical, dental, and hospitalization benefits (the "**Continuation Period Benefits**") provided to other similarly situated executives who continue in the employ of the Company during the Continuation Period ("**similarly situated executives**"). The obligations of the Company to provide the Executive and the Executive's dependents and beneficiaries with the Continuation Period Benefits shall not restrict or limit the Company's right to terminate or modify the benefits made available by the Company to its similarly situated executives or other employees and following any such termination or modification, the Continuation Period Benefits that Executive (and the Executive's dependents and beneficiaries) shall be entitled to receive shall be so terminated or modified. If any of the Company's insurance benefits are self-funded as of the Termination Date, or if the Company cannot provide the foregoing insurance benefits in a manner that is exempt from Code Section 409A (as defined below) or that is otherwise compliant with applicable law (including, without limitation, Section 2716 of the Public Health Service Act), instead of providing the insurance benefits as set forth above, the Company shall instead pay to the Executive the Executive's monthly premium amount for such benefits (determined by reference to the premiums in effect immediately prior to the Termination Date) as a taxable monthly payment for the Continuation Period (or any remaining portion thereof). The Company's obligation hereunder with respect to the foregoing benefits will be limited to the extent that the Executive becomes eligible to obtain any such benefits pursuant to a subsequent employer's benefit plans, in which case the Company may reduce the coverage of any benefits it is required to provide the Executive hereunder as long as the coverages and benefits of the combined benefit plans are no less favorable to the Executive than the coverages and benefits required to be provided hereunder. This Section 3.1(b)(iii) will not be interpreted so as to limit any benefits to which the Executive or the Executive's dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Executive's termination of employment;

(iv) the Company shall provide the Executive with outplacement services suitable to the Executive's position for a period of 12 months following the Termination Date or, if earlier, until the first acceptance by the Executive of an offer of employment; and

(v) the acceleration of vesting, exercisability and other similar benefits under award agreements regarding options to purchase Company stock, restricted stock, restricted stock units or other equity compensation awards granted to or otherwise applicable to Executive effective as of the Termination Date. You expressly acknowledge and agree that any equity award agreement(s) between you and the Company evidencing your outstanding equity compensation awards are hereby amended to the extent necessary to reflect the terms and conditions of this Section 3.1(b)(v), and that this Agreement supersedes any contrary provision of any such equity compensation award agreement(s) with respect to the subject matter of this Section 3.1(b)(v).

The benefits set forth in subsections (iii) and (iv) above and Section 3.3(a)(iii) below, shall be subject to the following conditions and restrictions: (1) the payment or provision of a benefit in any particular year shall not (except as may be provided in the medical, dental and hospitalization plans in which the Executive participates) affect the benefits to be provided in any other year, (2) to the extent the Executive is entitled to reimbursement of any expenses, the reimbursement shall be made no later than the Executive's taxable year following the taxable year in which the expense was incurred, and (3) no right to reimbursement or in-kind benefits may be subject to liquidation or exchange for any other benefit.

(c) The amounts provided for in Section 3.1(a) and Sections 3.1(b)(i) and (ii) will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the Termination Date (or such earlier date as may be required under applicable law with respect to the Accrued Compensation).

(d) The Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, and no such payment will be offset or reduced by the amount of any compensation or benefits provided to the Executive in any subsequent employment, except as specifically provided in Section 3.1(b)(iii) and 3.1(b)(iv).

3.2 Notwithstanding anything in this Agreement to the contrary, if, the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason, and a Change in Control occurs prior to the earlier of (a) the date that is three (3) months following the Termination Date or (b) the February 14 of the calendar

year following the calendar year in which the Termination Date occurs, the Executive will be entitled to the amounts provided for in Sections 3.1(b) above; provided, however, that the amounts payable pursuant to Section 3.1(b)(ii) that are in excess of the amounts to which the Executive is entitled pursuant to Section 3.3 below as a result of such termination will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the later of (i) the Termination Date or (ii) the Change in Control; and provided, further, that the equity compensation award acceleration pursuant to Section 3.1(b)(v) shall be effective on the later of (i) the Termination Date or (ii) the Change in Control.

3.3 (a) If, during the Term, the Executive's employment with the Company is (i) terminated by the Company for any reason other than Cause and not within 18 months following a Change in Control, (ii) terminated by reason of Disability, or (iii) terminated by reason of the Employee's death, the Executive will be entitled to the following:

(i) the Company will pay the Executive all Accrued Compensation and a Pro Rata Bonus;

(ii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will pay the Executive as severance pay, and in lieu of any further compensation for periods subsequent to the Termination Date, in a single payment an amount in cash equal to the Base Salary Amount; and

