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 October 29, 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.)
800 Royal Oaks Drive, Suite 210 **Monrovia, California** (Address of principal executive offices)	**91016** (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 ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if smaller reporting company)	Smaller reporting company ☐

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

As of November 29, 2016, the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 23,388,110.

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)

	October 29, 2016 (Unaudited)	April 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 88,876	$ 124,287
Short-term investments	118,208	103,404
Accounts receivable, net of allowance for doubtful accounts of $380 at October 29, 2016 and $262 at April 30, 2016	26,102	56,045
Unbilled receivables and retentions	16,870	18,899
Inventories, net	55,168	37,486
Income tax receivable	3,957	—
Prepaid expenses and other current assets	4,706	4,150
Total current assets	313,887	344,271
Long-term investments	42,559	33,859
Property and equipment, net	17,445	16,762
Deferred income taxes	15,409	15,016
Other assets	598	750
Total assets	$ 389,898	$ 410,658
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 18,662	$ 17,712
Wages and related accruals	10,021	13,973
Income taxes payable	—	943
Customer advances	3,720	2,544
Other current liabilities	6,997	11,173
Total current liabilities	39,400	46,345
Deferred rent	1,820	1,714
Capital lease obligations - net of current portion	276	449
Other non-current liabilities	193	184
Liability for uncertain tax positions	62	441
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—23,371,943 shares at October 29, 2016 and 23,359,925 at April 30, 2016	2	2
Additional paid-in capital	156,667	154,274
Accumulated other comprehensive loss	(158)	(201)
Retained earnings	191,636	207,450
Total stockholders' equity	348,147	361,525
Total liabilities and stockholders' equity	$ 389,898	$ 410,658

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		Six Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Revenue:				
Product sales	$ 29,350	$ 49,492	$ 45,087	$ 76,131
Contract services	20,766	15,239	41,247	35,650
	50,116	64,731	86,334	111,781
Cost of sales:				
Product sales	19,197	24,802	34,419	41,567
Contract services	13,502	8,396	27,815	22,658
	32,699	33,198	62,234	64,225
Gross margin:				
Product sales	10,153	24,690	10,668	34,564
Contract services	7,264	6,843	13,432	12,992
	17,417	31,533	24,100	47,556
Selling, general and administrative	13,387	14,733	27,050	29,989
Research and development	8,517	9,897	17,117	19,728
(Loss) income from operations	(4,487)	6,903	(20,067)	(2,161)
Other income (expense):				
Interest income, net	397	268	772	492
Other expense, net	(130)	(192)	(430)	(2,581)
(Loss) income before income taxes	(4,220)	6,979	(19,725)	(4,250)
(Benefit) provision for income taxes	(48)	2,560	(3,911)	(1,688)
Net (loss) income	$ (4,172)	$ 4,419	$ (15,814)	$ (2,562)
(Loss) earnings per share data:				
Basic	$ (0.18)	$ 0.19	$ (0.69)	$ (0.11)
Diluted	$ (0.18)	$ 0.19	$ (0.69)	$ (0.11)
Weighted average shares outstanding:				
Basic	23,049,056	22,985,956	23,002,832	22,966,513
Diluted	23,049,056	23,148,456	23,002,832	22,966,513

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended		Six Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net (loss) income	$ (4,172)	$ 4,419	$ (15,814)	$ (2,562)
Other comprehensive income:				
Unrealized gain on investments, net of deferred tax expense of $17 and $17 for the three months ended October 29, 2016 and October 31, 2015, respectively; and net of deferred tax expense of $29 and $18 for the six months ended October 29, 2016 and October 31, 2015, respectively	25	25	43	27
Total comprehensive (loss) income	$ (4,147)	$ 4,444	$ (15,771)	$ (2,535)

See accompanying notes to consolidated financial statements (unaudited).

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

	Six Months Ended	
	October 29, 2016	October 31, 2015
Operating activities		
Net loss	$ (15,814)	$ (2,562)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	3,401	2,765
Loss from equity method investments	111	122
Impairment of available-for-sale securities	—	2,186
Provision for doubtful accounts	119	(231)
Losses on foreign currency transactions	269	63
Loss on sale of equity securities	—	219
Deferred income taxes	(329)	215
Stock-based compensation	1,813	2,082
Tax benefit from exercise of stock options	22	196
Gain on disposition of property and equipment	(7)	—
Amortization of held-to-maturity investments	1,259	2,146
Changes in operating assets and liabilities:		
Accounts receivable	29,562	(8,908)
Unbilled receivables and retentions	2,029	5,558
Inventories	(17,682)	(8,922)
Income tax receivable	(3,957)	(2,887)
Prepaid expenses and other assets	(555)	119
Accounts payable	1,413	(7,653)
Other liabilities	(7,933)	(7,417)
Net cash used in operating activities	(6,279)	(22,909)
Investing activities		
Acquisition of property and equipment	(4,514)	(2,804)
Equity method investment	—	(186)
Redemptions of held-to-maturity investments	53,961	55,847
Purchases of held-to-maturity investments	(79,052)	(43,072)
Proceeds from the sale of property and equipment	7	—
Sales and redemptions of available-for-sale investments	400	987
Net cash (used in) provided by investing activities	(29,198)	10,772
Financing activities		
Purchase and retirement of common stock	—	(3,756)
Principal payments of capital lease obligations	(192)	—
Tax withholding payment related to net settlement of equity awards	—	(29)
Exercise of stock options	258	544
Net cash provided by (used in) financing activities	66	(3,241)
Net decrease in cash and cash equivalents	(35,411)	(15,378)
Cash and cash equivalents at beginning of period	124,287	143,410
Cash and cash equivalents at end of period	$ 88,876	$ 128,032
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Income taxes	$ 1,786	$ 1,519
Non-cash activities		
Unrealized change in fair value of long-term investments recorded in accumulated other comprehensive loss, net of deferred tax expense of $29 and $18, respectively	$ 43	$ 27
Reclassification from share-based liability compensation to equity	$ 307	$ 228
Acquisitions of property and equipment included in accounts payable	$ 704	$ —

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 six months ended October 29, 2016, are not necessarily indicative of the results for the full year ending April 30, 2017. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended April 30, 2016, 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.

In July 2016, the Company dissolved Charger Bicycles, LLC, the results of which were not material to the consolidated financial statements. During the three months ended October 29, 2016, the Company dissolved Skytower, LLC and Regenerative Fuel Cell Systems, LLC, the results of which were not material to the consolidated financial statements.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires entities to present deferred tax assets and liabilities as noncurrent in a classified balance sheet. This guidance simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current and non-current in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The ASU may be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company adopted this pronouncement beginning May 1, 2016 and applied this pronouncement retrospectively. In connection with adopting the pronouncement beginning May 1, 2016, the Company reclassified $5,432,000 from current deferred income tax assets in the consolidated balance sheet as of April 30, 2016 to non-current deferred income tax liabilities.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation* (Topic 718), *Improvements to Employee Share-Based Payment Accounting*. The new standard simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as the related classification in the statement of cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The standard requires an entity to recognize all excess tax benefits and tax deficiencies as income tax benefit or expense in the income statement as discrete items in the reporting period in which they occur, and such tax benefits and tax deficiencies are not included in the estimate of an entity's annual effective tax rate, applied on a prospective basis.

Further, the standard eliminates the requirement to defer the recognition of excess tax benefits until the benefit is realized through a reduction to taxes payable. All excess tax benefits previously unrecognized, along with any valuation allowance, are to be recognized on a modified retrospective basis as a cumulative adjustment to retained earnings as of the date of adoption. Under the ASU, an entity that applies the treasury stock method in calculating diluted earnings per share is required to exclude excess tax benefits and deficiencies from the calculation of assumed proceeds since such amounts are recognized in the income statement. Excess tax benefits are also classified as operating activities in the same manner as other cash flows related to income taxes on the statement of cash flows, as such excess tax benefits no longer represent financing activities since they are recognized in the income statement, and are to be applied prospectively or retrospectively to all periods presented. The Company adopted the pronouncement beginning May 1, 2016. In connection with adopting the pronouncement beginning May 1, 2016, the Company recorded a cumulative increase of $265,000 in retained earnings with a corresponding increase in deferred tax assets in the consolidated balance sheet as of April 30, 2016 related to the prior years' unrecognized excess tax benefits. Excess tax benefits related to exercised options and vested restricted stock awards during the three months ended July 30, 2016 have been recognized in the current period's income statement. The Company also excluded the excess tax benefits from the calculation of diluted earnings per share for the three months ended July 30, 2016. The Company applied the cash flow presentation section of the guidance on a prospective basis, and the prior period statement of cash flows was not adjusted.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation related to the adoption of new accounting pronouncements during the six months ended October 29, 2016 impacting the classification of deferred income taxes in the consolidated balance sheets.

