
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 26, 2019

OR

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

For the transition period from to

Commission File Number: 001-33261

AEROVIRONMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

93065
(Zip Code)

(805) 520-8350
(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, every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 26, 2019, the number of shares outstanding of the registrant's common stock, \$0.0001 par value, was 23,932,381.

AeroVironment, Inc.

Table of Contents

Item 1.	Financial Statements:	
	Consolidated Balance Sheets as of January 26, 2019 (Unaudited) and April 30, 2018	3
	Consolidated Statements of Operations for the three and nine months ended January 26, 2019 (Unaudited) and January 27, 2018 (Unaudited)	4
	Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended January 26, 2019 (Unaudited) and January 27, 2018 (Unaudited)	5
	Consolidated Statements of Cash Flows for the nine months ended January 26, 2019 (Unaudited) and January 27, 2018 (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	7
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	35
 <u>PART II. OTHER INFORMATION</u>		
Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3.	Defaults Upon Senior Securities	38
Item 4.	Mine Safety Disclosures	38
Item 5.	Other Information	38
Item 6.	Exhibits	39
Signatures		40

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	<u>January 26, 2019</u>	<u>April 30, 2018</u>
	<u>(Unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 149,369	\$ 143,517
Short-term investments	144,815	113,649
Accounts receivable, net of allowance for doubtful accounts of \$1,046 at January 26, 2019 and \$1,080 at April 30, 2018	34,064	56,813
Unbilled receivables and retentions (inclusive of related party unbilled receivables of \$13,638 at January 26, 2019 and \$3,145 at April 30, 2018)	51,632	16,872
Inventories, net	50,379	37,425
Prepaid expenses and other current assets	6,616	5,103
Current assets of discontinued operations	—	25,668
Total current assets	436,875	399,047
Long-term investments	27,954	40,656
Property and equipment, net	20,542	19,219
Deferred income taxes	12,708	11,494
Other assets	884	3,002
Total assets	<u>\$ 498,963</u>	<u>\$ 473,418</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 11,629	\$ 21,340
Wages and related accruals	14,363	16,851
Income taxes payable	4,857	4,085
Customer advances	2,875	3,564
Other current liabilities	8,062	6,954
Current liabilities of discontinued operations	—	9,294
Total current liabilities	41,786	62,088
Deferred rent	1,352	1,536
Other non-current liabilities	160	622
Deferred tax liability	67	67
Liability for uncertain tax positions	49	49
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value:		
Authorized shares—10,000,000; none issued or outstanding at January 26, 2019 and April 30, 2018	—	—
Common stock, \$0.0001 par value:		
Authorized shares—100,000,000		
Issued and outstanding shares—23,932,460 shares at January 26, 2019 and 23,908,736 shares at April 30, 2018	2	2
Additional paid-in capital	174,891	170,139
Accumulated other comprehensive income (loss)	4	(21)
Retained earnings	280,669	238,913
Total AeroVironment stockholders' equity	455,566	409,033
Noncontrolling interest	(17)	23
Total equity	455,549	409,056
Total liabilities and stockholders' equity	<u>\$ 498,963</u>	<u>\$ 473,418</u>

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Revenue:				
Product sales	\$ 50,024	\$ 39,447	\$ 152,393	\$ 106,647
Contract services (inclusive of related party revenue of: \$13,586 and \$5,420 for the three months ended January 26, 2019 and January 27, 2018, respectively; and \$37,981 and \$15,042 for the nine months ended January 26, 2019 and January 27, 2018, respectively)	25,298	15,186	73,951	48,148
	75,322	54,633	226,344	154,795
Cost of sales:				
Product sales	26,780	24,870	83,158	66,038
Contract services	18,150	11,513	51,806	31,666
	44,930	36,383	134,964	97,704
Gross margin:				
Product sales	23,244	14,577	69,235	40,609
Contract services	7,148	3,673	22,145	16,482
	30,392	18,250	91,380	57,091
Selling, general and administrative	14,464	11,484	40,066	35,539
Research and development	8,087	6,607	22,631	18,993
Income from continuing operations	7,841	159	28,683	2,559
Other income:				
Interest income, net	1,272	545	3,246	1,489
Other income (expense), net	962	(108)	10,641	(159)
Income from continuing operations before income taxes	10,075	596	42,570	3,889
Provision for income taxes	946	834	4,724	971
Equity method investment activity, net of tax	(717)	(418)	(2,071)	(418)
Net income (loss) from continuing operations	8,412	(656)	35,775	2,500
Discontinued operations:				
Gain on sale of business, net of tax expense of \$2,463 for the nine months ended January 26, 2019	—	—	8,452	—
Loss from discontinued operations, net of tax	(62)	(129)	(2,511)	(1,650)
Net (loss) income from discontinued operations	(62)	(129)	5,941	(1,650)
Net income (loss)	8,350	(785)	41,716	850
Net loss attributable to noncontrolling interest	19	9	40	238
Net income (loss) attributable to AeroVironment	\$ 8,369	\$ (776)	\$ 41,756	\$ 1,088
Net income (loss) per share attributable to AeroVironment—Basic				
Continuing operations	\$ 0.35	\$ (0.02)	\$ 1.52	\$ 0.12
Discontinued operations	—	(0.01)	0.25	(0.07)
Net income (loss) per share attributable to AeroVironment—Basic	\$ 0.35	\$ (0.03)	\$ 1.77	\$ 0.05
Net income (loss) per share attributable to AeroVironment—Diluted				
Continuing operations	\$ 0.35	\$ (0.02)	\$ 1.49	\$ 0.12
Discontinued operations	—	(0.01)	0.25	(0.07)
Net income (loss) per share attributable to AeroVironment—Diluted	\$ 0.35	\$ (0.03)	\$ 1.74	\$ 0.05
Weighted-average shares outstanding:				
Basic	23,687,672	23,515,622	23,643,866	23,443,673
Diluted	24,081,819	23,515,622	24,064,008	23,774,946

See accompanying notes to consolidated financial statements (unaudited).

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>January 26, 2019</u>	<u>January 27, 2018</u>	<u>January 26, 2019</u>	<u>January 27, 2018</u>
Net income (loss)	\$ 8,350	\$ (785)	\$ 41,716	\$ 850
Other comprehensive income:				
Change in foreign currency translation adjustments	(1)	62	(32)	62
Unrealized gain on investments, net of deferred tax expense of: \$0 and \$10 for the three months ended January 26, 2019 and January 27, 2018, respectively; and \$51 and \$29 for the nine months ended January 26, 2019 and January 27, 2018, respectively	—	13	57	42
Total comprehensive income (loss)	8,349	\$ (710)	41,741	954
Net loss attributable to noncontrolling interest	19	9	40	238
Comprehensive income (loss) attributable to AeroVironment	<u>\$ 8,368</u>	<u>\$ (701)</u>	<u>\$ 41,781</u>	<u>\$ 1,192</u>

See accompanying notes to consolidated financial statements (unaudited).

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

	Nine Months Ended	
	January 26, 2019	January 27, 2018
Operating activities		
Net income	\$ 41,716	\$ 850
Gain on sale of business, net of tax	(8,452)	—
Loss from discontinued operations, net of tax	2,511	1,650
Net income from continuing operations	35,775	2,500
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	5,530	4,277
Loss from equity method investment	2,071	418
Impairment of long-lived assets	—	255
Provision for doubtful accounts	(33)	940
Impairment of intangible assets and goodwill	—	1,021
Gains on foreign currency transactions	(10)	(36)
Deferred income taxes	(1,214)	174
Stock-based compensation	5,599	3,702
Loss on disposition of property and equipment	51	15
Amortization of held-to-maturity investments	(941)	1,250
Changes in operating assets and liabilities:		
Accounts receivable	22,817	48,871
Unbilled receivables and retentions	(34,760)	(12,068)
Inventories	(12,954)	(15,308)
Income tax receivable	—	(720)
Prepaid expenses and other assets	(1,791)	417
Accounts payable	(10,645)	(4,451)
Other liabilities	(2,598)	575
Net cash provided by operating activities of continuing operations	6,897	31,832
Investing activities		
Acquisition of property and equipment	(6,806)	(7,713)
Equity method investments	—	(1,860)
Proceeds from sale of business	31,994	—
Redemptions of held-to-maturity investments	191,455	163,813
Purchases of held-to-maturity investments	(211,120)	(151,740)
Redemptions of available-for-sale investments	2,250	450
Net cash provided by investing activities from continuing operations	7,773	2,950
Financing activities		
Principal payments of capital lease obligations	(154)	(231)
Tax withholding payment related to net settlement of equity awards	(1,033)	(389)
Exercise of stock options	71	2,691
Net cash (used in) provided by financing activities from continuing operations	(1,116)	2,071
Discontinued operations		
Operating activities of discontinued operations	(7,250)	(3,716)
Investing activities of discontinued operations	(452)	(737)
Financing activities of discontinued operations	—	—
Net cash used in discontinued operations	(7,702)	(4,453)
Net increase in cash and cash equivalents	5,852	32,400
Cash and cash equivalents at beginning of period	143,517	79,904
Cash and cash equivalents at end of period	\$ 149,369	\$ 112,304
Supplemental disclosures of cash flow information		
Cash paid, net during the period for:		
Income taxes	\$ 6,777	\$ 1,812
Non-cash activities		
Unrealized gain on investments, net of deferred tax expense of \$51 and \$29, respectively	\$ 57	\$ 42
Reclassification from share-based liability compensation to equity	\$ —	\$ 384
Change in foreign currency translation adjustments	\$ (32)	\$ 62
Acquisitions of property and equipment included in accounts payable	\$ 58	\$ 332

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”) for various industries and governmental agencies.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements have been included. The results of operations for the three and nine months ended January 26, 2019 are not necessarily indicative of the results for the full year ending April 30, 2019. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended April 30, 2018, 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.

The accompanying consolidated financial statements include the balance sheet and results of operations of Altoy Savunma Sanayi ve Havacilik Anonim Sirketi (“Altoy”), in which the Company increased its ownership to a controlling interest of 85% during the fourth quarter of the fiscal year ended April 30, 2017. Prior to the increase in ownership, the Company’s investment in Altoy was accounted for under the equity method.

In December 2017, the Company and SoftBank Corp. (“SoftBank”) formed a joint venture, HAPSMobile, Inc. (“HAPSMobile”). As the Company has the ability to exercise significant influence over the operating and financial policies of HAPSMobile, the Company’s investment has been accounted for as an equity method investment. The Company has presented its proportion of HAPSMobile’s net loss in “Equity method investment activity, net of tax” in the consolidated statements of operations. The carrying value of the investment in HAPSMobile was recorded in “Other assets.” Refer to Note 6—Equity Method Investments for further details.

On June 29, 2018, the Company completed the sale of substantially all of the assets and related liabilities of its efficient energy systems business segment (“the EES Business”) to Webasto Charging Systems, Inc. (“Webasto”) pursuant to an Asset Purchase Agreement (the “Purchase Agreement”) between Webasto and the Company. The Company determined that the EES Business met the criteria for classification as an asset held for sale at April 30, 2018 and represents a strategic shift in the Company’s operations. Therefore, the assets and liabilities and the results of operations of the EES Business are reported as discontinued operations for all periods presented. Refer to Note 2—Discontinued Operations for further details.

Recently Adopted 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

[Table of Contents](#)

payments in the statement of cash flows. The Company's adoption of ASU No. 2017-01 effective May 1, 2018 did not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations—Clarifying the definition of a business* (Topic 805). This ASU clarifies the definition of a business with the objective of providing a more robust framework to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company's adoption of ASU No. 2017-01 effective May 1, 2018 did not have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation* (Topic 718). This ASU reduces the diversity in practice and cost and complexity when applying the guidance in Topic 718 to a change in terms or conditions of a share-based payment award. The Company's adoption of ASU No. 2017-09 effective May 1, 2018 did not have a material impact on its consolidated financial statements.

In the first quarter of its fiscal 2019, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the full retrospective method. Topic 606 requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services.

Revenue for small UAS product contracts with both the U.S. government and foreign governments under the new standard will be recognized at the point in time when the transfer of control passes to the customer, which is generally when title and risk of loss transfer. Revenue for Tactical Missile Systems ("TMS") contracts will now be recognized under the new standard over time as costs are incurred. Under previous U.S. GAAP, revenue was generally recognized when deliveries of the related TMS products were made. The new standard accelerates the timing of when the revenue is recognized; however, it does not change the total amount of revenue recognized on these contracts. The new standard does not affect revenue recognition for the Company's Customer-Funded Research and Development ("R&D") contracts. The Company continues to recognize revenue for these contracts over time as costs are incurred. The adoption of Topic 606 resulted in a cumulative adjustment to decrease retained earnings by \$1,084,000 at May 1, 2018 relating to both the Company's continuing and discontinued operations. For the Company's continuing operations, the adoption of Topic 606 resulted in a cumulative adjustment to increase retained earnings by \$1,063,000 at May 1, 2018.

The Company applied the standard's practical expedient that permits the omission of prior-period information about the Company's remaining performance obligations, the practical expedient that permits the Company to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset the entity otherwise would have recognized is one year or less, and the practical expedient that permits the Company to not retrospectively restate contracts which were modified prior to the Company's initial date of adoption, or May 1, 2016. Instead the Company reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price. No other practical expedients were applied.

Revenue Recognition

The Company's revenue is generated pursuant to written contractual arrangements to design, develop, manufacture and/or modify complex products, and to provide related engineering, technical and other services according to the specifications of the customers. These contracts may be firm fixed price ("FFP"), cost plus fixed fee ("CPFF"), or time and materials ("T&M"). The Company considers all such contracts to be within the scope of ASC Topic 606.

Performance Obligations

A performance obligation is a promise in a contract to transfer distinct goods or services to a customer, and it is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized when each performance obligation under the terms of a contract is satisfied. Revenue is measured at the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each

[Table of Contents](#)

performance obligation using its observable standalone selling price for products and services. When the standalone selling price is not directly observable, the Company uses its best estimate of the standalone selling price of each distinct good or service in the contract using the cost plus margin approach. This approach estimates the Company's expected costs of satisfying the performance obligation and then adds an appropriate margin for that distinct good or service.

Contract modifications are routine in the performance of the Company's contracts. In most instances, contract modifications are for additional goods and/or services that are distinct and, therefore, accounted for as new contracts.

The Company's performance obligations are satisfied over time or at a point in time. Performance obligations are satisfied over time if the customer receives the benefits as the Company performs, if the customer controls the asset as it is being developed or produced, or if the product being produced for the customer has no alternative use and the Company has a contractual right to payment for the Company's costs incurred to date plus a reasonable margin. The contractual right to payment is generally supported by termination for convenience clauses that allow the customer to unilaterally terminate the contract for convenience, pay the Company for costs incurred plus a reasonable profit, and take control of any work in process. Revenue for TMS product deliveries and Customer-Funded R&D contracts is recognized over time as costs are incurred. Contract services revenue is composed of revenue recognized on contracts for the provision of services, including repairs and maintenance, training, engineering design, development and prototyping activities, and technical support services. Contract services revenue is recognized over time as services are rendered. Typically, revenue is recognized over time using an input measure (e.g., costs incurred to date relative to total estimated costs at completion) to measure progress. Training services are recognized over time using an output method based on days of training completed.

For performance obligations satisfied over time, revenue is generally recognized using costs incurred to date relative to total estimated costs at completion to measure progress. Incurred costs represent work performed, which correspond with, and thereby best depict, transfer of control to the customer. Contract costs include labor, materials, subcontractors' costs, other direct costs, and indirect costs applicable on government and commercial contracts.

For performance obligations which are not satisfied over time per the aforementioned criteria above, revenue is recognized at the point in time in which each performance obligation is fully satisfied. The Company's small UAS product sales revenue is composed of revenue recognized on contracts for the delivery of small UAS systems and spare parts. Revenue is recognized at the point in time when control transfers to the customer, which generally occurs when title and risk of loss have passed to the customer.