(iii) subject to the Executive providing the Company with a Full Release and complying with his or her obligations under Section 6, the Company will, for the Continuation Period, at its expense provide to the Executive and the Executive's dependents and beneficiaries the Continuation Period Benefits provided to similarly situated executives. The obligations of the Company to provide the Executive and the Executive's dependents and beneficiaries with the Continuation Period Benefits shall not restrict or limit the Company's right to terminate or modify the benefits made available by the Company to its similarly situated executives or other employees and following any such termination or modification, the Continuation Period Benefits that Executive (and the Executive's dependents and beneficiaries) shall be entitled to receive shall be so terminated or modified. If any of the Company's insurance benefits are self-funded as of the Termination Date, or if the Company cannot provide the foregoing insurance benefits in a manner that is exempt from Code Section 409A (as defined below) or that is otherwise compliant with applicable law (including, without limitation, Section 2716 of the Public Health Service Act), instead of providing the insurance benefits as set forth above, the Company shall instead pay to the Executive the Executive's monthly premium amount for such benefits (determined by reference to the premiums in effect immediately prior to the Termination Date) as a taxable monthly payment for the Continuation Period (or any remaining portion thereof). The Company's obligation hereunder with respect to the foregoing benefits will be limited to the extent that the Executive becomes eligible to obtain any such benefits pursuant to a subsequent employer's benefit plans, in which case the Company may reduce the coverage of any benefits it is required to provide the Executive hereunder as long as the coverages and benefits of the combined benefit plans are no less favorable to the Executive than the coverages and benefits required to be provided hereunder. This Section 3.3(a)(iii) will not be interpreted so as to limit any benefits to which the Executive or the Executive's dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Executive's termination of employment.

(b) The amounts provided for in Section 3.3(a)(i) and (ii) will be paid in a single lump sum cash payment by the Company to the Executive thirty days after the Termination Date (or such earlier date as may be required under applicable law with respect to the Accrued Compensation).

(c) The Executive will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, and no such payment will be offset or reduced by the amount of any compensation or benefits provided to the Executive in any subsequent employment, except as specifically provided in Section 3.3(a)(iii).

3.4 Except as otherwise noted herein, the compensation to be paid to the Executive pursuant to this Agreement will be in lieu of any similar severance or termination compensation (i.e., compensation based directly on the Executive's annual salary or annual salary and bonus) to which the Executive may be entitled under this Agreement, any other Company severance or termination agreement, plan, program, policy, practice or arrangement. The Executive's entitlement to any compensation or benefits of a type not provided in this Agreement will be determined

in accordance with the Company's employee benefit plans and other applicable programs, policies and practices as in effect from time to time.

SECTION 4. Notice of Termination. Following a Change in Control, any purported termination of the Executive's employment by the Company will be communicated by a Notice of Termination to the Executive. For purposes of this Agreement, no such purported termination will be effective without such Notice of Termination.

SECTION 5. Excise Tax Adjustments.

5.1 In the event Executive becomes entitled to receive the benefits provided pursuant to this Agreement, and the Company determines that such benefits (the "**Total Payments**") will be subject to the tax (the "**Excise Tax**") imposed by Section 4999 of the Code, or any similar tax that may hereafter be imposed, the Company shall compute the "**Net After-Tax Amount**," and the "**Reduced Amount**," and shall adjust the Total Payments as described below. The Net After-Tax Amount shall mean the present value of all amounts payable to the Executive hereunder, net of all federal income, excise and employment taxes imposed on the Executive by reason of such payments. The Reduced Amount shall mean the largest aggregate amount of the Total Payments that if paid to the Executive would result in the Executive receiving a Net After-Tax Amount that is equal to or greater than the Net After-Tax Amount that the Executive would have received if the Total Payments had been made. If the Company determines that there is a Reduced Amount, the Total Payments will be reduced to the Reduced Amount. Such reduction to the Total Payments shall be made by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options, then by reducing or eliminating any accelerated vesting of other equity awards, then by reducing or eliminating any other remaining Total Payments, in each case in reverse order beginning with the payments which are to be paid the farthest in time from the date of the transaction triggering the Excise Tax.

5.2 For purposes of determining whether the Total Payments will be subject to the Excise Tax and the amounts of such Excise Tax and for purposes of determining the Reduced Amount and the Net After-Tax Amount:

(a) Any other payments or benefits received or to be received by the Executive in connection with a Change in Control of the Company or the Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company, or with any individual, entity, or group of individuals or entities (individually and collectively referred to in this subsection (a) as "**Persons**") whose actions result in a change in control of the Company or any Person affiliated with the Company or such Persons) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless in the opinion of a tax advisor selected by the Company and reasonably acceptable to the Executive ("**Tax Counsel**"), such other payments or benefits (in whole or in part) should be treated by the courts as representing reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code), or otherwise not subject to the Excise Tax;

(b) The amount of the Total Payments that shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Total Payments; or (ii) the amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (a) above);

(c) In the event that the Executive disputes any calculation or determination made by the Company, the matter shall be determined by Tax Counsel, the fees and expenses of which shall be borne solely by the Company; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Change in Control of the Company occurs, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the effective date of the Change in Control of the Company, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes, taking into account the reduction in itemized deduction under Section 68 of the Code.