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 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.

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 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 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. Historically, the Company has not experienced material disallowed costs as a result of government audits. However, 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 Company's revenue recognition policy calls for revenue recognized on all cost reimbursable government contracts to be recorded at actual rates unless collectability is not reasonably assured.

The Defense Contract Management Agency, or DCMA, disallowed a portion of the Company's executive compensation and/or other costs included in the Company's fiscal 2006, 2007 and 2008 incurred cost claims and sought interest for all three years and penalties for Fiscal 2006, based on the disallowed costs. The Company appealed these cost disallowances to the Armed Services Board of Contract Appeals. For Fiscal 2006, as a result of partial settlements and a decision of the Armed Services Board of Contract Appeals in March 2016, the government's remaining claims were dismissed with prejudice. All of the government's claims related to the Company's 2007 and 2008 incurred cost claims were settled as of October 2015 by payment to the government of $50,000 and the government's claims related to the Company's 2009 and 2010 incurred cost claims were settled as of October 2015 and April 2016, respectively, without the payment of any consideration.

As a result of the settlement agreements and the Armed Services Board of Contract Appeals ruling, the Company reversed reserves of $3,607,000 related to those fiscal years as a credit to cost of sales, allocated as $3,203,000 to the UAS segment and $404,000 to the EES segment during the fiscal year ended April 30, 2016. At October 29, 2016 and April 30, 2016, the Company did not have any remaining reserves for incurred cost claim audits.

(Loss) Earnings Per Share

Basic (loss) earnings 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		Six Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Denominator for basic (loss) earnings per share:				
Weighted average common shares outstanding, excluding unvested restricted stock	23,049,056	22,985,956	23,002,832	22,966,513
Dilutive effect of employee stock options and unvested restricted stock	—	162,500	—	—
Denominator for diluted (loss) earnings per share	23,049,056	23,148,456	23,002,832	22,966,513

Due to the net loss for the three and six months ended October 29, 2016 and the six months ended October 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. Potentially dilutive shares not included in the computation of diluted weighted average common shares because their effect would have been antidilutive were 199,428 and 256,366 for the three and six months ended October 29, 2016, respectively, and 208,102 for the six months ended October 31, 2015. During the three months ended October 31, 2015, approximately 21,000 shares reserved for issuance upon exercise of stock options and shares of unvested restricted stock were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

Recently Issued Accounting Standards

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments* (Topic 230). This ASU adds and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods therein, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

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 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 a 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 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):

	October 29, 2016	April 30, 2016
Short-term investments:		
Held-to-maturity securities:		
Municipal securities	$ 49,695	$ 42,179
U.S. government securities	23,664	21,184
Corporate bonds	40,349	40,041
Certificates of deposit	4,500	—
Total held-to-maturity investments	$ 118,208	$ 103,404
Total short-term investments	$ 118,208	$ 103,404
Long-term investments:		
Held-to-maturity securities:		
Municipal securities	$ 9,836	$ —
U.S. government securities	4,018	7,518
Corporate bonds	26,253	23,561
Total held-to-maturity investments	40,107	31,079
Available-for-sale securities:		
Auction rate securities	2,452	2,780
Total available-for-sale investments	2,452	2,780
Total long-term investments	$ 42,559	$ 33,859

Held-To-Maturity Securities

As of October 29, 2016 and April 30, 2016, the balance of held-to-maturity securities consisted of state and local government municipal securities, U.S. treasury and agency securities, certificates of deposit 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 October 29, 2016, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	$ 59,531	$ 7	$ (28)	$ 59,510
U.S. government securities	27,682	18	(1)	27,699
Corporate bonds	66,602	23	(70)	66,555
Certificates of deposit	4,500	—	(1)	4,499
Total held-to-maturity investments	$ 158,315	$ 48	$ (100)	$ 158,263

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	$ 42,179	$ 5	$ (7)	$ 42,177
U.S. government securities	28,702	23	—	28,725
Corporate bonds	63,602	54	(32)	63,624
Certificates of deposit	—	—	—	—
Total held-to-maturity investments	$ 134,483	$ 82	$ (39)	$ 134,526

The amortized cost and fair value of the held-to-maturity securities by contractual maturity at October 29, 2016, were as follows (in thousands):

	Cost	Fair Value
Due within one year	$ 118,208	$ 118,224
Due after one year through five years	40,107	40,039
Total	$ 158,315	$ 158,263

Available-For-Sale Securities

Auction Rate Securities

As of October 29, 2016 and April 30, 2016, 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 October 29, 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 October 29, 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 its 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 October 29, 2016, the Company did not consider these investments to be other-than-temporarily impaired.

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the auction rate securities as of October 29, 2016, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Auction rate securities	$ 2,700	$ —	$ (248)	$ 2,452
Total available-for-sale investments	$ 2,700	$ —	$ (248)	$ 2,452

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Auction rate securities	$ 3,100	$ —	$ (320)	$ 2,780
Total available-for-sale investments	$ 3,100	$ —	$ (320)	$ 2,780

The amortized cost and fair value of the auction rate securities by contractual maturity at October 29, 2016, were as follows (in thousands):

	Cost	Fair Value
Due after one through five years	$ 700	$ 679
Due after 10 years	2,000	1,773
Total	$ 2,700	$ 2,452

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.

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 resulting in realized gains 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. At April 30, 2016, the Company did not hold any CybAero shares.

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 October 29, 2016, were as follows (in thousands):

	Fair Value Measurement Using			
Description	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Auction rate securities	$ —	$ —	$ 2,452	$ 2,452
Total	$ —	$ —	$ 2,452	$ 2,452

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, 2016	$ 2,780
Transfers to Level 3	—
Total gains (realized or unrealized)	
Included in earnings	—
Included in other comprehensive income	72
Purchases, issuances and settlements, net	(400)
Balance at October 29, 2016	$ 2,452
The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at October 29, 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 October 29, 2016, the inputs used in the Company's discounted cash flow analysis included current coupon rates of 1.49% and 1.37%, estimated redemption periods of 3 and 18 years and discount rates of 5.28% and 13.47%. 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):

	October 29, 2016	April 30, 2016
Raw materials	$ 12,136	$ 11,609
Work in process	15,993	4,259
Finished goods	30,961	26,073
Inventories, gross	59,090	41,941
Reserve for inventory excess and obsolescence	(3,922)	(4,455)
Inventories, net	$ 55,168	$ 37,486

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 six months ended October 29, 2016 and October 31, 2015 (in thousands):

	Three Months Ended		Six Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Beginning balance	$ 5,223	$ 2,029	$ 4,134	$ 2,653
Warranty expense	144	1,001	336	1,708
Changes in estimates related to pre-existing warranties	(179)	—	1,228	(424)
Warranty costs settled	(1,500)	(692)	(2,010)	(1,599)
Ending balance	$ 3,688	$ 2,338	$ 3,688	$ 2,338

During the six months ended October 29, 2016, the Company revised its estimates based on the results of additional engineering studies and recorded incremental warranty reserve charges totaling $1,407,000 related to the estimated costs to repair a component of certain small UAS that were delivered in prior periods. At October 29, 2016, the total remaining warranty reserve related to the estimated costs to repair the impacted UAS was $865,000. As of October 29, 2016 a total of $1,114,000 of costs related to this warranty have been incurred.

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 $134 of taxes, as of April 30, 2016	$ (201)	$ (201)
Reclassifications out of accumulated other comprehensive loss, net of taxes	—	—
Unrealized gains, net of $29 of taxes	43	43
Balance, net of $90 of taxes, as of October 29, 2016	$ (158)	$ (158)

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 $14,541,000 and $29,278,000 for the three and six months ended October 29, 2016, respectively. Revenue from customer-funded R&D was approximately $10,234,000 and $26,761,000 for the three and six months ended October 31, 2015, respectively.

