
**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 31, 2026

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.)

241 18th Street South, Suite 650
Arlington, Virginia
(Address of principal executive offices)

22202
(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	AVAV	The NASDAQ Stock Market LLC

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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 March 4, 2026, the number of shares outstanding of the registrant's common stock, \$0.0001 par value, was 49,933,993.

AcroVironment, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	January 31, 2026	April 30, 2025
Assets		
Current assets:		
Cash and cash equivalents	\$ 289,878	\$ 40,862
Short-term investments	297,259	—
Accounts receivable, net of allowance for credit losses of \$2,213 at January 31, 2026 and \$203 at April 30, 2025	201,046	101,967
Unbilled receivables and retentions	528,557	290,009
Inventories, net	299,277	144,090
Income taxes receivable	43,031	622
Prepaid expenses and other current assets	45,199	28,966
Total current assets	1,704,247	606,516
Long-term investments	61,659	31,627
Property and equipment, net	158,867	50,704
Operating lease right-of-use assets	91,810	31,879
Deferred income taxes	—	61,460
Intangibles, net	925,925	48,711
Goodwill	2,461,714	256,781
Other assets	49,414	32,889
Total assets	<u>\$ 5,453,636</u>	<u>\$ 1,120,567</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 109,633	\$ 72,462
Wages and related accruals	75,765	44,253
Customer advances	67,543	15,952
Current operating lease liabilities	15,569	10,479
Income taxes payable	320	356
Other current liabilities	40,489	28,659
Total current liabilities	309,319	172,161
Long-term debt	727,877	30,000
Non-current operating lease liabilities	82,567	23,812
Other non-current liabilities	1,995	2,026
Liability for uncertain tax positions	6,061	6,061
Deferred income taxes	53,627	—
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value:		
Authorized shares—10,000,000; none issued or outstanding at January 31, 2026 and April 30, 2025	—	—
Common stock, \$0.0001 par value:		
Authorized shares—100,000,000		
Issued and outstanding shares—49,934,738 shares at January 31, 2026 and 28,267,517 shares at April 30, 2025	6	4
Additional paid-in capital	4,244,416	618,711
Accumulated other comprehensive loss	(5,514)	(6,514)
Retained earnings	33,282	274,306
Total stockholders' equity	<u>4,272,190</u>	<u>886,507</u>
Total liabilities and stockholders' equity	<u>\$ 5,453,636</u>	<u>\$ 1,120,567</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	January 31, 2026	January 25, 2025	January 31, 2026	January 25, 2025
Revenue:				
Product sales	\$ 277,814	\$ 139,753	\$ 916,384	\$ 450,488
Contract services	130,231	27,883	418,845	95,089
	408,045	167,636	1,335,229	545,577
Cost of sales:				
Product sales	199,973	81,001	672,057	253,572
Contract services	109,278	23,436	365,155	73,701
	309,251	104,437	1,037,212	327,273
Gross margin:				
Product sales	77,841	58,752	244,327	196,916
Contract services	20,953	4,447	53,690	21,388
	98,794	63,199	298,017	218,304
Selling, general and administrative	99,414	43,788	329,026	115,499
Research and development	27,112	22,498	96,219	75,827
Impairment of goodwill	151,306	—	151,306	—
(Loss) income from operations	(179,038)	(3,087)	(278,534)	26,978
Other income (loss):				
Interest income (expense), net	3,696	(248)	(9,050)	(1,177)
Other (expense) income, net	(400)	976	6,912	758
(Loss) income before income taxes	(175,742)	(2,359)	(280,672)	26,559
(Benefit from) provision for income taxes	(19,486)	(605)	(36,960)	659
Equity method investment (loss) income, net of tax	(295)	—	2,688	1,055
Net (loss) income	\$ (156,551)	\$ (1,754)	\$ (241,024)	\$ 26,955
Net (loss) income per share				
Basic	\$ (3.15)	\$ (0.06)	\$ (4.94)	\$ 0.96
Diluted	\$ (3.15)	\$ (0.06)	\$ (4.94)	\$ 0.96
Weighted-average shares outstanding:				
Basic	49,741,441	28,031,901	48,761,481	28,001,089
Diluted	49,741,441	28,031,901	48,761,481	28,171,089

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>January 31, 2026</u>	<u>January 25, 2025</u>	<u>January 31, 2026</u>	<u>January 25, 2025</u>
Net (loss) income	\$ (156,551)	\$ (1,754)	\$ (241,024)	\$ 26,955
Other comprehensive income:				
Unrealized loss on available-for-sale investments, net of deferred tax expense of \$0 for the three and nine months ended January 31, 2026 and January 25, 2025 respectively	169	—	(15)	—
Change in foreign currency translation adjustments	539	(969)	1,015	(605)
Total comprehensive (loss) income	<u>\$ (155,843)</u>	<u>\$ (2,723)</u>	<u>\$ (240,024)</u>	<u>\$ 26,350</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

AeroVironment, Inc.
Condensed Consolidated Statements of Stockholders' Equity
For the three months ended January 31, 2026 and January 25, 2025 (Unaudited)
(In thousands except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other	Total
	Shares	Amount			Comprehensive Loss	
Balance at November 1, 2025	49,927,306	\$ 6	\$ 4,234,464	\$ 189,833	\$ (6,222)	\$ 4,418,081
Net loss	—	—	—	(156,551)	—	(156,551)
Unrealized gain on investments	—	—	—	—	169	169
Foreign currency translation	—	—	—	—	539	539
Employee stock purchase plan contributions	9,182	—	1,888	—	—	1,888
Restricted stock awards	3,079	—	—	—	—	—
Restricted stock awards forfeited	(4,829)	—	—	—	—	—
Issuance of common stock for business acquisition, net of issuance costs	—	—	(6)	—	—	(6)
Stock based compensation	—	—	8,070	—	—	8,070
Balance at January 31, 2026	<u>49,934,738</u>	<u>\$ 6</u>	<u>\$ 4,244,416</u>	<u>\$ 33,282</u>	<u>\$ (5,514)</u>	<u>\$ 4,272,190</u>

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other	Total
	Shares	Amount			Comprehensive Loss	
Balance at October 26, 2024	28,205,237	\$ 4	\$ 604,225	\$ 259,396	\$ (5,228)	\$ 858,397
Net income	—	—	—	(1,754)	—	(1,754)
Foreign currency translation	—	—	—	—	(969)	(969)
Restricted stock awards	16,804	—	—	—	—	—
Restricted stock awards forfeited	(2,601)	—	—	—	—	—
Stock based compensation	—	—	5,381	—	—	5,381
Balance at January 25, 2025	<u>28,219,440</u>	<u>\$ 4</u>	<u>\$ 609,606</u>	<u>\$ 257,642</u>	<u>\$ (6,197)</u>	<u>\$ 861,055</u>

AeroVironment, Inc.
Condensed Consolidated Statements of Stockholders' Equity
For the nine months ended January 31, 2026 and January 25, 2025 (Unaudited)
(In thousands except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at April 30, 2025	28,267,517	\$ 4	\$ 618,711	\$ 274,306	\$ (6,514)	\$ 886,507
Net loss	—	—	—	(241,024)	—	(241,024)
Unrealized loss on investments	—	—	—	—	(15)	(15)
Foreign currency translation	—	—	—	—	1,015	1,015
Employee stock purchase plan contributions	27,737	—	4,355	—	—	4,355
Restricted stock awards	178,561	—	—	—	—	—
Restricted stock awards forfeited	(14,566)	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(7,820)	—	(10,900)	—	—	(10,900)
Issuance of common stock for business acquisition, net of issuance costs	17,425,849	2	2,637,339	—	—	2,637,341
Shares issued, net of issuance costs	4,057,460	—	966,846	—	—	966,846
Stock based compensation	—	—	28,065	—	—	28,065
Balance at January 31, 2026	<u>49,934,738</u>	<u>\$ 6</u>	<u>\$ 4,244,416</u>	<u>\$ 33,282</u>	<u>\$ (5,514)</u>	<u>\$ 4,272,190</u>

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at April 30, 2024	28,134,438	\$ 4	\$ 597,646	\$ 230,687	\$ (5,592)	\$ 822,745
Net income	—	—	—	26,955	—	26,955
Foreign currency translation	—	—	—	—	(605)	(605)
Stock options exercised	16,164	—	506	—	—	506
Restricted stock awards	88,587	—	—	—	—	—
Restricted stock awards forfeited	(7,764)	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(11,985)	—	(4,064)	—	—	(4,064)
Stock based compensation	—	—	15,518	—	—	15,518
Balance at January 25, 2025	<u>28,219,440</u>	<u>\$ 4</u>	<u>\$ 609,606</u>	<u>\$ 257,642</u>	<u>\$ (6,197)</u>	<u>\$ 861,055</u>

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

	Nine Months Ended	
	January 31, 2026	January 25, 2025
Operating activities		
Net (loss) income	\$ (241,024)	\$ 26,955
Adjustments to reconcile net (loss) income to cash used in operating activities:		
Depreciation and amortization	202,960	27,144
Impairment of goodwill	151,306	—
Gain from equity method investments	(2,688)	(1,055)
Amortization of debt issuance costs	10,273	1,121
Provision for credit losses	1,867	(64)
Reserve for inventory excess and obsolescence	5,125	2,025
Other non-cash expense, net	3,543	1,810
Non-cash lease expense	18,889	7,379
Loss (gain) on foreign currency transactions	264	(22)
Unrealized gain on available-for-sale equity securities, net	(7,446)	(1,187)
Deferred income taxes	(4,334)	—
Stock-based compensation	28,065	15,518
Loss on disposal of property and equipment	1,149	201
Amortization of debt securities	(661)	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(19,892)	(11,095)
Unbilled receivables and retentions	(142,088)	(30,172)
Inventories	(92,721)	(1,167)
Income taxes receivable	(38,646)	(14,738)
Prepaid expenses and other assets	(13,287)	(9,314)
Accounts payable	(17,397)	(1,359)
Other liabilities	(17,174)	(13,034)
Net cash used in operating activities	(173,917)	(1,054)
Investing activities		
Acquisition of property and equipment	(46,134)	(14,292)
Contributions in equity method investments	(3,243)	(2,309)
Purchase of available-for-sale investments	(335,183)	—
Redemption of available-for-sale investments	21,500	—
Acquisition of capitalized software to be sold	(17,275)	—
Business acquisitions, net of cash acquired	(844,586)	—
Net cash used in investing activities	(1,224,921)	(16,601)
Financing activities		
Principal payments of term loan	(700,000)	(28,000)
Principal payments of revolver	(265,000)	—
Proceeds from long-term debt	693,202	—
Proceeds from revolver, net of creditor costs	233,939	25,000
Proceeds from shares issued, net of underwriter costs	968,515	—
Proceeds from convertible debt, net of underwriter costs	726,944	—
Payment of debt issuance costs	(2,445)	(1,056)
Payment of equity issuance costs	(1,388)	(365)
Holdback and retention payments for business acquisition	—	(390)
Tax withholding payment related to net settlement of equity awards	(10,900)	(4,064)
Employee stock purchase plan contributions	4,355	—
Exercise of stock options	—	506
Other	(12)	(19)
Net cash provided by (used in) financing activities	1,647,210	(8,388)
Effects of currency translation on cash and cash equivalents	644	(258)
Net increase (decrease) in cash and cash equivalents	249,016	(26,301)
Cash and cash equivalents at beginning of period	40,862	73,301
Cash and cash equivalents at end of period	<u>\$ 289,878</u>	<u>\$ 47,000</u>
Supplemental disclosures of cash flow information		
Cash paid, net during the period for:		
Income taxes	\$ 4,335	\$ 19,342
Interest	\$ 12,535	\$ 1,196
Non-cash activities		
Issuance of common stock for business acquisition	\$ 2,640,365	\$ —
Unrealized loss on available-for-sale investments	\$ (15)	\$ —
Change in foreign currency translation adjustments	\$ 1,015	\$ (605)
Acquisitions of property and equipment included in accounts payable	\$ 4,961	\$ 1,608

See accompanying notes to condensed consolidated financial statements (unaudited).

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

1. Organization and Significant Accounting Policies

Organization

AeroVironment, Inc. (“AeroVironment”, “AV” or “the Company”), a Delaware corporation, is a defense technology provider delivering integrated capabilities across air, land, sea, space, and cyber. AV develops and deploys autonomous systems, uncrewed aircraft systems (“UAS”), precision strike systems, counter-UAS (“C-UAS”) technologies, space-based platforms, directed energy systems, and cyber and electronic warfare capabilities. AV operates a national manufacturing footprint to deliver proven systems and capabilities whose markets offer the potential for significant long-term growth. In addition, the Company believes that some of the innovative potential products, services and technologies in its research and development (“R&D”) pipeline will emerge as new growth platforms in the future, creating additional market opportunities.

Effective May 1, 2025, the Company reorganized its segments. In connection with the Company’s acquisition of BlueHalo Financing Topco, LLC (“BlueHalo”), the reorganization was implemented to drive additional operational improvements, foster synergies and provide leaders with greater autonomy over their product lines. The Company’s reportable segments are as follows:

Autonomous Systems (“AxS”)— The AxS segment focuses on the design, development, production, delivery, and support of intelligent, multi-domain robotic systems, including UAS, uncrewed underwater vehicles and ground robot systems. The segment includes the Company’s former Uncrewed Systems, Loitering Munitions Systems (“LMS”), and MacCready Works segments as well as Radio Frequency and Kinetic C-UAS, Electronic Warfare Systems and Uncrewed Maritime products and services from the BlueHalo acquisition. It primarily serves organizations within or supplying the U.S. Department of Defense (“DoD”), other federal agencies, and international allied governments. This segment encompasses the Company’s core autonomous platforms, such as drones and robotic systems, tailored for mission-critical applications across air, land and sea domains.

Space, Cyber, and Directed Energy (“SCDE”)— The SCDE segment focuses on advanced technologies in the space domain providing space-based and ground-based platforms, cyber capabilities, and directed energy systems. This segment positions the Company in high-growth areas of next-generation defense technology, addressing emerging threats and mission requirements in space, cyber warfare, and directed energy applications (e.g., high-energy lasers). It also primarily serves organizations within or supplying the U.S. DoD, other federal agencies, and international allied governments.

Basis of Presentation

The accompanying unaudited condensed 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 31, 2026 are not necessarily indicative of the results for the full year ending April 30, 2026. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended April 30, 2025, 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 unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

Recent Acquisition

On May 1, 2025, the Company closed its acquisition of BlueHalo, a Delaware limited liability company, pursuant to the Agreement and Plan of Merger, dated as of November 18, 2024 (the "Merger Agreement") by and among AV, Archangel Merger Sub LLC, a Delaware limited liability company ("Merger Sub"), BlueHalo, and BlueHalo Holdings Parent, LLC, a Delaware limited liability company and sole member of BlueHalo ("Seller"). Refer to Note 17—Business Acquisitions for further details.