On January 26, 2019, the Company had approximately \$132,515,000 of remaining performance obligations under fully funded contracts with its customers, which the Company also refers to as funded backlog. The Company currently expects to recognize approximately 56% of the remaining performance obligations as revenue in fiscal 2019, an additional 33% in fiscal 2020, and the balance thereafter.

The Company collects sales, value add, and other taxes concurrent with revenue producing activities, which are excluded from revenue when they are both imposed on a specific transaction and collected from a customer.

Contract Estimates

Accounting for contracts and programs primarily with a duration of less than six months involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, the Company estimates the total expected costs to complete the contract and recognizes revenue based on the percentage of costs incurred at period end. Typically, revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying the Company's performance obligations. Incurred costs represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, materials, subcontractors' costs, other direct costs, and indirect costs applicable on government and commercial contracts.

Contract estimates are based on various assumptions to project the outcome of future events that may span several years. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and

availability of materials, the performance of subcontractors, and the availability and timing of funding from the customer.

The nature of the Company's contracts gives rise to several types of variable consideration, including penalty fees and incentive awards generally for late delivery and early delivery, respectively. The Company generally estimates such variable consideration as the most likely amount. In addition, the Company includes the estimated variable consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the related uncertainty is resolved. These estimates are based on historical award experience, anticipated performance and the Company's best judgment at the time. Because of the certainty in estimating these amounts, they are included in the transaction price of the Company's contracts and the associated remaining performance obligations.

As a significant change in one or more of these estimates could affect the profitability of the Company's contracts, the Company regularly reviews and updates its contract-related estimates. Changes in cumulative revenue estimates, due to changes in the estimated transaction price or cost estimates, are recorded using a cumulative catch-up adjustment in the period identified for contracts with performance obligations recognized over time. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the total loss in the quarter it is identified.

The impact of adjustments in contract estimates on the Company's operating earnings can be reflected in either operating costs and expenses or revenue. The aggregate impact of adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was not significant for the nine month period ended January 26, 2019 or the three and nine month periods ended January 27, 2018. No adjustment on any one contract was material to the Company's unaudited consolidated financial statements for the nine month period ended January 26, 2019 or the three and nine month periods ended and January 27, 2018. The aggregate impact of adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was approximately \$1,705,000 for the three months ended January 26, 2019. For the three months ended January 26, 2019, the Company revised its estimates of the total expected costs to complete a TMS contract due to ongoing test and evaluation resulting from some systems not passing the customer's final lot acceptance tests which the Company anticipates to be resolved in a future period. The aggregate impact of these adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was approximately \$1,519,000.

Revenue by Category

Revenue from products and services during the nine months ended January 26, 2019 consisted of revenue derived from 250 active contracts. The following tables present the Company's revenue disaggregated by major product line, contract type, customer category and geographic location (in thousands):

	Three Months Ended		Nine Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Revenue by major product line/program				
Small UAS	\$ 47,704	\$ 31,705	\$ 131,119	\$ 98,787
TMS	11,270	16,426	49,055	35,357
HAPS	13,586	5,420	37,981	15,042
Other	2,762	1,082	8,189	5,609
Total revenue	\$ 75,322	\$ 54,633	\$ 226,344	\$ 154,795
	Three Months Ended		Nine Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Revenue by contract type				
FFP	\$ 52,833	\$ 41,759	\$ 160,890	\$ 124,374
CPFF	22,370	12,862	65,223	30,183
T&M	119	12	231	238
Total revenue	\$ 75,322	\$ 54,633	\$ 226,344	\$ 154,795

[Table of Contents](#)

Each of these contract types presents advantages and disadvantages. Typically, the Company assumes more risk with FFP contracts. However, these types of contracts generally offer additional profits when the Company completes the work for less than originally estimated. CPFF contracts generally subject the Company to lower risk. Accordingly, the associated base fees are usually lower than fees on FFP contracts. Under T&M contracts, the Company's profit may vary if actual labor hour rates vary significantly from the negotiated rates.

	Three Months Ended		Nine Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Revenue by customer category				
U.S. government:	\$ 52,383	\$ 31,020	\$ 135,232	\$ 94,491
Non-U.S. government	22,939	23,613	91,112	60,304
Total revenue	<u>\$ 75,322</u>	<u>\$ 54,633</u>	<u>\$ 226,344</u>	<u>\$ 154,795</u>

	Three Months Ended		Nine Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Revenue by geographic location				
Domestic	\$ 34,436	\$ 28,843	\$ 116,514	\$ 89,583
International	40,886	25,790	109,830	65,212
Total revenue	<u>\$ 75,322</u>	<u>\$ 54,633</u>	<u>\$ 226,344</u>	<u>\$ 154,795</u>

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables, and customer advances and deposits on the consolidated balance sheet. In the Company's services contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals, which is generally monthly, or upon the achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets recorded in "Unbilled receivables and retentions" on the consolidated balance sheet. However, the Company sometimes receives advances or deposits from its customers before revenue is recognized, resulting in contract liabilities recorded in "Customer advances" on the consolidated balance sheet. Contract liabilities are not a significant financing component as they are generally utilized to pay for contract costs within a one-year period or are used to ensure the customer meets contractual requirements. These assets and liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. For the Company's product revenue, the Company generally receives cash payments subsequent to satisfying the performance obligation via delivery of the product, resulting in billed accounts receivable. Changes in the contract asset and liability balances during the nine month period ended January 26, 2019 were not materially impacted by any other factors. For the Company's contracts, there are no significant gaps between the receipt of payment and the transfer of the associated goods and services to the customer for material amounts of consideration.

Revenue recognized for the three month periods ended January 26, 2019 and January 27, 2018 that was included in contract liability balances at the beginning of each year were \$10,000 and \$62,000, respectively; and revenue recognized for the nine month periods ended January 26, 2019 and January 27, 2018 that was included in contract liability balances at the beginning of each year were \$1,587,000 and \$977,000, respectively.

Segments

Operating segments are defined as components of an enterprise about 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, who is the Chief Executive Officer, makes operating decisions, assesses performance and makes resource allocation decisions, including the focus of R&D, on a consolidated basis for the Company's continuing operations. Accordingly, the Company operates its business as a single reportable segment.

Investments

The Company's investments are accounted for as held-to-maturity 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 and retentions, and accounts payable approximate cost due to the short period of time to maturity.

Government Contracts

Payments to the Company on government CPFF or T&M 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 CPFF or T&M government contracts to be recorded at actual rates to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. During the fiscal year ended April 30, 2017, the Company settled rates for its incurred cost claims with the DCAA for fiscal years 2011 through 2014 without payment of any consideration. During the current fiscal year ending April 30, 2019, the Company settled rates for its incurred cost claims with the DCAA for fiscal years 2016 and 2017 without payment of any consideration. At January 26, 2019 and April 30, 2018, the Company had \$93,000 and \$77,000 reserved for incurred cost claim audits, respectively.

Earnings Per Share

Basic 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 (in thousands except share data):

	Three Months Ended		Nine Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Income (loss) from				
Continuing operations attributable to AeroVironment	\$ 8,431	\$ (647)	\$ 35,815	\$ 2,738
Discontinued operations, net of tax	(62)	(129)	5,941	(1,650)
Net income (loss) attributable to AeroVironment	\$ 8,369	\$ (776)	\$ 41,756	\$ 1,088
Denominator for basic earnings per share:				
Weighted average common shares	23,687,672	23,515,622	23,643,866	23,443,673
Dilutive effect of employee stock options, restricted stock and restricted stock units	394,147	—	420,142	331,273
Denominator for diluted earnings per share	24,081,819	23,515,622	24,064,008	23,774,946

Potentially dilutive shares not included in the computation of diluted weighted-average common shares because their effect would have been anti-dilutive were 1,705 and 5,519 for the three and nine months ended January 26, 2019, respectively. Due to the net loss for the three months ended January 27, 2018, 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 anti-dilutive were 379,749 and 27,139 for the

three and nine months ended January 27, 2018.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires the lessee to recognize the assets and liabilities for the rights and obligations created by leases. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods therein, with early adoption permitted. The Company currently does not hold a large number of leases that are classified as operating leases under the existing lease standard, with the only significant leases being the Company's various property leases.

The Company plans to adopt Topic 842 using the required modified retrospective approach with the election to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As part of adoption, the Company plans to elect the package of practical expedients which allows the Company to not reassess existing or expired contracts for existence of a lease, lease classification, or amortization of previously capitalized initial direct leasing cost. Additionally, the Company also plans to elect the short-term lease exception to not record right-of-use assets and lease liabilities for leases with a term less than 12 months, the hindsight practical expedient to utilize latest information in determining lease term, and the practical expedient to not separate lease and non-lease components for most asset classes. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326). This ASU is intended to replace the incurred loss impairment methodology under GAAP with a methodology that reflects using a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments, and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The guidance is effective for fiscal years beginning after December 15, 2019 and the interim periods therein, with early adoption permitted. Entities are required to apply the amendments in this update using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (Topic 220). This ASU permits, but does not require, the Company to reclassify the disproportionate income tax effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Act") on items within AOCI to retained earnings. 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 August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). This ASU removes or modifies current disclosures while adding certain new disclosure requirements. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods therein, with early adoption permitted for the removed or modified disclosures. The removed and modified disclosures can be adopted retrospectively, and the added disclosures should be adopted prospectively. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (Topic 350-40). This ASU allows for capitalization of implementation costs associated with certain cloud computing arrangements. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods therein, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

2. Discontinued Operations

On June 29, 2018, the Company completed the sale of the EES Business to Webasto. In accordance with the terms of the Purchase Agreement, as amended by a Side Letter Agreement executed at the closing, the Company received cash consideration of \$31,994,000 upon closing, which resulted in a gain of \$11,420,000 which has been recorded in "Gain on

[Table of Contents](#)

sale of business, net of tax” in the consolidated statements of operations. During the nine months ended January 26, 2019, the Company recorded a reduction to the gain resulting from a working capital adjustment of \$505,000. In addition, the Company has disputed \$1,085,000 of Webasto’s working capital adjustment claim, which is being submitted to an independent accounting firm for resolution pursuant to the terms of Purchase Agreement. No amounts have been recorded in the consolidated financial statements related to the additional working capital dispute as the Company has assessed the likelihood of a loss to be less than probable.

The Company is entitled to receive additional cash consideration of \$6,500,000 (the “Holdback”) upon tendering consents to assignment of two remaining customer contracts to Webasto. The Holdback was not recorded in the Company’s consolidated financial statements as the amount was not realized or realizable as of January 26, 2019. The Company’s satisfaction of the requirements for the payment of the Holdback is currently in dispute.

On February 22, 2019, Webasto filed a lawsuit alleging several claims against the Company for breach of contract, indemnity, and bad faith, including allegations regarding inaccuracy of certain diligence disclosures, failure to provide certain consents to contract assignments and related to the previously announced recall. Webasto seeks to recover the costs of the recall and other damages totaling a minimum of \$6,500,000 in addition to attorneys’ fees, costs, and punitive damages. The Company believes that the allegations are generally meritless and intends to mount a vigorous defense.

During the three months ended October 27, 2018, Webasto filed a recall report with the National Highway Traffic Safety Administration that named certain of the Company’s EES products as subject to the recall. The Company is continuing to assess the facts giving rise to the recall. Under the terms of the Purchase Agreement, the Company may be responsible for certain costs of such recall of named products the Company manufactured, sold or serviced prior to the closing of the sale of the EES Business.

Concurrent with the execution of the Purchase Agreement, the Company entered into a transition services agreement (the “TSA”) to provide certain general and administrative services to Webasto for a defined period. Income from performing services under the TSA was \$657,000 and \$2,013,000 and has been recorded in “Other income, net” in the consolidated statements of operations for three and nine months ended January 26, 2019, respectively.

The Company determined that the EES Business met the criteria for classification as an asset held for sale as of April 30, 2018 and represents a strategic shift in in the Company’s operations. Therefore, the assets and liabilities and the results of operations of the EES Business are reported as discontinued operations for all periods presented. The table below presents the statements of operations data for the EES Business (in thousands).

	Three Months Ended		Nine Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Net sales	\$ —	\$ 10,623	\$ 4,256	\$ 28,198
Cost of sales	54	8,356	5,080	23,159
Gross margin	(54)	2,267	(824)	5,039
Selling, general and administrative	14	2,016	1,517	5,756
Research and development	34	707	1,075	2,055
Other income, net	—	—	1	—
Loss from discontinued operations before income taxes	(102)	(456)	(3,415)	(2,772)
Benefit for income taxes	(41)	(327)	(904)	(1,122)
Net loss from discontinued operations	\$ (61)	\$ (129)	\$ (2,511)	\$ (1,650)
Gain on sale of business, net of tax expense of \$2,463 for the nine months ended January 26, 2019	(1)	—	8,452	—
Net (loss) income from discontinued operations	\$ (62)	\$ (129)	\$ 5,941	\$ (1,650)

[Table of Contents](#)

The major classes of assets and liabilities included in discontinued operations related to the EES Business are presented in the table below (in thousands).

	April 30, 2018
Carrying amount of assets classified as discontinued operations	
Current assets:	
Accounts receivable, net of allowance for doubtful accounts of \$139 at April 30, 2018	\$ 6,889
Inventories, net	15,494
Prepaid expenses and other current assets	185
Property and equipment, net	3,100
Total current assets classified as discontinued operations	25,668
Total assets classified as discontinued operations	\$ 25,668
Carrying amount of liabilities classified as discontinued operations	
Current liabilities:	
Accounts payable	\$ 5,121
Wages and related accruals	1,946
Customer advances	1,028
Other current liabilities	1,199
Total current liabilities	9,294
Total liabilities classified as discontinued operations	\$ 9,294

3. Investments

Investments consist of the following (in thousands):

	January 26, 2019	April 30, 2018
Short-term investments:		
Held-to-maturity securities:		
Municipal securities	\$ 12,542	\$ 35,344
U.S. government securities	45,325	31,620
Corporate bonds	81,948	46,685
Certificates of deposit	5,000	—
Total held-to-maturity and short-term investments	\$ 144,815	\$ 113,649
Long-term investments:		
Held-to-maturity securities:		
Municipal securities	\$ —	\$ 2,046
U.S. government securities	25,228	27,356
Corporate bonds	2,726	9,112
Total held-to-maturity investments	27,954	38,514
Available-for-sale securities:		
Auction rate securities	—	2,142
Total available-for-sale investments	—	2,142
Total long-term investments	\$ 27,954	\$ 40,656

Held-To-Maturity Securities

As of January 26, 2019 and April 30, 2018, the balance of held-to-maturity securities consisted of state and local government municipal securities, U.S. treasury securities, U.S. government-guaranteed agency securities, U.S. government-sponsored agency debt securities, highly rated corporate bonds, and certificates of deposit. 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

[Table of Contents](#)

investments as of January 26, 2019 were as follows (in thousands):

	January 26, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 12,542	\$ 6	\$ (5)	\$ 12,543
U.S. government securities	70,553	30	(143)	70,440
Corporate bonds	84,674	3	(32)	84,645
Certificates of deposit	5,000	—	—	5,000
Total held-to-maturity investments	\$ 172,769	\$ 39	\$ (180)	\$ 172,628

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the held-to-maturity investments as of April 30, 2018 were as follows (in thousands):

	April 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 37,390	\$ 9	\$ (36)	\$ 37,363
U.S. government securities	58,976	—	(367)	58,609
Corporate bonds	55,797	2	(71)	55,728
Certificates of deposit	—	—	—	—
Total held-to-maturity investments	\$ 152,163	\$ 11	\$ (474)	\$ 151,700

The amortized cost and fair value of the held-to-maturity securities by contractual maturity at January 26, 2019 were as follows (in thousands):

	Cost	Fair Value
Due within one year	\$ 144,815	\$ 144,654
Due after one year through five years	27,954	27,974
Total	\$ 172,769	\$ 172,628

Available-For-Sale Securities

Auction Rate Securities

As of April 30, 2018, the balance of available-for-sale auction rate securities consisted of two investment grade auction rate municipal bonds with maturities ranging from 1 to 16 years. These investments have characteristics similar to short term investments, because at predetermined 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 whether 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 three months ended July 28, 2018, the remaining investment grade auction rate municipal bonds were redeemed at par value.