8. Income Taxes

For the three and six months ended October 29, 2016, the Company recorded a (benefit) for income taxes of $(48,000) and $(3,911,000), respectively, yielding an effective tax rate of 1.1% and 19.8%, respectively. For the three and six months ended October 31, 2015, the Company recorded a provision (benefit) for income taxes of $2,560,000 and $(1,688,000), respectively, yielding an effective tax rate of 36.7% and 39.7%, respectively. The variance from statutory rates for the three and six months ended October 29, 2016, was primarily due to federal legislation reinstating the federal research and development tax credit during the third quarter of fiscal 2016 and the reversal of a $968,000 reserve, including the related interest, for uncertain tax positions due to the settlement of prior fiscal year audits recorded during the first quarter of fiscal 2017.

9. 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. No shares were repurchased under the program during the six months ended October 29, 2016. As of October 29, 2016 and April 30, 2016, approximately $21.2 million remained authorized for future repurchases under this program.

10. 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		Six Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Revenue:				
UAS	$ 40,829	$ 56,589	$ 71,326	$ 96,756
EES	9,287	8,142	15,008	15,025
Total	50,116	64,731	86,334	111,781
Cost of sales:				
UAS	25,936	28,314	51,019	54,780
EES	6,763	4,884	11,215	9,445
Total	32,699	33,198	62,234	64,225
Gross margin:				
UAS	14,893	28,275	20,307	41,976
EES	2,524	3,258	3,793	5,580
Total	17,417	31,533	24,100	47,556
Selling, general and administrative	13,387	14,733	27,050	29,989
Research and development	8,517	9,897	17,117	19,728
(Loss) income from operations	(4,487)	6,903	(20,067)	(2,161)
Other income (expense):				
Interest income, net	397	268	772	492
Other expense, net	(130)	(192)	(430)	(2,581)
(Loss) income before income taxes	$ (4,220)	$ 6,979	$ (19,725)	$ (4,250)

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

The following is a discussion and analysis of our financial condition and the results of operations as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the “Consolidated Financial Statements” and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. 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 I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, as updated by our subsequent filings under the Securities and Exchange Act of 1934, as amended, (“the Exchange Act”).

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, warranty liabilities, 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 our Annual Report on Form 10-K for the fiscal year ended April 30, 2016.

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 six months ended October 29, 2016 and October 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 October 29, 2016 and October 31, 2015, favorable and unfavorable cumulative catch-up adjustments included in cost of sales were as follows (in thousands):

	Three Months Ended	
	October 29, 2016	October 31, 2015
Gross favorable adjustments	$ 2,211	$ 499
Gross unfavorable adjustments	(32)	(125)
Net favorable adjustments	$ 2,179	$ 374

For the three months ended October 29, 2016, favorable cumulative catch-up adjustments of $2.2 million were primarily due to final cost adjustments on 53 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments were not material.

For the three months ended October 31, 2015, favorable cumulative catch-up adjustments of $0.5 million were primarily due to final cost adjustments on 154 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of $0.1 million were primarily related to higher than expected costs on 96 contracts, which individually were not material.

For the six months ended October 29, 2016 and October 31, 2015, favorable and unfavorable cumulative catch-up adjustments included in cost of sales were as follows (in thousands):

	Six Months Ended	
	October 29, 2016	October 31, 2015
Gross favorable adjustments	$ 2,257	$ 437
Gross unfavorable adjustments	(209)	(207)
Net favorable adjustments	$ 2,048	$ 230

For the six months ended October 29, 2016, favorable cumulative catch-up adjustments of $2.3 million were primarily due to final cost adjustments on 49 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 9 contracts, which individually were not material.

For the six months ended October 31, 2015, favorable cumulative catch-up adjustments of $0.4 million were primarily due to final cost adjustments on 136 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 88 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 2017 fiscal year ends on April 30, 2017 and our fiscal quarters end on July 30, 2016, October 29, 2016 and January 28, 2017, respectively.

Results of Operations

Our operating segments are Unmanned Aircraft Systems, or UAS, and Efficient Energy Systems, or EES. Our 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.

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

Three Months Ended October 29, 2016 Compared to Three Months Ended October 31, 2015

	Three Months Ended	
	October 29, 2016	October 31, 2015
Revenue:		
UAS	$ 40,829	$ 56,589
EES	9,287	8,142
Total	50,116	64,731
Cost of sales:		
UAS	25,936	28,314
EES	6,763	4,884
Total	32,699	33,198
Gross margin:		
UAS	14,893	28,275
EES	2,524	3,258
Total	17,417	31,533
Selling, general and administrative	13,387	14,733
Research and development	8,517	9,897
(Loss) income from operations	(4,487)	6,903
Other income (expense):		
Interest income, net	397	268
Other expense, net	(130)	(192)
(Loss) income before income taxes	$ (4,220)	$ 6,979

Revenue. Revenue for the three months ended October 29, 2016 was $50.1 million, as compared to $64.7 million for the three months ended October 31, 2015, representing a decrease of $14.6 million, or 23%. The decrease in revenue was due to a decrease in product deliveries of $20.1 million, partially offset by an increase in service revenue of $5.5 million. UAS revenue decreased $15.8 million, or 28%, to $40.8 million for the three months ended October 29, 2016, primarily due to a decrease in product deliveries of $21.5 million, partially offset by an increase in customer-funded R&D work of $4.3 million and an increase in service revenue of $1.4 million. The decrease in product deliveries was primarily due to a decrease in product deliveries of small UAS, partially offset by an increase in product deliveries of tactical missile systems. The increase in customer-funded R&D was primarily due to an increase in tactical missile system variant programs. The increase in service revenue was primarily due to an increase in tactical missile systems and an increase in sustainment activities in small UAS. EES revenue increased $1.1 million, or 14%, to $9.3 million for the three months ended October 29, 2016, primarily due to an increase in product deliveries of passenger and fleet electric vehicle charging systems.

Cost of Sales. Cost of sales for the three months ended October 29, 2016 was $32.7 million, as compared to $33.2 million for the three months ended October 31, 2015, representing a decrease of $0.5 million, or 2%. As a percentage of revenue, cost of sales increased from 51% to 65%. The decrease in cost of sales was primarily due to a decrease in product costs of $5.6 million, partially offset by an increase in cost of services of $5.1 million, both of which were impacted by the reserve reversal of $3.5 million for the settlement of prior year government incurred cost audits recorded in the second quarter of fiscal 2016. The decrease in product costs was primarily due to the decrease in product deliveries, partially offset by the prior year reserve reversal for the settlement of prior year government incurred cost audits, the decrease in product sales volume, which resulted in an increase in the per unit fixed manufacturing and engineering overhead support cost and an increase in engineering and technical analyses costs (“sustaining engineering activities”) in support of our existing products of $1.3 million. The increase in cost of services was primarily due to the increase in service revenue. UAS cost of sales decreased $2.4 million, or 8%, to $25.9 million for the three months ended October 29, 2016, primarily due to a decrease in product deliveries, partially offset by the prior year reserve reversal of $3.1 million for the settlement of prior year government incurred cost audits, the decrease in product sales volume, which resulted in an increase in the per unit fixed manufacturing and engineering overhead support cost and an increase in sustaining engineering activities in support of our existing products. As a percentage of revenue, cost of sales for UAS increased from 50% to 64%, primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits, the decrease in product sales volume, which resulted in an increase in the per unit fixed manufacturing and engineering overhead support cost and the increase in sustaining engineering activities in support of our existing products. EES cost of sales increased $1.9 million, or 38%, to $6.8 million for the three months ended October 29, 2016, primarily due to the increased sales volume, partially offset by the prior year reserve reversal of $0.4 million for the settlement of prior year government incurred cost audits and the increase in sustaining engineering activities in support of our existing products. As a percentage of revenue, cost of sales for EES increased from 60% to 73% primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits and the increase in sustaining engineering activities in support of our existing products.