Recently Adopted Accounting Standards

The Company did not adopt any accounting standards during the three and nine months ended January 31, 2026.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Specifically, the Company's disaggregated revenue disclosure and disclosure of revenue by segment and the segment disclosures for prior periods have been recast to conform to the new segments and new measure of segment profitability.

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 its customers. These contracts may be firm fixed price ("FFP"), cost plus fixed fee, cost plus award fee, and cost plus incentive fee (collectively "Cost Plus"), or time and materials ("T&M"). The Company considers all such contracts to be within the scope of ASU 2014-09, *Revenue from Contracts with Customers* ("ASC 606").

Performance Obligations

On January 31, 2026, the Company had approximately \$1,120,675,000 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 39% of the remaining performance obligations as revenue in fiscal 2026 and the remaining 61% in fiscal 2027 or beyond.

Revenue by Category

The following tables present the Company's revenue disaggregated by operating group, contract type, customer category and geographic location (in thousands).

	Three Months Ended		Nine Months Ended	
	January 31,	January 25,	January 31,	January 25,
	2026	2025	2026	2025
Revenue by operating group				
Uncrewed Aircraft Systems	\$ 89,842	\$ 59,766	\$ 243,099	\$ 249,041
Precision Strike and Defense Systems	158,165	84,795	515,020	214,483
Other	30,737	23,075	107,523	82,053
Space and Directed Energy	53,198	—	199,872	—
Cyber and Mission Services	76,103	—	269,715	—
Total revenue	<u>\$ 408,045</u>	<u>\$ 167,636</u>	<u>\$ 1,335,229</u>	<u>\$ 545,577</u>

	Three Months Ended		Nine Months Ended	
	January 31,	January 25,	January 31,	January 25,
	2026	2025	2026	2025
Revenue by contract type				
FFP	\$ 280,369	\$ 148,768	\$ 880,854	\$ 489,388
Cost Plus	95,802	17,372	346,080	52,413
T&M	31,874	1,496	108,295	3,776
Total revenue	<u>\$ 408,045</u>	<u>\$ 167,636</u>	<u>\$ 1,335,229</u>	<u>\$ 545,577</u>

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. Cost Plus 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 31,	January 25,	January 31,	January 25,
	2026	2025	2026	2025
Revenue by customer category				
U.S. government	\$ 365,816	\$ 129,029	\$ 1,158,722	\$ 418,345
Non-U.S. government	42,229	38,607	176,507	127,232
Total revenue	<u>\$ 408,045</u>	<u>\$ 167,636</u>	<u>\$ 1,335,229</u>	<u>\$ 545,577</u>

	Three Months Ended		Nine Months Ended	
	January 31,	January 25,	January 31,	January 25,
	2026	2025	2026	2025
Revenue by geographic location				
Domestic	\$ 226,110	\$ 104,097	\$ 933,848	\$ 258,053
International	181,935	63,539	401,381	287,524
Total revenue	<u>\$ 408,045</u>	<u>\$ 167,636</u>	<u>\$ 1,335,229</u>	<u>\$ 545,577</u>

	Three Months Ended		Nine Months Ended	
	January 31,	January 25,	January 31,	January 25,
	2026	2025	2026	2025
Revenue percentage by recognition method				
Over time	72%	66%	73%	55%
Point in time	28%	34%	27%	45%
Total revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Contract Balances

Changes in the contract asset and liability balances during the three and nine month periods ended January 31, 2026 were not materially impacted by factors other than billings, cash collections, and timing of revenue recognition. 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 and nine month periods ended January 31, 2026 that was included in customer advances balances as of April 30, 2025 was \$335,000 and \$12,112,000, respectively. Revenue recognized for the three and nine month periods ended January 25, 2025 that was included in customer advances balances as of April 30, 2024 was \$1,701,000 and \$9,662,000, respectively.

Investments

The Company's investments are accounted for as available-for-sale and are reported at fair value. Unrealized gains and losses for debt securities are excluded from earnings and reported as a separate component of stockholders' equity, net of deferred income taxes for available-for-sale investments. Gains and losses realized on the disposition of investment securities are determined on the specific identification basis and credited or charged to income. Investments in equity securities and warrants are measured at fair value with net unrealized gains and losses from changes in the fair value recognized in other income (expense), net. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each balance sheet date.

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.

Accounts Receivable

The Company is party to a receivables sales agreement with Citibank, N.A. with an aggregate capacity of \$100,000,000. The receivables sold under the factoring facilities are without recourse for any customer credit risk and result in a true sale. Receivables are de-recognized in their entirety when sold. As of January 31, 2026, no receivables have been sold, proceeds collected, or purchase discount fees incurred under the agreement.

Government Contracts

Payments to the Company on government Cost Plus 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 Cost Plus and T&M contracts.

For example, during the course of its audits, the DCAA may question the Company's incurred costs, and if the DCAA believes the Company has accounted for such costs in a manner inconsistent with the requirements under Federal Acquisition Regulations, the DCAA auditor may recommend to the Company's administrative contracting officer to disallow such costs. Historically, the Company has not experienced material disallowed costs as a result of government audits. However, the Company can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. The Company's revenue recognition policy calls for revenue recognized on all cost reimbursable government contracts to be recorded at estimated full year rates unless collectability is not reasonably assured. At January 31, 2026 and April 30, 2025, the Company had no reserve for incurred cost claim audits.

(Loss) Earnings Per Share

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

The reconciliation of basic to diluted shares is as follows (in thousands except share data):

	Three Months Ended		Nine Months Ended	
	January 31, 2026	January 25, 2025	January 31, 2026	January 25, 2025
Net (loss) income	\$ (156,551)	\$ (1,754)	\$ (241,024)	\$ 26,955
Denominator for basic (loss) earnings per share:				
Weighted average common shares	49,741,441	28,031,901	48,761,481	28,001,089
Dilutive effect of employee stock options, restricted stock and restricted stock units	—	—	—	170,000
Denominator for diluted (loss) earnings per share	<u>49,741,441</u>	<u>28,031,901</u>	<u>48,761,481</u>	<u>28,171,089</u>

Due to the net loss for the three and nine months ended January 31, 2026, 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 326,724 and 344,723 for the three and nine months ended January 31, 2026, respectively. Potentially dilutive shares not included in the computation of diluted weighted-average common shares because their effect would have been anti-dilutive were 200,667 and 265 for the three and nine months ended January 25, 2025, respectively.

Recently Issued Accounting Standards

In December 2023, the Financial Accounting Standards Board (“FASB”) issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (“ASU 2023-09”). ASU 2023-09 requires updates to the rate reconciliation, income taxes paid and other disclosures. The new standard is effective for fiscal years beginning after December 15, 2024 and interim periods within fiscal years beginning after December 15, 2025, with early adoption permitted. ASU 2023-09 is adopted retrospectively. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In November 2024, the FASB issued ASU 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* (“ASU 2024-03”). ASU 2024-03 requires disclosure in the notes to financial statements of specified information about certain costs and expenses included in each expense caption on the face of the income statement at interim and annual reporting periods. The new standard is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027, and should be applied either prospectively to financial statements issued for reporting periods after the effective date of this ASU or retrospectively to any or all prior periods presented in the financial statements. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In September 2025, the FASB issued ASU 2025-06, Targeted Improvements to the Accounting for Internal-Use Software (“ASU 2025-06”), which better aligns the accounting guidance to how software is developed by eliminating project stages from capitalization criteria. The new standard is effective for annual reporting periods beginning after December 15, 2027 and interim periods within those annual reporting periods. The standard allows for prospective, modified, or retrospective transition. Early adoption is permitted. We are currently evaluating the impact of adopting this new pronouncement.

In December 2025, the FASB issued ASU 2025-11, *Interim Reporting* (“ASU 2025-11”), which is intended to improve the navigability of required interim disclosures and clarify when that guidance is applicable, and also to provide additional guidance on what disclosures should be provided in interim reporting periods. The new standard is effective for annual reporting periods beginning after December 15, 2027 and interim periods within those annual reporting periods. The standard allows for prospective or retrospective transition. Early adoption is permitted. We are currently evaluating the impact of adopting this new pronouncement.

2. Investments

Investments consist of the following (in thousands):

	January 31, 2026	April 30, 2025
Short-term investments:		
Available-for-sale securities:		
U.S. government securities	175,071	—
Corporate securities	112,252	—
Certificates of deposit	9,936	—
Total short-term investments	<u>297,259</u>	<u>—</u>
Long-term investments:		
Available-for-sale securities:		
U.S. government securities	14,086	—
Equity securities and warrants	11,650	1,204
Total long-term available-for-sale securities investments	<u>25,736</u>	<u>1,204</u>
Equity method investments		
Investments in limited partnership funds	35,923	30,423
Total equity method investments	<u>35,923</u>	<u>30,423</u>
Total long-term investments	<u>\$ 61,659</u>	<u>\$ 31,627</u>

Available-For-Sale Securities

As of January 31, 2026, the balance of available-for-sale securities consisted of U.S. government securities, certificate of deposits and high-grade corporate bonds. Interest earned from these investments is recorded in interest income (expense), net. Realized gains on sales of these investments on the basis of specific identification are recorded in interest income (expense), net. As of April 30, 2025, the company held no available-for-sale securities.

The following table is a summary of the activity related to the available-for-sale investments recorded in short-term and long-term investments as of January 31, 2026 (in thousands):

	January 31, 2026			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate securities	\$ 189,156	\$ 45	\$ (7)	\$ 189,194
U.S. government securities	112,253	25	(37)	112,241
Certificates of deposit	9,936	—	(11)	9,925
Total available-for-sale securities	<u>\$ 311,345</u>	<u>\$ 70</u>	<u>\$ (55)</u>	<u>\$ 311,360</u>

Equity Securities

Certain equity securities and warrants are measured at fair value with net unrealized gains and losses from changes in the fair value recognized in other income (expense), net. Unrealized gain (loss) recorded (in thousands):

	Three Months Ended January 31, 2026	Three Months Ended January 25, 2025	Nine Months Ended January 31, 2026	Nine Months Ended January 25, 2025
Net gain (loss) recognized during the period on equity securities	\$ (1,405)	\$ 1,454	\$ 7,446	\$ 1,187
Less: Net loss recognized during the period on equity securities sold during the period	—	—	—	—
Unrealized gain (loss) recognized during the period on equity securities still held at the reporting date	\$ (1,405)	\$ 1,454	\$ 7,446	\$ 1,187

Investments Measured at Cost

On December 22, 2025, the Company invested \$3,000,000 in a privately-held technology company through a Simple Agreement for Future Equity (“SAFE”). The SAFE provides the Company with the right to receive equity in the issuing company upon the occurrence of certain future events, including a qualifying equity financing or a liquidity event. The Company measures the investment at cost, less any impairment and is recorded in long-term investments and included in Equity securities and warrants line in the investments table above.

3. Fair Value Measurements

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

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

The Company’s financial assets measured at fair value on a recurring basis at January 31, 2026, were as follows (in thousands):

Description	Fair Value Measurement Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Equity securities	\$ 6,220	\$ —	\$ —	\$ 6,220
Warrants	—	2,430	—	2,430
Total	\$ 6,220	\$ 2,430	\$ —	\$ 8,650

The Company had no financial liabilities measured at fair value on a recurring basis at January 31, 2026.

The Company's financial assets measured at fair value on a recurring basis at April 30, 2025, were as follows (in thousands):

Description	Fair Value Measurement Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Equity securities	\$ 1,080	\$ —	\$ —	\$ 1,080
Warrants	—	124	—	124
Total	\$ 1,080	\$ 124	\$ —	\$ 1,204

The Company had no financial liabilities measured at fair value on a recurring basis at April 30, 2025.

On September 12, 2022, the Company invested \$5,000,000 and acquired 500,000 shares of common stock and 500,000 privately placed, redeemable warrants of Amprius Technologies, Inc. The privately placed, redeemable warrants have an exercise price of \$12.50 and redemption price of \$20.00. The Company measures the fair value of the privately placed, redeemable warrants using the quoted market price of the public warrants which have an exercise price of \$11.50 and a redemption price of \$18.00 and classifies the warrants as a level 2 fair value measurement.

4. Inventories, net

Inventories consist of the following (in thousands):

	January 31, 2026	April 30, 2025
Raw materials	\$ 157,015	\$ 52,567
Work in process	80,709	73,434
Finished goods	97,189	46,761
Inventories, gross	334,913	172,762
Reserve for inventory excess and obsolescence	(35,636)	(28,672)
Inventories, net	\$ 299,277	\$ 144,090

5. Equity Method Investments

Investments in Limited Partnership Funds

In July 2019, the Company made its initial capital contribution to a limited partnership fund focusing on highly relevant technologies and start-up companies serving defense and industrial markets. Under the terms of the limited partnership agreement, the Company contributed a total of \$10,000,000 during the fiscal years ended April 30, 2021 and 2022, and there were no further contribution commitments to this fund as of April 30, 2022. On December 30, 2025, the Company received an initial distribution from the limited partnership fund of \$528,000.

In March 2022, the Company entered into a limited partnership agreement with a second limited partnership fund also focusing on highly relevant technologies and start-up companies serving defense and industrial markets. Under the terms of the limited partnership agreement, the Company is committed to contributions totaling \$20,000,000 over an expected five year period. During the fiscal years ended April 30, 2025, 2024 and 2023, the Company made total contributions of \$5,674,000, \$3,074,000, and \$5,778,000 respectively. During the nine months ended January 31, 2026, the Company made contributions of \$3,244,000. Under the terms of the limited partnership agreement, the Company has committed to make additional capital contributions of \$2,230,000 to the fund, which are expected to be made over the next two fiscal years.

The Company accounts for investments in limited partnerships as equity method investments as the Company is deemed to have significant influence when it holds more than a minor interest. For the three and nine months ended January 31, 2026, the Company recorded its ownership percentage of the net (loss) gain of equity method investments, of \$(295,000) and \$2,688,000, respectively, in equity method investment income, net of \$0 tax in the unaudited condensed consolidated statements of operations, respectively. For the three and nine months ended January 25, 2025, the Company recorded its ownership percentage of the net gains of the limited partnerships, or \$0 and \$1,066,000 respectively, in equity method investment income (loss), net of \$0 tax in the unaudited condensed consolidated statements of operations, respectively. At January 31, 2026 and April 30, 2025, the carrying value of the equity method investments of \$35,923,000 and \$30,423,000, respectively, was recorded in long-term investments.