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the auction rate securities

[Table of Contents](#)

as of April 30, 2018, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Auction rate securities	\$ 2,250	\$ —	\$ (108)	\$ 2,142
Total available-for-sale investments	<u>\$ 2,250</u>	<u>\$ —</u>	<u>\$ (108)</u>	<u>\$ 2,142</u>

4. 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 did not have any financial assets measured at fair value on a recurring basis at January 26, 2019 as the Company's remaining auction rate securities were redeemed during the three months ended July 28, 2018 at par value. The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3) (in thousands):

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at May 1, 2018	\$ 2,142
Transfers to Level 3	—
Total gains (realized or unrealized)	
Included in earnings	—
Included in other comprehensive income	108
Settlements	(2,250)
Balance at January 26, 2019	<u>\$ —</u>
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 January 26, 2019	\$ —

The auction rate securities were valued using a discounted cash flow model. The analysis considered, 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.

5. Inventories, net

Inventories consist of the following (in thousands):

	January 26, 2019	April 30, 2018
Raw materials	\$ 16,495	\$ 12,020
Work in process	15,352	14,780
Finished goods	25,076	14,578
Inventories, gross	56,923	41,378
Reserve for inventory excess and obsolescence	(6,544)	(3,953)
Inventories, net	<u>\$ 50,379</u>	<u>\$ 37,425</u>

6. Equity Method Investments

In December 2017, the Company and SoftBank formed a joint venture, HAPSMobile. HAPSMobile is a Japanese corporation that is 5% owned by the Company and 95% owned by SoftBank and is governed by a Joint Venture Agreement (the “JVA”). The Company purchased its 5% stake in HAPSMobile for 210,000,000 yen (\$1,860,000) effective as of December 27, 2017; 150,000,000 yen (\$1,407,000) on April 17, 2018; and 209,500,000 yen (\$1,926,000) on January 29, 2019 to maintain its 5% ownership stake. Additionally, under the JVA, the Company may purchase additional shares of HAPSMobile, at the same per share price for the purchase of its original 5% stake, to increase its ownership percentage of HAPSMobile up to 19% prior to the first flight test of the prototype aircraft produced under a design and development agreement between HAPSMobile and the Company. On February 9, 2019, the Company elected to purchase 632,800,000 yen (approximately \$5,700,000 million) of additional shares of HAPSMobile to increase the Company’s ownership in the joint venture from 5% to 10% pursuant to the terms of the JVA. The Company anticipates that the purchase of additional shares will be completed during the three months ending April 30, 2019. As of the date of this report, the Company’s option to purchase additional shares of HAPSMobile has expired.

As the Company has the ability to exercise significant influence over the operating and financial policies of HAPSMobile, the Company’s investment is accounted for as an equity method investment. For the three and nine months ended January 26, 2019, the Company recorded 5% of the net loss of HAPSMobile, or \$717,000 and \$2,071,000, respectively, in “Equity method investment activity, net of tax” in the unaudited consolidated statement of operations. At January 26, 2019, the cumulative equity method losses have exceeded the Company’s investments in HAPSMobile by \$92,000 which was recorded in “Other current liabilities.”

7. Warranty Reserves

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The warranty reserve is included in other current liabilities. The related expense is included in cost of sales. Warranty reserve activity is summarized as follows for the three and nine months ended January 26, 2019 and January 27, 2018, respectively (in thousands):

	Three Months Ended		Nine Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Beginning balance	\$ 2,431	\$ 1,930	\$ 2,090	\$ 1,947
Warranty expense	53	1,219	414	2,131
Changes in estimates related to pre-existing warranties	—	—	519	—
Warranty costs settled	(354)	(330)	(893)	(1,259)
Ending balance	<u>\$ 2,130</u>	<u>\$ 2,819</u>	<u>\$ 2,130</u>	<u>\$ 2,819</u>

During the nine months ended January 26, 2019, the Company revised its estimates based on the results of additional engineering studies and recorded incremental warranty reserve charges totaling \$519,000 related to the estimated costs to repair a component of certain small UAS that were delivered in prior periods. At January 26, 2019, the total remaining warranty reserve related to the estimated costs to repair the impacted UAS was \$344,000. As of January 26, 2019 a total

of \$175,000 of costs related to this warranty have been incurred.

8. Intangibles

Intangibles are included in other assets on the consolidated balance sheets. The components of intangibles are as follows:

	January 26, 2019	April 30, 2018
	(In thousands)	
Licenses	\$ 1,006	\$ 818
Customer relationships	733	733
Trademarks and tradenames	28	28
Other	3	3
Intangibles, gross	1,770	1,582
Less accumulated amortization	(1,208)	(954)
Intangibles, net	<u>\$ 562</u>	<u>\$ 628</u>

The customer relationships, trademarks and tradenames, and other intangible assets were recognized in conjunction with the Company's acquisition of a controlling interest in Alto on February 1, 2017.

9. Accumulated Other Comprehensive Income (Loss) and Reclassifications Adjustments

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

	Available-for-Sale Securities	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, net of \$76 of taxes, as of April 30, 2018	\$ (57)	\$ 36	\$ (21)
Reclassifications out of accumulated other comprehensive loss, net of taxes	—	—	—
Change in foreign currency translation adjustments, net of \$0 taxes	—	(32)	(32)
Unrealized gains, net of \$51 of taxes	57	—	57
Balance, net of \$0 of taxes, as of January 26, 2019	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ 4</u>

10. 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 as costs are incurred. Revenue from customer-funded R&D contracts are recognized in accordance with Topic 606 over time as costs are incurred. Revenue from customer-funded R&D was approximately \$19,437,000 and \$55,344,000 for the three and nine months ended January 26, 2019, respectively. Revenue from customer-funded R&D was approximately \$10,198,000 and \$30,860,000 for the three and nine months ended January 27, 2018, respectively.

11. Long-Term Incentive Awards

During the three months ended July 28, 2018, the Company granted awards under its amended and restated 2006 Equity Incentive Plan (the "Restated 2006 Plan") to key employees ("Fiscal 2019 LTIP"). Awards under the Fiscal 2019 LTIP consist of: (i) time-based restricted stock awards which vest in equal tranches in July 2019, July 2020 and July 2021, and (ii) performance-based restricted stock units ("PRsUs") which vest based on the Company's achievement of revenue and operating income targets for the three-year period ending April 30, 2021. At the award date, target achievement levels for each of the financial performance metrics were established for the PRsUs, at which levels the PRsUs would vest at 100% for each such metric. Threshold achievement levels for which the PRsUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 200% for each such metric were also established. The actual payout for the PRsUs at the end of the performance period will be calculated based upon the Company's

achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of common stock. For the three and nine months ended January 26, 2019, the Company recorded \$226,00 and \$482,000 of compensation expense related to the Fiscal 2019 LTIP, respectively. The Company recorded no compensation expense related to the Fiscal 2019 LTIP for the three and nine months ended January 27, 2018. At January 26, 2019, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2019 LTIP is \$3,733,000.

During the three months ended July 29, 2017, the Company granted awards under the Restated 2006 Plan to key employees (“Fiscal 2018 LTIP”). Awards under the Fiscal 2018 LTIP consist of: (i) time-based restricted stock awards which vest in equal tranches in July 2018, July 2019 and July 2020, and (ii) PRSUs which vest based on the Company’s achievement of revenue and operating income targets for the three-year period ending April 30, 2020. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 200% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company’s achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of common stock. For the three and nine months ended January 26, 2019, the Company recorded \$317,000 and \$653,000 of compensation expense related to the Fiscal 2018 LTIP, respectively. The Company recorded no compensation expense related to the Fiscal 2018 LTIP for the three and nine months ended January 27, 2018. At January 26, 2019, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2018 LTIP is \$2,850,000.

During the three months ended July 29, 2017, the Company also granted awards under the Restated 2006 Plan to key employees (“Fiscal 2017 LTIP”). Awards under the Fiscal 2017 LTIP consist of: (i) time-based restricted stock awards which vest in equal tranches in July 2017, July 2018 and July 2019, and (ii) PRSUs which vest based on the Company’s achievement of revenue and operating income targets for the three-year period ending April 30, 2019. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 200% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company’s achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of common stock. For the three and nine months ended January 26, 2019, the Company recorded \$134,000 and \$266,000 of compensation expense related to the Fiscal 2017 LTIP, respectively. The Company recorded no compensation expense related to the Fiscal 2017 LTIP for the three and nine months ended January 27, 2018. At January 26, 2019, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2017 LTIP is \$2,630,000.

At January 26, 2019 and April 30, 2018, the Company recorded cumulative stock-based compensation expense from these long-term incentive awards of \$1,829,000 and \$428,000, respectively. At each reporting period, the Company reassesses the probability of achieving the performance targets. The estimation of whether the performance targets will be achieved requires judgment, and, to the extent actual results or updated estimates differ from the Company’s current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised.

12. Income Taxes

On December 22, 2017, the Tax Act was signed into law, which resulted in significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, repeal of the corporate alternative minimum tax, repeal of the deduction for domestic production activities, a deduction for certain Foreign Derived Intangible Income (“FDII”), and limitation on the deductibility of certain executive compensation.

In accordance with ASC 740, *Income Taxes*, the Company is required to record the effects of tax law changes in the period enacted. As the Company has an April 30 fiscal year end, its U.S. federal corporate income tax rate was blended

in fiscal 2018, resulting in a statutory federal rate of approximately 30.4% (8 months at 35% and 4 months at 21%), and 21% for subsequent fiscal years. The Company remeasured its existing deferred tax assets and liabilities at the rate the Company expects to be in effect when those deferred taxes will be realized and recorded a one-time deferred tax expense of approximately \$3,300,000 during the fiscal year ended April 30, 2018.

The Company followed the guidance in SEC Staff Accounting Bulletin 118 (“SAB 118”), which provided additional clarification regarding the application of ASC Topic 740 in situations where the Company does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act for the reporting period in which the Act was enacted. SAB 118 provides for a measurement period beginning in the reporting period that includes the Act’s enactment date and ending when the Company has obtained, prepared, and analyzed the information needed in order to complete the accounting requirements but in no circumstances should the measurement period extend beyond one year from the enactment date.

The measurement period under SAB 118 closed during the three months ended January 26, 2019. The Company has finalized its accounting for the impact of the Tax Act during the three months ended January 26, 2019 and reached the following conclusions on the previous provisional estimates.

The Company has concluded it will be eligible to claim the FDII deduction and will continue to reflect a rate benefit in the provision for income taxes. The Company expects the IRS will be issuing additional guidance that will ultimately impact the size of the benefit. In addition, the Company has concluded that its foreign subsidiaries are in a cumulative earnings and profits deficit and, therefore, has confirmed that it will not have an income tax payable as a result of the one-time deemed repatriation tax. As such, there are no changes to the provision estimates of these items.

In relation to the one-time deferred tax remeasurement, the Company has completed its tax return and has concluded that the impact recorded at the date of enactment was appropriate. The Company filed its fiscal 2018 tax return on February 15, 2019 and will have insignificant return to provision true-up entries related to fixed asset gain or loss, accrued vacation, and accrued expenses recorded during the three months ending April 30, 2019. These true-up entries represent a change in estimate of the ending timing differences for the fiscal year ending April 30, 2019 and not a change to the provision estimate of the impact of the Tax Act at the date of enactment. As such, there are no changes to the provision estimate of this item.

For the three and nine months ended January 26, 2019, the Company recorded a provision for income taxes of \$946,000 and \$4,724,000, respectively, yielding effective tax rates of 9.4% and 11.1%, respectively. For the three and nine months ended January 27, 2018, the Company recorded a provision for income taxes of \$834,000 and \$971,000, respectively, yielding effective tax rates of 139.9% and 25.0%, respectively. The variance from statutory rates for the three and nine months ended January 26, 2019 was primarily due to federal R&D credits and the recording of discrete excess tax benefits of \$175,000 and \$1,683,000, respectively, resulting from the vesting of restricted stock awards and exercises of stock options. The variance from statutory rates for the three and nine months ended January 27, 2018 was primarily due to a \$3,100,000 remeasurement charge of the Company’s deferred tax assets and liabilities and a reduction in the fiscal 2018 federal statutory rate to 30.4%, both of which are impacts of the Tax Act. In addition, during the three and nine months ended January 27, 2018, the Company recorded discrete excess tax benefits of \$212,000 and \$1,614,000 resulting from the vesting of restricted stock awards and exercises of stock options.

13. 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 three and nine months ended January 26, 2019. As of January 26, 2019 and April 30, 2018, approximately \$21.2 million remained authorized for future repurchases under this program.

14. Related Party Transactions

Related party transactions are defined as transactions between the Company and entities either controlled by the Company or that the Company can significantly influence. Although SoftBank has a controlling interest in HAPSMobile, the Company determined that it has the ability to exercise significant influence over HAPSMobile. As such, HAPSMobile and SoftBank are considered related parties of the Company. Concurrent with the formation of HAPSMobile, the Company executed a Design and Development Agreement (the “DDA”) with HAPSMobile. Under the DDA, the Company will use its best efforts, up to a maximum net value of \$76,589,000, to design and build prototype solar powered high altitude aircraft and ground control stations for HAPSMobile and conduct low altitude and high altitude flight tests of the prototype aircraft.

The Company recorded revenue under the DDA and preliminary design agreements between the Company and SoftBank of \$13,586,000 and \$37,981,000 for the three and nine months ended January 26, 2019, respectively. The Company recorded revenue under the DDA and preliminary design agreements between the Company and SoftBank of \$5,420,000 and \$15,042,000 for the three and nine months ended January 27, 2018, respectively. At January 26, 2019 and April 30, 2018, the Company had unbilled related party receivables from HAPSMobile of \$13,638,000 and \$3,145,000 recorded in “Unbilled receivables and retentions” on the consolidated balance sheets, respectively. During the year ended April 30, 2018, the Company purchased a 5% stake in accordance with the JVA. Refer to Note 6—Equity Method Investments for further details.

On February 9, 2019, the Company elected to purchase 632,800,000 yen (approximately \$5,700,000 million) of additional shares of HAPSMobile to increase the Company’s ownership in the joint venture from 5% to 10% pursuant to the terms of the JVA. Refer to Note 6—Equity Method Investments for further details.

15. Legal Settlements

In May 2018, the Company entered into a settlement agreement to dismiss its claims against MicaSense Inc. and former AeroVironment employees, Gabriel Torres, Justin McAllister, and Jeff McBride. The terms and amount of the settlement agreement are confidential. The proceeds of the settlement were received during the three months ended July 28, 2018 and have been recorded in “Other income, net” on the consolidated statements of operations.