SECTION 6. *Covenants.*

(a) During the Continuation Period pursuant to which the Executive receives the benefits pursuant to Section 3.1(b)(iii) or Section 3.3(b)(iii), the Executive covenants and agrees as follows:

(i) the Executive agrees to comply with his or her obligations under the Patent and Confidentiality Agreement that he or she entered into with the Company;

(i) the Executive acknowledges that the Executive has knowledge of confidential and proprietary information concerning the current salary, benefits, skills, and capabilities of Company employees and that it would be improper for the Executive to use such Company proprietary information in any manner adverse to the Company's interests. The Executive agrees that he or she will not recruit or solicit for employment, directly or indirectly, any employee of the Company during the Continuation Period; and

(iii) the Executive agrees not to make, directly or indirectly, any oral or written public statements that are disparaging of, or are intended to disparage, discredit or injure, the Company, the products and services it offers or any of its partners, affiliates, successors, assigns, including any of its present or former officers, directors, partners, agents, or employees.

(b) The Company agrees to pay to the Executive all cash compensation to which the Executive is entitled from the Company by the applicable payment date specified in any agreement with the Company or applicable law. Any failure to pay any such cash compensation by the Company shall constitute a material breach of this Agreement by the Company.

SECTION 7. *Successors; Binding Agreement.*

This Agreement will be binding upon and will inure to the benefit of the Company and its Successors, and the Company will require any Successors to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. The Company's failure to obtain, as contemplated by this Section 7, an agreement from any Successor to assume and agree to perform this Agreement shall constitute a material breach of this Agreement by the Company. Neither this Agreement nor any right or interest hereunder will be assignable or transferable by the Executive or by the Executive's beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement will inure to the benefit of and be enforceable by the Executive's legal representatives.

SECTION 8. *Fees and Expenses.*

The Company will pay as they become due all legal fees and related expenses (including the costs of experts) incurred by the Executive, in good faith, in (a) contesting or disputing, any such termination of employment and (b) seeking to obtain or enforce any right or benefit provided by this Agreement or by any other plan or arrangement maintained by the Company under which the Executive is or may be entitled to receive benefits. If the dispute is resolved by a final decision of an arbitrator pursuant to Section 15 in the favor of the Company, the Executive shall reimburse the Company for all such legal fees and related expenses (including costs of experts) paid by the Company on behalf of the Executive. To the extent necessary to comply with Code Section 409A, any reimbursements pursuant to this Section 8 shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred. Such reimbursements are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Executive receives in any other taxable year.

SECTION 9. *Notice.*

For the purposes of this Agreement, notices and all other communications provided for in the Agreement (including the Notice of Termination) will be in writing and will be deemed to have been duly given (i) when personally delivered, (ii) upon acknowledgment of receipt when sent by e-mail or other electronic transmission (excluding acknowledgements generated automatically without an affirmative act by the recipient), or (iii) when sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other, provided that all notices to the Company will be directed to the attention of the Board with a copy to the Secretary of the Company. All notices and communications will be deemed to have been received on the date

of delivery thereof or on the third business day after the mailing thereof, except that notice of change of address will be effective only upon receipt.

SECTION 10. *Dispute Concerning Termination.*

If prior to the Termination Date (as determined without regard to this Section 10), the party receiving the Notice of Termination notifies the other party that a dispute exists concerning the termination, the Termination Date shall be extended until the earlier of (i) the date on which the Term ends or (ii) the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of an arbitrator or a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Termination Date shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence; provided, further, that the foregoing extension shall not apply to the extent it would cause the payments or benefits under this Agreement to fail to be exempt from, or to fail to comply with, Code Section 409A and would result in the imposition of additional taxes on the Executive with respect to such payments under Code Section 409A.

SECTION 11. *Compensation During Dispute.*

If a purported termination occurs and during the Term and the Termination Date is extended in accordance with Section 10 hereof, the Company shall continue to pay the Executive the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, salary) and continue the Executive as an employee and a participant in all compensation, benefit and insurance plans in which the Executive was participating when the Notice of Termination was given, until the Termination Date, as determined in accordance with Section 10 hereof. Amounts paid under this Section 11 are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement or otherwise.

SECTION 12. *Nonexclusivity of Rights.*

Nothing in this Agreement will prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company for which the Executive may qualify, nor will anything herein limit or reduce such rights as the Executive may have under any other agreements with the Company (except for any severance or termination agreement). Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company will be payable in accordance with such plan or program, except as specifically modified by this Agreement.

SECTION 13. *No Set-Off.*

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder will not be affected by any circumstances, including any right of set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others, except for any obligation under the Dodd Frank Act or similar provisions of applicable law to recoup incentive-based compensation erroneously paid to the Executive following a required accounting restatement as reflected in the Company's existing Compensation Recoupment Policy (as such policy may be in effect from time to time) or the terms of any other recoupment, clawback or similar policy of the Company as it may be in effect from time to time.