6. 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 on the unaudited condensed consolidated balance sheet. The related expense is included in cost of sales. Warranty reserve activity is summarized as follows for the three and nine months ended January 31, 2026 and January 25, 2025, respectively (in thousands):

	Three Months Ended		Nine Months Ended	
	January 31, 2026	January 25, 2025	January 31, 2026	January 25, 2025
Beginning balance	\$ 6,610	\$ 3,642	\$ 4,189	\$ 5,538
Balance acquired from acquisition	—	—	2,274	—
Warranty expense	1,961	(230)	3,959	(1,070)
Change in estimate	(1,655)	—	(1,655)	—
Warranty costs settled	(1,439)	(625)	(3,290)	(1,681)
Ending balance	<u>\$ 5,477</u>	<u>\$ 2,787</u>	<u>\$ 5,477</u>	<u>\$ 2,787</u>

7. Intangibles, net

The components of intangibles are as follows (in thousands):

	January 31, 2026	April 30, 2025
Technology	\$ 582,260	\$ 101,645
Licenses	1,008	1,008
Customer relationships	577,291	77,588
Backlog	52,961	2,963
In-process research and development	550	550
Non-compete agreements	320	320
Trademarks and tradenames	1,668	1,668
Other	146	146
Intangibles, gross	1,216,204	185,888
Less accumulated amortization	(290,279)	(137,177)
Intangibles, net	<u>\$ 925,925</u>	<u>\$ 48,711</u>

Technology, backlog and customer relationships intangibles were recognized in conjunction with the Company's acquisition of Blue Halo on May 1, 2025. Refer to Note 17—Business Acquisitions for further details.

The Company tests identifiable intangible assets for impairment in the fourth quarter of each fiscal year unless there are interim indicators that suggest that it is more likely than not that either the identifiable intangible assets or goodwill may be impaired. In January 2026, a stop-work order was received on the Company's Other Transaction Agreement for the delivery of BADGER phased array antenna systems to support Space Force's Satellite Communication Augmentation Resource ("SCAR") program. The Company concluded that the stop-work order represented a trigger event that indicated the carrying value of the Space reporting unit exceeded its fair value. Due to the trigger event, the Company

performed a recoverability test on the long-lived assets of the Space reporting unit, inclusive of the intangibles, for impairment in accordance with ASC 360. The undiscounted cash flows exceeded the carrying value and no impairment was recorded for long-lived assets.

The weighted average amortization period as of January 31, 2026 and April 30, 2025 was six and three years, respectively. Amortization expense for the three and nine months ended January 31, 2026 was \$49,864,000 and \$152,287,000, respectively. Amortization expense for the three and nine months ended January 25, 2025 was \$4,778,000 and \$14,348,000, respectively.

Estimated remaining amortization expense for the next five years is as follows (in thousands):

	Year ending April 30,
2026	\$ 50,157
2027	164,101
2028	156,636
2029	153,940
2030	130,905
	<u>\$ 655,739</u>

8. Goodwill

The following table presents the changes in the Company's goodwill balance by segment (in thousands):

	<u>AxS</u>	<u>SCDE</u>	<u>Total</u>
Goodwill	\$ 431,157	\$ —	\$ 431,157
Accumulated impairment losses	(174,376)	—	(174,376)
Balance at April 30, 2025	<u>256,781</u>	<u>—</u>	<u>256,781</u>
Additions to goodwill	943,157	1,413,082	2,356,239
Impairment to goodwill	—	(151,306)	(151,306)
Goodwill	1,374,314	1,413,082	2,787,396
Accumulated impairment losses	(174,376)	(151,306)	(325,682)
Balance at January 31, 2026	<u>\$ 1,199,938</u>	<u>\$ 1,261,776</u>	<u>\$ 2,461,714</u>

In January 2026, a stop-work order was received on the Company's Other Transaction Agreement for the delivery of BADGER phased array antenna systems to support Space Force's SCAR program. The Company concluded that the stop-work order represented a trigger event that indicated the carrying value of the Space reporting unit exceeded its fair value. As a result, the Company updated its estimates of the long-term cash flows of the Space reporting unit to reflect the reduced revenue associated with the stop-work order as well as an increase in expected research and development and capital investments to achieve product commercialization, which is expected to result in expanded opportunities and improve long term product margins. The changes in estimates resulted in the recognition of a goodwill impairment charge of approximately \$151,000,000 in the Space reporting unit. As of January 31, 2026, the Company has not identified any events or circumstances, other than those identified for Space, that could trigger an impairment review prior to the Company's annual impairment test during the fourth quarter of fiscal year 2026, including taking into account the reporting units identified from the BlueHalo acquisition on May 1, 2025.

The AxS segment includes goodwill from the acquisitions of Pulse Aerospace, LLC ("Pulse"), Arcturus UAV, Inc. ("Arcturus"), Telerob Gesellschaft für Fernhantierungstechnik mbH ("Telerob"), Planck Aerosystems, Inc., Tomahawk Robotics, Inc. and certain BlueHalo reporting units and includes goodwill from the purchase of certain assets of Intelligent Systems Group business segment of Progeny Systems Corporation. The SCDE segment includes goodwill from certain BlueHalo reporting units.

9. Debt

On October 4, 2024, the Company entered into a Third Amendment to Credit Agreement with the existing lenders, Bank of America, N.A. (“BofA NA”), the administrative agent and the swingline lender, JPMorgan Chase Bank, N.A. (“JPM”), U.S. Bank National Association (“U.S. Bank”), and Citibank, N.A. (“Citibank”) (the “Third Amendment to Credit Agreement”).

The Third Amendment to Credit Agreement provided for an aggregate \$200,000,000 revolving credit facility (the “Revolving Facility”), including a \$25,000,000 sublimit for the issuance of standby and commercial letters of credit, and a \$10,000,000 sublimit for swingline loans, secured by all assets of the Company and the Company’s domestic subsidiaries (the “Guarantors”), and extended the maturity date for obligations pursuant to the Credit Agreement to October 4, 2029. Upon effectiveness of the Third Amendment to Credit Agreement, the Company drew \$15,000,000 from the amended Revolving Facility and repaid in full all outstanding amounts owed pursuant to the prior Term Loan Facility. The unamortized debt issuance costs allocated to the prior Term Loan Facility of \$590,000 were expensed upon repayment of the Term Loan Facility and recorded in interest expense.

On May 1, 2025 (the “Closing Date”), in connection with the consummation of the BlueHalo acquisition, the Company entered into a Fourth Amendment to Credit Agreement with BofA NA, the administrative agent and the swingline lender, JPM, U.S. Bank, Citibank, BMO Bank N.A. (“BMO”), Citizens Banks, N.A. (“Citizens”) and Royal Bank of Canada (“RBC”) (the “Fourth Amendment to Credit Agreement” and the existing Credit Agreement as amended thereby, the “Amended Credit Agreement”). The Amended Credit Agreement now provides for an aggregate \$700,000,000 term loan (the “Term Loan Facility” and, together with the Revolving Facility, the “Credit Facilities”) and an aggregate \$350,000,000 revolving credit facility, including a \$25,000,000 sublimit for the issuance of standby and commercial letters of credit, and a \$10,000,000 sublimit for swingline loans, secured by all assets of the Company and the Guarantors, maintains the maturity date for obligations of October 4, 2029, as extended by the Third Amendment to Credit Agreement.

The Term A Loan drawn under the Term Loan Facility matures two years after the Closing Date and amortizes at a rate of 5.00% per annum, with the remaining outstanding principal amount due and payable on the maturity date. The applicable margin on the Term A Loan is based upon the Company’s Consolidated Leverage Ratio (as defined in the Credit Agreement) and whether the Company elects as its benchmark rate (i) SOFR (in which case, the applicable margin ranges from 1.50 - 2.50% per annum depending on the Company’s Consolidated Leverage Ratio) plus a credit spread adjustment of 0.10% or (ii) Base Rate (in which case, the applicable margin ranges from 0.50 - 1.50% per annum depending on the Company’s Consolidated Leverage Ratio). Upon the occurrence of an event of default, an additional 2.00% per annum default interest rate may apply. Pursuant to the Fourth Amendment to Credit Agreement, the Company is subject to two financial maintenance covenants which require that (i) the Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement) not exceed 3.50 to 1.00 as of the end of any fiscal quarter, for the four fiscal quarters following consummation of the BlueHalo acquisition, and thereafter 3.00 to 1.00 as of the end of any fiscal quarter, and (ii) the Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Agreement) not be less than 1.25 to 1.00 as of the end of any fiscal quarter.

Upon effectiveness of the Amended Credit Agreement, the Company drew \$225,000,000 from the amended Revolving Facility and the full \$700,000,000 of the Term Loan Facility. In June 2025, the Company drew an additional \$10,000,000 under the Revolving Facility. In July 2025, the Company used the proceeds from the issuance of common stock and the Company’s 0% Convertible Senior Notes due 2030 (the “Notes”) to fully repay the Term A Loan and outstanding Revolving Facility balance. The unamortized debt issuance costs allocated to the Term Loan Facility of \$6,668,000 were expensed upon repayment of the Term Loan Facility and recorded as interest expense in the consolidated statements of operations. The Revolver Facility remains open and available to the Company. The Company’s ability to borrow under the Revolving Facility is reduced by outstanding letters of credit, which as of January 31, 2026 and April 30, 2025, was \$11,008,000 and \$9,376,000, respectively, and as of January 31, 2026, approximately \$338,992,000 was available under the Revolving Facility. Borrowings under the Revolving Facility may be used for working capital and other general corporate purposes, including acquisitions that meet certain parameters. As of January

31, 2026, the Company was in compliance with all amended covenants. Please refer to Note 10–Convertible Notes and Note 16–Share Issuances for further details.

Long-term debt and the current period interest rates were as follows:

	January 31, 2026	April 30, 2025
	(In thousands)	(In thousands)
Revolving credit facility	\$ —	\$ 30,000
Convertible notes	747,500	—
Total long-term debt	747,500	30,000
Less unamortized debt issuance costs—convertible notes	19,623	—
Total long-term debt, net of unamortized debt issuance costs—convertible notes	\$ 727,877	\$ 30,000
Unamortized debt issuance costs—revolving credit facility	\$ 1,872	\$ 1,281
Current period interest rate	0%	5.9%

Future contractual long-term debt principal payments at January 31, 2026 were as follows:

Fiscal Year	(In thousands)
2026	\$ —
2027	—
2028	—
2029	—
2030	—
2031	747,500
	<u>\$ 747,500</u>

10. Convertible Notes

In July 2025, the Company entered into an underwriting agreement (the “Note Underwriting Agreement”) with certain underwriters (the “Note Underwriters”) agreeing, subject to customary conditions, to issue and sell \$650,000,000 aggregate principal amount of the Notes to the Note Underwriters as well as an option, exercisable within 30 days after entering the Note Underwriting Agreement, to purchase up to an additional \$97,500,000 aggregate principal amount of Notes solely to cover over-allotments. The Note Underwriters exercised such option to purchase an additional \$97,500,000 aggregate principal amount of Notes. The issuance of \$747,500,000 aggregate principal amount of Notes was completed in July 2025.

The Notes are the Company’s senior, unsecured obligations and are (i) equal in right of payment with the Company’s existing and future senior, unsecured indebtedness; (ii) senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company’s existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness, including any borrowings under the Company’s revolving credit facility; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company’s subsidiaries.

The Notes do not bear regular interest, and the principal amount of the Notes will not accrete. Special interest will accrue on the Notes upon the occurrence of certain events relating to the Company’s failure to file certain SEC reports as provided in the Indenture. The Notes will mature on July 15, 2030, unless earlier repurchased, redeemed or converted. Before April 15, 2030, noteholders have the right to convert their Notes only upon the occurrence of certain events. From and after April 15, 2030, noteholders may convert their Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date. The Company will have the right to elect to settle conversions either entirely in cash or in a combination of cash and shares of its common stock. Upon conversion of

any Note, the consideration due upon conversion, which will be determined over an “Observation Period” (as defined in the Indenture) consisting of 60 consecutive trading days, will be paid in cash up to at least the principal amount of the Notes being converted and the Company will pay or deliver, as the case may be, cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s election, in respect of the remainder, if any, of the Company’s conversion obligation in excess of the principal amount of the Notes being converted. The initial conversion rate is 3.1017 shares of the Company’s common stock per \$1,000 principal amount of Notes, which represents an initial conversion price of approximately \$322.40 per share of the Company’s common stock. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a “Make-Whole Fundamental Change” (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Notes will be redeemable, in whole or in part (subject to certain limitations described below), at the Company’s option at any time, and from time to time, on or after July 21, 2028 and on or before the 61st scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid special interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share of the Company’s common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (ii) the trading day immediately before the date the Company sends such notice. However, the Company may not redeem less than all of the outstanding Notes unless at least \$100.0 million aggregate principal amount of Notes are outstanding and not called for redemption as of the time the Company sends the related redemption notice. In addition, calling any Note for redemption will constitute a Make-Whole Fundamental Change with respect to that Note, in which case the conversion rate applicable to the conversion of that Note will be increased in certain circumstances if it is converted after it is called for redemption.

If certain events that constitute a “Fundamental Change” (as defined in the Indenture) occur, then, subject to a limited exception for certain cash mergers as provided in the Indenture, noteholders may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any, to, but excluding, the fundamental change repurchase date. The definition in the Indenture of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company’s common stock.

The Notes have customary provisions relating to the occurrence of “Events of Default” (as defined in the Indenture), which include the following: (i) certain payment defaults on the Notes (which, in the case of a default in the payment of special interest on the Notes, will be subject to a 30-day cure period); (ii) the Company’s failure to send certain notices under the Indenture within specified periods of time; (iii) the Company’s failure to convert a Note in accordance with the Indenture within a specified period of time; (iv) the Company’s failure to comply with certain covenants in the Indenture relating to the Company’s ability to consolidate with or merge with or into, or sell, lease or otherwise transfer, in one transaction or a series of transactions, all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, to another person; (v) a default by the Company in its other obligations or agreements under the Indenture or the Notes if such default is not cured or waived within 60 days after notice is given in accordance with the Indenture; (vi) certain defaults by the Company or any of its significant subsidiaries with respect to indebtedness for borrowed money of at least \$55,000,000; and (vii) certain events of bankruptcy, insolvency and reorganization involving the Company or any of its significant subsidiaries.