16. Impact of Adoption of New Accounting Standards

During the three months ended July 28, 2018, the Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The impact to the Company's unaudited balance sheet as a result of adopting the standard was as follows (in thousands):

	April 30, 2018	Effect of the Adoption of ASC Topic 606	April 30, 2018
	As Reported		As Adjusted
Assets			
Current assets:			
Cash and cash equivalents	\$ 143,517	\$ —	\$ 143,517
Short-term investments	113,649	—	113,649
Accounts receivable, net of allowance for doubtful accounts of \$1,080 at April 30, 2018	56,813	—	56,813
Unbilled receivables and retentions (inclusive of related party unbilled receivables of \$3,145 at April 30, 2018)	13,076	3,796	16,872
Inventories, net	38,640	(1,215)	37,425
Prepaid expenses and other current assets	5,103	—	5,103
Current assets of discontinued operations	28,349	(2,681)	25,668
Total current assets	399,147	(100)	399,047
Long-term investments	40,656	—	40,656
Property and equipment, net	19,219	—	19,219
Deferred income taxes	11,168	326	11,494
Other assets	2,721	281	3,002
Total assets	<u>\$ 472,911</u>	<u>\$ 507</u>	<u>\$ 473,418</u>
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 21,340	\$ —	\$ 21,340
Wages and related accruals	16,851	—	16,851
Income taxes payable	4,085	—	4,085
Customer advances	2,145	1,419	3,564
Other current liabilities	6,892	62	6,954
Current liabilities of discontinued operations	9,184	110	9,294
Total current liabilities	60,497	1,591	62,088
Deferred rent	1,536	—	1,536
Other non-current liabilities	622	—	622
Deferred tax liability	67	—	67
Liability for uncertain tax positions	49	—	49
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, \$0.0001 par value:			
Authorized shares—10,000,000; none issued or outstanding at April 30, 2018	—	—	—
Common stock, \$0.0001 par value:			
Authorized shares—100,000,000			
Issued and outstanding shares—23,908,736 at April 30, 2018	2	—	2
Additional paid-in capital	170,139	—	170,139
Accumulated other comprehensive loss	(21)	—	(21)
Retained earnings	239,997	(1,084)	238,913
Total AeroVironment stockholders' equity	410,117	(1,084)	409,033
Noncontrolling interest	23	—	23
Total equity	410,140	(1,084)	409,056
Total liabilities and stockholders' equity	<u>\$ 472,911</u>	<u>\$ 507</u>	<u>\$ 473,418</u>

[Table of Contents](#)

The tables below presents the impact of adoption on the Company's unaudited statement of operations for the three and nine months ended January 27, 2018 (in thousands except share and per share data).

	Three Months Ended January 27, 2018	Effect of the Adoption of ASC Topic 606	Three Months Ended January 27, 2018
	As Reported		As Adjusted
Revenue:			
Product sales	\$ 39,128	\$ 319	\$ 39,447
Contract services (inclusive of related party revenue of \$5,420 for the three months ended January 27, 2018)	14,305	881	15,186
	<u>53,433</u>	<u>1,200</u>	<u>54,633</u>
Cost of sales:			
Product sales	24,548	322	24,870
Contract services	10,964	549	11,513
	<u>35,512</u>	<u>871</u>	<u>36,383</u>
Gross margin:			
Product sales	14,580	(3)	14,577
Contract services	3,341	332	3,673
	<u>17,921</u>	<u>329</u>	<u>18,250</u>
Selling, general and administrative	11,484	—	11,484
Research and development	6,607	—	6,607
Loss (income) from continuing operations	(170)	329	159
Other income (expense):			
Interest income, net	545	—	545
Other expense, net	(108)	—	(108)
Income from continuing operations before income taxes	267	329	596
Provision for income taxes	819	15	834
Equity method investment activity, net of tax	(418)	—	(418)
Net (loss) income from continuing operations	(970)	314	\$ (656)
Discontinued operations:			
Gain on sale of business, net of tax expense of \$0 for the three months ended January 27, 2018	—	—	—
Income (loss) from discontinued operations, net of tax	133	(262)	(129)
Net income (loss) from discontinued operations	133	(262)	(129)
Net (loss) income	(837)	52	(785)
Net loss attributable to noncontrolling interest	9	—	9
Net (loss) income attributable to AeroVironment	<u>\$ (828)</u>	<u>\$ 52</u>	<u>\$ (776)</u>
Net (loss) income per share attributable to AeroVironment—Basic			
Continuing operations	\$ (0.05)	\$ 0.01	\$ (0.02)
Discontinued operations	0.01	(0.01)	(0.01)
Net loss per share attributable to AeroVironment—Basic	\$ (0.04)	\$ —	\$ (0.03)
Net (loss) income per share attributable to AeroVironment—Diluted			
Continuing operations	\$ (0.05)	\$ 0.01	\$ (0.02)
Discontinued operations	0.01	(0.01)	(0.01)
Net (loss) per share attributable to AeroVironment—Diluted	\$ (0.04)	\$ —	\$ (0.03)
Weighted-average shares outstanding:			
Basic	23,515,622	23,515,622	23,515,622
Diluted	23,515,622	23,515,622	23,515,622

[Table of Contents](#)

	Nine Months Ended January 27, 2018	Effect of the Adoption of ASC Topic 606	Nine Months Ended January 27, 2018
	As Reported		As Adjusted
Revenue:			
Product sales	\$ 106,901	\$ (254)	\$ 106,647
Contract services (inclusive of related party revenue of \$15,042 for the nine months ended January 27, 2018)	46,770	1,378	48,148
	153,671	1,124	154,795
Cost of sales:			
Product sales	66,526	(488)	66,038
Contract services	30,436	1,230	31,666
	96,962	742	97,704
Gross margin:			
Product sales	40,375	234	40,609
Contract services	16,334	148	16,482
	56,709	382	57,091
Selling, general and administrative	35,539	—	35,539
Research and development	18,993	—	18,993
Income from continuing operations	2,177	382	2,559
Other income (expense):			
Interest income, net	1,489	—	1,489
Other expense, net	(159)	—	(159)
Income from continuing operations before income taxes	3,507	382	3,889
Provision for income taxes	963	8	971
Equity method investment activity, net of tax	(418)	—	(418)
Net income from continuing operations	2,126	374	\$ 2,500
Discontinued operations:			
Gain on sale of business, net of tax expense of \$0 for the nine months ended January 27, 2018	—	—	—
Loss from discontinued operations, net of tax	(617)	(1,033)	(1,650)
Net loss from discontinued operations	(617)	(1,033)	(1,650)
Net income (loss)	1,509	(659)	850
Net loss attributable to noncontrolling interest	238	—	238
Net income (loss) attributable to AeroVironment	\$ 1,747	\$ (659)	\$ 1,088
Net income (loss) per share attributable to AeroVironment—Basic			
Continuing operations	\$ 0.10	\$ 0.01	\$ 0.12
Discontinued operations	(0.03)	(0.04)	(0.07)
Net income (loss) per share attributable to AeroVironment—Basic	\$ 0.07	\$ (0.03)	\$ 0.05
Net income (loss) per share attributable to AeroVironment—Diluted			
Continuing operations	\$ 0.10	\$ 0.01	\$ 0.12
Discontinued operations	(0.03)	(0.04)	(0.07)
Net income (loss) per share attributable to AeroVironment—Diluted	\$ 0.07	\$ (0.03)	\$ 0.05
Weighted-average shares outstanding:			
Basic	23,443,673	23,443,673	23,443,673
Diluted	23,774,946	23,774,946	23,774,946

[Table of Contents](#)

The tables below presents the impact of adoption on the Company's unaudited statement of comprehensive (loss) income for the three and nine months January 27, 2018 (in thousands).

	Three Months Ended January 27, 2018 As Reported	Effect of the Adoption of ASC Topic 606	Three Months Ended January 27, 2018 As Adjusted
Net (loss) income	\$ (837)	\$ 52	\$ (785)
Other comprehensive income:			
Change in foreign currency translation adjustments	62	—	62
Unrealized gain on investments, net of deferred tax expense of \$10 for the three months ended January 27, 2018	13	—	13
Total comprehensive (loss) income	(762)	52	\$ (710)
Net loss attributable to noncontrolling interest	9	—	9
Comprehensive (loss) income attributable to AeroVironment	<u>\$ (753)</u>	<u>\$ 52</u>	<u>\$ (701)</u>

	Nine Months Ended January 27, 2018 As Reported	Effect of the Adoption of ASC Topic 606	Nine Months Ended January 27, 2018 As Adjusted
Net income (loss)	\$ 1,509	\$ (659)	\$ 850
Other comprehensive income:			
Change in foreign currency translation adjustments	62	—	62
Unrealized gain on investments, net of deferred tax expense of \$29 for the nine months ended January 27, 2018	42	—	42
Total comprehensive income (loss)	1,613	(659)	\$ 954
Net loss attributable to noncontrolling interest	238	—	238
Comprehensive income (loss) attributable to AeroVironment	<u>\$ 1,851</u>	<u>\$ (659)</u>	<u>\$ 1,192</u>

[Table of Contents](#)

The table below presents the impact of adoption on the Company's unaudited statement of cash flows (in thousands).

	Nine Months Ended January 27, 2018	Effect of the Adoption of ASC Topic 606	Nine Months Ended January 27, 2018
	As Reported		As Adjusted
Operating activities			
Net income (loss)	\$ 1,509	\$ (659)	\$ 850
Gain on sale of business, net of tax	—	—	—
Loss from discontinued operations, net of tax	617	1,033	1,650
Net income from continuing operations	2,126	374	2,500
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization	4,277	—	4,277
Loss from equity method investments	418	—	418
Impairment of long-lived assets	255	—	255
Provision for doubtful accounts	940	—	940
Impairment of intangible assets and goodwill	1,021	—	1,021
Gains on foreign currency transactions	(36)	—	(36)
Deferred income taxes	174	—	174
Stock-based compensation	3,702	—	3,702
Loss on disposition of property and equipment	15	—	15
Amortization of held-to-maturity investments	1,250	—	1,250
Changes in operating assets and liabilities:			
Accounts receivable	48,871	—	48,871
Unbilled receivables and retentions	(10,842)	(1,226)	(12,068)
Inventories	(16,094)	786	(15,308)
Income tax receivable	(293)	(427)	(720)
Prepaid expenses and other assets	417	—	417
Accounts payable	(4,451)	—	(4,451)
Other liabilities	518	57	575
Net cash provided by (used in) operating activities of continuing operations	32,268	(436)	31,832
Investing activities			
Acquisition of property and equipment	(7,713)	—	(7,713)
Equity method investments	(1,860)	—	(1,860)
Proceeds from sale of business	—	—	—
Redemptions of held-to-maturity investments	163,813	—	163,813
Purchases of held-to-maturity investments	(151,740)	—	(151,740)
Redemptions of available-for-sale investments	450	—	450
Net cash provided by investing activities from continuing operations	2,950	—	2,950
Financing activities			
Principal payments of capital lease obligations	(231)	—	(231)
Tax withholding payment related to net settlement of equity awards	(389)	—	(389)
Exercise of stock options	2,691	—	2,691
Net cash provided by financing activities from continuing operations	2,071	—	2,071
Discontinued operations			
Operating activities of discontinued operations	(4,152)	436	(3,716)
Investing activities of discontinued operations	(737)	—	(737)
Financing activities of discontinued operations	—	—	—
Net cash (used in) provided by discontinued operations	(4,889)	436	(4,453)
Net increase in cash and cash equivalents	32,400	—	32,400
Cash and cash equivalents at beginning of period	79,904	—	79,904
Cash and cash equivalents at end of period	\$ 112,304	\$ —	\$ 112,304
Supplemental disclosures of cash flow information			
Cash paid, net during the period for:			
Income taxes	\$ 1,812	—	\$ 1,812
Non-cash activities			
Unrealized gain on investments, net of deferred tax expense of \$29	\$ 42	—	\$ 42
Reclassification from share-based liability compensation to equity	\$ 384	—	\$ 384
Change in foreign currency translation adjustments	\$ 62	—	\$ 62
Acquisitions of property and equipment included in accounts payable	\$ 332	—	\$ 332

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, 2018, 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

The following should be read in conjunction with the critical accounting estimates presented in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018.

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.

In the first quarter of our fiscal 2019, we adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the full retrospective method. Topic 606 requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which we expect to be entitled in exchange for those goods or services.

Revenue for small unmanned aircraft systems ("UAS") product contracts with both the U.S. government and foreign governments under the new standard revenue will be recognized at the point in time when the transfer of control passes to the customer, which is generally when title and risk of loss transfer. Revenue for Tactical Missile Systems ("TMS") contracts will now be recognized under the new standard over time as costs are incurred. Under previous U.S. generally accepted accounting principles (U.S. GAAP), revenue was generally recognized when deliveries of the related products were made. The new standard accelerates the timing of when the revenue is recognized, however, it does not change the total amount of revenue recognized on these contracts. The new standard does not affect revenue recognition for our Customer-Funded Research and Development ("R&D") contracts. We continue to recognize revenue for these contracts over time as costs are incurred.

[Table of Contents](#)

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 estimate of completion for all types of contracts are recognized on a cumulative catch-up basis in the period in which the revisions are made. During the three and nine months ended January 26, 2019 and January 27, 2018, changes in accounting estimates on contracts recognized over time are presented below.

For the three months ended January 26, 2019 and January 27, 2018, favorable and unfavorable cumulative catch-up adjustments included in revenue were as follows (in thousands):

	Three Months Ended	
	January 26, 2019	January 27, 2018
Gross favorable adjustments	\$ 878	\$ 191
Gross unfavorable adjustments	(2,583)	(1,111)
Net favorable adjustments	\$ (1,705)	\$ (920)

For the three months ended January 26, 2019, favorable cumulative catch-up adjustments of \$0.9 million were primarily due to final cost adjustments on five contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$2.6 million were primarily related to higher than expected costs on nine contracts. For the three months ended January 26, 2019, we revised our estimates of the total expected costs to complete a TMS contract due to ongoing test and evaluation resulting from some systems not passing the customer's final lot acceptance tests which we anticipate to be resolved in a future period. These revised estimates resulted in an unfavorable cumulative catch-up adjustment of approximately \$1.5 million.

For the three months ended January 27, 2018, favorable cumulative catch-up adjustments of \$0.2 million were primarily due to final cost adjustments on seven contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$1.1 million were primarily related to higher than expected costs on seven contracts, which individually were not material.

For the nine months ended January 26, 2019 and January 27, 2018, favorable and unfavorable cumulative catch-up adjustments included in cost of sales were as follows (in thousands):

	Nine Months Ended	
	January 26, 2019	January 27, 2018
Gross favorable adjustments	\$ 859	\$ 1,553
Gross unfavorable adjustments	(1,132)	(1,718)
Net favorable adjustments	\$ (273)	\$ (165)

For the nine months ended January 26, 2019, favorable cumulative catch-up adjustments of \$0.9 million were primarily due to final cost adjustments on five contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$1.1 million were primarily related to higher than expected costs on 12 contracts, which individually were not material.

For the nine months ended January 27, 2018, favorable cumulative catch-up adjustments of \$1.6 million were primarily due to final cost adjustments on seven contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$1.7 million were primarily related to higher than expected costs on six 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 2019 fiscal year ends on April 30, 2019 and our fiscal quarters end on July 28, 2018, October 27, 2018 and January 26, 2019, respectively.

Results of Operations

The following tables set forth our results of operations for the periods indicated (in thousands):

Three Months Ended January 26, 2019 Compared to Three Months Ended January 27, 2018

	Three Months Ended	
	January 26, 2019	January 27, 2018
Revenue	\$ 75,322	\$ 54,633
Cost of sales	44,930	36,383
Gross margin	30,392	18,250
Selling, general and administrative	14,464	11,484
Research and development	8,087	6,607
Income from operations	7,841	159
Other income (expense):		
Interest income, net	1,272	545
Other income (expense), net	962	(108)
Income from continuing operations before income taxes	10,075	596
Provision for income taxes	946	834
Equity method investment activity, net of tax	(717)	(418)
Net income (loss) from continuing operations	<u>\$ 8,412</u>	<u>\$ (656)</u>

Revenue. Revenue for the three months ended January 26, 2019 was \$75.3 million, as compared to \$54.6 million for the three months ended January 27, 2018, representing an increase of \$20.7 million, or 38%. The increase in revenue was due to an increase in product deliveries of \$10.6 million and an increase in service revenue of \$10.1 million. The increase in product deliveries was primarily due to an increase in product deliveries of small UAS, partially offset by a decrease in product deliveries of TMS. During the three months ended January 26, 2019, we continued to experience expansion in small UAS product deliveries to international customers. The increase in service revenue was primarily due to an increase in customer-funded R&D primarily associated with the design and development agreement (“DDA”) with HAPSMobile, Inc. (“HAPSMobile”), a joint venture we formed with SoftBank Corp. (“Softbank”), as well as an increase in TMS variant programs.