SECTION 14. *Miscellaneous.*

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representation, oral or otherwise, express or implied, with respect to the subject matter hereof has been made by either party which is not expressly set forth in this Agreement.

SECTION 15. *Governing Law and Binding Arbitration.*

This Agreement will be governed by and construed and enforced in accordance with the laws of the State of California without giving effect to the conflict of laws principles thereof. All disputes relating to this Agreement, including its enforceability, shall be resolved by final and binding arbitration before an arbitrator appointed by the Judicial Arbitration and Mediation Service (JAMS), in accordance with the rules and procedures of arbitration under the Company's Dispute Resolution Program, attached hereto as Exhibit C, with the arbitration to be held in Simi Valley, California. Judgment upon the award may be entered in any court having jurisdiction thereof.

SECTION 16. *Severability.*

The provisions of this Agreement will be deemed severable and the invalidity or unenforceability of any provision will not affect the validity or enforceability of the other provisions hereof.

SECTION 17. *Entire Agreement.*

This Agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto with respect to severance protection.

SECTION 18. *Code Section 409A.*

It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("**Code Section 409A**") so as not to subject the Executive to payment of any interest or additional tax imposed under Code Section 409A and any ambiguities herein will be interpreted to ensure that such payments and benefits be so exempt or, if not so exempt, comply with Section 409A of the Code. To the extent that any amount payable under this Agreement would trigger the additional tax, penalty or interest imposed by Code Section 409A, this Agreement shall be modified to avoid such additional tax, penalty or interest yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive. If the Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the Termination Date, the Executive shall not be entitled to any payment or benefit pursuant to Section 3.1(b) until the earlier of (i) the date which is six months after the Termination Date, or (ii) the date of the Executive's death. The provisions of this Section 18 shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A. Any amounts otherwise payable to the Executive upon or in the six month period following the Executive's Termination Date that are not so paid by reason of this Section 18 shall be paid (without interest) as soon as practicable (and in all events within five days) after the date that is six months after the Executive's Termination Date (or, if earlier, as soon as practicable, and in all events within five days, after the date of the Executive's death). Each series of installment payments made under this Agreement is hereby designated as a series of "separate payments" within the meaning of Section 409(A) of the Code.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

AEROVIRONMENT, INC.

Name: Timothy Conver
Title: CEO

EXECUTIVE

[Executive's Name]

Exhibit A

RELEASE OF ALL CLAIMS AND POTENTIAL CLAIMS

1. This Release of All Claims and Potential Claims (“**Release**”) is entered into by and between (“ ”) and AeroVironment, Inc., a Delaware corporation (hereinafter the “**Company**”). and the Company have previously entered into a Severance Protection Agreement dated (“**Severance Agreement**”). In consideration of the promises made herein and the consideration due under the Severance Agreement, this Release is entered into between the parties.

2.(a) The purposes of this Release are to settle completely and release the Company, its individual and/or collective officers, directors, stockholders, agents, parent companies, subsidiaries, affiliates, predecessors, successors, assigns, employees (including all former employees, officers, directors, stockholders and/or agents), attorneys, representatives and employee benefit programs (including the trustees, administrators, fiduciaries and insurers of such programs) (referred to collectively as “**Releasees**”) in a final and binding manner from every claim and potential claim for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, that has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730, but excluding any rights or benefits to which is entitled under the Severance Agreement.

(b) This is a compromise settlement of all such claims and potential claims, known or unknown, and therefore this Release does not constitute either an admission of liability on the part of and the Company or an admission, directly or by implication, that and/or the Company, its subsidiaries, affiliates or predecessors, have violated any law, rule, regulation, contractual right or any other duty or obligation. The parties hereto specifically deny that they have violated any law, rule, regulation, contractual right or any other duty or obligation.

(c) This Release is entered into freely and voluntarily by and the Company solely to avoid further costs, risks and hazards of litigation and to settle all claims and potential claims and disputes, known or unknown, in a final and binding manner.

3. For and in consideration of the promises and covenants made by to the Company and the Company to , contained herein, and the Company have agreed and do agree as follows:

(a) waives, releases and forever discharges Releasees from any claims and potential claims for relief, causes of action and liabilities, known or unknown, that [he/she] has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from the employment relationship between and the Company and its subsidiaries, affiliates and predecessors, and the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act, and any personal gain with respect to any claim arising under the qui tam provisions of the False Claims Act, 31 U.S.C. 3730 but excluding any rights or benefits to which is entitled under the Severance Agreement. In addition, this Release does not cover, and nothing in this Release shall be construed to cover, any claim that cannot be so released as a matter of applicable law.

(b) agrees that [he/she] will not directly or indirectly institute any legal proceedings against Releasees before any court, administrative agency, arbitrator or any other tribunal or forum whatsoever by reason of any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the Age Discrimination in Employment Act.