If an Event of Default involving bankruptcy, insolvency or reorganization events with respect to the Company (and not solely with respect to a significant subsidiary of the Company) occurs, then the principal amount of, and all accrued and unpaid interest, if any, on all of the Notes then outstanding will immediately become due and payable without any further action or notice by any person. If any other Event of Default occurs and is continuing, then, the Trustee, by notice to the Company, or noteholders of at least 25% of the aggregate principal amount of Notes then outstanding, by notice to the Company and the Trustee, may declare the principal amount of, and all accrued and unpaid interest, if any, on, all of the Notes then outstanding to become due and payable immediately. However, notwithstanding the foregoing, the Company may elect, at its option, that the sole remedy for an Event of Default relating to certain failures by the Company to comply with certain reporting covenants in the Indenture consists exclusively of the right of the noteholders

to receive special interest on the Notes for up to 365 days, at a rate per annum equal to 0.25% of the principal amount of the Notes for the first 180 days on which special interest accrues and, thereafter, at a rate per annum equal to 0.50% of the principal amount thereof.

11. Leases

The components of lease costs recorded in cost of sales and selling, general and administrative (“SG&A”) expense were as follows (in thousands):

	Nine Months Ended January 31, 2026	Nine Months Ended January 25, 2025
Operating lease cost	\$ 18,889	\$ 7,379
Short term lease cost	980	398
Variable lease cost	2,796	1,212
Sublease income	—	—
Total lease costs, net	<u>\$ 22,665</u>	<u>\$ 8,989</u>

Supplemental lease information was as follows:

	Nine Months Ended January 31, 2026 (In thousands)	Nine Months Ended January 25, 2025 (In thousands)
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 16,176	\$ 7,328
Right-of-use assets obtained in exchange for new lease liabilities	\$ 4,297	\$ 7,112
Weighted average remaining lease term	72 months	50 months
Weighted average discount rate	6.9%	5.6%

Maturities of operating lease liabilities as of January 31, 2026 were as follows (in thousands):

Fiscal Year	
2026	\$ 2,590
2027	24,122
2028	22,538
2029	19,402
2030	15,261
Thereafter	40,167
Total lease payments	<u>\$ 124,080</u>
Less: imputed interest	(25,944)
Total present value of operating lease liabilities	<u>\$ 98,136</u>

12. Accumulated Other Comprehensive Loss and Reclassifications Adjustments

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

	Nine Months Ended January 31, 2026	Nine Months Ended January 25, 2025
Balance as of April 30, 2025 and April 30, 2024, respectively	\$ (6,514)	\$ (5,592)
Change in foreign currency translation adjustments	1,015	(605)
Unrealized available-for-sale security losses	(15)	—
Balance as of January 31, 2026 and January 25, 2025, respectively	<u>\$ (5,514)</u>	<u>\$ (6,197)</u>

13. 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 is recognized in accordance with ASC 606 over time as costs are incurred. Revenue from customer-funded R&D was approximately \$58,520,000 and \$177,671,000 for the three and nine months ended January 31, 2026. Revenue from customer-funded R&D was approximately \$19,730,000 and \$58,569,000 for the three and nine months ended January 25, 2025.

14. Long-Term Incentive Awards

During the three months ended August 2, 2025, the Company granted awards under its 2021 Equity Incentive Plan (the “2021 Plan”) to key employees (“Fiscal 2026 LTIP”). Awards under the Fiscal 2026 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2026, July 2027 and July 2028, and (ii) performance-based restricted stock units (“PRSUs”), which vest based on the Company’s achievement of revenue and non-GAAP adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”) targets for the three-year period ending April 30, 2028. 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 250% 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 non-GAAP adjusted EBITDA targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of the Company’s common stock. For the three and nine months ended January 31, 2026 the Company recorded \$1,202,000 and \$4,216,000 of compensation expense related to the Fiscal 2026 LTIP, respectively. The Company recorded no compensation expense to the Fiscal 2026 LTIP for the three and nine months ended January 25, 2025, respectively. At January 31, 2026, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2026 LTIP is \$31,323,000.

During the three months ended July 27, 2024, the Company granted awards under its 2021 Plan to key employees (“Fiscal 2025 LTIP”). Awards under the Fiscal 2025 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2025, July 2026 and July 2027, and (ii) PRSUs, which vest based on the Company’s achievement of revenue and non-GAAP adjusted EBITDA targets for the three-year period ending April 30, 2027. 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 250% 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 non-GAAP adjusted EBITDA targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of the Company’s common stock. For the three and nine months ended January 31, 2026, the Company recorded \$1,541,000 and \$6,625,000 of compensation expense related to the Fiscal 2025 LTIP. For the three and nine months ended January 25, 2025, the Company recorded \$918,000 and \$2,192,000 of compensation expense related to the Fiscal 2025 LTIP. At January 31, 2026, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2025 LTIP is \$17,463,000.

During the three months ended July 29, 2023, the Company granted awards under the 2021 Plan to key employees (“Fiscal 2024 LTIP”). Awards under the Fiscal 2024 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2024, July 2025 and July 2026, and (ii) PRSUs, which vest based on the Company’s achievement of revenue and non-GAAP adjusted EBITDA targets for the three-year period ending April 30, 2026. 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 250% 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 non-GAAP adjusted EBITDA targets for the performance period. Settlement of the PRSUs will be made in fully-vested

shares of the Company's common stock. For the three and nine months ended January 31, 2026, the Company recorded \$1,239,000 and \$5,123,000 of compensation expense related to the Fiscal 2024 LTIP. For the three and nine months ended January 25, 2025, the Company recorded \$938,000 and \$3,128,000 of compensation expense related to the Fiscal 2024 LTIP. At January 31, 2026, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2024 LTIP is \$14,454,000.

During the three months ended July 30, 2022, the Company granted awards under the 2021 Plan to key employees ("Fiscal 2023 LTIP"). Awards under the Fiscal 2023 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2023, July 2024 and July 2025, and (ii) PRSUs, which vest based on the Company's achievement of revenue and non-GAAP adjusted EBITDA targets for the three-year period ending April 30, 2025. During the three months ended August 2, 2025, the Company issued a total of 61,605 fully-vested shares of the Company's common stock to settle the PRSUs in the Fiscal 2023 LTIP. For the three and nine months ended January 31, 2026 the Company recorded no compensation expense related to the Fiscal 2023 LTIP. For the three and nine months ended January 25, 2025, the Company recorded \$587,000, and \$2,253,000 of compensation expense related to the Fiscal 2023 LTIP, respectively.

At each reporting period, the Company reassesses the probability of achieving the performance targets for the PRSUs. 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. No compensation cost is ultimately recognized for awards for which employees do not render the requisite service and are forfeited.

15. Income Taxes

For the three and nine months ended January 31, 2026, the Company recorded an income tax benefit of \$(19,486,000) and \$(36,960,000) yielding an effective tax rate of (11.1)% and (13.2%), respectively. For the three and nine months ended January 25, 2025, the Company recorded an income tax benefit of \$(605,000) and a provision for income taxes of \$659,000 yielding an effective tax rate of (25.6)% and 2.5%, respectively. The variance from statutory rates for the three and nine months ended January 31, 2026 was primarily due to the non-deductible goodwill impairment, for the three months ended January 31, 2026. The variance from statutory rates for the nine months ended January 25, 2025 was primarily due to the decrease in income before taxes, offset by a decrease in foreign-derived intangible income ("FDII") deductions and federal R&D credits.

On July 4, 2025, the reconciliation bill, commonly known as the One Big Beautiful Bill Act ("OBBBA"), was enacted into law. The OBBBA, among other things, eliminates the requirement to capitalize U.S. R&D expenses, permanently extends certain provisions of the Tax Cuts & Jobs Act of 2017 and modifies certain international tax provisions, as part of a broader set of updates to the U.S. international tax rules. These changes are effective for tax years beginning after December 31, 2025, and include modifying key elements of the TCJA-era regime. These include adjusting the international tax effective rates, renaming and reworking of the current global intangible low-taxed income ("GILTI") regime as "net CFC tested income" and foreign derived intangible income (FDII) deduction as "foreign derived deduction eligible income", eliminates QBAI reduction, and modifies deductions and foreign tax credit rules. As the OBBBA was enacted during the Company's fiscal quarter ended August 2, 2025, the Company reflected the impacts of the OBBBA on the condensed consolidated financial statements. The Company is in the process of evaluating the financial statement impact of these provisions in future periods. Each of these changes may result in accelerated tax deductions during the current and future tax years. Cash tax payments for the fiscal year ending April 30, 2026 are expected to be significantly reduced as a result of the accelerated tax deductions. However, the Company's total income tax expense and effective tax rate are not expected to materially change as a result of the new legislation.

16. Share Issuances

In July 2025, the Company entered into an underwriting agreement (the “Common Stock Underwriting Agreement”) with certain underwriters (the “Common Stock Underwriters”) agreeing, subject to customary conditions, to issue and sell 3,528,226 shares of the Company’s common stock to the Common Stock Underwriters. In addition, pursuant to the Common Stock Underwriting Agreement, the Company granted the Common Stock Underwriters an option, exercisable within 30 days after entering the Common Stock Underwriting Agreement, to purchase up to an additional 529,234 shares of the Company’s common stock (the “Over-allotment Option”). The issuance of 3,528,226 shares of common stock was completed in July 2025. Subsequently, the Company closed the issuance and sale of 529,234 shares of its common stock pursuant to the underwriters’ full exercise of the Over-allotment Option in July 2025 for a total issuance of 4,057,460 shares, generating gross proceeds to the Company of \$1,006,250,000, proceeds of \$968,515,000, net of underwriting discount and \$966,846,000 net of underwriting discount and other equity issuance costs.

17. Business Acquisitions

BlueHalo Acquisition

On May 1, 2025, the Company closed its acquisition of BlueHalo for merger consideration, net of cash acquired, of \$3,484,945,000. Through the acquisition, BlueHalo is incorporated into the Company’s AxS and SCDE segments. The Company believes that the acquisition will help to advance the combined company as a global defense technology leader across air, land, sea, space, and cyber. The Company accounted for the acquisition under the acquisition method of accounting for business combinations.

(in thousands)	Amount
Equity consideration transferred	\$ 2,640,365
Settlement of BlueHalo’s transaction expenses	25,214
Settlement of BlueHalo’s debt	863,207
Merger consideration	\$ 3,528,786
Less cash acquired	(43,841)
Fair value of consideration transferred	\$ 3,484,945

The fair value of the Company’s common stock issued is based on 17,425,849 shares issued as consideration, per the terms of the Merger Agreement, and the closing share price of \$151.52 on April 30, 2025.

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The following table summarizes the preliminary allocation of the fair value of the merger consideration transferred to assets acquired and liabilities assumed as of the acquisition date. The allocation of the purchase price is preliminary and subject to change as the Company continues to evaluate the fair values of certain assets and liabilities acquired. Open items in the purchase price allocation include the valuation of assets acquired and liabilities assumed including, but not limited to technology, backlog and customer relationships intangibles; fair value adjustment to inventory, property, plant and equipment; leases; details surrounding tax matters; and assumptions underlying certain existing or potential reserves, such as those for inventory and legal matters. During the six months ended January 31, 2026, the Company recorded adjustments related to the preliminary allocation of the purchase price including a revision to the fair value of technology, backlog and customer relationships intangibles; fair value adjustment to inventory; and deferred tax liability resulting in a net increase to goodwill of \$73,460,000. These adjustments resulted in a reduction of amortization expense of \$(7,427,000) and an increase of amortization expense of \$10,957,000 related to the three months ended August 2, 2025 and November 1, 2025, respectively, (in thousands):

	May 1, 2025
Fair value of assets acquired:	
Accounts receivable, net of allowance for credit losses of \$420 at May 1, 2025	\$ 80,752
Unbilled receivables and retentions	96,455
Inventories, net	88,167
Income taxes receivable	3,941
Prepaid expenses and other current assets	13,628
Long-term investments	151
Property and equipment	89,327
Operating lease right-of-use assets	70,879
Intangibles	1,029,800
Goodwill	2,356,239
Other assets	1,086
Total identifiable assets	\$ 3,830,425
Fair value of liabilities assumed:	
Accounts payable	56,930
Wages and related accruals	43,031
Customer advances	42,700
Current operating lease liabilities	6,707
Other current liabilities	11,971
Non-current operating lease liabilities	64,720
Deferred income taxes	119,421
Total liabilities assumed	345,480
Total identifiable net assets	\$ 3,484,945

Determining the fair value of the intangible assets acquired requires significant judgment, including the amount and timing of expected future cash flows, long-term growth rates and discount rates. The fair value assigned to intangible assets has been estimated based on third-party preliminary valuation studies utilizing income-based methodologies and corroborated with benchmarks of similar transactions in the industry. Use of different estimates and judgments could yield materially different results. All intangible assets acquired in the BlueHalo acquisition are subject to amortization.

The goodwill is attributable to the differences between the estimated fair value of the consideration transferred and the estimated fair value of the assets acquired, and liabilities assumed. For income tax purposes the goodwill and intangibles are not deductible for tax purposes.

The following table summarizes the valuation of the fair value of intangible assets acquired (in thousands):

	Preliminary Fair Value	Estimated Useful Life Years
Preliminary fair value of intangible assets acquired:		
Backlog	\$ 49,900	1-2
Customer relationships	499,500	4-9
Developed technology	480,400	4-10
Intangible assets acquired	\$ 1,029,800	

BlueHalo Supplemental Pro Forma Information (unaudited)

BlueHalo revenue and loss from operations for the nine months ended January 31, 2026 since its acquisition on May 1, 2025 was \$656,854,000 and \$(334,922,000), inclusive of \$161,153,000 of intangible amortization and \$151,306,000 of goodwill impairment, respectively. The following unaudited pro forma summary presents condensed consolidated information of the Company as if the business acquisition had occurred on May 1, 2024, the first day of the Company's fiscal year 2025. The pro forma amounts include the historical operating results of the Company and BlueHalo prior to the acquisition. The pro forma results are not necessarily indicative of the Company's results of operations that would have been obtained had the acquisition of BlueHalo been completed for the period presented, or which may be realized in the future (in thousands):

	Three Months Ended		Nine Months Ended	
	January 31, 2026	January 25, 2025	January 31, 2026	January 25, 2025
Revenue	\$ 408,045	\$ 395,623	\$ 1,335,229	\$ 1,178,098
Net loss attributable to AeroVironment, Inc.	\$ (149,381)	\$ (27,535)	\$ (178,021)	\$ (138,675)

The Company recognized a nonrecurring pro forma adjustment to pro forma earnings to amortize an increase in the fair value of inventory acquired during the three and nine months ended January 31, 2026. In addition, for the three and nine months ended January 31, 2026, the amortization expense associated with the Company's one-year intangible backlog has been eliminated within the pro forma adjustments.

These pro forma amounts have been calculated by applying the Company's accounting policies, assuming transaction costs had been incurred during the three months ended July 27, 2024, reflecting the additional amortization and depreciation that would have been charged, incremental interest expense associated with the initial financing for the acquisition under the term loan and revolver, and including the results of BlueHalo prior to acquisition.