Gross Margin. Gross margin for the three months ended October 29, 2016 was $17.4 million, as compared to $31.5 million for the three months ended October 31, 2015, representing a decrease of $14.1 million, or 45%. The decrease in gross margin was primarily due to a decrease in product margins of $14.5 million, partially offset by an increase in service margins of $0.4 million, both of which were impacted by the reserve reversal of $3.5 million for the settlement of prior year government incurred cost audits recorded in the second quarter of fiscal 2016. As a percentage of revenue, gross margin decreased from 49% to 35%, primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits, the decrease in product sales volume, which resulted in an increase in the per unit fixed manufacturing and engineering overhead support cost and an increase in sustaining engineering activities in support of our existing products of $1.3 million. UAS gross margin decreased to $14.9 million for the three months ended October 29, 2016 from $28.3 million. As a percentage of revenue, gross margin for UAS decreased from 50% to 36%, primarily due to the prior year reserve reversal of $3.1 million for the settlement of prior year government incurred cost audits, the decrease in product sales volume, which resulted in an increase in the per unit fixed manufacturing and engineering overhead support cost and the increase in sustaining engineering activities in support of our existing products. EES gross margin decreased $0.7 million, or 23%, to $2.5 million for the three months ended October 29, 2016 primarily due to the prior year reserve reversal of $0.4 million for the settlement of prior year government incurred cost audits and the increase in sustaining engineering activities in support of our existing products, partially offset by the increased sales volume. As a percentage of revenue, EES gross margin decreased from 40% to 27%, primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits and the increase in sustaining engineering activities in support of our existing products.

Selling, General and Administrative. SG&A expense for the three months ended October 29, 2016 was $13.4 million, or 27% of revenue, compared to SG&A expense of $14.7 million, or 23% of revenue, for the three months ended October 31, 2015. SG&A expense decreased by $1.3 million, or 9%, for the three months ended October 29, 2016, primarily due to a decrease in bid and proposal costs.

Research and Development. R&D expense for the three months ended October 29, 2016 was $8.5 million, or 17% of revenue, compared to R&D expense of $9.9 million, or 15% of revenue, for the three months ended October 31, 2015. R&D expense decreased by $1.4 million, or 14%, for the three months ended October 29, 2016, primarily due to a decrease in development activities for certain strategic initiatives.

Interest Income, net. Interest income, net for the three months ended October 29, 2016 was $0.4 million compared to interest income, net of $0.3 million for the three months ended October 31, 2015.

Other Expense, net. Other expense, net for the three months ended October 29, 2016 was $0.1 million compared to other expense, net of $0.2 million for the three months ended October 31, 2015.

(Benefit) Provision for Income Taxes. Our effective income tax rate was 1.1% for the three months ended October 29, 2016, as compared to 36.7% for the three months ended October 31, 2015. The variance from statutory rates for the three months ended October 29, 2016, was primarily due to federal legislation permanently reinstating the federal research and development tax credit during the three months ended January 30, 2016 and the reversal of a reserve for uncertain tax positions due to the settlement of prior fiscal year audits.

Six Months Ended October 29, 2016 Compared to Six Months Ended October 31, 2015

	Six Months Ended	
	October 29, 2016	October 31, 2015
Revenue:		
UAS	$ 71,326	$ 96,756
EES	15,008	15,025
Total	86,334	111,781
Cost of sales:		
UAS	51,019	54,780
EES	11,215	9,445
Total	62,234	64,225
Gross margin:		
UAS	20,307	41,976
EES	3,793	5,580
Total	24,100	47,556
Selling, general and administrative	27,050	29,989
Research and development	17,117	19,728
Loss from operations	(20,067)	(2,161)
Other income (expense):		
Interest income, net	772	492
Other (expense), net	(430)	(2,581)
Loss before income taxes	$ (19,725)	$ (4,250)

Revenue. Revenue for the six months ended October 29, 2016 was $86.3 million, as compared to $111.8 million for the six months ended October 31, 2015, representing a decrease of $25.4 million, or 23%. The decrease in revenue was due to a decrease in product deliveries of $31.0 million, partially offset by an increase in service revenue of $5.6 million. UAS revenue decreased $25.4 million, or 26%, to $71.3 million for the six months ended October 29, 2016, primarily due to a decrease in product deliveries of $31.3 million, partially offset by an increase in service revenue of $3.4 million and an increase in customer-funded R&D work of $2.5 million. The decrease in product deliveries was primarily due to a decrease in product deliveries of small UAS, partially offset by an increase in product deliveries of tactical missile systems. The increase in service revenue was primarily due to an increase in tactical missile systems and an increase in sustainment activities in small UAS. The increase in customer-funded R&D was primarily due to an increase in tactical missile system variant programs. EES revenue was $15.0 million for the six months ended October 29, 2016 and October 31, 2015.

Cost of Sales. Cost of sales for the six months ended October 29, 2016 was $62.2 million, as compared to $64.2 million for the six months ended October 31, 2015, representing a decrease of $2.0 million, or 3%. As a percentage of revenue, cost of sales increased from 57% to 72%. The decrease in cost of sales was primarily due to a decrease in product costs of $7.1 million, partially offset by an increase in service costs of $5.2 million, both of which were impacted by the reserve reversal of $3.5 million for the settlement of prior year government incurred cost audits recorded in the second quarter of fiscal 2016. The decrease in product costs was primarily due to the decrease in product deliveries, partially offset by the prior year reserve reversal for the settlement of prior year government incurred cost audits, an increase in sustaining engineering activities in support of our existing products of $2.7 million and an increase in warranty related costs of $1.7 million related to certain small UAS delivered in prior periods. The increase in cost of services was primarily due to the increase in service revenue. UAS cost of sales decreased $3.8 million, or 7%, to $51.0 million for the six months ended October 29, 2016 primarily due to the decrease in product deliveries, partially offset by the prior year reserve reversal of $3.1 million for the settlement of prior year government incurred cost audits, an increase in sustaining engineering activities in support of our existing products and an increase in warranty related costs of $1.7 million related to certain small UAS delivered in prior periods. As a percentage of revenue, cost of sales for UAS increased from 57% to 72%, primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits, an increase in sustaining engineering activities in support of our existing products and the increase in small UAS warranty related costs. EES cost of sales increased $1.8 million, or 19%, to $11.2 million for the six months ended October 29, 2016, primarily due to the prior year reserve reversal of $0.4 million for the settlement of prior year government incurred cost audits and the increase in sustaining engineering activities in support of our existing products. As a percentage of revenue, cost of sales for EES increased from 63% to 75% primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits and the increase in sustaining engineering activities in support of our existing products.

Gross Margin. Gross margin for the six months ended October 29, 2016 was $24.1 million, as compared to $47.6 million for the six months ended October 31, 2015, representing a decrease of $23.5 million, or 49%. The decrease in gross margin was primarily due to a decrease in product margins of $23.9 million, partially offset by an increase in service margins of $0.4 million, both of which were impacted by the reserve reversal of $3.5 million for the settlement of prior year government incurred cost audits recorded in the second quarter of fiscal 2016. As a percentage of revenue, gross margin decreased from 43% to 28%, primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits, an increase in sustaining engineering activities in support of our existing products of $2.7 million and an increase in warranty related costs of $1.7 million related to certain small UAS delivered in prior periods. UAS gross margin decreased to $20.3 million for the six months ended October 29, 2016 from $42.0 million. As a percentage of revenue, gross margin for UAS decreased from 43% to 28%, primarily due to the prior year reserve reversal of $3.1 million for the settlement of prior year government incurred cost audits, an increase in sustaining engineering activities in support of our existing products and the increase in small UAS warranty related costs. EES gross margin decreased $1.8 million, or 32%, to $3.8 million for the six months ended October 29, 2016 primarily due to the prior year reserve reversal of $0.4 million for the settlement of prior year government incurred cost audits and an increase in sustaining engineering activities in support of our existing products. As a percentage of revenue, EES gross margin decreased from 37% to 25% primarily due to the prior year reserve reversal for the settlement of prior year government incurred cost audits and the increase in sustaining engineering activities in support of our existing products.

Selling, General and Administrative. SG&A expense for the six months ended October 29, 2016 was $27.1 million, or 31% of revenue, compared to SG&A expense of $30.0 million, or 27% of revenue, for the six months ended October 31, 2015. SG&A expense decreased by $2.9 million, or 10%, for the six months ended October 29, 2016, primarily due to a decrease in bid and proposal costs and a decrease in professional services.