Cost of Sales. Cost of sales for the three months ended January 26, 2019 was \$44.9 million, as compared to \$36.4 million for the three months ended January 27, 2018, representing an increase of \$8.5 million, or 23%. The increase in cost of sales was a result of an increase in service costs of sales of \$6.6 million and an increase in product cost of sales of \$1.9 million. The increase in service costs of sales was primarily due to an increase in service revenue. The increase in product costs was primarily due to an increase in product deliveries and an increase in reserves for excess and obsolescence inventory, partially offset by a favorable product mix. As a percentage of revenue, cost of sales decreased from 67% to 60%, primarily due to the increased sales volume, which resulted in a decrease in the per unit fixed manufacturing and engineering overhead support cost, and favorable product mix, partially offset by an increase in reserves for excess and obsolescence inventory.

Gross Margin. Gross margin for the three months ended January 26, 2019 was \$30.4 million, as compared to \$18.3 million for the three months ended January 27, 2018, representing an increase of \$12.1 million, or 67%. The increase in gross margin was primarily due to an increase in product margin of \$8.7 million and an increase in service margin of

\$3.5 million. The increase in product margin was primarily due to an increase in product deliveries and favorable product mix, partially offset by an increase in reserves for excess and obsolescence inventory. The increase in service margin was primarily due to an increase in service revenue. As a percentage of revenue, gross margin increased from 33% to 40%, primarily due to the increased sales volume, which resulted in a decrease in the per unit fixed manufacturing and engineering overhead support cost, and favorable product mix, partially offset by an increase in reserves for excess and obsolescence inventory.

Selling, General and Administrative. Selling, general and administrative (“SG&A”) expense for the three months ended January 26, 2019 was \$14.5 million, or 19% of revenue, compared to SG&A expense of \$11.5 million, or 21% of revenue, for the three months ended January 27, 2018. The increase in SG&A expense was primarily due to an increase in employee related costs as well as a number of miscellaneous expenses that were not individually significant.

Research and Development. R&D expense for the three months ended January 26, 2019 was \$8.1 million, or 11% of revenue, compared to R&D expense of \$6.6 million, or 12% of revenue, for the three months ended January 27, 2018. R&D expense increased by \$1.5 million, or 22%, for the three months ended January 26, 2019, primarily due to an increase in development activities for certain strategic initiatives.

Interest Income, net. Interest income, net for the three months ended January 26, 2019 was \$1.3 million compared to interest income, net of \$0.5 million for the three months ended January 27, 2018. The increase in interest income was due to an increase in the interest rates earned on our investment portfolio and an increase in investment balances.

Other Income (Expense), net. Other income, net, for the three months ended January 26, 2019 was \$1.0 million compared to other expense, net of \$0.1 million for the three months ended January 27, 2018. The increase in other income, net was primarily due to income earned under a transition services agreement with the buyer of our former efficient energy systems business segment (“EES Business”).

Provision for Income Taxes. Our effective income tax rate was 9.4% for the three months ended January 26, 2019, as compared to 139.9% for the three months ended January 27, 2018. The three months ended January 27, 2018 included the impacts of the one-time deferred tax expense resulting from the remeasurement of our existing deferred tax assets and liabilities of \$3.1 million. The decrease in our effective income tax rate was also due to the reduction in the fiscal 2019 federal statutory rate from 30.4% to 21% resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Act”).

Equity Method Investment Activity, net of tax. Equity method investment activity, net of tax for the three months ended January 26, 2019 was a loss of \$0.7 million compared to a loss of \$0.4 million for the three months ended January 27, 2018. The increase was due to the equity method loss associated with our investment in the HAPSMobile joint venture formed in December 2017.

Nine Months Ended January 26, 2019 Compared to Nine Months Ended January 27, 2018

	Nine Months Ended	
	January 26, 2019	January 27, 2018
Revenue	\$ 226,344	\$ 154,795
Cost of sales:	134,964	97,704
Gross margin	91,380	57,091
Selling, general and administrative	40,066	35,539
Research and development	22,631	18,993
Income from operations	28,683	2,559
Other income (expense):		
Interest income, net	3,246	1,489
Other income (expense), net	10,641	(159)
Income from continuing operations before income taxes	42,570	3,889
Provision for income taxes	4,724	971
Equity method investment activity, net of tax	(2,071)	(418)
Net income from continuing operations	\$ 35,775	\$ 2,500

Revenue. Revenue for the nine months ended January 26, 2019 was \$226.3 million, as compared to \$154.8 million for the nine months ended January 27, 2018, representing an increase of \$71.5 million, or 46%. The increase in revenue was due an increase in product deliveries of \$45.7 million and an increase in service revenue of \$25.8 million. The increase in product deliveries was primarily due to an increase in product deliveries of small UAS and an increase in product deliveries of TMS. During the nine months ended January 26, 2019, we continued to experience expansion in small UAS product deliveries to international customers. The increase in service revenue was primarily due to an increase in customer-funded R&D primarily associated with the HAPSMobile DDA and services for TMS and TMS variant programs, partially offset by decreases in sustainment activities in support of small UAS.

Cost of Sales. Cost of sales for the nine months ended January 26, 2019 was \$135.0 million, as compared to \$97.7 million for the nine months ended January 27, 2018, representing an increase of \$37.3 million, or 38%. The increase in cost of sales was a result of an increase in service costs of sales of \$20.1 million and an increase in product cost of sales of \$17.1 million. The increase in service costs of sales was primarily due to the increase in service revenue and unfavorable mix. The increase in product costs was primarily due to the increase in product deliveries and an increase in reserves for excess and obsolescence inventory. As a percentage of revenue, cost of sales decreased from 63% to 60%, primarily due to an increase in sales volume, which resulted in a decrease in the per unit fixed manufacturing and engineering overhead support cost, partially offset by an increase in reserves for excess and obsolescence inventory.

Gross Margin. Gross margin for the nine months ended January 26, 2019 was \$91.4 million, as compared to \$57.1 million for the nine months ended January 27, 2018, representing an increase of \$34.3 million, or 60%. The increase in gross margin was primarily due to an increase in product margin of \$28.6 million and an increase in service margin of \$5.7 million. The increase in product margin was primarily due to an increase in product deliveries, partially offset by an increase in reserves for excess and obsolescence inventory. The increase in service margin was primarily due to an increase in service revenue, partially offset by unfavorable mix. As a percentage of revenue, gross margin increased from 37% to 40%, primarily due to an increase in sales volume, which resulted in a decrease in the per unit fixed manufacturing and engineering overhead support cost, partially offset by an increase in reserves for excess and obsolescence inventory.

Selling, General and Administrative. Selling, general and administrative (“SG&A”) expense for the nine months ended January 26, 2019 was \$40.1 million, or 18% of revenue, compared to SG&A expense of \$35.5 million, or 23% of revenue, for the nine months ended January 27, 2018. The increase in SG&A expense was primarily due to an increase in corporate development expenses primarily related to the sale of our EES business and an increase in employee-related costs, partially offset by a decrease in litigation-related expenses and a decrease in bad debt expense. The nine months

ended January 27, 2018 also included impairment charges totaling \$1.0 million related to the identifiable intangible assets and goodwill of Altay.

Research and Development. R&D expense for the nine months ended January 26, 2019 was \$22.6 million, or 10% of revenue, compared to R&D expense of \$19.0 million, or 12% of revenue, for the nine months ended January 27, 2018. R&D expense increased by \$3.6 million, or 19%, for the nine months ended January 26, 2019, primarily due to an increase in development activities for certain strategic initiatives.

Interest Income, net. Interest income, net for the nine months ended January 26, 2019 was \$3.2 million compared to interest income, net of \$1.5 million for the nine months ended January 27, 2018. The increase in interest income was primarily due to an increase in the interest rates earned on our investment portfolio.

Other Income (Expense), net. Other income, net, for the nine months ended January 26, 2019 was \$10.6 million compared to other expense, net of \$0.2 million for the nine months ended January 27, 2018. The increase in other income, net was primarily due to a litigation settlement and income earned under a transition services agreement with the buyer of our former EES Business.

Provision for Income Taxes. Our effective income tax rate was 11.1% for the nine months ended January 26, 2019, as compared to 25.0% for the nine months ended January 27, 2018. The nine months ended January 27, 2018 included the impacts of the one-time deferred tax expense resulting from the remeasurement of our existing deferred tax assets and liabilities of \$3.1 million. The decrease in our effective income tax rate was also due to the reduction in the fiscal 2019 federal statutory rate from 30.4% to 21% resulting from the Tax Act.

Equity Method Investment Activity, net of tax. Equity method investment activity, net of tax for the nine months ended January 26, 2019 was a loss of \$2.1 million compared to a loss of \$0.4 million for the nine months ended January 27, 2018. The increase was due to the equity method loss associated with our investment in the HAPSMobile joint venture formed in December 2017.

Backlog

Consistent with ASC 606, we define funded backlog as remaining performance obligations under firm orders for which funding is currently appropriated to us under a customer contract. As of January 26, 2019, our funded backlog was approximately \$132.5 million.

In addition to our funded backlog, we also had unfunded backlog of \$37.7 million as of January 26, 2019. Unfunded backlog does not meet the definition of a performance obligation under ASC Topic 606. 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 (“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 seven companies in 2018, 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 and commercial 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.

On February 9, 2019, we elected to purchase 632.8 million yen (approximately \$5.7 million) of additional shares of HAPSMobile, to increase our ownership in the joint venture from 5% to 10% pursuant to the terms of the HAPSMobile Joint Venture Agreement. We anticipate that the purchase of additional shares will be completed during the three months ending April 30, 2019.

Cash Flows

The following table provides our cash flow data for the nine months ended January 26, 2019 and January 27, 2018 (in thousands):

	Nine Months Ended	
	January 26, 2019	January 27, 2018
	(Unaudited)	
Net cash provided by operating activities	\$ 6,897	\$ 31,832
Net cash provided by investing activities	\$ 7,773	\$ 2,950
Net cash (used in) provided by financing activities	\$ (1,116)	\$ 2,071

Cash Provided by Operating Activities. Net cash provided by operating activities for the nine months ended January 26, 2019 decreased by \$24.9 million to \$6.9 million, compared to net cash provided by operating activities of \$31.8 million for the nine months ended January 27, 2018. The decrease in net cash provided by operating activities was primarily due to a decrease in cash as a result of changes in operating assets and liabilities of \$57.2 million, largely resulting from increases in accounts receivable and unbilled receivables and retentions primarily due to the timing of revenue recognition and billings, partially offset by an increase in net income from continuing operations of \$33.3 million.

Cash Provided by Investing Activities. Net cash provided by investing activities increased by \$4.8 million to \$7.8 million for the nine months ended January 26, 2019, compared to net cash provided by investing activities of \$3.0 million for the nine months ended January 27, 2018. The increase in net cash provided by investing activities was

primarily due to proceeds from the sale of our EES Business of \$32.0 million, a decrease in equity method investments of \$1.9 million and an increase in redemptions of available-for-sale investments of \$1.8 million, partially offset by a decrease in net redemptions and purchases of investments of \$31.7 million.

Cash (Used in) Provided by Financing Activities. Net cash used in financing activities increased by \$3.2 million to \$1.1 million for the nine months ended January 26, 2019, compared to net cash provided by financing activities of \$2.1 million for the nine months ended January 27, 2018. The increase in cash used in financing activities was primarily due to a decrease in cash provided from the exercise of employee stock options of \$2.6 million.

Contractual Obligations

During the three and nine months ended January 26, 2019, 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, 2018.

Off-Balance Sheet Arrangements

As of January 26, 2019, 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 nine months ended January 26, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

Foreign Currency Exchange Rate Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

We maintain disclosure controls and procedures (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,

[Table of Contents](#)

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 January 26, 2019, 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 January 26, 2019, 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 January 26, 2019 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

On April 18, 2018, a former employee of AeroVironment, Mark Anderson, filed a lawsuit against us and Wahid Nawabi, our President and Chief Executive Officer, in the Superior Court of the State of California for the County of Los Angeles. Mr. Anderson's claims include whistle blower retaliation, race discrimination and wrongful termination related to the termination of his employment with the Company. Mr. Nawabi was subsequently dismissed as an individual defendant for the racial discrimination and wrongful terminations claims. On August 2, 2018, the defendants filed their answer to the complaint and a demurrer seeking dismissal of the whistle blower retaliation claim against Mr. Nawabi. The defendants filed a supplemental brief in support of the demurrer on October 23, 2018 and a supplemental reply in support of the demurrer on November 20, 2018. On January 23, 2019 the judge granted the demurrer and dismissed Mr. Nawabi as an individual defendant from the whistle blower retaliation claim, the last remaining claim pending against him. Mr. Anderson is seeking special damages, general damages, punitive damages, attorneys' fees and other relief the court deems just and proper. We believe the complaint contains legal claims that are without merit and will defend ourselves vigorously.

On February 22, 2019, Webasto Charging Systems, Inc. ("Webasto") filed a lawsuit against us in Delaware Superior Court, arising from the sale of the EES division to Webasto in June 2018. The lawsuit generally alleges several claims against AeroVironment for breach of contract, indemnity, and bad faith, including allegations regarding inaccuracy of certain diligence disclosures, failure to provide certain consents to contract assignments and related to the previously announced recall. Webasto seeks to recover the costs of the recall and other damages totaling a minimum of \$6.5 million in addition to attorneys' fees, costs, and punitive damages. Our initial evaluation is that many of the allegations are meritless and that we lack sufficient information to fully analyze other allegations at this time. We have not yet been served with the lawsuit, however, we intend to mount a vigorous defense.

We are 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 any 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

Except as set forth below, 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, 2018. Please refer to that section for disclosures regarding the risks and uncertainties related to our business.

The acquisition of the assets associated with our EES Business by Webasto may disrupt our business.

On June 1, 2018, we entered into an Asset Purchase Agreement (the "Purchase Agreement") with Webasto Charging Systems, Inc. ("Webasto"), pursuant to which Webasto agreed to acquire certain properties, assets and rights used or previously held for use in connection with our EES Business. On June 29, 2018, we and Webasto entered into a Side Letter Agreement related to the Purchase Agreement (the "Letter Agreement"), pursuant to which we and Webasto agreed that the purchase price to be paid by Webasto to us at the closing of the transactions contemplated by the Purchase Agreement would be reduced by \$6.5 million (the "Holdback Amount") at closing, with such balance payable when we tendered certain consents of specified EES Business customers to Webasto. On June 29, 2018, we closed our disposition of the EES Business pursuant to the Purchase Agreement. As of March 1, 2019, we had not yet received the Holdback Amount from Webasto.

On February 22, 2019, Webasto filed a lawsuit alleging several claims against us for breach of contract, indemnity, and bad faith, including allegations regarding inaccuracy of certain diligence disclosures, failure to provide certain consents to contract assignments and related to the previously announced recall. Webasto seeks to recover the costs of the recall and other damages totaling a minimum of \$6.5 million in addition to attorneys' fees, costs, and punitive damages. Webasto also alleges that we did not meet the requirements to receive the Holdback Amount.

We also continue to provide transition services and other support to Webasto in connection with its acquisition of our EES Business, our post-closing activities and obligations under the Purchase Agreement and related transaction agreements. Our provision of the transition services and activities related to defending the lawsuit may disrupt our sales and marketing or other business activities, including our relationships with customers, suppliers and other third parties, and divert management's and our employees' attention from our day-to-day operations, which may have an adverse impact on our financial performance. Further, in the event that we do not receive the Holdback Amount from Webasto or otherwise incur any further liabilities pursuant to the terms of the Purchase Agreement including as a result of the lawsuit, our financial condition and results of operations may be negatively affected and the price per share of our common stock could decline.