The Company incurred approximately \$58,166,000 of BlueHalo acquisition-related expenses including integration costs. The Company recognized a nonrecurring pro forma adjustment to the three and nine months ended January 31, 2026 to remove the impact of the transaction costs from the historical balance, while recognizing the \$58,166,000 of transaction expenses within the nine months ended January 25, 2025 to reflect the costs as if the acquisition was completed during the nine months ended January 25, 2025.

The unaudited pro forma combined financial information presented above does not give effect to the July 2025 common stock issuance and Notes issuance, as such proceeds were not used to fund the BlueHalo acquisition. As the Company's repayment of indebtedness using the proceeds of the common stock issuance and Notes issuance was not directly attributable to the acquisition, the related reduction in interest expense is not reflected in this unaudited pro forma combined financial information.

18. Pension

As part of the Telerob acquisition, the Company acquired a small foreign-based defined benefit pension plan. The Rheinmetall-Zusatzversorgung service plan covers three former employees based on individual contracts issued to the employees. No other employees are eligible to participate. The Company has reinsurance policies that were taken out for participating former employees, which were pledged to the employees. The measurement date for the Company's pension plan was April 30, 2025.

The table below includes the projected benefit obligation and fair value of plan assets as of April 30, 2025. The net fair value of plan assets (in thousands) is recorded in other assets on the unaudited condensed consolidated balance sheet.

	April 30, 2025
	(In thousands)
Projected benefit obligation	\$ (3,335)
Fair value of plan assets	3,817
Funded status of the plan	\$ 482

The projected benefit obligation includes assumptions of a discount rate of 3.6% and pension increase for in-payment benefits of 2.5% for both January 31, 2026 and April 30, 2025. The accumulated benefit obligation is approximately equal to the Company's projected benefit obligation. The plan assets consist of reinsurance policies for each of the three pension commitments. The reinsurance policies are fixed-income investments considered a level 2 fair value hierarchy based on observable inputs of the policy. The Company does not expect to make any contributions to the plan in the fiscal year ending April 30, 2026. The Company assumed expected return on plan assets of 2.9% for January 31, 2026 and April 30, 2025, respectively.

Expected benefit payments as of April 30, 2025 (in thousands):

2026	\$ 200
2027	208
2028	211
2029	213
2030	215
2031-2035	1,087
Total expected benefit payments	\$ 2,134

Net periodic benefit cost (in thousands) is recorded in interest expense, net.

	Three Months Ended		Nine Months Ended	
	January 31, 2026	January 25, 2025	January 31, 2026	January 25, 2025
Expected return on plan assets	\$ —	\$ —	\$ —	\$ —
Interest cost	31	28	93	85
Actuarial gain	—	—	—	—
Net periodic benefit cost	\$ 31	\$ 28	\$ 93	\$ 85

19. 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 and other significant expenses, leading to decisions related to resource allocations in relation to profit and loss. Accordingly, the Company identifies two reportable segments.

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Effective May 1, 2025, the Company reorganized its segments. In connection with the Company’s acquisition of BlueHalo, the reorganization was implemented to drive additional operational improvements, foster synergies and provide leaders with greater autonomy over their business units. The Company’s reportable segments are Autonomous Systems and Space, Cyber and Directed Energy.

The accounting policies of the segments are the same as those described in Note 1, “Organization and Significant Accounting Policies.” The operating segments sales to each other are eliminated. Effective May 1, 2025, segment adjusted EBITDA is the measure of profitability used by the CODM for purposes of making decisions about allocating resources to the segments and assessing performance. Segment adjusted EBITDA is defined as segment (loss) income from operations before depreciation and amortization, adjusted for the impact of certain other non-cash items, including amortization of implementation of cloud computing arrangements, stock-based compensation, acquisition related expenses, and goodwill impairment. Prior period segment information has been revised to align with the new segment measure of profitability.

	Three Months Ended January 31, 2026		
	AxS	SCDE	Total
Revenue:			
Product sales	\$ 222,724	\$ 55,090	\$ 277,814
Contract services	56,020	74,211	130,231
	278,744	129,301	408,045
Less:			
Cost of sales less intangible amortization and other purchase accounting adjustments	182,935	113,633	296,568
Intangible amortization included in cost of sales	7,104	5,579	12,683
SG&A less intangible amortization	44,336	23,898	68,234
Intangible amortization included in SG&A	10,035	21,145	31,180
Research and development	24,142	2,970	27,112
Impairment of goodwill	—	151,306	151,306
Add:			
Depreciation	7,069	3,701	10,770
Amortization	17,139	26,724	43,863
Impairment of goodwill	—	151,306	151,306
Acquisition-related expenses	3,914	2,976	6,890
Amortization of cloud computing arrangement implementation	1,610	—	1,610
Other income (expense)	396	609	1,005
Stock-based compensation	5,847	2,223	8,070
Segment adjusted EBITDA	\$ 46,167	\$ (1,691)	\$ 44,476

	Three Months Ended January 25, 2025		
	AxS	SCDE	Total
Revenue:			
Product sales	\$ 139,753	\$ —	\$ 139,753
Contract services	27,883	—	27,883
	<u>167,636</u>	<u>—</u>	<u>167,636</u>
Less:			
Cost of sales less intangible amortization and other purchase accounting adjustments	100,734	—	100,734
Intangible amortization included in cost of sales	3,703	—	3,703
SG&A less intangible amortization	42,712	—	42,712
Intangible amortization included in SG&A	1,075	—	1,075
Research and development	22,498	—	22,498
Add:			
Depreciation	4,512	—	4,512
Amortization	4,778	—	4,778
Acquisition-related expenses	10,015	—	10,015
Amortization of cloud computing arrangement implementation	644	—	644
Other income (expense)	(478)	—	(478)
Stock-based compensation	5,381	—	5,381
Segment adjusted EBITDA	\$ 21,766	\$ —	\$ 21,766

	Nine Months Ended January 31, 2026		
	AxS	SCDE	Total
Revenue:			
Product sales	\$ 712,971	\$ 203,413	\$ 916,384
Contract services	152,671	266,174	418,845
	<u>865,642</u>	<u>469,587</u>	<u>1,335,229</u>
Less:			
Cost of sales less intangible amortization and other purchase accounting adjustments	548,629	414,275	962,904
Intangible amortization included in cost of sales	40,139	34,169	74,308
SG&A less intangible amortization	147,584	84,006	231,590
Intangible amortization included in SG&A	30,879	66,557	97,436
Research and development	86,028	10,191	96,219
Impairment of goodwill	—	151,306	151,306
Add:			
Depreciation	21,542	9,674	31,216
Amortization	71,018	100,726	171,744
Impairment of goodwill	—	151,306	151,306
Acquisition-related expenses	22,667	16,209	38,876
Amortization of cloud computing arrangement implementation	3,839	10	3,849
Other income (expense)	(1,731)	1,197	(534)
Stock-based compensation	20,280	7,785	28,065
Segment adjusted EBITDA	\$ 149,998	\$ (4,010)	\$ 145,988

	Nine Months Ended January 25, 2025		
	AxS	SCDE	Total
Revenue:			
Product sales	\$ 450,488	\$ —	\$ 450,488
Contract services	95,089	—	95,089
	<u>545,577</u>	<u>—</u>	<u>545,577</u>
Less:			
Cost of sales less intangible amortization and other purchase accounting adjustments	316,137	—	316,137
Intangible amortization included in cost of sales	11,136	—	11,136
SG&A less intangible amortization	112,287	—	112,287
Intangible amortization included in SG&A	3,211	—	3,211
Research and development	75,827	—	75,827
Add:			
Depreciation	12,797	—	12,797
Amortization	14,347	—	14,347
Acquisition-related expenses	13,699	—	13,699
Amortization of cloud computing arrangement implementation	1,894	—	1,894
Other income (expense)	(428)	—	(428)
Stock-based compensation	15,518	—	15,518
Segment adjusted EBITDA	<u>\$ 84,806</u>	<u>\$ —</u>	<u>\$ 84,806</u>

The following table (in thousands) provides a reconciliation from segment adjusted EBITDA to income before income taxes:

	Three Months Ended		Nine Months Ended	
	January 31,	January 25,	January 31,	January 25,
	2026	2025	2026	2025
Segment adjusted EBITDA	\$ 44,476	\$ 21,766	\$ 145,988	\$ 84,806
Depreciation and amortization	(54,633)	(9,290)	(202,960)	(27,144)
Impairment of goodwill	(151,306)	—	(151,306)	—
Acquisition-related expenses	(6,890)	(10,015)	(38,876)	(13,699)
Amortization of cloud computing arrangement implementation	(1,610)	(644)	(3,849)	(1,894)
Stock-based compensation	(8,070)	(5,381)	(28,065)	(15,518)
Equity securities investments activity, net	(1,405)	1,453	7,446	1,185
Interest expense	3,696	(248)	(9,050)	(1,177)
(Loss) income before income taxes	<u>\$ (175,742)</u>	<u>\$ (2,359)</u>	<u>\$ (280,672)</u>	<u>\$ 26,559</u>

Identifiable segment assets are summarized in the table below. Corporate assets primarily consist of cash and cash equivalents, prepaid expenses and other current assets, long-term investments, property and equipment, net, operating lease right-of-use assets, deferred income taxes and other assets managed centrally on behalf of the business segments.

	AxS	SCDE	Corporate	Total
As of January 31, 2026	\$ 2,312,268	\$ 2,119,959	\$ 1,021,409	\$ 5,453,636
As of April 30, 2025	\$ 872,530	\$ —	\$ 248,037	\$ 1,120,567

Capital expenditures are summarized in the table below (in thousands):

	<u>AxS</u>	<u>SCDE</u>	<u>Corporate</u>	<u>Total</u>
Nine Months Ended January 31, 2026	\$ 33,750	\$ 21,976	\$ 7,683	\$ 63,409
Nine Months Ended January 25, 2025	\$ 12,527	\$ —	\$ 1,765	\$ 14,292

20. Subsequent Events

On March 10, 2026, during the course of negotiations between the Company and the U.S. Government regarding the Company's Other Transaction Agreement (the "Agreement") for the delivery of BADGER phased array antenna systems to support the SCAR program, the U.S. Government informed the Company that it now intends to proceed with a termination for convenience of the Agreement, while providing the Company with the opportunity to compete for work under the SCAR program in the future. The Company intends to continue to invest in the BADGER product line by developing a commercial product to address the phased array antennae market.

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 "Condensed 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, 2025, 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 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, 2025.

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When we prepare these condensed 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, inventory reserves for excess and obsolescence, intangible assets acquired in a business combination, goodwill, 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.

Revenue Recognition

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, including the finalization of undefinitized contract actions, occur. The impact of revisions in estimate of completion and variable consideration for all types of contracts are recognized on a cumulative catch-up basis in the period in which the revisions are made. Changes in variable consideration associated with the finalization of undefinitized contract actions could result in cumulative catch up adjustments to revenue that could be material. During the three and nine months ended January 31, 2026 and January 25, 2025, changes in accounting estimates on contracts recognized using the over time method are presented below. Amounts representing contract change orders or claims are included in revenue if the order or claim meets the criteria of a contract or contract modification in accordance with ASU 2014-09, Revenue from Contracts with Customers ("ASC 606").

For the three months ended January 31, 2026 and January 25, 2025, favorable and unfavorable cumulative catch-up adjustments included in revenue were as follows (in thousands):

	Three Months Ended	
	January 31, 2026	January 25, 2025
Gross favorable adjustments	\$ 12,453	\$ 10,304
Gross unfavorable adjustments	(7,994)	(1,154)
Net (unfavorable) favorable adjustments	<u>\$ 4,459</u>	<u>\$ 9,150</u>

For the three months ended January 31, 2026, favorable cumulative catch-up adjustments of \$12.5 million were primarily due to cost adjustments on 30 contracts. During the three months ended January 31, 2026, we revised our estimates of the total expected costs to complete an LMS contract and a Small UAS ("SUAS") contract. The aggregate impact of these adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was an increase to revenue of approximately \$3.2 million. For the same period, unfavorable cumulative catch-up adjustments of \$8.0 million were primarily related to higher than expected costs on 24 contracts, which individually were not material.

For the three months ended January 25, 2025, favorable cumulative catch-up adjustments of \$10.3 million were primarily due to cost adjustments on three contracts. During the three months ended January 25, 2025, the Company revised its estimates of the total expected costs to complete three LMS contracts. The aggregate impact of these adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was an increase to revenue of approximately \$9.6 million. For the same period, unfavorable cumulative catch-up adjustments of \$1.2 million were primarily related to higher than expected costs on 23 contracts, which individually were not material.

For the nine months ended January 31, 2026 and January 25, 2025, favorable and unfavorable cumulative catch-up adjustments included in revenue were as follows (in thousands):

	Nine Months Ended	
	January 31, 2026	January 25, 2025
Gross favorable adjustments	\$ 3,294	\$ 11,600
Gross unfavorable adjustments	(12,799)	(2,085)
Net favorable (unfavorable) adjustments	<u>\$ (9,505)</u>	<u>\$ 9,515</u>

For the nine months ended January 31, 2026, favorable cumulative catch-up adjustments of \$3.3 million were primarily due to cost adjustments on 13 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$12.8 million were primarily related to higher than expected costs on 31 contracts.

During the nine months ended January 31, 2026, we revised our estimates of the total expected costs to complete an LMS contract. The impact of these adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was a decrease to revenue of approximately \$1.9 million. The remaining adjustments individually were not material.

For the nine months ended January 25, 2025, favorable cumulative catch-up adjustments of \$11.6 million were primarily due to cost adjustments on four contracts. During the nine months ended January 25, 2025, we definitized certain LMS undefinitized contract actions. The aggregate impact of these cumulative catch-up revenue adjustments for the contract definitization was an increase to revenue of approximately \$9.9 million. The remaining adjustments individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$2.1 million were primarily related to higher than expected costs on 30 contracts, which individually were not material.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. We test goodwill for impairment annually during the fourth quarter of our fiscal year or when events or circumstances change in a manner that indicates goodwill might be impaired. Events or circumstances that could trigger an impairment review include, but are not limited to, a significant adverse change in legal factors or in the business or political climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends or significant underperformance relative to projected future results of operations.

Our evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. For the impairment test, we first assess qualitative factors, macroeconomic conditions, industry and market considerations, triggering events, cost factors, and overall financial performance, to determine whether it is necessary to perform a quantitative goodwill impairment test. Alternatively, we may bypass the qualitative assessment for some or all of our reporting units and apply the quantitative impairment test. If determined to be necessary, the quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). For the quantitative impairment test, we estimate the fair value by weighting the results from the income approach and the market approach. These valuation approaches consider a number of factors that include, but are not limited to, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and future profitability of our business.