(c) is presently unaware of any injuries that [he/she] may have suffered as a result of working at the Company or its subsidiaries, affiliates or predecessors, and has no present intention of filing a workers' compensation claim. Should any such claim arise in the future, waives and releases any right to proceed against the Company or its subsidiaries, affiliates or predecessors, for such a claim. also waives any right to bring any disability claim against the Company or its subsidiaries, affiliates or predecessors, or its or their carriers.

4. As a material part of the consideration for this Agreement, and [his/her] agents and attorneys, agree to keep completely confidential and not disclose to any person or entity, except immediate family, attorney, accountant, or tax preparers, or in response to a court order or subpoena, the terms and/or conditions of this Release and/or any understandings, agreements, provisions and/or information contained herein or with regard to the employment relationship between and the Company and its subsidiaries, affiliates and predecessors.

5. Any dispute, claim or controversy of any kind or nature, including but not limited to the issue of arbitrability, arising out of or relating to this Release, or the breach thereof, or any disputes which may arise in the future, shall be settled in a final and binding before an arbitrator appointed by the Judicial Arbitration and Mediation Service in accordance with the rules and procedures of arbitration under the Company's Dispute Resolution Program attached as Exhibit C to the Severance Agreement. The prevailing party shall be entitled to recover all reasonable attorneys' fees, costs and necessary disbursements incurred in connection with the arbitration proceeding. Judgment upon the award may be entered in any court having jurisdiction thereof.

6. It is further understood and agreed that has not relied upon any advice whatsoever from the Company and/or its attorneys individually and/or collectively as to the taxability, whether pursuant to Federal, State or local income tax statutes or regulations, or otherwise, of the consideration transferred hereunder and that [he/she] will be solely liable for all of [his/her] tax obligations. understands and agrees that the Company or its subsidiaries, affiliates or predecessors, may be required by law to report all or a portion of the amounts paid to [him/her] and/or [his/her] attorney in connection with this Release to federal and state taxing authorities. waives, releases, forever discharges and agrees to indemnify, defend and hold the Company harmless with respect to any actual or potential tax obligations imposed by law.

7. acknowledges that [he/she] has read, understood and truthfully completed the Business Ethics and Conduct Disclosure Statement attached hereto as Exhibit B.

8. It is further understood and agreed that Releasees and/or their attorneys shall not be further liable either jointly and/or severally to and/or [his/her] attorneys individually or collectively for costs and/or attorneys fees, including any provided for by statute, nor shall and/or [his/her] attorneys be liable either jointly and/or severally to the Company and/or its attorneys individually and/or collectively for costs and/or attorneys' fees, including any provided for by statute.

9. understands and agrees that if the facts with respect to which this Release are based are found hereafter to be other than or different from the facts now believed by [him/her] to be true, [he/she] expressly accepts and assumes the risk of such possible difference in facts and agrees that this Release shall be and remain effective notwithstanding such difference in facts.

10. understands and agrees that there is a risk that the damage and/or injury suffered by may become more serious than [he/she] now expects or anticipates. expressly accepts and assumes this risk, and agrees that this Release shall be and remains effective notwithstanding any such misunderstanding as to the seriousness of said injuries or damage.

11. understands and agrees that if [he/she] hereafter commences any suit arising out of, based upon or relating to any of the claims and potential claims for relief, cause of action and liability of any and every kind, nature and character whatsoever, known or unknown, [he/she] has released herein, agrees to pay Releasees, and each of them, in addition to any other damages caused to Releasees thereby, all attorneys' fees incurred by Releasees in defending or otherwise responding to said suit.

12. It is further understood and agreed that this Release shall be binding upon and will inure to the benefit of 's spouse, heirs, successors, assigns, agents, employees, representatives, executors and administrators and shall be binding upon and will inure to the benefit of the individual and/or collective successors and assigns of Releasees and their successors, assigns, agents and/or representatives.

13. This Release shall be construed in accordance with and governed for all purposes by the laws of the State of California.

14. agrees that [he/she] will not seek future employment with, nor need to be considered for any future openings with the Company, any division thereof, or any subsidiary or related corporation or entity.

15. and Releasees waive all rights under Section 1542 of the California Civil Code, which section has been fully explained to them by their respective legal counsel and which they fully understand, and any other similar provision or the law of any other state or jurisdiction. Section 1542 provides as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

16. Notwithstanding anything in this Agreement to the contrary, does not waive, release or discharge any rights to indemnification for actions occurring through [his/her] affiliation with the Company or its subsidiaries, affiliates or predecessors, whether those rights arise from statute, corporate charter documents or any other source nor does waive, release or discharge any right may have pursuant to any insurance policy or coverage provided or maintained by the Company or its subsidiaries, affiliates or predecessors.

17. If any part of this Agreement is found to be either invalid or unenforceable, the remaining portions of this Agreement will still be valid.