Research and Development. R&D expense for the six months ended October 29, 2016 was $17.1 million, or 20% of revenue, compared to R&D expense of $19.7 million, or 18% of revenue, for the six months ended October 31, 2015. R&D expense decreased by $2.6 million, or 13%, for the six months ended October 29, 2016, primarily due to a decrease in development activities for certain strategic initiatives.

Interest Income, net. Interest income, net for the six months ended October 29, 2016 was $0.8 million compared to interest income, net of $0.5 million for the six months ended October 31, 2015.

Other Expense, net. Other expense, net for the six months ended October 29, 2016 was $0.4 million compared to other expense, net of $2.6 million for the six months ended October 31, 2015. The decrease was primarily due to the recording of an other-than-temporary impairment loss of $2.2 million on our CybAero equity securities during the six months ended October 31, 2015. The CybAero equity securities were sold during the second quarter of fiscal 2016.

Benefit for Income Taxes. Our effective income tax benefit rate was 19.8% for the six months ended October 29, 2016, as compared to an effective income tax benefit rate of 39.7% for the six months ended October 31, 2015. The variance from statutory rates for the six months ended October 29, 2016, was primarily due to federal legislation permanently reinstating the federal research and development tax credit during the three months ended January 30, 2016 and the reversal of a reserve for uncertain tax positions due to the settlement of prior fiscal year audits.

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 October 29, 2016 and April 30, 2016, our funded backlog was approximately $119.6 million and $65.8 million, respectively.

In addition to our funded backlog, we also had unfunded backlog of $24.2 million and $16.7 million as of October 29, 2016 and April 30, 2016, 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 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 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 six months ended October 29, 2016 and October 31, 2015 (in thousands):

	Six Months Ended	
	October 29, 2016	October 31, 2015
	(Unaudited)	
Net cash used in operating activities	$ (6,279)	$ (22,909)
Net cash (used in) provided by investing activities	$ (29,198)	$ 10,772
Net cash provided by (used in) financing activities	$ 66	$ (3,241)

Cash Used in Operating Activities. Net cash used in operating activities for the six months ended October 29, 2016, decreased by $16.6 million to $6.3 million, compared to net cash used in operating activities of $22.9 million for the six months ended October 31, 2015. The decrease in net cash used in operating activities was primarily due to a decrease in the use of cash as a result of changes in operating assets and liabilities of $33.0 million, largely resulting from decreases in accounts receivable due to the year over year timing of revenue, partially offset by an increase in net loss of $13.3 million and a decrease in non-cash charges primarily due to the other than temporary impairment charge on the CybAero available-for-sale equity securities of $2.2 million during the six months ended October 31, 2015.

Cash (Used in) Provided by Investing Activities. Net cash used in investing activities increased by $40.0 million to $29.2 million for the six months ended October 29, 2016, compared to net cash provided by investing activities of $10.8 million for the six months ended October 31, 2015. The increase in net cash used in investing activities was primarily due to a decrease in net redemptions and purchases of investments of $38.5 million and an increase in cash paid for acquisitions of property and equipment of $1.7 million.

Cash Provided by (Used in) Financing Activities. Net cash provided by financing activities increased by $3.3 million to $0.1 million for the six months ended October 29, 2016, compared to net cash used in financing activities of $3.2 million for the six months ended October 31, 2015. The decrease in cash provided by financing activities was primarily due a decrease in the purchase and retirement of common stock of $3.8 million, partially offset by a decrease in cash proceeds from the exercise of stock options.

Contractual Obligations

During the six months ended October 29, 2016, there were no material changes in our contractual obligations and commercial commitments from those disclosed in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016.

Off-Balance Sheet Arrangements

As of October 29, 2016, we had no off‑balance sheet arrangements as defined in Item 303(a)(4) of the SEC’s Regulation S‑K.

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 on Form 10-Q for a discussion of new accounting pronouncements and accounting pronouncements adopted during the six months ended October 29, 2016.

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.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) 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, as of October 29, 2016, the end of the period covered by this Quarterly Report on Form 10-Q.

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of October 29, 2016, the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

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 Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended October 29, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

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,” of our Annual Report on Form 10-K for the fiscal year ended April 30, 2016. 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

On September 24, 2015, we announced that on September 23, 2015 our Board of Directors authorized a share repurchase program (the “Share Repurchase Program”), pursuant to which we may repurchase up to $25 million of our common stock from time to time, in amounts and at prices we deem 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 us to acquire any particular amount of common stock and may be suspended at any time by our Board of Directors. No shares were repurchased in the six months ended October 29, 2016. As of October 29, 2016, approximately $21.2 million remained authorized for future repurchases under this program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of AeroVironment, Inc.
3.2(2)	Third Amended and Restated Bylaws of AeroVironment, Inc.
10.1†	Contract modification P00074 dated September 27, 2016 under the base contract with the US Army Contracting Command — Redstone Arsenal (Missile) dated August 30, 2012.
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.
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 Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Incorporated by reference herein to Exhibit 3.1 to the Company's Quarterly Report on Form 10‑Q filed March 9, 2007 (File No. 001‑33261).

(2) Incorporated by reference herein to Exhibit 3.3 to the Company's Annual Report on Form 10-K filed July 1, 2015 (File No. 001-33261).

† Confidential treatment has been requested for portions of this exhibit.

#The information in Exhibit 32 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act (including this report), unless the Company specifically incorporates the foregoing information into those documents by reference.

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: December 6, 2016

AEROVIRONMENT, INC.

By: /s/ Wahid Nawabi
Wahid Nawabi
President 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)

CERTAIN MATERIAL (INDICATED BY AN ASTERISK [***]) HAS BEEN OMITTED FROM THIS DOCUMENT PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT	**1. Contract ID Code** Firm Fixed Price	**Page** 1 **Of** 19

2. Amendment/Modification No.	**3. Effective Date**	**4. Requisition/Purchase Req No.**	**5. Project No. (If applicable)**
P00074		SEE SCHEDULE	

6. Issued By Code W31P4Q	**7. Administered By (If other than Item 6)** Code S0512A
ARMY CONTRACTING COMMAND-REDSTONE DAVID W. STREET REDSTONE ARSENAL AL 35898-5280 EMAIL: DAVID.W.STREET.CIV@MAIL.MIL	DCMA LOS ANGELES 16111 PLUMMER STREET BUILDING: 10; 2ND FLOOR NORTH HILLS, CA 91343-2036

8. Name And Address Of Contractor (No., Street, City, County, State and Zip Code)		
AEROVIRONMENT, INC. 800 ROYAL OAKS DR STE 210 MONROVIA, CA 91016-3456	☐	**9A. Amendment Of Solicitation No.**
		9B. Dated (See Item 11)
	☒	**10A. Modification Of Contract/Order No.** W31P4Q-12-C-0263
Code 60107 **Facility Code** 3SQS9		**10B. Dated (See Item 13)** 2012AUG30

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.
Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended by one of the following methods: (a) By completing items 8 and 15, and returning ____________ copies of the amendments: (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. Accounting And Appropriation Data (If required)
SEE SECTION G (IF APPLICABLE)

13. THIS ITEM ONLY APPLIES TO MODIFICATIONS OF CONTRACTS/ORDERS
It Modifies The Contract/Order No. As Described In Item 14.

☐	**A. This Change Order is Issued Pursuant To: The Changes Set Forth In Item 14 Are Made In The Contract/Order No. In Item 10A.**
☐	**B. The Above Numbered Contract/Order Is Modified To Reflect The Administrative Changes (such as changes in paying office, appropriation data, etc.) Set Forth In Item 14, Pursuant To The Authority of FAR 43.103(b).**
☐	**C. This Supplemental Agreement Is Entered Into Pursuant To Authority Of:**
☒	**D. Other (Specify type of modification and authority)** H-8 Option and Mutual Agreement

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return _______________ copies to the Issuing Office.