In January 2026, a stop-work order was received on the Company's Other Transaction Agreement for the delivery of BADGER phased array antenna systems to support Space Force's SCAR program. We concluded that the stop-work order represented a trigger event that indicated the carrying value of the Space reporting unit exceeded its fair value. As a result, we updated our estimates of the long-term cash flows of the Space reporting unit to reflect the reduced revenue associated with the stop-work order as well as an increase in expected research and development and capital investments to achieve product commercialization, which is expected to result in expanded opportunities and improve long term product margins. The changes in estimates resulted in the recognition of a goodwill impairment charge of approximately \$151 million in the Space reporting unit. As of January 31, 2026, we have not identified any events or circumstances, other than those identified for the Space reporting unit, that could trigger an impairment review prior to the our annual impairment test during the fourth quarter of fiscal year 2026, including taking into account the reporting units identified from the BlueHalo acquisition on May 1, 2025. Due to the trigger event, we also performed a recoverability test on the long-lived assets, inclusive of the intangibles, of the Space reporting unit for impairment in accordance with ASC 360. The undiscounted cash flows exceeded the carrying value and no impairment was recorded.

As part of our annual goodwill impairment and identifiable asset test during the fiscal quarter ended April 30, 2025, we determined the carrying value of the Uncrewed Ground Vehicles ("UGV") reporting unit exceeded its fair value due to a decrease in forecasted results of the UGV reporting unit resulting from reduced probability and delays of obtaining certain opportunities as well as an increase in forecast expenditures to support operational decisions identified during the fiscal quarter ended April 30, 2025. These changes in estimates resulted in the recognition of a goodwill impairment charge of \$18.4 million during the three months ended April 30, 2025 in the UGV reporting unit. We determined that it

was more likely than not that the fair values of our other reporting units were more than their carrying values as of the annual goodwill impairment test date. As such, during the most recent annual impairment test during the fourth quarter of fiscal year 2025, the estimated fair value of all reporting units, other than UGV, substantially exceeded their carrying value.

The estimates and assumptions used to determine the fair value of our reporting units are highly subjective in nature. Actual results can be materially different from the estimates and assumptions. If actual market conditions are less favorable than those projected by the industry or by us, or if events occur or circumstances change that would reduce the estimated fair value of our indefinite-lived intangible assets below the carrying amounts, we could recognize future impairment charges, the amount of which could be 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 2026 fiscal year ends on April 30, 2026 and our fiscal quarters end on August 2, 2025, November 1, 2025 and January 31, 2026, respectively.

Results of Operations

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

Three Months Ended January 31, 2026 Compared to Three Months Ended January 25, 2025

	Three Months Ended	
	January 31, 2026	January 25, 2025
Revenue	\$ 408,045	\$ 167,636
Cost of sales	309,251	104,437
Gross margin	98,794	63,199
Selling, general and administrative	99,414	43,788
Research and development	27,112	22,498
Impairment of goodwill	151,306	—
Loss from operations	(179,038)	(3,087)
Other income (loss):		
Interest income (expense), net	3,696	(248)
Other (expense) income, net	(400)	976
Loss before income taxes	(175,742)	(2,359)
Benefit from income taxes	(19,486)	(605)
Equity method investment loss, net of tax	(295)	—
Net loss	<u>\$ (156,551)</u>	<u>\$ (1,754)</u>

	Three Months Ended January 31, 2026		
	AxS	SCDE	Total
Revenue	\$ 278,744	\$ 129,301	\$ 408,045
Segment adjusted EBITDA	\$ 46,167	\$ (1,691)	\$ 44,476

	Three Months Ended January 25, 2025		
	AxS	SCDE	Total
Revenue	\$ 167,636	\$ —	\$ 167,636
Segment adjusted EBITDA	\$ 21,766	\$ —	\$ 21,766

Revenue. Revenue for the three months ended January 31, 2026 was \$408.0 million, as compared to \$167.6 million for the three months ended January 25, 2025, representing an increase of \$240.4 million, or 143%. The increase in revenue was due to an increase in product revenue of \$138.1 million and an increase in service revenue of \$102.3 million. The increase in product revenue was primarily due to the \$85.1 million of product revenue resulting from our acquisition of BlueHalo in May 2025. Legacy AV product revenue included in the AxS segment increased by \$53.0 million driven by an increase in LMS, MacCready Works, SUAS, medium uncrewed aircraft systems (“MUAS”) and uncrewed ground vehicles (“UGV”) products due to increase in domestic and international demand. The increase in service revenue was primarily due to the \$91.4 million service revenue resulting from our acquisition of BlueHalo. Legacy AV service revenue increased by \$10.9 million driven by customer funded R&D and engineering services increase of \$10.2 million driven by an increase in SUAS customer funded R&D awards. Proportion of service revenue to product revenue is expected to remain higher following the acquisition of BlueHalo.

Cost of Sales. Cost of sales for the three months ended January 31, 2026 was \$309.3 million, as compared to \$104.4 million for the three months ended January 25, 2025, representing an increase of \$204.9 million, or 196%. The increase in cost of sales was a result of an increase in product cost of sales of \$119.0 million and an increase in service costs of sales of \$85.9 million. The increase in product costs of sales was primarily due to an increase of approximately \$63.1 million associated with the recently acquired BlueHalo product lines and an increase of approximately \$9.4 million in intangible amortization primarily related to the BlueHalo acquisition. For legacy AV business, product cost of sales increased \$46.5 million. The increase in legacy product costs of sales was primarily due to an increase of approximately \$30 million due to the increase in sales volume and approximately \$17 million due to mix shift to a higher proportion of lower margin products driven by the increase in Switchblade production. The increase in service cost of sales was primarily due to an increase of approximately \$87.2 million associated with the BlueHalo acquisition, partially offset by a decrease in legacy AV service cost of sales of \$1.9 million primarily due to a mix shift of approximately \$11 million due to a higher proportion of higher margin services driven by an increase in customer funded R&D, partially offset by an increase of approximately \$9 million due to the increase in service revenue. Cost of sales for the three months ended January 31, 2026 included \$12.7 million of intangible amortization and other related non-cash purchase accounting expenses as compared to \$3.7 million for the three months ended January 25, 2025. As a percentage of revenue, cost of sales increased from 62% to 76% primarily due to increased amortization and other non-cash purchase accounting expenses and an increase in the proportion of service revenue resulting from the effect of the BlueHalo acquisition, resulting in gross margin decreasing from 38% to 24%.

Gross Margin. Gross margin is equal to revenue minus cost of sales.

Selling, General and Administrative. SG&A expense for the three months ended January 31, 2026 was \$99.4 million, or 24% of revenue, as compared to SG&A expense of \$43.8 million, or 26% of revenue, for the three months ended January 25, 2025. The increase in SG&A expense was primarily due to an increase of \$30.1 million of intangible amortization expense related to the BlueHalo acquisition and an increase of approximately \$7 million of employee related expenses related to the increase in headcount.

Research and Development. R&D expense for the three months ended January 31, 2026 was \$27.1 million, or 7% of revenue, as compared to R&D expense of \$22.5 million, or 13% of revenue, for the three months ended January 25, 2025. The increase was primarily related to the BlueHalo acquisition. R&D expense is expected to continue to be 7% to 8% of revenue.

Impairment of Goodwill. Impairment of goodwill for the three months ended January 31, 2026 was \$151.3 million. In January 2026, a stop-work order was received on the Company’s Other Transaction Agreement for the delivery of BADGER phased array antenna systems to support Space Force’s SCAR program. The Company concluded that the stop-work order represented a trigger event that indicated the carrying value of the Space reporting unit exceeded its fair value. As a result, we updated our estimates of the long-term cash flows of the Space reporting unit to reflect the reduced revenue associated with the stop-work order as well as an increase in expected research and development and capital investments to achieve product commercialization, which is expected to result in expanded opportunities and improve long term product margins. The changes in estimates resulted in the recognition of a goodwill impairment charge of approximately \$151 million in the Space reporting unit.

Interest Income (Expense), net. Interest income, net for the three months ended January 31, 2026 was \$3.7 million compared to interest expense, net of \$0.2 million for the three months ended January 25, 2025 due to a combination of higher cash and investment balances and lower interest bearing debt balances.

Other (Expense) Income, net. Other expense, net, for the three months ended January 31, 2026 was \$0.4 million as compared to other income, net of \$1.0 million for the three months ended January 25, 2025. The increase in other expense, net was driven by unrealized losses in equity security investments.

Benefit from Income Taxes. Our effective income tax rate was (11.1)% for the three months ended January 31, 2026, as compared to (25.6)% for the three months ended January 25, 2025. The change in our effective income tax rate was primarily attributable to FDII, federal R&D credits and non-deductible goodwill impairment loss for the quarter. The effective income tax rate for the three months ended January 31, 2026, was primarily attributable to non-deductible goodwill impairment loss

Equity Method Investment Loss, net of Tax. Equity method investment loss, net of tax for the three months ended January 31, 2026 was \$0.3 million as compared \$0 for the three months ended January 25, 2025.

Autonomous Systems

	Three Months Ended	
	January 31, 2026	January 25, 2025
Revenue	\$ 278,744	\$ 167,636
Segment adjusted EBITDA	\$ 46,167	\$ 21,766

Revenue. Revenue for the three months ended January 31, 2026 was \$278.7 million, as compared to \$167.6 million for the three months ended January 25, 2025, representing an increase of \$111.1 million, or 66%. The increase in revenue was due to an increase in product revenue of \$83.0 million and an increase in service revenue of \$28.1 million. The increase in product revenue was primarily due to the \$30.0 million of product revenue resulting from our acquisition of BlueHalo in May 2025. Legacy AV product revenue included in the AxS segment increased by \$53.0 million driven by an increase in LMS, MacCready Works, SUAS, MUAS and UGV products due to increase in domestic and international demand. The increase in service revenue was primarily due to the \$17.2 million service revenue resulting from our acquisition of BlueHalo. Legacy AV service revenue increased by \$11.0 million driven by customer funded R&D and engineering services increase of \$10.2 million driven by an increase in SUAS customer funded R&D awards. Proportion of service revenue to product revenue is expected to remain higher following the acquisition of BlueHalo.

AxS Segment Adjusted EBITDA. AxS segment adjusted EBITDA for the three months January 31, 2026 was \$46.2 million, as compared to \$21.8 million for the three months ended January 25, 2025, representing an increase of \$24.4 million, or 112%. The increase in AxS segment adjusted EBITDA was primarily due to an increase in revenue of \$111.1 million. The increase in revenue was partially offset by an increase in adjusted cost of sales of \$79.8 million, adjusted SG&A of \$6.2 million and R&D of \$1.6 million. The increase in adjusted cost of sales was primarily due to an increase of approximately \$37 million associated with the recently acquired BlueHalo product lines, an increase of approximately \$38 million due to the increase in sales volume and approximately \$7 million due to mix shift to a higher proportion of lower margin products driven by the increase in Switchblade production.

Space, Cyber and Directed Energy

	Three Months Ended	
	January 31, 2026	January 25, 2025
Revenue	\$ 129,301	\$ —
Segment adjusted EBITDA	\$ (1,691)	\$ —

Revenue. SCDE revenue for the three months ended January 31, 2026 was \$129.3 million, as compared to \$0 for the three months ended January 25, 2025. The SCDE segment consists of business units obtained in the BlueHalo acquisition on May 1, 2025, and the increase in revenue is a result of the acquisition.

SCDE Segment Adjusted EBITDA. SCDE segment adjusted EBITDA for the three months January 31, 2026 was \$(1.7) million, as compared to \$0 for the three months ended January 25, 2025. The SCDE segment consists of business units obtained in the BlueHalo acquisition on May 1, 2025, and the increase in segment adjusted EBITDA is a result of the acquisition.

Nine Months Ended January 31, 2026 Compared to nine Months Ended January 25, 2025

	Nine Months Ended	
	January 31, 2026	January 25, 2025
Revenue	\$ 1,335,229	\$ 545,577
Cost of sales	1,037,212	327,273
Gross margin	298,017	218,304
Selling, general and administrative	329,026	115,499
Research and development	96,219	75,827
Impairment of goodwill	151,306	—
(Loss) income from operations	(278,534)	26,978
Other loss:		
Interest expense, net	(9,050)	(1,177)
Other income, net	6,912	758
(Loss) income before income taxes	(280,672)	26,559
(Benefit from) provision for income taxes	(36,960)	659
Equity method investment income, net of tax	2,688	1,055
Net (loss) income	\$ (241,024)	\$ 26,955

	Nine Months Ended January 31, 2026		
	AxS	SCDE	Total
Revenue	\$ 865,642	\$ 469,587	\$ 1,335,229
Segment adjusted EBITDA	\$ 149,998	\$ (4,010)	\$ 145,988

	Nine Months Ended January 25, 2025		
	AxS	SCDE	Total
Revenue	\$ 545,577	\$ —	\$ 545,577
Segment adjusted EBITDA	\$ 84,806	\$ —	\$ 84,806

Revenue. Revenue for the nine months ended January 31, 2026 was \$1,335.2 million, as compared to \$545.6 million for the nine months ended January 25, 2025, representing an increase of \$789.6 million, or 145%. The increase in revenue was due to an increase in product revenue of \$465.9 million and an increase in service revenue of \$323.7 million. The increase in product revenue was primarily due to the \$343.3 million of product revenue resulting from our acquisition of BlueHalo in May 2025. Legacy AV product revenue included in the AxS segment increased by \$122.6 million driven by an increase in LMS, MUAS, MacCready Works, and UGV products due to increase in domestic and international demand, partially offset by a decrease in SUAS due to a decrease in international sales. The increase in service revenue was primarily due to the \$313.6 million service revenue resulting from our acquisition of BlueHalo. Legacy AV service revenue, included in the AxS segment, increased by \$10.1 million driven by an increase in customer funded R&D and engineering services of \$11.7 million. Proportion of service revenue to product revenue is expected to remain higher following the acquisition of BlueHalo.