18. This Agreement is intended to release and discharge any claims of under the Age Discrimination and Employment Act. To satisfy the requirements of the Older Workers' Benefit Protection Act, 29 U.S.C. section 626(f), the parties agree as follows:

- A. acknowledges that [he/she] has read and understands the terms of this Agreement.
- B. acknowledges that [he/she] has been advised in writing to consult with an attorney, if desired, concerning this Agreement and has received all advice [he/she] deems necessary concerning this Agreement.
- C. acknowledges that [he/she] has been given twenty-one (21) days to consider whether or not to enter into this Agreement, has taken as much of this time as necessary to consider whether to enter into this Agreement, and has chosen to enter into this Agreement freely, knowingly and voluntarily.
- D. For a seven day period following the execution of this Agreement, may revoke this Agreement by delivering a written revocation to at the Company. This Agreement shall not become effective and enforceable until the revocation period has expired.

19. acknowledges that [he/she] has been encouraged to seek the advice of an attorney of [his/her] choice with regard to this Release. Having read the foregoing, having understood and agreed to the terms of this Release, and having had the opportunity to and having been advised by independent legal counsel, the parties hereby voluntarily affix their signatures.

20. This Agreement is to be interpreted without regard to the draftsperson. The terms and intent of the Agreement shall be interpreted and construed on the express assumption that all parties participated equally in its drafting.

21. This Release constitutes a single integrated contract expressing the entire agreement of the parties hereto. Except for the Severance Agreement, which defines certain obligations on the part of both parties, and this Release, there are no agreements, written or oral, express or implied, between the parties hereto, concerning the subject matter herein.

Dated: , 20

[Signature]

[Print Name]

AeroVironment, Inc.

By: _____
Name: _____
Its: _____

CODE OF BUSINESS CONDUCT AND ETHICS
DISCLOSURE STATEMENT

Are you aware of any illegal or unethical practices or conduct anywhere within AeroVironment, Inc. or its subsidiaries, affiliates or predecessors (the "**Company**") (including, but not limited to, improper charging practices, or any violations of the Company's Code of Business Conduct and Ethics

Yes No

(Your answer to all questions on this form will not have any bearing on the fact or terms of your Release with the Company.)

If the answer to the preceding question is "yes," list here, in full and complete detail, all such practices or conduct. (Use additional pages if necessary.)

Have any threats or promises been made to you in connection with your answers to the questions on this form?

Yes No

If "yes," please identify them in full and complete detail. Also, notify the Company's General Counsel at 805 581-2198 ext. 2694 immediately.

I declare under penalty of perjury, under the laws of the State of California and of the United States, that the foregoing is true and correct.

Executed this of , 20

EXHIBIT C
ARBITRATION

Capitalized terms not defined in this Exhibit C (this “Exhibit”) are defined in the Severance Protection Agreement (the “Award Agreement”) with respect to which this Exhibit C is a part. AeroVironment, Inc., a Delaware limited liability company (the “Company”), and (the “Participant”) hereby agree as follows:

1. **Agreement to Arbitrate Disputes.**

The Company, on behalf of itself and its employees, and the Participant, on behalf of him or herself and any assistant(s) employed or utilized by the Participant, agree to resolve any and all timely and legally cognizable past, present and future controversies, disputes or claims of any nature in any way arising out of or relating to the Plan or the Award Agreement or the relationship between the parties (hereinafter, a “Claim” or “Claims”), by mandatory, binding, individual arbitration. This agreement to arbitrate covers claims of any nature, whether at law or equity, statute or common law.

2. **Mandatory Dispute Resolution Process Prior to Arbitration.**

Each party shall notify the other of any dispute arising under Paragraph 1 of this Exhibit prior to filing a claim in arbitration. The Company will notify the Participant of such dispute by informing the Participant in writing at the Company’s office where the Participant is primarily headquartered (or at the Participant’s last known address if no longer employed by the Company). The Participant will notify the Company of any dispute in writing addressed to the attention of General Counsel. Within a reasonable period of time, the parties shall meet informally, either in person or by telephone to attempt to resolve the dispute in good faith.

3. **Arbitration Procedural Rules**

In the event the parties are unable to resolve their dispute under Paragraph 2 of this Exhibit, either party may initiate an arbitration under the then-current JAMS’ Streamlined or Comprehensive Arbitration Rules and Procedures. The applicable arbitral rules are available for review at www.jamsadr.com (under the Rules/Clauses tab).

- 3.1. The parties will make reasonable efforts to agree upon a mutually satisfactory arbitrator chosen from the JAMS panels. If the parties are unable to agree upon an arbitrator, the Company will request from JAMS a list of qualified arbitrators. The parties will then select an arbitrator in accordance with JAMS Streamlined or Comprehensive Arbitration Rules and Procedures. Unless otherwise mutually agreed, the arbitrator shall be a practicing attorney with at least 15 years of experience and at least five years of experience as an arbitrator.
- 3.2. The Company and the Participant agree that the arbitration will be conducted by a single arbitrator in the JAMS office (as applicable) closest to Simi Valley, California (or such other location as is mutually agreed to by the parties).
- 3.3. The nature of the substantive claims asserted will determine which body of substantive laws will apply. In the event that there is a dispute regarding which substantive laws apply, the arbitrator shall decide that issue.