We could be the subject of future product liability suits or product recalls, which could harm our business.

We may be subject to involuntary product recalls or may voluntarily conduct a product recall. The costs associated with any future product recalls could be significant. In addition, any product recall, regardless of direct costs of the recall, may harm consumer perceptions of our products and have a negative impact on our future revenues and results of operations. Subject to a determination of the appropriateness of any recall, we remain responsible for the non-warranty costs from the recall of completed products we manufactured, sold or serviced prior to closing of our transaction with Webasto. In particular, on August 24, 2018, Webasto filed a recall report with the National Highway Traffic Safety Administration that named us as a brand of the affected equipment. To the extent we are obligated under the terms of the Purchase Agreement with Webasto or as a result of the lawsuit filed by Webasto against us seeking costs related to the recall or pursuant to applicable law for all or any portion of the costs incurred in connection with such recall, or any other such recall, our results of operations may be negatively affected.

In addition to government regulation, products that have been or may be developed by us may expose us to potential liability from personal injury or property damage claims by the users of such products. There can be no assurance that a claim will not be brought against us in the future, regardless of merit. While we maintain insurance coverage for product liability claims, our insurance may be inadequate to cover any such claims. Any successful claim could significantly harm our business, financial condition and results of operations.

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 nine months ended January 26, 2019. As of January 26, 2019, 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	AeroVironment, Inc. Executive Severance Plan and Summary Description, effective January 1, 2019.
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).
- # 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: March 5, 2019

AEROVIRONMENT, INC.

By: /s/ Wahid Nawabi
Wahid Nawabi
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Teresa P. Covington
Teresa P. Covington
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

**AEROVIRONMENT, INC.
EXECUTIVE SEVERANCE PLAN
AND SUMMARY PLAN DESCRIPTION**



PROCEED
WITH
CERTAINTY

Effective January 1, 2019

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	ELIGIBILITY	1
	A. Eligibility Criteria	1
	B. Requirements for Receiving Plan Benefits	1
	C. Glossary of Certain Important Plan Terms	1
III.	PLAN BENEFITS FOR QUALIFYING TERMINATIONS	5
	A. Termination due to death or Disability	5
	B. Termination by the Company without Cause – no Change in Control	5
	C. Termination by the Company without Cause or by you for Good Reason – Change in Control within 3 months after	5
	D. Termination by the Company without Cause or by you for Good Reason within 18 months after a Change in Control	6
IV.	SUMMARY TABLE OF PLAN BENEFITS	6
V.	OTHER CONSIDERATIONS	7
	A. Other Plans	7
	B. Reemployment and Repayment	7
	C. Tax Information	7
	D. Employment Issues	8
	APPENDIX A	9
	Inquiries and Claims	9
	Situations That Can Affect Your Plan Benefits	9
	Other Important Information about the Plan	10
	Changes to the Plan	10
	Plan Administration	10
	Claim Review Process for Plan Benefits	12
	Final Dispute Resolution	13
	Discretionary Authority	14
	Your Rights Under ERISA	14
	Legal Documents as Final Authority	15
	<u>Exhibit A</u> — List of Key Employees	
	<u>Exhibit B</u> — Release of All Claims and Potential Claims & Code of Business Conduct and Ethics Disclosure Statement	

I. INTRODUCTION

The purpose of the AeroVironment, Inc. Executive Severance Plan (the "**Plan**") is to provide severance protection to eligible employees of AeroVironment, Inc. (the "**Company**") and its participating affiliates. The Plan provides for severance payments and other benefits (collectively "**Plan Benefits**") to eligible employees who have a Qualifying Termination (defined below) and who meet all of the other conditions of the Plan.

This document constitutes both the plan document and the summary plan description ("**SPD**") under the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), for the Plan as in effect on January 1, 2019 (the "**Effective Date**"). It describes the eligibility criteria and Plan Benefits available to eligible employees.

You must read each provision of this document as a part of the whole summary. A single statement, read out of context, may be misleading. The Plan is intended to be a "welfare plan" and a "top hat" plan for purposes of ERISA, and became effective as of January 1, 2019.

The Plan is not intended to be a deferred compensation plan for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"). The Plan will in all respects be interpreted, operated, and administered in accordance with this intent. Payments provided under the Plan will only be made in a manner that complies with or is exempt from Code Section 409A, including exemptions for separation pay due to an involuntary termination and short-term deferrals.

II. ELIGIBILITY

A. Eligibility Criteria

You are an eligible employee for purposes of the Plan only if you are the Chief Executive Officer of the Company (the "**CEO**") or if the Company designates you as a "**Key Employee**" under the Plan. The Company may designate you a Key Employee in such circumstances as the Company determines make the provision of Plan Benefits appropriate. The determination of Key Employees will be made consistent with the requirement that the Plan be a top hat welfare benefit plan for purposes of ERISA. The list of Key Employees under the Plan as of the Effective Date is attached as **Exhibit A** hereto. You will not be an eligible employee if you are not the CEO or designated as a Key Employee by the Company.

If you are the CEO, you are entitled to participate in the Plan for as long as you are the CEO and the Plan is maintained by the Company. If the Company designates you as a Key Employee, you are entitled to participate in the Plan for as long as the Plan is maintained by the Company, unless you agree to a material adverse change in your authority, duties, or responsibilities (including reporting responsibilities) from your authority, duties, and responsibilities as in effect when you were first designated a Key Employee.

B. Requirements for Receiving Plan Benefits

If you are an eligible employee, you will be eligible to receive Plan Benefits only if each of the following applies to you:

- you have a Qualifying Termination;
- you timely sign and do not revoke a waiver and release of claims against the Company and its affiliates and other related parties that becomes effective and irrevocable (a "**Full Release**"); and
- you meet all other requirements of the Plan.

C. Glossary of Certain Important Plan Terms

Under the Plan, the following terms have the following meanings:

- **“Base Salary Amount”** means the greater of your annual base salary (a) at the rate in effect on your Termination Date or (b) if your termination occurs within 18 months following a Change in Control, at the highest rate in effect at any time during the 180-day period prior to a Change in Control. Base Salary Amount includes all amounts of your base salary that are deferred under any qualified or non-qualified employee benefit plan of the Company or any other agreement or arrangement.
- **“Beneficial Owner”** has the meaning as used in Rule 13d-3 promulgated under the Exchange Act. The terms “Beneficially Owned” and “Beneficial Ownership” each has a correlative meaning.
- **“Board”** means the Board of Directors of the Company.
- **“Bonus Amount”** means the annual target bonus established and payable to you under any annual bonus or incentive plan maintained by the Company in respect of the fiscal year in which your termination occurs (or your annual target bonus in respect of the most recently completed fiscal year if your termination occurs prior to the establishment of an annual target bonus for the fiscal year in which your termination occurs). Bonus Amount includes only the short-term cash incentive portion of the annual bonus and does not include restricted stock or restricted stock unit awards, options, or other long-term incentive compensation awarded to you.
- **“Cause”** will be defined as that term is defined in your offer letter or other applicable employment agreement. If there is no such definition, **“Cause”** means, as determined by the Company in its sole discretion:
 - (a) being convicted for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability);
 - (b) willfully engaging in illegal conduct or gross misconduct that would (i) adversely affect the business or the reputation of the Company or any of its affiliates with their respective current or prospective customers, suppliers, lenders, or other third parties with whom such entity does or might do business or (ii) expose the Company or any of its affiliates to a risk of civil or criminal legal damages, liabilities, or penalties; however, no act or failure to act on your part will be considered “willful” unless done or omitted to be done by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company; or
 - (c) failing to perform your duties in a reasonably satisfactory manner after the receipt of a notice from the Company detailing such failure if the failure is incapable of cure, and if the failure is capable of cure, upon the failure to cure such failure within 30 days of such notice or upon its recurrence.

A termination for Cause includes a termination following which the Company determines that circumstances existing prior to your termination or during the payment of Plan Benefits would have entitled the Company or an affiliate to have terminated you for Cause. All rights you may have under the Plan will be suspended automatically during the pendency of any investigation by the Company or during any negotiations between the Company and you concerning any actual or alleged act or omission by you of the type described in the applicable definition of Cause.

- **“Change in Control”** of the Company means, and will be deemed to have occurred upon, any of the following events:
 - (a) The acquisition by any Person of Beneficial Ownership of 30% or more of the outstanding voting power; provided, however, that the following acquisitions will not constitute a Change in Control for purposes of this subparagraph (a): (i) any acquisition directly from the Company; (ii) any acquisition by the Company or any of its Subsidiaries; (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries; or (iv) any acquisition by any Person pursuant to a transaction which complies with clauses (i), (ii), and (iii) of subparagraph (c) below; or

- (b) Individuals who at the beginning of any two-year period constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two-year period and whose election or whose nomination for election by the Company’s stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members will be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act), other actual or threatened solicitation of proxies or consents, or an actual or threatened tender offer; or
- (c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “**Business Combination**”), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners’ ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination will not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, 30% or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned 30% or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the board of directors of the entity resulting from such Business Combination were members of the Board at the time of the execution of the initial agreement or the action of the Board providing for such Business Combination; or
- (d) Approval by the Company’s stockholders of a complete liquidation or dissolution of the Company.

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

- “**Continuation Period**” means a period of 12 months following the Termination Date.
- “**Continuation Period Benefits**” means the Company’s provision (at its expense) to you and your dependents and beneficiaries of the same or equivalent life insurance, disability, medical, dental, and hospitalization benefits provided to other similarly situated executives who continue in the

employ of the Company during the Continuation Period, subject to the terms and conditions and limitations of the Company (or affiliate) plan under which such benefits are provided. If the Company cannot provide the foregoing benefits in a manner that is compliant with applicable law or the terms of the applicable plan, instead of providing the benefits as set forth above, the Company shall instead pay you the monthly premium amount for such benefits (determined by reference to the premiums in effect immediately prior to the Termination Date) as a taxable monthly payment for the Continuation Period (or any remaining portion thereof). The Company may reduce its provision of any benefits if you become eligible to obtain such benefits pursuant to a subsequent employer's benefit plans, as long as the coverage and benefits of the combined benefit plans are no less favorable to you than the coverage and benefits required to be provided hereunder.

- **"Disability"** will be defined as that term is defined in your offer letter or other applicable employment agreement. If there is no such definition, **"Disability"** means an incapacity that has resulted in your qualification to receive long-term disability benefits under the Company's long term disability plan or, if you are not covered by the Company's long term disability plan, incapacity that results in a determination by the Social Security Administration that you are entitled to a Social Security disability benefit.
- **"Exchange Act"** means the Securities Exchange Act of 1934, as amended.
- **"Good Reason"** will be defined as that term is defined in your offer letter or other applicable employment agreement. If there is no such definition, **"Good Reason"** means the occurrence of any of the following events without your written consent:
 - (a) (i) Any material adverse change in your authority, duties, or responsibilities (including reporting responsibilities) from your authority, duties, and responsibilities as in effect at any time within three months preceding the date of the Change in Control or at any time thereafter, or (ii) if you are an executive officer of the Company a significant portion of whose responsibilities relate to the Company's status as a public company, your failure to continue to serve as an executive officer of a public company, in each case except in connection with the termination of your employment for Disability, for Cause, as a result of your death, or by you other than for Good Reason; or
 - (b) A material reduction in your base salary; or
 - (c) The imposition of a requirement that you be based at any place outside a 60-mile radius from your principal place of employment immediately prior to the Change in Control except for reasonably required travel on Company business that is not materially greater in frequency or duration than prior to the Change in Control; or
 - (d) Any material breach by the Company of the Plan with respect to you or of any employment agreement with you.

In order to terminate for Good Reason, you must (a) reasonably determine in good faith that a Good Reason condition has occurred; (b) notify the Company in writing of the occurrence of the condition within 90 days; (c) cooperate in good faith with the Company's efforts, for a period of not less than 30 days following such notice, to remedy the condition (after which time the condition still exists); and (d) terminate employment within 60 days after that remedy period.

- **"Notice of Termination"** means a written notice from you or the Company of the termination of your employment, which indicates the specific termination provision in the Plan relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.
- **"Person"** has the meaning as defined in Section 3(a)(9) of the Exchange Act and used in Section 13(d) or 14(d) of the Exchange Act, and will include any "group" as such term is used in such sections.

- **“Pro Rata Bonus”** means an amount equal to the Bonus Amount multiplied by a fraction, the numerator of which is the number of days elapsed in the then-current fiscal year through and including the Termination Date and the denominator of which is 365.
- **“Subsidiary”** means any corporation with respect to which another specified corporation has the power under ordinary circumstances to vote or direct the voting of sufficient securities to elect a majority of the directors.
- **“Termination Date”** means (a) in the case of your death, your date of death, (b) in the case of the termination of your employment by you for Good Reason, the date of your termination after the Company’s cure period, and (c) in all other cases, the date specified in the Notice of Termination, provided that if your employment is terminated by the Company for Cause based on a failure to perform your duties in a way that is capable of cure or due to Disability, the date specified in the Notice of Termination will be at least 30 days after the date the Notice of Termination is given to you.

III. PLAN BENEFITS FOR QUALIFYING TERMINATIONS

If you are an eligible employee for purposes of the Plan and you incur one of the following **“Qualifying Terminations,”** you must satisfy the following additional requirement before becoming eligible to receive the Plan Benefits specified below: you must provide the Company with a Full Release in a form satisfactory to the Company and similar to the agreement set forth in **Exhibit B** (with such changes as may be reasonably required to such form to help ensure its enforceability in light of any changes in applicable law) pursuant to which you fully and completely release the Company from all claims that you may have against the Company (other than any claims that may arise or have arisen under the Plan or that cannot be released under applicable law). The Full Release must become effective in accordance with its terms prior to the date that is 30 days (or such longer period to the extent required by applicable law) following the Termination Date (including the expiration of any revocation period thereunder without your revocation of the Full Release).

A. Termination due to death or Disability

A termination of your employment due to your death or Disability while you are eligible for benefits under the Plan constitutes a “Qualifying Termination.” Upon a Qualifying Termination due to death or Disability, you will become eligible for (1) a Pro Rata Bonus, (2) one times the sum of your Base Salary Amount and your Bonus Amount (1.5 times if you are the CEO), and (3) Continuation Period Benefits.

Your Pro Rata Bonus and Base Salary Amount will be paid in a single lump sum cash payment 30 days after the Termination Date.

B. Termination by the Company without Cause – no Change in Control

A termination of your employment by the Company without Cause while you are eligible for benefits under the Plan, where a Change in Control has not occurred within 18 months before or 3 months after your termination, constitutes a “Qualifying Termination.” If you are so terminated by the Company, you will become eligible for (1) a Pro Rata Bonus, (2) one times the sum of your Base Salary Amount and your Bonus Amount (1.5 times if you are the CEO), and (3) Continuation Period Benefits.

Your Pro Rata Bonus and Base Salary Amount will be paid in a single lump sum cash payment 30 days after the Termination Date.

C. Termination by the Company without Cause or by you for Good Reason – Change in Control within 3 months after

A termination of your employment by the Company without Cause or by you for Good Reason within three months before a Change in Control, while you are eligible for benefits under the Plan, constitutes a

“Qualifying Termination.” If you are terminated by the Company without Cause or by you for Good Reason within three months before a Change in Control, you will become eligible for (1) a Pro Rata Bonus, (2) 1.5 times the sum of your Base Salary Amount and your Bonus Amount (2.5 times if you are the CEO), (3) immediate vesting of your outstanding time-vesting restricted stock awards (which term, for the avoidance of doubt, does not include restricted stock units, performance stock units, or performance shares) (“**RSAs**”) and options, (4) Continuation Period Benefits, and (5) unless you have already accepted an offer of employment, outplacement services suitable to your position until the end of the Continuation Period (or, if earlier, when you accept an offer of employment).