14. Description Of Amendment/Modification (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

SEE SECOND PAGE FOR DESCRIPTION

Except as provided herein, all terms and conditions of the document referenced in item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. Name And Title Of Signer (Type or print)		**16A. Name And Title Of Contracting Officer (Type or print)**	
[***]		CARLA T. TURNER CARLA.T.TURNER.CIV@MAIL.MIL (256)842-1767	
15B. Contractor/Offeror	**15C. Date Signed**	**16B. United States Of America**	**16C. Date Signed**
[***] (Signature of person authorized to sign)	9-27-16	By /SIGNED/ (Signature of Contracting Officer)	27 September 2016

SECTION A - SUPPLEMENTAL INFORMATION

Buyer Name: DAVID W. STREET
Buyer Office Symbol/Telephone Number: CCAM-TM-T/(256)876-4621
Type of Contract 1: Firm Fixed Price Type of
Contract 2: Cost Plus Fixed Fee Kind of Contract:
Service Contracts
Kind of Modification: N
Type of Business: Other Small Business Performing in U.S. Surveillance
Criticality Designator: B
Contract Expiration Date: 2017FEB28

Paying Office: HQ0339
DFAS-COLUMBUS CENTER
DFAS-CO WEST ENTITLEMENT OPERATIONS P.O. BOX
182381
COLUMBUS, OH 43218-2381

*** End of Narrative A0000 ***

A-1 The purpose of this modification P00074, (1) Exercise options in accordance with Special Provision clause entitled H-8 "Options" (2) Incorporate Engineering Change Proposal to MI-P9664(3)De-obligate Funding from the following Subcontract Line Item Numbers (SLINs) 0015AA, 0024AA, 0024AC, 0025AA, 0026AA, 1025AA, 1027AA, and 1029AA (4) Incorporate Request for Deviation (RFD)-AV1002 [***] Inert Training Vehicles (5) Correct administration error on P00059 to extend Option period IV (6) Revise special language provision H-8 "Options" VII and VIII.

A-2 Pursuant to Special Provision Clause H-8 Option IV, the option SLIN(s) listed below are herby exercised at the Firm Fixed Price and/or Cost Plus Fixed Fee amounts shown below.

SLINS	DESCRIPTION	QTY	UNIT PRICE	TOTAL PRICE
1013AB (FFP)	AUR/W Launcher	[***]	$[***]	$[***]
1014AE (FFP)	Inert Train Vehicle	[***]	$[***]	$[***]
1015AC (FFP)	Training Simulator	[***]	$[***]	$[***]
1016AC (FFP)	Fire Control Units	[***]	$[***]	$[***]
1022AE (CPFF)	Program Management	[***](LO)	$[***]	$[***]
1032AB (CPFF)	Lot Verification	[***](LO)	$[***]	$[***]
3005AL (CPFF)	Program Management	[***](LO)	$[***]	$[***]
3005AM (CPFF)	Program Management	[***](LO)	$[***]	$[***]

Total= $22,777,488.65

A-3 De-obligate Funding from the following Subcontract Line Item Numbers SLINs) 0015AA, 0024AA, 0024AC, 0025AA, 0026AA, 1025AA, 1027AA, and 1029AA. the total de-obligated amount for this contract is $[***].

A-4 Section G of the contract is hereby modified to incorporate the exercised amount of $22,777,488.65, the de-obligated amount of $[***]. Total obligated increases by $[***] from $[***] to $[***].

A-5 As a result of this modification, the approved Engineering Change Proposal (ECP) MI-P9664, "Hardware & Software modifications to incorporate/Updates Switchblade ITV's from Analog Digital Link (ADL) to Digital Data Link (DDL)" which provides greater functionality and flexibility at no cost to the Government. ECP MI-P9664 incorporated by this modification may contain documentation and background information prepared by contractor or government persons. Contractual approval of this ECP is limited to the actual technical changes only. Unless otherwise expressly stated in this modification (other than in the ECP), all statements concerning reasons for the change,
need for change or effect on the change are merely the position of the individual author and are not contractually approved. The parties agree that this contract modification establishes the Consideration for the changes effected herin. The parties specifically acknowledge and agree that this modification constitutes full satisfaction of the parties' rights to equitable adjustment, for the performance of
the Changes contained in the ECP herin.

A-6 As a result of this modification, the approved RFD AV-1002 is hereby incorporated. Which has no long term effect on ITV pricing, and thus reduces cost of the unit price for the [***] ITV's from $[***] to $[***] each. These [***] ITV's special configuration deliveries are specifically designed for a special needs test per governments need.
Incorporation of RFD-AV1002 is not to be interpreted as a ratification by the U.S. Army or any Governmental entity, of the integrity of the components covered by this deviation, nor as a contractual or legal waiverby the government relating to any matter involving any future delivery or government acceptance. Part Number is updated from 66024 to 78030.

A-7 As a result of this modification, Section E incorporates CLIN 1014 ITV's. [***] units will be Accepted and Inspected at Origin with a Certificate of Conformance to be signed by Program Office Representative, "Block 22" of RFD-AV 1002. Accelerated/Early deliveries will be accepted at no additional cost to the Government.

A-8 As a result of this modification, Section D incorporates SLIN 1013AB. [***] All-Up-Rounds shall apply Unique Identification Marking UID Instructions for each [***] All-Up-Round (Part Number 62883) Delivery under CLIN 1013AB. The contractor shall attach one (1)UID Number via a tag and lanyard to the outer dry bag. Furthermore, the Contractor shall attach the identical UID number via an adhesive label to the tactical launcher. No other UID Markings is required for the contract.

A-9 Early deliveries will be accepted for SLIN's 1013AB, 1015AC, and 1016AC at no additional cost to the Government. A-10 All

terms and conditions remain unchanged and in full force and effect.

*** END OF NARRATIVE A0075 ***

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	SECTION B - SUPPLIES OR SERVICES AND PRICES/COSTS				
0015	Failure Analysis				
0015AA	OPTION I - FAILURE ANALYSIS	[***]	LO	Estimated Cost	$ [***]
				Fixed Fee	$ [***]
				Not to Exceed (Funding)	$ [***]
	SERVICE REQUESTED: Failure Analysis CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW3LJN2251PRON AMD: 01 ACRN: BF PSC: AC24				
	Inspection and Acceptance INSPECTION: Destination ACCEPTANCE: Destination				
	Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***]				
	DLVR SCH REL CD / QUANTITY / PERF COMPL DATE 001 [***] [***] $[***]				
	CONUS Training				
0024					
	OPTION II - TRAINING SUPPORT				
0024AA		[***]	LO	Estimated Cost	$ [***]
				Fixed Fee	$ [***]
				Not to Exceed (Funding)	$ [***]
	SERVICE REQUESTED: CONUS Training CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW3LJN2451 PRON AMD: 01 ACRN: BH PSC: AC24				
	Inspection and Acceptance INSPECTION: Destination ACCEPTANCE: Destination				
	Deliveries or Performance				

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	Period of Performance Start Date: 30-SEP-2016 End Date: [***] DLVR SCH REL CD / QUANTITY / PERF COMPL DATE 001 [***] [***] $[***]				
0024AC	OPTION II - REFURBISHMENT SERVICE REQUESTED: Refurbishment CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW3LJN2551PRON AMD: 01 ACRN: BJ PSC: AC24 Inspection and Acceptance INSPECTION: Destination ACCEPTANCE: Destination Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***] DLVR SCH REL CD / QUANTITY / PERF COMPL DATE 001 [***] [***] $[***]	[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]
0025	Flight Test Support				
0025AA	OPTION II - FLIGHT TEST SUPPORT SERVICE REQUESTED: Flight Test Support CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW3LJN2651PRON AMD: 01 ACRN: BK PSC: AC24 Inspection and Acceptance	[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	INSPECTION: Destination ACCEPTANCE: Destination Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***] DLVR SCH REL CD / QUANTITY / PERF COMPL DATE 001[***] [***] $[***]				
0026	Failure Analysis				
0026AA	OPTION II - FAILURE ANALYSIS	[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]
	SERVICE REQUESTED: Failure Analysis CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW3LJN2751PRON AMD: 01 ACRN: BL PSC: AC24 Inspection and Acceptance INSPECTION: Destination ACCEPTANCE: Destination Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***] DLVR SCH REL CD / QUANTITY / PERF COMPL DATE 001[***] [***] $[***]				
1013	All Up Rounds FQ NSN: 9999-99-999-9999				
1013AB	ALL UP ROUND WITH LAUNCHER COMMODITY NAME: All Up Rounds FQ	[***]	EA	$ [***]	$ [***]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	CLIN CONTRACT TYPE: Firm Fixed Price PRON: CW5LJP0151 PRON AMD: 05 ACRN: EZ PSC: 1095 (End of narrative B001) PART NUMBER: 62883-DDL (End of narrative B002)				