3.4. The parties agree that all proceedings before the arbitrator will remain confidential between the parties, including but not limited to any depositions, discovery, pleadings, exhibits, testimony, or award. The parties will inform third parties (including witnesses) necessary to the proceeding that the proceeding is confidential, and use reasonable efforts to secure that individual's agreement to maintain such confidentiality. The requirement of confidentiality, however, will not apply in the event that either party seeks to confirm an arbitral award and enter a judgment thereon in an appropriate court, or if any such arbitral award is appealed to an appropriate court.

4. **Injunctive or Other Interim Relief.**

The Company or the Participant may apply to the arbitrator seeking injunctive relief until the arbitration award is rendered or the controversy is otherwise resolved. Either party also may, without waiving any remedy under this Paragraph 4, seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights of that party, pending the establishment of the arbitral tribunal (or pending the arbitral tribunal's determination of the merits of the controversy).

5. **Remedies, Written Decision, Fees.**

Final resolution of any dispute through arbitration may include any remedy or relief available under applicable law. At the conclusion of the arbitration, if either party requests, the arbitrator will issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any costs unique to arbitration (such as the costs of the arbitrator and room fees) will be paid by the Company and the parties will otherwise bear their own fees and costs, including attorneys' fees and expert fees. The Company and the Participant acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or related to the Plan and the Award Agreement or their relationship. A successful party may make application to the arbitrator for an award of fees and/or costs and the arbitrator may award such fees and costs consistent with applicable law.

6. **Class Action Waiver.**

The Company and the Participant agree that all Claims pursued against each other will be on an individual basis. To that end, the Company and the Participant hereby waive their right to commence, to become a party to, or to remain a participant in, any group, representative, class, collective, or hybrid class/collective action in any court, arbitration proceeding, or any other forum, against the other. The parties agree that any claim by or against the Company or the Participant shall be heard in arbitration without joinder of parties or consolidation of such claim with any other person or entity's claim, except as otherwise agreed to in writing by the Company and the Participant.

7. **Right to Enforce or Challenge Class Action Waiver In Court.**

All parties agree that this Exhibit does not limit any party's right to initiate an action in state or federal court enforcing or challenging the enforceability of the group, representative, class, collective, or hybrid action waiver set forth herein. If the Participant chooses to exercise that right, the Company will not retaliate against the Participant for doing so. The Company, however, reserves the right to oppose such a challenge to enforcement of this Exhibit.

8. **Void if Class Action Waiver Void.**

If the waivers in Paragraph 6 of this Exhibit are found to be unenforceable in their entirety for any reason in a case in which class action, representative action or similar allegations have been made, the remainder of this arbitration clause in this Exhibit shall also be void. If, however, some, but not all, of the waivers in Paragraph 6 of this Exhibit are found to be unenforceable for any reason in a case in which class action, representative action or similar allegations have been made, the Participant's individual claims shall be decided in arbitration. Any class action, representative action or similar action as to which the class action waiver in Paragraph 6 of this Exhibit is found to be unenforceable shall be decided in court and not in arbitration.

9. **Application of FAA and Questions of Arbitrability.**

The Company and the Participant agree that the Federal Arbitration Act, 9 U.S.C. § 1 et seq. ("FAA") governs the enforceability of any and all of the arbitration provisions in this Exhibit and judgment upon the award rendered by the arbitrator may be entered by any court of competent jurisdiction. Questions related to procedures (including venue and choice of arbitrator), timeliness, and arbitrability (that is whether an issue is subject to arbitration under this Exhibit) shall be decided by the arbitrator, except any issues related to the enforceability of Paragraphs 6 and 7 shall be decided solely by a court of law having jurisdiction over the issue, and except as provided in Paragraphs 7 and 8. Claims filed must be timely, i.e., within the time set by the applicable statute(s) of limitations.

10. **Administrative Remedies.**

The parties further agree that nothing in this Exhibit precludes any party from filing or participating in administrative proceedings before the California Unemployment Insurance Appeals Board, California Workers Compensation Appeals Board, California Labor Commissioner, California Division of Labor Standards Enforcement, the California Department of Fair Employment & Housing, or similar California or federal administrative agencies, to address alleged violations of law enforced by those agencies. If the Participant exercises such administrative remedies, the Company will not retaliate against the Participant for doing so. The Company, however, reserves the right to oppose any such administrative proceeding, including on the grounds that such agency(ies) lack jurisdiction over any dispute, because of the parties' independent contractor relationship. Notwithstanding the foregoing, to the extent permitted by law, if the Participant or the Company seeks to appeal any such administrative award to a court of competent jurisdiction and/or for a trial de novo in such a court, the Participant and the Company agree that that such appeal or trial de novo is subject to the binding arbitration requirement described above in this Exhibit.