If you have already received (or are due) any Plan Benefits under **Section III.B** above (for a termination by the Company without Cause absent a Change in Control), the Plan Benefits for which you are eligible under this **Section III.C** will be reduced accordingly and you will only be eligible for any Plan Benefits over and above paid Plan Benefits. Your eligibility for Plan Benefits under this **Section III.C** is contingent upon your executing an additional Full Release and it becoming effective and irrevocable within 30 days after the Change in Control.

Your Pro Rata Bonus, Base Salary Amount, and Bonus Amount (after reducing the amounts by any amounts paid under **Section III.B**) will be paid in a single lump sum cash payment 30 days after the Change in Control. The foregoing treatment of your outstanding RSAs and options is notwithstanding anything to the contrary in the award agreements relating to those RSAs and options.

D. Termination by the Company without Cause or by you for Good Reason within 18 months after a Change in Control

A termination of your employment by the Company without Cause or by you for Good Reason within 18 months after a Change in Control, while you are eligible for benefits under the Plan, constitutes a “Qualifying Termination.” If you are terminated by the Company without Cause or you terminate your employment with the Company for Good Reason within 18 months after a Change in Control, you will become eligible for (1) a Pro Rata Bonus; (2) 1.5 times the sum of your Base Salary Amount and your Bonus Amount (2.5 times if you are the CEO); (3) immediate vesting of your outstanding RSAs and options; (4) vesting of any performance-based restricted stock units (“**PSUs**”) still eligible to vest as provided below; (5) Continuation Period Benefits; and (6) outplacement services suitable to your position until the end of the Continuation Period (or, if earlier, when you accept an offer of employment).

With respect to any PSUs still eligible to vest, the number of PSUs vesting upon your termination will equal the greater of (i) the target number of PSUs set forth in your PSU award agreement and (ii) the number of PSUs that would vest based on actual achievement of the performance goals as of the Change in Control date, with the performance goals (including the threshold, target, and maximum levels) adjusted proportionately to reflect the shortened performance period. Any PSUs that do not vest will automatically be forfeited, and you will have no further right or interest in or with respect to those PSUs.

Your Pro Rata Bonus, Base Salary Amount, and Bonus Amount will be paid in a single lump sum cash payment 30 days after the Termination Date. The foregoing treatment of your RSAs, options, and PSUs (“**Equity Awards**”) is notwithstanding anything to the contrary in the award agreements relating to those Equity Awards.

IV. SUMMARY TABLE OF PLAN BENEFITS

Below is a table summarizing the severance benefits discussed above for Qualifying Terminations. If there is any conflict between the terms above and the table below, the terms above will control.

	Termination by Company without Cause	Termination by you for Good Reason	Termination for death or Disability
No Change in Control	<u>Cash</u> <ul style="list-style-type: none"> • Pro Rata Bonus • 1x Base Salary Amount + Bonus Amount (1.5x for CEO) <u>Equity</u> <ul style="list-style-type: none"> • No special treatment <u>Other</u> • Continuation Period Benefits 	(Not a Qualifying Termination)	
Change in Control within 3 months after termination	<u>Cash</u> <ul style="list-style-type: none"> • Pro Rata Bonus • 1.5x (Base Salary Amount + Bonus Amount) (2.5x for CEO) <u>Equity</u> <ul style="list-style-type: none"> • RSAs and options accelerate <u>Other</u> • Continuation Period Benefits • Outplacement services <i>These Plan Benefits will be reduced by any Plan Benefits already due or received.</i>		<u>Cash</u> <ul style="list-style-type: none"> • Pro Rata Bonus • 1x Base Salary Amount + Bonus Amount (1.5x for CEO) <u>Equity</u> <ul style="list-style-type: none"> • No special treatment <u>Other</u> • Continuation Period Benefits
Termination within 18 months after Change in Control	<u>Cash</u> <ul style="list-style-type: none"> • Pro Rata Bonus • 1.5x (Base Salary Amount + Bonus Amount) (2.5x for CEO) <u>Equity</u> <ul style="list-style-type: none"> • PSUs accelerate • RSAs and options accelerate <u>Other</u> • Continuation Period Benefits • Outplacement services 		

In no event will a termination for Cause or a voluntary termination by you without Good Reason constitute a Qualifying Termination.

V. OTHER CONSIDERATIONS

A. Other Plans

Participation in the Plan does not enhance or reduce the amounts, if any, payable to you under any other benefit plan maintained by the Company or its affiliates. Notwithstanding the foregoing sentence, in no event will you be entitled to benefits under both the Plan and any other severance plan, agreement, or arrangement with the Company or its affiliates. Except to the extent provided above, the Plan will not affect the terms of any outstanding Equity Awards, which will be determined in accordance with the terms and conditions of the Company equity compensation plan(s) under which they were granted and any applicable award agreements.

B. Reemployment and Repayment

You do not have any right to reemployment or any preferential rights for rehire as a result of participation in the Plan.

C. Tax Information

Your Plan Benefits are taxable to you as ordinary income. This document is not intended to provide a complete description of the tax consequences of the Plan. You are urged to consult with your personal tax advisor before making any decisions. The Company will withhold from any severance such federal and

state tax withholdings and other deductions reasonably determined to be required by law, such as those made in order to comply with any court or administratively ordered garnishments from certain Plan Benefits.

Notwithstanding anything contained in the Plan to the contrary, if it is determined that any payment by the Company or any other person or entity to you or for your benefit under the Plan or otherwise, in connection with, or arising out of, your service with the Company or its affiliate or a change in ownership or effective control of the Company or a substantial portion of its assets (a "**Payment**") is a "parachute payment" within the meaning of Code Section 280G on account of the aggregate value of the Payments due to you being equal to or greater than three times the "base amount," as defined in Code Section 280G (the "**Parachute Threshold**"), so that you would be subject to the excise tax imposed by Code Section 4999, and the net after-tax benefit that you would receive by reducing the Payments to the Parachute Threshold is greater than the net after-tax benefit you would receive if the full amount of the Payments were paid to you, then the Payments payable to you will be reduced (but not below zero) so that the Payments due to you do not exceed the amount of the Parachute Threshold.

The Plan is intended to comply with Code Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and administered to be in compliance therewith. Any payments described in the Plan that are due within the "short-term deferral period" as defined in Code Section 409A shall not be treated as deferred compensation unless applicable laws require otherwise. For purposes of Code Section 409A, each installment payment under the Plan shall be treated as a separate payment. Notwithstanding any other term or condition of the Plan, to the extent required to avoid accelerated taxation or tax penalties under Code Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided under the Plan during the six-month period immediately after your "separation from service" (as defined in Code Section 409A) will instead be paid on the first payroll date after the six-month anniversary of your separation from service (or your death, if earlier). Notwithstanding the foregoing, the Company has no obligation to take any action to prevent the assessment of any additional tax or penalty on you under Code Section 409A and the Company has any liability to you for such tax or penalty.

D. Employment Issues

The Plan does not constitute inducement or consideration for the employment of any employee, nor is it a contract between any employee and the Company or any of its affiliates. The Plan does not give any employee the right to continued employment. The Company and its affiliates have the right to hire and terminate any employee at any time, as if the Plan had never been established. The Plan does not provide eligible employees with any right not expressly granted by its provisions, and does not provide any benefit without the execution of the Full Release.

APPENDIX A

This Appendix A includes important information that is required to be included in the SPD for the Plan, and constitutes part of the Plan and the SPD.

Inquiries and Claims

To file a claim relating to the Plan, follow the procedures described here.

Inquiries and questions about the Plan may be addressed to the Plan administrator at the address provided below under the "Plan Administration" section. If you disagree with your benefits under the Plan, you must file a claim within 60 days of the date your first payment would have been due under the Plan. Any legal action for benefits under the Plan must be brought within one year following a final decision on a claim brought in accordance with the Plan's claims procedures under the "Claim Review Process for Plan Benefits" section below and must be brought in accordance with the "Final Dispute Resolution" section below.

Situations That Can Affect Your Plan Benefits

Some situations could cause a loss or delay of your Plan Benefits.

The Plan is designed to provide Plan Benefits to eligible employees. Some situations could affect Plan Benefits. These situations include the following:

- Eligibility for the Plan is limited to those eligible employees designated by the Company. You may be in a position such that you are not designated as eligible for the Plan. If you are not designated as an eligible employee, you will not be eligible for Plan Benefits.
- Eligibility for Plan Benefits is subject to strict deadlines. If you do not meet the deadlines, you will not be eligible for Plan Benefits.
- Eligibility for Plan Benefits is conditioned on your signing and not revoking a Full Release and separating from employment on a specified date in the manner determined by the Company. If you do not comply with these requirements, you will not be eligible for Plan Benefits.
- If you voluntarily separate from employment, you generally will not be eligible to receive Plan Benefits.
- If you are designated as an eligible employee under the Plan but are terminated for Cause, you will not be eligible to receive Plan Benefits.
- If you are designated as an eligible employee under the Plan but are removed from service and subsequently terminated for Cause, you will not be eligible to receive Plan Benefits.
- If you are designated as an eligible employee under the Plan but you separate and become entitled to severance benefits under another severance agreement with the Company or its affiliates, you will not be eligible to receive Plan Benefits.
- If you are selected for and accept a regular full-time position with the Company or its affiliates prior to receiving all Plan Benefits, you will not be eligible to receive further Plan Benefits.

Other Important Information about the Plan

- Your Plan Benefits are paid from the general assets of the Company or its participating affiliates.
- Your Plan Benefits may not be transferred, sold, assigned, or pledged under most circumstances.
- The Plan is intended to be a top hat welfare benefit plan for purposes of ERISA. Your Plan Benefits may be limited to retain the Plan's status as a top hat welfare benefit plan.
- The Plan is intended to qualify for the severance pay exception or short-term deferral exception under Code Section 409A. Your Plan Benefits may be limited to ensure that the Plan continues to satisfy the requirements of these exceptions.
- If you die before any Plan Benefits under the Plan are paid, such payment(s) may be paid to your estate upon execution of an effective waiver and release by your estate's representative.
- Any overpayments from the Plan may be recouped from future payments or by other means permitted by law.
- Nothing in the Plan is a commitment of continued employment. Your employment is at-will. The Company's and its affiliates' right to terminate or change the terms of your employment remains the same as if the Plan had not been adopted.
- Plan Benefits are paid only if the Plan administrator determines that you are entitled to Plan Benefits.
- As a participant in the Plan, you have certain rights under ERISA. Information about your rights and other important information can be found in the "*Plan Administration*" section.
- If you disagree with your Plan Benefits, you must file a claim and provide any required information with the claim before Plan Benefits can be paid. See the "*Claim Review Process for Plan Benefits*" section for information on claim submissions and the review process.
- Any claim for Plan Benefits must be filed within 60 days of the date your first payment would have been due under the Plan.
- Any legal action for benefits under the Plan must be brought within one year following the final decision on a claim brought in accordance with the Plan's claims procedures. See the "*Final Dispute Resolution*" section for information on the procedure for legal action.

Changes to the Plan

The Company may amend or terminate the Plan at any time, but no amendment or termination of the Plan may, without your consent, materially impair your rights under the Plan

Plan Administration

Here are details about how the Plan is administered:

Plan Name

The Plan's name is the AeroVironment, Inc. Executive Severance Plan.

Plan Sponsor

AeroVironment, Inc. is the sole sponsor of the Plan. The Company's address, telephone number, and employer identification number ("**EIN**") are:

AeroVironment, Inc.
c/o Corporate Secretary 900 Innovators Way
Simi Valley, CA 93065-0906 (805) 520-8350
EIN: 95-2705790

Plan Number

The plan number assigned to the Plan is 502.

Funding

The Plan is not funded and no contributions are made to the Plan. Benefits under the Plan are paid from the general assets of the Company and its participating affiliates.

Administrator and Administration

The Plan administrator for the Plan is the Company. The Company has the responsibility and authority to control and manage the operation and administration of the Plan, except to the extent delegated or assigned to others. The Company may assign or delegate any of its authority or duties to others. The Plan administrator's address and telephone number are:

AeroVironment, Inc.
c/o Corporate Secretary 900 Innovators Way
Simi Valley, CA 93065-0906 (805) 520-8350

The Company and any delegate thereof, each within its area of authority and responsibility, have the power and discretion to construe and interpret the Plan and to make factual determinations. Plan Benefits are paid only if the Company or its delegate decides in its sole discretion that the applicant is entitled to the Plan Benefits. All decisions of the Company (including any delegate) under the Plan will be in its sole discretion and will be final and binding upon all persons.

Plan Year

The Plan's fiscal records are kept on a fiscal year basis ending each April 30.

Agent for Service of Legal Process

The person designated for service of legal process upon the Plan is:

AeroVironment, Inc.
c/o Corporate Secretary
900 Innovators Way
Simi Valley, CA 93065-0906
(805) 520-8350

Legal process also may be served upon the Plan administrator.

Affiliated Employers of the Company That Have Adopted the Plan

Contact the Plan administrator for information regarding affiliates of the Company that have adopted and are participating in the Plan.

Type of Plan

The Plan is a top hat welfare benefit plan for purposes of ERISA. The Plan provides severance benefits. Since the Plan is a welfare benefit plan as defined by ERISA, its benefits are not insured by the Pension Benefit Guaranty Corporation.

Claim Review Process for Plan Benefits

The Plan has a claim review process that must be followed whenever you submit a claim for benefits under the Plan.

Initial Decision

When you file a claim, the Company or its delegate (referred to as the "Company" in the rest of this section) reviews the claim and makes a decision to either approve or deny the claim (in whole or in part). You will receive a written notice of the claim decision no later than 90 days after receipt of your claim. In some situations, the Company may need an extension of time of up to 90 days to make a decision (for example, if it needs additional information). If the Company needs an extension, it will notify you of the reason for the extension and the date by which a decision on the claim can be expected within the initial 90-day period following receipt of your claim.

If Your Claim Is Denied

If your request or claim is denied, in whole or in part (an "adverse determination"), you will receive a written notice that explains in a manner calculated to be understood by you:

- the specific reason(s) for the adverse determination;
- specific references to the Plan provisions on which the adverse determination is based;
- a description of any additional material or information needed from you and an explanation of why it is necessary; and
- appropriate information as to the steps to be taken if you wish to submit your claim for review, including a description of the Plan's review procedures and the time limits applicable to such procedures and a statement of your right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

Request for Review if Your Claim Is Denied

After receiving a denial notice, you or your legal representative may appeal the denied claim and may: (1) request a review upon written application to the Company; (2) review pertinent documents; and (3) submit written comments, documents, records, or other information relating to the claim; provided that such appeal is made within 60 days of the date you receive notification of the denied claim. If written request for review is not made within such 60-day period, you will forfeit your right to review. If you and/or your representative timely appeal the denied claim, the Company will provide you with, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant to your claim. The Company's review will take into account all comments, documents, records, and other documents submitted by you relating to the claim, without regard to whether the information was submitted or considered in the initial benefit determination.

Final Decision

Upon receipt of a request for review, the Company will provide written notification of its decision to you within a reasonable time period but not later than 60 days after receiving the request, unless special circumstances require an extension for processing the review. If such an extension is required, the Company will notify you of such extension within 60 days of the date the appeal was received by the Company, the special circumstances, and the date, no later than 120 days after the original date the review was requested, by which the Company will notify you of its decision. If an extension is required due to your failure to submit information necessary to decide a claim, the period for making the benefit determination on review shall be tolled from the date on which the notification of the extension is sent to you until the date on which you respond to the request for additional information. The written notification from the Company that your appeal has been denied will set forth, in a manner calculated to be understood by you:

- the specific reason(s) for the adverse determination;
- specific references to the Plan provisions on which the adverse determination is based;
- a statement that you are entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant to your claim for benefits; and
- a statement describing any voluntary appeal procedures offered by the Plan, your right to obtain information about those procedures, and your right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

No claim for benefits under the Plan may be brought in any forum until you (a) have submitted a written application for benefits in accordance with the procedures described above, (b) have been notified by the Company or its delegate that the application is denied, (c) have filed a written request for a review of the application in accordance with the appeal procedure described above, and

(d) have been notified in writing that the Company has denied the appeal.