Cost of Sales. Cost of sales for the nine months ended January 31, 2026 was \$1,037.2 million, as compared to \$327.3 million for the nine months ended January 25, 2025, representing an increase of \$709.9 million, or 217%. The increase in cost of sales was a result of an increase in product cost of sales of \$418.5 million and an increase in service costs of sales of \$291.4 million. The increase in product costs of sales was primarily due to an increase of approximately \$242.1 million associated with the recently acquired BlueHalo product lines and an increase of \$60.7 million intangible amortization related to the BlueHalo acquisition. For legacy AV business, product cost of sales increased \$115.7 million. The increase in legacy product costs of sales was primarily due to an increase of approximately \$67 million due to the increase in sales volume and approximately \$52 million due to mix shift to a higher proportion of lower margin products driven by the increase in Switchblade production. The increase in service cost of sales was primarily due to an increase of \$290.1 million associated with the BlueHalo acquisition and an increase of \$5.3 million intangible amortization related to the BlueHalo acquisition, partially offset by a decrease in legacy AV service cost of sales of \$4.0 million primarily due to a mix shift of approximately \$11 million due to a higher proportion of higher margin services driven by customer funded R&D, partially offset by an increase of approximately \$7 million due to an increase in service volume. Cost of sales for the nine months ended January 31, 2026 included \$74.3 million of intangible amortization and other related non-cash purchase accounting expenses as compared to \$11.1 million for the nine months ended January 25, 2025. As a percentage of revenue, cost of sales increased from 60% to 78% primarily due to increased amortization and other non-cash purchase accounting expenses and an increase in the proportion of service revenue resulting from the effect of the BlueHalo acquisition, resulting in gross margin decreasing from 40% to 22%.

Gross Margin. Gross margin is equal to revenue minus cost of sales.

Selling, General and Administrative. SG&A expense for the nine months ended January 31, 2026 was \$329.0 million, or 25% of revenue, as compared to SG&A expense of \$115.5 million, or 21% of revenue, for the nine months ended January 25, 2025. The increase in SG&A expense was primarily due to an increase of \$94.2 million of intangible amortization expense primarily related to the BlueHalo acquisition, an increase of approximately \$34 million of employee related expenses related to the increase in headcount, and an increase of \$32.5 million of acquisition related expenses related to the BlueHalo acquisition.

Research and Development. R&D expense for the nine months ended January 31, 2026 was \$96.2 million, or 7% of revenue, as compared to R&D expense of \$75.8 million, or 14% of revenue, for the nine months ended January 25, 2025. The increase was primarily related to the BlueHalo acquisition. R&D expense is expected to continue to be 7% to 8% of revenue.

Impairment of Goodwill. Impairment of goodwill for the nine months ended January 31, 2026 was \$151.3 million. In January 2026, a stop-work order was received on the Company's Other Transaction Agreement for the delivery of BADGER phased array antenna systems to support Space Force's SCAR program. The Company concluded that the stop-work order represented a trigger event that indicated the carrying value of the Space reporting unit exceeded its fair value. As a result, we updated our estimates of the long-term cash flows of the Space reporting unit to reflect the reduced revenue associated with the stop-work order as well as an increase in expected research and development and capital investments to achieve product commercialization, which is expected to result in expanded opportunities and improve long term product margins. The changes in estimates resulted in the recognition of a goodwill impairment charge of approximately \$151 million in the Space reporting unit.

Interest Expense, net. Interest expense, net for the nine months ended January 31, 2026 was \$9.1 million compared to \$1.2 million for the nine months ended January 25, 2025. The increase was driven by the interest expense related to the Term Loan and Revolver Facility obtained on May 1, 2025 in conjunction with the BlueHalo acquisition and the unamortized debt issuance costs allocated to the Term Loan Facility of \$6.7 million, which were expensed upon repayment of the Term Loan Facility in July 2025 using the proceeds from the Notes and common stock issuances in July 2025.

Other Income, net. Other income, net, for the nine months ended January 31, 2026 was \$6.9 million compared to other income, net of \$0.8 million for the nine months ended January 25, 2025. The increase was primarily due to unrealized gains associated with the fair market value of our equity security investments.

(Benefit from) Provision for Income Taxes. Our effective income tax rate was (13.2)% for the nine months ended January 31, 2026, as compared to 2.5% for the nine months ended January 25, 2025. The change in our effective income tax rate was primarily attributable to FDII, federal R&D credits and non-deductible goodwill impairment loss. The effective income tax rate for the nine months ended January 31, 2026, was primarily attributable to non-deductible goodwill impairment loss.

Equity Method Investment Income, net of Tax. Equity method investment income, net of tax for the nine months ended January 31, 2026 was \$2.7 million as compared \$1.1 million for the nine months ended January 25, 2025.

Autonomous Systems

	Nine Months Ended	
	January 31, 2026	January 25, 2025
Revenue:	865,642	545,577
Segment adjusted EBITDA	\$ 149,998	\$ 84,806

Revenue. AxS revenue for the nine months ended January 31, 2026 was \$865.6 million, as compared to \$545.6 million for the nine months ended January 25, 2025, representing an increase of \$320.0 million, or 59%. The increase in revenue was due to an increase in product and service revenues of \$262.5 million and \$57.5 million, respectively. The increase in product revenue was primarily due to the \$139.8 million of product revenue resulting from our acquisition of BlueHalo. Legacy AV product revenue included in the AxS segment increased by \$122.6 million driven by an increase in LMS, MUAS, MacCready Works, and UGV products due to increase in domestic and international demand, partially offset by a decrease in SUAS due to a decrease in international sales. The increase in service revenue was primarily due to the \$47.4 million of service revenue resulting from our acquisition of BlueHalo. Legacy AV service revenue, included in the AxS segment, increased by \$10.1 million driven by an increase in customer funded R&D and engineering services of \$11.7 million. Proportion of service revenue to product revenue is expected to remain higher following the acquisition of BlueHalo.

AxS Segment Adjusted EBITDA. AxS segment adjusted EBITDA for the nine months January 31, 2026 was \$150.0 million, as compared to \$84.8 million for the nine months ended January 25, 2025, representing an increase of \$65.2 million, or 77%. The increase in AxS segment adjusted EBITDA was primarily due to an increase in revenue of \$320.0 million. The increase in revenue was partially offset by an increase in adjusted cost of sales of \$223.1 million, adjusted SG&A of \$20.2 million primarily due employee related costs driven by the increased headcount, and R&D of \$10.2 million. The increase in adjusted cost of sales was primarily due to an increase of approximately \$117.9 million associated with the recently acquired BlueHalo product lines, an increase of approximately \$77 million due to the increase in sales volume and approximately \$38 million due to mix shift to a higher proportion of lower margin products driven by the increase in Switchblade production.

Space, Cyber and Directed Energy

	Nine Months Ended	
	January 31, 2026	January 25, 2025
Revenue:	469,587	—
Segment adjusted EBITDA	\$ (4,010)	\$ —

Revenue. SCDE revenue for the nine months ended January 31, 2026 was \$469.6 million, as compared to \$0 for the nine months ended January 25, 2025. The SCDE segment consists of business units obtained in the BlueHalo acquisition on May 1, 2025, and the increase in revenue is a result of the acquisition.

SCDE Segment Adjusted EBITDA. SCDE segment adjusted EBITDA for the nine months January 31, 2026 was \$(4.0) million, as compared to \$0 for the nine months ended January 25, 2025. The SCDE segment consists of business units obtained in the BlueHalo acquisition on May 1, 2025, and the increase in segment adjusted EBITDA is a result of the acquisition.

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 31, 2026, our funded backlog was approximately \$1,120.7 million, as compared to \$726.6 million as of April 30, 2025.

In addition to our funded backlog, we also had unfunded backlog of \$2,968.8 million as of January 31, 2026. Unfunded backlog does not meet the definition of a performance obligation under ASC 606. We define unfunded backlog as the total remaining value of awarded Cost Plus and FFP contracts with incremental funding. Unfunded backlog does not obligate the customer to purchase goods or services. There can be no assurance that unfunded backlog will result in any orders in any particular period, or at all. Unfunded backlog includes a \$1,493.2 million of unexercised options related to the SCAR program which are no longer expected to be awarded.

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. 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

On October 4, 2024, we amended the Credit Agreement to increase the Revolving Facility to \$200 million, and the Term Loan Facility was repaid in full and removed from the Credit Agreement. Borrowings under the Amended Credit Agreement may be used for working capital and other general corporate purposes, including acquisitions that meet certain parameters. In February 2025, we borrowed \$15.0 million under the Revolving Facility. In May 2025, in connection with the consummation of the BlueHalo Acquisition, the Company entered into a Fourth Amendment to Credit Agreement with BofA NA, the administrative agent and the swingline lender, JPM, U.S. Bank, Citibank, BMO, Citizens and RBC. The Amended Credit Agreement provides for an aggregate \$700.0 million term loan and an aggregate \$350.0 million revolving credit facility. Upon effectiveness of the Amended Credit Agreement, we drew \$225.0 million from the amended Revolving Facility and the full \$700.0 million of the Term Loan Facility. The proceeds from the Term Loan Facility and the Revolving Facility were used to repay certain outstanding indebtedness of BlueHalo and to pay for certain related transaction costs. In June 2025, we drew an additional \$10.0 million under the Revolving Facility.

In July 2025, we issued 4,057,460 shares of common stock at a public offering price of \$248.00 per share (the “Common Stock Offering”) and issued \$747,500,000 aggregate principal amount of 0% convertible senior notes due 2030 (the “Notes Offering”). The aggregate net proceeds from the Common Stock Offering and the Notes Offering, after deducting underwriting discounts and debt and equity issuance costs, was approximately \$1.70 billion. The Company used approximately \$965.3 million of the net proceeds from the Common Stock Offering and the Notes Offering to repay indebtedness under the Term Loan Facility and outstanding borrowings under the Revolving Credit Facility, and the remainder is expected to be used for general corporate purposes, including to increase manufacturing capacity.

Our ability to borrow under the Revolving Facility is reduced by outstanding letters of credit of \$11.0 million as of January 31, 2026. As of January 31, 2026, approximately \$339.0 million was available under the Revolving Facility. Refer to Note 9—Debt to our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details. In addition, Telerob has a line of credit of €7.0 million (\$8.2 million) available for issuing letters of credit of which €2.2 million (\$2.6 million) was outstanding as of January 31, 2026.

We anticipate funding our normal recurring trade payables, accrued expenses, ongoing R&D costs and obligations under the Credit Facilities through our existing working capital and funds provided by operating activities including those

provided by our acquisition. The majority of our purchase obligations are pursuant to funded contractual arrangements with our customers. 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, capital expenditure requirements, and future obligations related to the acquisition 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 draw on our Credit Facilities. We anticipate that existing sources of liquidity, Credit Facilities, and cash flows from operations will be sufficient to satisfy our cash needs for the foreseeable future.

The Company is party to receivables purchase agreement with Citibank, N.A., with an aggregate capacity of \$100 million. As of January 31, 2026, no receivables have been sold, proceeds collected, or purchase discount fees incurred.

Our primary recurring liquidity needs are for financing working capital, investing in capital expenditures, supporting product development efforts, introducing new products and enhancing existing products, marketing acceptance and adoption of our products and services, and possible acquisitions of entities or strategic assets. Our future capital requirements, to a certain extent, are also subject to general conditions in or affecting the defense industry and are subject to general economic, political, financial, competitive, legislative and regulatory factors that are beyond our control. Moreover, to the extent that existing cash, cash equivalents, cash from operations, and cash from our Credit Facilities are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing, subject to the limitations specified in the Amended Credit Agreement. In addition, 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 and T&M contracts, we typically bill our incurred costs and fees monthly as work progresses, and therefore working capital investment is minimal. On FFP contracts, we typically are paid as we deliver products, and working capital is needed to fund labor and expenses incurred during the lead time from contract award until contract deliveries begin. Certain contracts have negotiated progress payments, which facilitates billing and collection as work is completed.

Due to the July 2025 reconciliation bill, commonly known as the One Big Beautiful Bill Act, which allows R&D expenditures to be deducted, we expect our cash taxes paid for U.S. federal income taxes to be significantly reduced for the fiscal year ending April 30, 2026.

Cash Flows

The following table provides our cash flow data for the nine months ended January 31, 2026 and January 25, 2025 (in thousands):

	Nine Months Ended	
	January 31, 2026	January 25, 2025
	(Unaudited)	
Net cash used in operating activities	\$ (173,917)	\$ (1,054)
Net cash used in investing activities	\$ (1,224,921)	\$ (16,601)
Net cash provided by (used in) financing activities	\$ 1,647,210	\$ (8,388)

Cash Used in Operating Activities. Net cash used in operating activities for the nine months ended January 31, 2026 increased by \$172.9 million to \$(173.9) million, as compared to \$(1.1) million for the nine months ended January 25, 2025. The increase in net cash used in operating activities was primarily due to a decrease in cash as a result of changes in operating assets and liabilities of \$260.3 million, largely related to increases in unbilled receivables and retentions due to year over year timing differences as well as increases in inventory to meet demand. The increase in cash used in operating activities was also driven by a decrease in net income of \$268.0 million, partially offset by an increase in depreciation and amortization of \$175.8 million, largely due to the intangibles and acquired property and equipment from the BlueHalo acquisition, and goodwill impairment of the Space reporting unit of \$151.3 million.

Cash Used in Investing Activities. Net cash used in investing activities increased by \$1,208.3 million to \$(1,224.9) million for the nine months ended January 31, 2026, as compared to \$16.6 million for the nine months ended January 25, 2025. The increase in net cash used in investing activities was primarily due to the cash consideration for the acquisition of BlueHalo, net of cash acquired of \$844.6 million and the net purchase of available-for-sale securities of \$313.7 million.

Cash Provided by (Used in) Financing Activities. Net cash provided by financing activities increased by \$1,655.6 million to \$1,647.2 million for the nine months ended January 25, 2025, as compared to net cash used in financing activities of \$8.4 million for the nine months ended January 25, 2025. The increase in net cash provided by financing activities was primarily due to proceeds from issuance of common shares of \$968.5 million, net of underwriter costs and proceeds from the issuance of Notes of \$726.9 million, net of underwriter costs. Part of the proceeds were used to repay the outstanding balances of the Term Loan Facility and Revolving Facility drawn in conjunction with the acquisition of BlueHalo.

Recent Developments

Since the acquisition of BlueHalo, we have been working to integrate the computer systems of Legacy BlueHalo and Legacy AV, and we expect to have an integrated system that complies with the Department of Defense's CMMC cybersecurity requirements by summer 2026. During the course of this integration effort, we became aware of potential issues concerning Legacy AV's compliance with certain cybersecurity requirements. Accordingly, in February 2026, we initiated an internal investigation, led by external counsel, regarding Legacy AV's compliance with cybersecurity requirements in certain Department of Defense contracts and subcontracts, to include an evaluation of the accuracy of Legacy AV's cybersecurity information in the Supplier Performance Risk System (SPRS). We are committed to complying with all applicable cybersecurity requirements, and depending on the outcome of the evaluation, we will update SPRS as needed.

Our investigation is ongoing, and we cannot predict whether it will lead to any adverse impact, nor can we predict the timing, outcome, or nature of any possible impact. It is possible that, for a period of time, Legacy AV's ability to receive certain new Department of Defense contracts, subcontracts, or follow-on work could be affected. Additionally, the U.S. Government or other customers could terminate Legacy AV's existing contracts, cease doing business with Legacy AV, or impose additional requirements. We also could be subject to significant penalties, damages, criminal fines, and suspension or debarment from U.S. Government contracting. Any of these potential consequences could materially and adversely affect our business, prospects, financial condition, and results of operations.