Packaging and Marking

Inspection and Acceptance
INSPECTION: Origin ACCEPTANCE: Origin

Deliveries or Performance

DOC REL CD	MILSTRIP	SUPPL ADDR	SIG CD	MARK FOR	TP CD
001	W80FLT6256E202	FY9125	J		2

DEL REL CD	QUANTITY	DEL DATE
001	[***]	[***]
002	[***]	[***]
003	[***]	[***]
004	[***]	[***]
005	[***]	[***]

FOB POINT: Origin

SHIP TO:
(FY9125) FY9125 436 APS TRTC
BLDG 550 CP 302 677 4390
550 ATLANTIC ST
DOVER AFB,DE,19902-5061

DOC REL CD	MILSTRIP	SUPPL ADDR	SIG CD	MARK FOR	TP CD
002	W80FLT6256E213	W56GPY	J		2

DEL REL CD	QUANTITY	DEL DATE
001	[***]	[***]
002	[***]	[***]
003	[***]	[***]
004	[***]	[***]
005	[***]	[***]

FOB POINT: Origin

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	SHIP TO: (W56GPY) XR W30M AMMUBITION ACCT BRANCH USA DUGWAY PROVING GD W DESERT TEST 3034 CARR FACILITY DAVERON ROAD DUGWAY,UT,84022-5000				
1014	Inert Training Vehic NSN: 9999-99-999-9999				
1014AE	INERT TRAINING VEHICLE	[***]	EA	$ [***]	$ [***]
	COMMODITY NAME: Inert Training Vehic CLIN CONTRACT TYPE: Firm Fixed Price PRON: CW5LJP0251 PRON AMD: 05 ACRN: EV PSC: 1095 (End of narrative B001) PART NUMBER: 66024 (End of narrative B002)				
	Packaging and Marking				
	Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin				
	Deliveries or Performance DOC SUPPL REL CD MILSTRIP ADDR SIG CD MARK FOR TP CD 001 W80FLT6256E203 W5J9KB J 2 DEL REL CD QUANTITY DEL DATE 001 [***] [***]				
	FOB POINT: Origin				
	SHIP TO: (W5J9KB) SR W6WQ USALRCTR REDSTONE A AWCF SARSS1 COTTONWOOD ROAD BLDG 8022 REDSTONE ARSENAL,AL,35898-5000				
	Training Simulators				
1015					

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	NSN: 9999-99-999-9999				
1015AC	TRAINING SIMULATORS	[***]	EA	$ [***]	$ [***]
	COMMODITY NAME: Training Simulators CLIN CONTRACT TYPE: Firm Fixed Price PRON: CW5LJP0451 PRON AMD: 04 ACRN: EY PSC: 1095				
	PART NUMBER: 68129-DDL				
	(End of narrative B001)				
	Packaging and Marking				
	Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin				
	Deliveries or Performance				
	DOC REL CD / MILSTRIP / SUPPL ADDR / SIG CD / MARK FOR / TP CD 001 W80FLT6256E203 W5J9KB J 2 DEL REL CD / QUANTITY / DEL DATE				
	DOC REL CD / MILSTRIP / SUPPL ADDR / SIG CD / MARK FOR / TP CD 001 W80FLT6256E205 W5J9KB J 2 DEL REL CD / QUANTITY / DEL DATE 001 [***] [***]				
	FOB POINT: Origin				
1016	SHIP TO: (W5J9KB) SR W6WQ USALRCTR REDSTONE A AWCF SARSS1 COTTONWOOD ROAD BLDG 8022 REDSTONE ARSENAL,AL,35898-5000				
1016AC	Fire Control Units NSN: 9999-99-999-9999	[***]	EA	$ [***]	$ [***]
	FIRE CONTROL UNITS				
	COMMODITY NAME: Fire Control Units CLIN CONTRACT TYPE: Firm Fixed Price PRON: CW5LJP0351 PRON AMD: 05 ACRN: EX PSC: 1095				

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	(End of narrative B001)				
	PART NUMBER: 68125-DDLM1 and 68125-DDLM2 (End of narrative B002)				
	Packaging and Marking				
	Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin				
	Deliveries or Performance				
	DOC SUPPL REL CD MILSTRIP ADDR SIG CD MARK FOR TP CD 001 W80FLT6256E204 W5J9KBJ 2 DEL REL CD QUANTITY DEL DATE 001 [***] [***]				
	FOB POINT: Origin				
	SHIP TO: (W5J9KB) SR W6WQ USALRCTR REDSTONE A AWCF SARSS1 COTTONWOOD ROAD BLDG 8022 REDSTONE ARSENAL,AL,35898-5000				
	PM Support				
1022	PROGRAM MANAGEMENT				
1022AE	SERVICE REQUESTED: PM Support CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW5LJP0651 PRON AMD: 02 ACRN: EW PSC: AC24	[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]
	(End of narrative B001)				
	Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin				
	Deliveries or Performance				

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	Period of Performance Start Date: 30-SEP-2016 End Date: [***] DLVR SCH PERF COMPL REL CD QUANTITY DATE 001 [***] [***] $[***]				
1025	HARDWARE SHIPPING				
1025AA	HARDWARE SHIPPING OPTION III SERVICE REQUESTED: HARDWARE SHIPPING CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW3LJN1351 PRON AMD: 02 ACRN: CA PSC: 1095 Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***] DLVR SCH PERF COMPL REL CD QUANTITY DATE 001 [***] [***] $[***]	[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]
1027	Lot Verification				
1027AA	LOT VERIFICATION TESTING OPTION III SERVICE REQUESTED: Lot Verification CLIN CONTRACT TYPE: Cost Plus Fixed Fee	[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]

Name of Offeror or Contractor: AEROVIRONMENT, INC.

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
	PRON: CW3LJN1551 PRON AMD: 02 ACRN: CC PSC: AC24 Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***] DLVR SCH PERF COMPL REL CD QUANTITY DATE 001 [***] [***] $[***]				
1029	Rework				
1029AA	Q. A. LOT VERIFICATION REWORK OPTION III	[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]
	SERVICE REQUESTED: Rework CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW3LJN1751 PRON AMD: 04 ACRN: CE PSC: AC24 Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***] DLVR SCH PERF COMPL REL CD QUANTITY DATE 001 [***] [***] $[***]				
1032	LOT Verification				

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1032AB	LOT VERIFICATION	[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]
	SERVICE REQUESTED: LOT Verification CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW5LJP0551PRON AMD: 03 ACRN: FA PSC: AC24				
	Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin				
	Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***]				
	DLVR SCH PERF COMPL REL CD QUANTITY DATE 001 [***] [***] $[***]				
	PM Support				
3005	PROGRAM MANAGEMENT				
3005AL		[***]	LO	Estimated Cost Fixed Fee Not to Exceed (Funding)	$ [***] $ [***] $ [***]
	SERVICE REQUESTED: PM Support CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW5LJP2351PRON AMD: 01 ACRN: FB PSC: AC24				
	Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin				
	Deliveries or Performance Period of Performance Start Date: 30-SEP-2019 End Date: [***]				
	DLVR SCH PERF COMPL REL CD QUANTITY DATE 001 [***] [***] $[***]				

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
3005AM	PROGRAM MANAGEMENT	[***]	LO	Estimated Cost	$ [***]
				Fixed Fee	$ [***]
				Not to Exceed (Funding)	$ [***]
	SERVICE REQUESTED: PM SUPPORT CLIN CONTRACT TYPE: Cost Plus Fixed Fee PRON: CW5LJP2451 PRON AMD: 01 ACRN: FC PSC: AC24				
	Inspection and Acceptance INSPECTION: Origin ACCEPTANCE: Origin				
	Deliveries or Performance Period of Performance Start Date: 30-SEP-2016 End Date: [***]				
	DLVR SCH PERF COMPL REL CD QUANTITY DATE 001 [***] [***] $[***]				

SECTION D - PACKAGING AND MARKING

D-2 Unique Identification Marking (UID) Instructions.