Final Dispute Resolution

Any and all claims and disputes under the Plan (including but not limited to claims and disputes regarding interpretation, scope, or validity of the Plan, and any pendant state claims if not otherwise preempted by ERISA) must follow the claims procedures described above, before you may take action in any other forum regarding a claim for benefits under the Plan. Furthermore, any action you initiate under the Plan must be brought in accordance with this provision and must be brought within **one year** of a final determination on the claim for benefits under these claims procedures or your benefit claim will be deemed permanently waived and abandoned and you will be precluded from reasserting it.

In the event of any such further dispute, claim, question, or disagreement arising out of or relating to this Plan, you shall use your best efforts and the Company shall use its best efforts to settle such dispute, claim, question, or disagreement. To this effect, you and the Company shall consult and negotiate with each other, in good faith, and, recognizing mutual interests, attempt to reach a just and equitable resolution satisfactory to both parties.

If you and the Company do not reach a resolution within a period of 30 days, then such unresolved dispute, claim, question, or disagreement, upon notice by any party to the other, shall be submitted to and finally settled by arbitration in accordance with the Streamlined or Comprehensive Arbitration Rules and Procedures (the "**Rules**") of the Judicial Arbitration and Mediation Service ("**JAMS**") in effect at the time demand for arbitration is made by any such party. The parties shall mutually agree upon a single arbitrator within 30 days of such demand. In the event that the parties are unable to so agree within such 30-day period, then within the following 30-day period, the parties will request from JAMS a list of qualified arbitrators and will select an arbitrator in accordance with the Rules. Unless otherwise mutually agreed, the

arbitrator shall be a practicing attorney with at least 15 years of experience and at least five years of experience as an arbitrator. Arbitration shall occur in the JAMS office closest to Simi Valley, California or such other location as may be mutually agreed by the parties.

All awards made by the arbitrators shall be final and binding, and judgment may be entered based upon such award in any court of law having competent jurisdiction. Any such award is subject to confirmation, modification, correction, or vacation only as explicitly provided in Title 9 of the United States Code (the "**Federal Arbitration Act**"). The parties acknowledge that this Plan evidences a transaction involving interstate commerce. The Federal Arbitration Act and the Rules shall govern the interpretation, enforcement, and proceedings pursuant to this provision. Any provisional remedy that would be available from a court of law shall be available from the arbitrator to the parties to this Plan pending arbitration. Either party may make an application to the arbitrators seeking injunctive relief to maintain the status quo, or may seek from a court of competent jurisdiction any interim or provisional relief that may be necessary to protect the rights and property of that party, until such times as the arbitration award is rendered or the controversy otherwise resolved. To the extent consistent with applicable law, the arbitrator may award fees and costs to the successful party.

By participating in the Plan, you are agreeing to binding arbitration of any disputes that may arise relating to the Plan and waiving your right to a jury trial.

Discretionary Authority

Authority to decide initial claims under the Plan and denied claims on review under the Plan includes the full power and sole discretion to interpret Plan provisions and to make factual determinations, with the decisions, interpretations, and factual determinations made by the Company or its delegate, as applicable, controlling. Requests for information regarding individual claims, or review of a denied claim, are to be directed in writing and properly addressed to the particular entity identified as having the authority to decide the initial claim or to decide the denied claim on review, as applicable.

Your Rights Under ERISA

As a participant in the Plan, you are entitled to certain rights and protections under ERISA. ERISA provides that all Plan participants will be entitled to:

Receive Information About Your Plan and Benefits

As a participant in the Plan, you have the right to:

- Examine, without charge, at the Plan administrator's office and at other specified locations, all documents governing the Plan, including a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration (if such an annual report is required to be filed).
- Obtain, upon written request to the Plan administrator, copies of documents governing the operation of the Plan, including copies of the latest annual report (Form 5500 Series), if any, and updated Summary Plan Description. The Plan administrator may make a reasonable charge for the copies.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan participants and beneficiaries. No one, including the Company or any other person, may fire you or otherwise

discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

Claim Review

If your claim for benefits under the Plan is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial—all within certain time schedules. For more information on claim review, see the “*Claim Review Process for Plan Benefits*” section above.

Enforce Your Rights

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of Plan documents or the latest annual report from the Plan (if any) and do not receive them within 30 days, you may initiate arbitration as provided in the “*Final Dispute Resolution*” section above. In such a case, the arbitrator may require the Plan administrator to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may initiate arbitration as provided in the “*Final Dispute Resolution*” section above once you have completed the claims review process.

If you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may initiate arbitration.

The arbitrator will decide who should pay costs and legal fees. If you are successful, the arbitrator may order the person you have sued to pay these costs and fees. If you lose, the arbitrator may order you to pay these costs and fees—for example, if it finds your claim is frivolous.

Assistance with Your Questions

If you have any questions about the Plan, you should contact the Plan administrator.

If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, DC 20210.

You also may obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

Legal Documents as Final Authority

The complete provisions of the Plan are set forth in this plan document, which is available upon request by contacting the Plan administrator. Descriptions of benefits under the Plan should not be taken out of context. Inquiries about specific situations should be directed in writing to the Company. In the event of a conflict between any communication regarding the Plan and the plan document, the plan document controls. Remember, the Plan may be amended only by proper corporate action and not by oral or written communications about benefits under the Plan.

Exhibit A — List of Key Employees (as of January 1, 2019)

Name	Position



**Exhibit B — Release of All Claims and Potential Claims & Code of Business Conduct and Ethics
Disclosure Statement**

RELEASE OF ALL CLAIMS AND POTENTIAL CLAIMS

1. This Release of All Claims and Potential Claims (“**Release**”) is entered into by and between _____ (“**Officer**”) and AeroVironment, Inc., a Delaware corporation (hereinafter the “**Company**”). Officer is a Key Employee under the AeroVironment, Inc. Executive Severance Plan (the “**Plan**”). In consideration of the promises made herein and the consideration due Officer under the Plan, this Release is entered into between the parties.

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

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

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

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

(a) Officer waives, releases and forever discharges Releasees from any claims and potential claims for relief, causes of action and liabilities, known or unknown, that Officer has or may have against Releasees arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character whatsoever, known or unknown, arising out of, relating to or resulting from the employment relationship between Officer and the Company and its subsidiaries, affiliates and predecessors, and the termination of that relationship. For example, Officer is releasing all common law contract, tort, or other claims Officer might have, as well as all claims Officer might have under the Age Discrimination in Employment Act (“**ADEA**”), the Worker Adjustment & Retraining Notification Act (WARN Act), Title VII of the Civil Rights Act of 1964, Sections 1981 and 1983 of the Civil Rights Act of 1866, the Civil Rights Act of 1991, the Equal Pay Act, the Family and Medical Leave Act, the Americans With Disabilities Act (“**ADA**”), the Employee Retirement Income Security Act of 1974 (ERISA), and any similar domestic or foreign laws, such as the California Fair Employment and Housing Act, California Labor Code Section 200 et seq., and any applicable California Industrial Welfare Commission order. In addition, this Release does not cover, and nothing in this Release shall be construed to cover, any claim that cannot be so released as a matter of applicable law.

(b) Officer agrees that Officer will not directly or indirectly institute any legal proceedings against Releasees before any court, administrative agency, arbitrator or any other tribunal or forum whatsoever by reason of any claims and potential claims for relief, causes of action and liabilities of any and every kind, nature and character

whatsoever, known or unknown, arising out of, relating to or resulting from any events occurring prior to the execution of this Release, including but not limited to any claims and potential claims for relief, causes of action and liabilities arising out of, relating to or resulting from the employment relationship between Officer and the Company and its subsidiaries, affiliates and predecessors, and/or the termination of that relationship including any and all claims and rights under the ADEA.

(c) Officer agrees not to engage in any conduct or make any oral or written public statement that is in any way critical of, or disparaging to, or otherwise derogatory about the Company or any of its products, services, business affairs, or financial condition, or any of the Company's partners, affiliates, successors, or assigns, including any of its present or former officers, directors, partners, agents, or employees. However, nothing in this subsection shall prohibit Officer from complying with any lawful subpoena or court order or taking any other actions affirmatively authorized by law.

(d) Officer has disclosed to the Company any information Officer has concerning any conduct involving the Company or any affiliate that Officer has any reason to believe may be unlawful or that involves any false claims to the United States. Officer promises to cooperate fully in any investigation the Company or any affiliate undertakes into matters occurring during Officer's employment with the Company or any affiliate.

(e) The parties understand and agree that nothing in this Release: (i) limits or affects Officer's right to challenge the validity of this Release, including, without limitation, a challenge under the ADEA; (ii) in any way interferes with Officer's right and responsibility to give truthful testimony under oath; or (iii) precludes Officer from participating in an investigation, filing a charge or otherwise communicating with any federal, state or local government office, official or agency, including, but not limited to, the Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, or the Securities and Exchange Commission. Officer agrees never to seek or accept any compensatory damages, back pay, front pay or reinstatement remedies for Officer personally with respect to any claims released by this Release.

4. Officer acknowledges that Officer is a party to an Employee Confidentiality and Invention Assignment Agreement (such agreement, as amended and/or restated as of the Officer's Termination Date (as such term is defined in the Plan), the "*ECIAA*"). Officer agrees to comply with all of Officer's obligations under the *ECIAA*, including all post-termination obligations contained therein.

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

6. Any dispute, claim or controversy of any kind or nature, including but not limited to the issue of arbitrability, arising out of or relating to this Release, or the breach thereof, or any disputes which may arise in the future, shall be settled in a final and binding before an arbitrator appointed by the Judicial Arbitration and Mediation Service in accordance with Exhibit B to this Release. The prevailing party shall be entitled to recover all reasonable attorneys' fees, costs and necessary disbursements incurred in connection with the arbitration proceeding. Judgment upon the award may be entered in any court having jurisdiction thereof. The Company and the Officer acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or related to the Release.

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

8. Officer acknowledges that Officer has read, understood and truthfully completed the Business Ethics and Conduct Disclosure Statement attached hereto as Exhibit A.

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

10. Officer understands and agrees that if the facts with respect to which this Release are based are found hereafter to be other than Officer now expects or anticipates. Officer expressly accepts and assumes the risk of such possible difference in facts and agrees that this Release shall be and remain effective notwithstanding such difference in facts.

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

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

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

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

15. Officer agrees that Officer will not seek future employment with, nor need to be considered for any future openings with the Company, any division thereof, or any subsidiary or related corporation or entity.

16. Officer and Releasees expressly waive all rights under Section 1542 of the Civil Code of the State of California, which they fully understand, and any other similar provision or the law of any other state or jurisdiction. Section 1542 provides as follows:

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

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

18. If any part of this Release is found to be either invalid or unenforceable, the remaining portions of this Release will still be valid and enforceable.

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

- A. Officer acknowledges that Officer has read and understands the terms of this Release.
 - B. Officer acknowledges that Officer has been advised in writing to consult with an attorney, if desired, concerning this Release and has received all advice Officer deems necessary concerning this Release.
-

- C. Officer acknowledges that Officer has been given twenty-one (21) days to consider whether to enter into this Release, has taken as much of this time as necessary to consider whether to enter into this Release, and has chosen to enter into this Release freely, knowingly and voluntarily.
- D. For a seven day period following the execution of this Release, Officer may revoke this Release by delivering a written revocation to at the Company. This Release shall not become effective and enforceable until the revocation period has expired.

20. Officer acknowledges that Officer has been encouraged to seek the advice of an attorney of Officer's choice with regard to this Release. Having read the foregoing, having understood and agreed to the terms of this Release, and having had the opportunity to and having been advised by independent legal counsel, the parties hereby voluntarily affix their signatures.

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

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

23. This Release only may be amended by a written agreement that the Company and Officer both sign.

Dated: _____, 20__

[Signature]

[Print Name]

AeroVironment, Inc.

By: _____

Name: _____

Its: _____

CODE OF BUSINESS CONDUCT AND ETHICS

DISCLOSURE STATEMENT

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

Yes

No

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

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

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

Yes

No

If "yes," please identify them in full and complete detail. Also, notify the Company's General Counsel at 805 581-2198 ext. 1369 immediately.

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

Executed this ____ of _____, 20__

EXHIBIT B

DISPUTE RESOLUTION PROGRAM

1. Arbitration Procedural Rules

Either party may initiate an arbitration under the then-current JAMS' Streamlined or Comprehensive Arbitration Rules and Procedures. The applicable arbitral rules are available for review at www.jamsadr.com (under the Rules/Clauses tab).

- 1.1. The parties will make reasonable efforts to agree upon a mutually satisfactory arbitrator chosen from the JAMS panels. If the parties are unable to agree upon an arbitrator within 30 days of either party's notice to the other party of a demand for arbitration, the Company will request from JAMS a list of qualified arbitrators. The parties will then select an arbitrator in accordance with JAMS Streamlined or Comprehensive Arbitration Rules and Procedures. Unless otherwise mutually agreed, the arbitrator shall be a practicing attorney with at least 15 years of experience and at least five years of experience as an arbitrator.
- 1.2. The Company and the Officer agree that the arbitration will be conducted by a single arbitrator in the JAMS office (as applicable) closest to Simi Valley, California (or such other location as is mutually agreed to by the parties).
- 1.3. The nature of the substantive claims asserted will determine which body of substantive laws will apply. In the event that there is a dispute regarding which substantive laws apply, the arbitrator shall decide that issue.
- 1.4. The parties agree that all proceedings before the arbitrator will remain confidential between the parties, including but not limited to any depositions, discovery, pleadings, exhibits, testimony, or award. The parties will inform third parties (including witnesses) necessary to the proceeding that the proceeding is confidential, and use reasonable efforts to secure that individual's agreement to maintain such confidentiality. The requirement of confidentiality, however, will not apply in the event that either party seeks to confirm an arbitral award and enter a judgment thereon in an appropriate court, or if any such arbitral award is appealed to an appropriate court.

2. Injunctive or Other Interim Relief

Any provisional remedy that would be available from a court of law shall be available from the arbitrator to the parties to the Release pending arbitration. The Company or the Officer may apply to the arbitrator seeking injunctive relief until the arbitration award is rendered or the controversy is otherwise resolved. Either party also may, without waiving any remedy under this Paragraph 2, seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights of that party, pending the establishment of the arbitral tribunal (or pending the arbitral tribunal's determination of the merits of the controversy).

3. Remedies, Written Decision, Fees

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

4. Application of FAA and Questions of Arbitrability.

The Company and the Officer agree that the Federal Arbitration Act, 9 U.S.C. § 1 et seq. ("FAA") governs the enforceability of any and all of the arbitration provisions in the Release and/or this Exhibit. All awards made by the arbitrator shall be final and binding, and judgment may be entered based upon such award in any court of law having competent jurisdiction. Any such award is subject to confirmation, modification, correction, or vacation only as explicitly provided in Title 9 of the FAA. Questions related to procedures (including venue and choice of arbitrator), timeliness, and arbitrability (that is whether an issue is subject to arbitration under the Release and/or this Exhibit) shall be decided by the arbitrator. Claims filed must be timely, i.e., within the time set by the applicable statute(s) of limitations.

5. Administrative Remedies.

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

6. The Officer Understands His/Her Agreement to Arbitrate.

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

**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: March 5, 2019

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

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

I, Teresa P. Covington, certify that:

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

Date: March 5, 2019

/s/ Teresa P. Covington

Teresa P. Covington
Senior Vice President and Chief Financial Officer

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

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

The Quarterly Report on Form 10-Q for the quarter ended January 26, 2019 (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/ Teresa P. Covington

Teresa P. Covington
Senior Vice President and Chief Financial Officer

Dated: March 5, 2019

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.