11. **The Participant Understands His/Her Agreement to Arbitrate.**

The Participant represents and warrants that he/she understands the meaning and effect of the agreement to arbitrate and has been provided reasonable time and opportunity to consult with legal counsel regarding this agreement to arbitrate.



AeroVironment, Inc.
900 Innovators Way
Simi Valley, CA 93065
Phone: 805-581-2187
Fax: 805-581-4512

, 2016

[Director]
[Director Address]

Re: *Amendment of Outstanding Awards*

Dear [Director]:

Appendix A attached hereto lists your outstanding stock options (your “Options”) and restricted stock awards (your “Restricted Stock Awards”), which were previously granted to you by AeroVironment, Inc. (the “Company”) under the Company’s equity incentive plans (the “Plans”). Your Options and Restricted Stock Awards are evidenced by written award agreements under the applicable Plans (the “Award Agreements”). Your Options and Restricted Stock Awards are collectively referred to in this letter as your “Awards.”

The purpose of this letter agreement is to amend your Awards to provide that upon the occurrence of a “Change in Control” (as defined in Appendix B attached hereto), the portion of your Awards that are outstanding and unvested immediately prior to the Change in Control shall accelerate and become fully vested and nonforfeitable (and, in the case of your Options, exercisable) as of (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the date of the Change in Control.

This letter agreement does not modify any other terms of your Awards except as expressly set forth above. To the extent the foregoing amendment conflicts with the written Award Agreements evidencing your Awards or the applicable Plan under which your Awards were granted, the terms of this letter agreement will control. Without limiting the generality of the foregoing, nothing in this letter agreement modifies any rights you may have under any other agreement with the Company and, in the event of any conflict between the terms of this letter agreement and any other such agreement, the terms of any such agreement shall control.

[The remainder of this page has been intentionally left blank.]

If this letter accurately sets forth our agreement with respect to the foregoing matters, please sign the enclosed copy of this letter and return it to me.

Sincerely,

Timothy E. Conner
Chief Executive Officer
AeroVironment, Inc.

Acknowledged and Agreed:

By: _____
[Director]

APPENDIX A
SCHEDULE OF AWARDS

Type of Award	Grant Date	# of Shares/Options Granted	Option Exercise Price	Applicable Plan

3

APPENDIX B

DEFINITIONS

The following defined terms shall apply for purposes of this letter agreement:

“**Beneficial Owner**” has the meaning as used in Rule 13d-3 promulgated under the Securities Exchange Act. The terms “Beneficially Owned” and “Beneficial Ownership” each have a correlative meaning.

“**Board**” means the Board of Directors of the Company.

“**Change in Control**” of the Company means, and shall be deemed to have occurred upon, any of the following events:

- (a) The acquisition by any Person of Beneficial Ownership of twenty-five percent (25%) or more of the outstanding voting power; provided, however, that the following acquisitions shall not constitute a Change in Control for purposes of this subparagraph (a): (A) any acquisition directly from the Company; (B) any acquisition by the Company or any of its Subsidiaries; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subparagraph (c) below; or
- (b) Individuals who at the beginning of any two year period constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two year period and whose election, or whose nomination for election by the Company’s stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or
- (c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a

result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners' ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination shall not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, twenty-five percent (25%) or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned twenty-five percent (25%) or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the Board of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or the action of the Board, providing for such Business Combination; or

(d) Approval by the Company's stockholders of a complete liquidation or dissolution of the Company.

For purposes of clause (c), any Person who acquires outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination, of outstanding voting securities of both the Company and the entity or entities with which the Company is combined shall be treated as two Persons after the Business Combination, who shall be treated as owning outstanding voting securities of the entity resulting from the Business Combination by virtue of ownership, prior to such Business Combination of, respectively, outstanding voting securities of the Company, and of the entity or entities with which the Company is combined.

"Person" has the meaning as defined in Section 3(a)(9) of the Securities Exchange Act and used in Section 13(d) or 14(d) of the Securities Exchange Act, and will include any "group" as such term is used in such sections.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Subsidiary" means any corporation with respect to which another specified corporation has the power under ordinary circumstances to vote or direct the voting of sufficient securities to elect a majority of the directors.

Certification of Principal Executive Officer
Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934

I, Timothy E. Conver, certify that:

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

Date: March 8, 2016

/s/ Timothy E. Conver

Timothy E. Conver
Chairman and Chief Executive Officer

Certification of Principal Financial Officer
Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934

I, Raymond D. Cook, certify that:

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

Date: March 8, 2016

/s/ Raymond D. Cook

Raymond D. Cook
Senior Vice President and Chief Financial Officer

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the "Act"), each of the undersigned officers of AeroVironment, Inc., a Delaware corporation (the "Company"), does hereby certify, to each such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended January 30, 2016 (the "Periodic Report") of the Company fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Timothy E. Conver
Timothy E. Conver
Chairman and Chief Executive Officer

/s/ Raymond D. Cook
Raymond D. Cook
Senior Vice President and Chief Financial Officer

Dated: March 8, 2016

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