The contractor shall apply UID Markings for the All-Up-Round (Part Number 62883) Delivered under CLIN(s) 0001AA, 0001AB, 0006AA, 0017AA, 1001AA, and 1003AA (oconus Deliveries). The contractor shall apply UID Markings for each 325 All-Up-Round (Part Number 62883). Delivered under CLIN 1013AB. The contractor shall attach one (1)UID Number via a tag and lanyard to the outer dry bag. Furthermore, the
Contractor shall attach the identical UID number via an adhesive label to the tactical launcher. No other UID Markings is required for the contract.

*** END OF NARRATIVE D0001 ***

SECTION E - INSPECTION AND ACCEPTANCE

E-1 Data. Inspection and Acceptance shall be at Origin with Certificate of Conformance to be signed by Program office Representative in accordance with Block 22 in Request for Deviation -AV1002.

*** END OF NARRATIVE E0001 ***

SECTION G - CONTRACT ADMINISTRATION DATA

LINE ITEM	PRON/ AMS CD/ MIPR/ GFEBS ATA	OBLG STAT	JO NO/ ACCT ASSIGN	ACRN	PRIOR AMOUNT	INCREASE/ DECREASE	CUMULATIVE AMOUNT
0015AA	CW3LJN2251	1	A.0000006.22	BF	$[***]	$[***]	$[***]
0024AA	CW3LJN2451	1	A.0000006.22	BH	$[***]	$[***]	$[***]
0024AC	CW3LJN2551	1	A.0000006.22	BJ	$[***]	$ [***]	$[***]
0025AA	CW3LJN2651	1	A.0000006.22	BK	$[***]	$[***]	$[***]
0026AA	CW3LJN2751	1	A.0000006.22	BL	$[***]	$[***]	$[***]
1013AB	CW5LJP0151	2	A.0000006.38	EZ	$[***]	$[***]	$[***]
1014AE	CW5LJP0251	2	A.0000006.38	EV	$[***]	$[***]	$[***]
1015AC	CW5LJP0451	2	A.0000006.38	EY	$[***]	$[***]	$[***]
1016AC	CW5LJP0351	2	A.0000006.38	EX	$[***]	$[***]	$[***]
1022AE	CW5LJP0651	2	A.0000006.38	EW	$[***]	$[***]	$[***]
1025AA	CW3LJN1351	2	A.0000006.22	CA	$[***]	$[***]	$[***]
1027AA	CW3LJN1551	2	A.0000006.22	CC	$[***]	$[***]	$[***]
1029AA	CW3LJN1751	2	A.0000006.22	CE	$[***]	$[***]	$[***]
1032AB	CW5LJP0551	2	A.0000006.38	FA	$[***]	$[***]	$[***]
3005AL	CW5LJP2351	2	A.0000006.38	FB	$[***]	$[***]	$[***]
3005AM	CW5LJP2451	2	A.0000006.38	FC	$[***]	$[***]	$[***]
					NET CHANGE	$[***]	

ACRN	ACCOUNTING CLASSIFICATION			INCREASE/ DECREASE
BF	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618378 A.0000006.22	021001	$[***]
BH	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618380 A.0000006.22	021001	$[***]
BJ	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618382 A.0000006.22	021001	$[***]
BK	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618383 A.0000006.22	021001	$[***]
BL	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618386 A.0000006.22	021001	$[***]
CA	097 201320130390 0111 A5XNO 17808101VCHM	310M L034617987 A.0000006.22	021001	$[***]

[***] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

ACRN	ACCOUNTING CLASSIFICATION				INCREASE/ DECREASE
CC	097 201320130390	0111 A5XNO 17808101VCHM	310M L034617990 A.0000006.22	021001	$[***]
CE	097 201320130390	0111 A5XNO 17808101VCHM	310M L034618209 A.0000006.22	021001	$[***]
EV	021 201520172032	A5XFI C88022AFPLB	310M L046579903 A.0000006.38	021001	$[***]
EW	021 201520172032	A5XFI C88022AFPLB	310M L046579908 A.0000006.38	021001	$[***]
EX	021 201520172032	A5XFI C88022AFPLB	310M L046579904 A.0000006.38	021001	$[***]
EY	021 201520172032	A5XFI C88022AFPLB	310M L046579906 A.0000006.38	021001	$[***]
EZ	021 201520172032	A5XFI C88022AFPLB	310M L046579902 A.0000006.38	021001	$[***]
FA	021 201520172032	A5XFI C88022AFPLB	310M L046579907 A.0000006.38	021001	$[***]
FB	021 201520172032	A5XFI C88022AFPLB	310M L046788411 A.0000006.38	021001	$[***]
FC	021 201520172032	A5XFI C88022AFPLB	310M L046788412 A.0000006.38	021001	$[***]
				NET CHANGE	$[***]

	PRIOR AMOUNT OF AWARD	INCREASE/DECREASE	CUMULATIVE AMOUNT	OBLIG AMT
NET CHANGE FOR AWARD:	$ [***]	$ [***]	$ [***]	

LINE ITEM	ACRN	EDI/SFIS ACCOUNTING CLASSIFICATION		
0015AA	BF	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618378 A.0000006.22	021001
0024AA	BH	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618380 A.0000006.22	021001
0024AC	BJ	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618382 A.0000006.22	021001
0025AA	BK	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618383 A.0000006.22	021001
0026AA	BL	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618386 A.0000006.22	021001
1013AB	EZ	021 201520172032 A5XFI C88022AFPLB	310M L046579902 A.0000006.38	021001
1014AE	EV	021 201520172032 A5XFI C88022AFPLB	310M L046579903 A.0000006.38	021001
1015AC	EY	021 201520172032 A5XFI C88022AFPLB	310M L046579906 A.0000006.38	021001
1016AC	EX	021 201520172032 A5XFI C88022AFPLB	310M L046579904 A.0000006.38	021001
1022AE	EW	021 201520172032 A5XFI C88022AFPLB	310M L046579908 A.0000006.38	021001
1025AA	CA	097 201320130390 0111 A5XNO 17808101VCHM	310M L034617987 A.0000006.22	021001
1027AA	CC	097 201320130390 0111 A5XNO 17808101VCHM	310M L034617990 A.0000006.22	021001
1029AA	CE	097 201320130390 0111 A5XNO 17808101VCHM	310M L034618209 A.0000006.22	021001
1032AB	FA	021 201520172032 A5XFI C88022AFPLB	310M L046579907 A.0000006.38	021001
3005AL	FB	021 201520172032 A5XFI C88022AFPLB	310M L046788411 A.0000006.38	021001
3005AM	FC	021 201520172032 A5XFI C88022AFPLB	310M L046788412 A.0000006.38	021001

[***] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

SECTION H - SPECIAL CONTRACT REQUIREMENTS H - 8 .
OPTIONS

The Government reserves the right to unilaterally exercise any or all options specified in Section B within the timeframes specified below:

CLIN 0004 - Contract Award through 31 December 2012
Option I (CLINS 0005 through 0015) - Date of Definitization through 30 September 2013
Option II(CLINS 0016 through 0025) - 01 October 2013 through 30 September 2014
Option III(CLINS 1002 through 1008, 1010 through 1012 and 1024 through 1029) - Date of Definitization through 30 September 2013
Option IV(CLINS 1013 through 1022 and 1030 through 1034) - Date of Definitization through 30 September 2015
Option V(CLINS 2001-2003) -Date of Definitization through 30 September 2014
Option VI(CLINS 3001-3005) -Prior to 30 September 2016
Option VII(CLINS 1018, 1031, 3005, 3001, 3002, 3004) 28 July 2016 through 30 September 2016
Option VIII(CLINS 1018, 1031, 3005, 3001, 3002) 01 October 2016 through 30 September 2017

The Contracting Officer may, by written notice, exercise the above options at any time, one or more times in any amount, as long as the cumulative total number of units identified in the schedule is not exceeded. Any unused units are available for use in any subsequent option period. The price paid for each unit awarded/exercised will be based upon the price applicable at the time of award/exercise. The option exercise period may be extended by mutual agreement of the parties.

*** END OF NARRATIVE H0013 ***

Exhibit 31.1

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

I, Wahid Nawabi, 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: December 6, 2016

/s/ Wahid Nawabi
Wahid Nawabi
President and Chief Executive Officer

Exhibit 31.2

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: December 6, 2016

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

Exhibit 32

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 October 29, 2016 (the "Periodic Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) 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/ Wahid Nawabi
Wahid Nawabi
President and Chief Executive Officer

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

Dated: December 6, 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.