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. For a discussion of market risks at April 30, 2025, refer to Item 7A in our 2025 annual report on Form 10-K. During the nine months ended January 26, 2026, there were no material changes or developments that would materially alter the market risk assessment performed as of April 30, 2025, except as discussed below.

Interest Rate Risk

In July 2025, we issued \$747.5 million of Notes. The Notes have a zero percent coupon rate. We used the proceeds from the Notes Offering as well as the Common Stock Offering to repay indebtedness under our Term Loan Facility and outstanding borrowings under the Revolving Facility. The Revolving Facility has no current outstanding balance.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is

accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

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

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of January 31, 2026, 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 31, 2026, 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. As part of the ongoing integration of BlueHalo, we are in the process of incorporating the disclosure controls and procedures of BlueHalo. Management's evaluation of our disclosure controls and procedures as of January 31, 2026 excludes an evaluation of BlueHalo's disclosure controls and procedures that are subsumed by its internal control over financial reporting of BlueHalo. Notwithstanding the material weaknesses described below in Acquisition of BlueHalo, management has concluded that the financial statements included in this Quarterly Report present fairly, in all material respects, our financial position, results of operations and cash flows in conformity with U.S. GAAP.

Acquisition of BlueHalo

On May 1, 2025, we completed the acquisition of BlueHalo, a U.S. non-public reporting company. Prior to the acquisition, in connection with the preparation of its audited consolidated financial statements for the year ended December 31, 2024, BlueHalo identified three material weaknesses in its internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. First, BlueHalo did not design and maintain effective information technology ("IT") general controls for information systems that are relevant to the preparation of its financial statements. Specifically, BlueHalo did not design and maintain: (i) program change management controls to ensure that program and data changes are identified, tested, authorized, and implemented appropriately; and (ii) user access controls to ensure appropriate segregation of duties and to adequately restrict user and privileged access to appropriate personnel. Second, BlueHalo did not design and maintain an effective control environment commensurate with our financial reporting requirements. Specifically, it did not maintain a sufficient complement of personnel with an appropriate degree of internal controls and accounting knowledge, experience, and training commensurate with its accounting and financial reporting requirements. The limited personnel resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of financial reporting objectives, as demonstrated by, among other things, insufficient segregation of duties in the finance and accounting functions. Third, BlueHalo did not design and maintain effective monitoring activities of the design and operation of controls on a timely basis, or take necessary corrective action to ensure that controls continue to operate effectively and are modified for changes in conditions as appropriate.

As of the date of this report, management's remediation efforts are ongoing, and management has committed to a remediation plan to address the deficiencies and enhance the internal control environment. The remediation plan includes, but is not limited to the following activities which have been performed or are in process:

- Reviewed and restricted administrator-level access to financial systems, ensuring that elevated privileges are granted only to authorized personnel with a documented business need;
- Implemented periodic user access reviews to verify appropriateness of access rights and to promptly remove access for terminated or transferred employees;
- Implementing management review of audit logs relating to critical data and processes, such as vendor master file changes, user role modifications, and rate changes;

- Enhanced authentication controls by utilizing Okta and Single Sign-On (SSO) to centralize authentication, strengthen password and multi-factor authentication controls, and improve monitoring of user activity;
- Established processes utilizing the ticketing system to document, approve, and track system changes, configuration updates, and data modifications;
- Evaluated systems for integration with enterprise-wide monitoring tools, enabling real-time alerts for unauthorized access or unusual activity;
- Strengthened segregation of duties reviews within key business cycles to ensure that no single individual has control over all aspects of a financial transaction;
- Provided targeted training to personnel on internal control requirements, documentation standards, and change management protocols;
- Evaluated internal skill sets and are actively recruiting experienced personnel with expertise in internal controls and accounting;

However, remedial controls must operate for a sufficient period of time for a definitive conclusion, through testing, that the deficiencies have been fully remediated and, as such, management can give no assurance that the measures it has undertaken have fully remediated the material weaknesses that it has identified or that additional material weaknesses will not arise in the future. Management will continue to monitor the effectiveness of these and other processes, procedures, and controls and will make any further changes that management determines to be appropriate.

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 31, 2026 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 August 9, 2021, a former employee filed a class action complaint against AeroVironment in California Superior Court in Los Angeles, California alleging various claims pursuant to the California Labor Code related to wages, meal breaks, overtime, unreimbursed business expenses and other recordkeeping matters. The complaint seeks a jury trial and payment of various alleged unpaid wages, penalties, interest and attorneys' fees in unspecified amounts. We filed our answer on December 16, 2021.

On March 29, 2024, a former employee filed a complaint against AeroVironment in the Ventura County Superior Court in California, alleging violations of the California Labor Code related to wages, meal breaks, overtime, unreimbursed business expenses and other recordkeeping matters and seeking penalties recoverable under California Labor Code section 2698, et. seq., Private Attorney General Act of 2004 ("PAGA") and all other remedies available under PAGA. The complaint seeks civil penalties on behalf of the plaintiff and similarly situations persons pursuant to PAGA. We filed our answer on June 20, 2024.

On June 11, 2025, the parties reached an agreement in principle to settle all claims in the class action complaint and PAGA complaint pursuant to a mediator's proposal made on such a date by the mediator from a May 8, 2025 mediation session held for the class action litigation. A court must approve the terms of the settlement before we will pay any amounts pursuant to the settlement. The parties executed a non-binding memorandum of understanding outlining the materials terms of a proposed settlement agreement and are working on a written settlement agreement consistent with the memorandum of understanding to present to the court for approval. The estimated settlement was accrued in our consolidated statements of income(loss) for the year ended April 30, 2025.

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, 2025. Please refer to that section for disclosures regarding the risks and uncertainties related to our business.

Our business is subject to federal, state and international laws and regulations regarding data protection, privacy, and information security, as well as confidentiality obligations under various agreements, and our actual or perceived failure to comply with such obligations could damage our reputation, expose us to litigation risk and adversely affect our business and operating results.

In connection with our business, we receive, collect, process and retain certain sensitive and confidential customer information. As a result, we are subject to increasingly rigorous federal, state and international laws regarding privacy and data protection. Personal privacy, data protection and information security are significant issues in the United States and the other jurisdictions where we offer our products and services. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Our handling of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the United States Federal Trade Commission (“FTC”) and various state, local and foreign bodies and agencies. We also execute confidentiality agreements with various parties under which we are required to protect their confidential information.

The United States federal and various state and foreign governments have adopted or proposed limitations on the collection, distribution, use and storage of personal information of individuals, including end-customers and employees. In the United States, the FTC and many state attorneys general are applying federal and state consumer protection laws to the online collection, use and dissemination of data. Additionally, many foreign countries and governmental bodies, and other jurisdictions in which we operate or conduct our business, have laws and regulations concerning the collection and use of personal information obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are more restrictive than those in the United States. Such laws and regulations may require companies to implement new privacy and security policies, permit individuals to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals’ consent to use personal information for certain purposes.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact of such future laws, regulations and standards may have on our business. For example, the California Consumer Privacy Act, which became effective in 2020, provides certain data privacy rights for consumers and employees and new operational requirements for companies. Additionally, we expect that existing laws, regulations and standards may be interpreted differently in the future. There remains significant uncertainty surrounding the regulatory framework for the future of personal data transfers from the European Union to the United States with regulations such as the General Data Protection Regulation (“GDPR”), which imposes stringent E.U. data protection requirements, provides an enforcement authority, and imposes large penalties for noncompliance, including for the transfer of personal data between the company and our German subsidiary, Telerob. Future laws, regulations, standards and other obligations, including the adoption of the GDPR, as well as changes in the interpretation of existing laws, regulations, standards and other obligations could impair our ability to collect, use or disclose information relating to individuals, which could decrease demand for our products, require us to restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

Our business operations are subject to the evolving requirements of the U.S. DoD Cybersecurity Maturity Model Certification (“CMMC”) program. Our ongoing compliance with the CMMC framework is critical, and the associated costs of CMMC compliance are significant and may increase in the future, potentially affecting our operating results.

If we are unable to comply with the CMMC requirements, our ability to receive certain new Department of Defense contracts, subcontracts, or follow-on work could be affected. Additionally, non-compliance with requirements imposed on government contractors may result in the US Government or other customers terminating our existing contracts,

ceasing to do business with us, or imposing additional requirements. We also could be subject to significant penalties, damages, criminal fines, and suspension or debarment from U.S. Government contracting. Any of these potential consequences could materially and adversely affect our business, prospects, financial condition, and results of operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments.”

Although we endeavor to comply with those federal, state and foreign laws and regulations, industry standards, contractual obligations and other legal obligations that apply to us, such laws, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, our practices or the features of our products. As such, we cannot ensure ongoing compliance with all such laws or regulations, industry standards, contractual obligations and other legal obligations, and our efforts to do so may cause us to incur significant costs or require changes to our business practices, which could adversely affect our business and operating results. Any failure or perceived failure by us to comply with federal, state or foreign laws or regulations, industry standards, contractual obligations or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personal information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business and operating results.

The indebtedness represented by our Notes could limit the cash flow available for our operations, expose us to risks that could adversely affect our business, financial condition and results of operations and impair our ability to satisfy our obligations under the Notes.

As of January 31, 2026, we had total indebtedness of approximately \$727 million consisting of aggregate principal of our Notes. We may incur additional indebtedness to meet future financing needs. The indebtedness represented by our Notes and obligations under the Indenture pursuant to which the Notes were issued could have significant negative consequences for our security holders and our business, results of operations and financial condition by, among other things:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, which will reduce the amount of cash available for other purposes;
- limiting our flexibility to plan for, or react to, changes in our business;
- diluting the interests of our existing stockholders as a result of issuing shares of our common stock upon conversion of the Notes; and
- placing us at a possible competitive disadvantage with competitors that are less leveraged than us or have better access to capital.

Our business may not generate sufficient funds, and we may otherwise be unable to maintain sufficient cash reserves, to pay amounts due under our indebtedness, including the Notes, and our cash needs may increase in the future. In addition, the Indenture contains, and any future indebtedness that we may incur may contain, financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full.

The issuance or sale of shares of our common stock, or rights to acquire shares of our common stock, could depress the trading price of our common stock and the Notes.

We may conduct future offerings of common stock, preferred stock or other securities that are convertible into, or exercisable or exchangeable for, our common stock to finance our operations or fund acquisitions, or for other purposes.

In addition, we have shares reserved and available for issuance pursuant to our 2023 Employee Stock Purchase Plan and our Amended and Restated 2021 Equity Incentive Plan and issued 17,425,849 shares of common stock as consideration for the BlueHalo acquisition, substantially all of which are subject to a lock-up, or earlier if approved by us, but will be eligible for resale upon expiration of the applicable lock-up period.

The Indenture for the Notes does not restrict our ability to issue additional equity securities in the future. If we issue additional shares of our common stock or rights to acquire shares of our common stock, if any of our existing stockholders sell a substantial amount of our common stock, or if the market perceives that such issuances or sales may occur, then the trading price of our common stock and, accordingly, the Notes may significantly decline. In addition, any issuance of additional shares of common stock will dilute the ownership interests of our existing common stockholders, including Noteholders who have received shares of our common stock upon conversion of their Notes.

The conversion of Notes could impair our financial position and liquidity.

Because we must settle at least a portion of our conversion obligation in cash, the conversion of Notes could materially and adversely affect our financial position and liquidity. Before April 15, 2030, Noteholders will have the right to convert their Notes only upon the occurrence of certain events. From and after April 15, 2030, Noteholders may convert their Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date. However, many of the conditions that permit the conversion of Notes before April 15, 2030 are beyond our control. We could be required to expend a significant amount of cash to settle conversions, which could significantly harm our financial position and liquidity.

A decline in the U.S. and other government budgets, changes in spending or budgetary priorities, delays in contract awards or in the release of approved funds may significantly and adversely affect our future revenue.

Because we generate a significant portion of our total sales from the U.S. government and its agencies and from foreign governments, our results of operations could be adversely affected by government spending caps, delays in the government budget process, program starts, the award of contracts or orders under existing contracts, or in the release of funds by the federal government. Delays in the definitization of a contract could result in delayed funding, billing and payment. Our business may be adversely impacted by shifts in the political environment and resulting changes in government and agency leadership positions and priorities for funding. We cannot assure you that current levels of congressional funding for our products and services will continue and that our business will not decline, or that such funding will be accessible consistent with previously realized timelines due to federal budgetary review activities and potential freezes on or cancellation of various governmental programs from time to time. If annual budget appropriations or continuing resolutions are not enacted timely, we could face U.S. government shutdowns, which could adversely impact our programs and contracts with the U.S. government, our ability to receive timely payment from U.S. government entities, our ability to provide services to the U.S. government resulting in lost or delayed revenue under our services contracts (the volume of which materially increased with our BlueHalo acquisition), and our ability to timely obtain export licenses for our products and services to fulfill contracts with our international customers.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Trading Plan

None of our directors or officers informed us of the adoption or termination of a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Regulation S-K, Item 408 during the three-month period ended January 31, 2026.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of AeroVironment, Inc. (incorporated by reference herein to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on October 3, 2024)
3.2	Sixth Amended and Restated Bylaws of AeroVironment, Inc., amended as of November 20, 2025. (incorporated by reference herein to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on November 25, 2025)
4.1	Indenture, dated as of July 3, 2025, between AeroVironment, Inc. and U.S. Bank Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed with the SEC on July 3, 2025)
4.2	First Supplemental Indenture, dated as of July 3, 2025, between AeroVironment, Inc. and U.S. Bank Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed with the SEC on July 3, 2025)
10.1*	Lease, dated December 18, 2025, between AeroVironment, Inc. and QOZ 201CC TWO, LLC, for the property located at 4387 West 2100 South, West Valley City, Utah 84120
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 – The instance document does not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File formatted as Inline XBRL and contained in Exhibit 101

* Filed herewith.

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 10, 2026

AEROVIRONMENT, INC.

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

/s/ Kevin P. McDonnell
Kevin P. McDonnell
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Brian C. Shackley
Brian C. Shackley
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

LEASE AGREEMENT

BETWEEN

**QOZ 201CC TWO, LLC,
a Utah limited liability company,**

AS LANDLORD,

AND

**AEROVIRONMENT, INC.,
a Delaware corporation,**

AS TENANT

DATED December 16, 2025

WEST VALLEY CITY, UTAH

LEASE AGREEMENT

THIS LEASE AGREEMENT (“**Lease**”) is dated as of the latest date set forth on the signature page attached hereto (the “**Effective Date**”), between **QOZ 201CC TWO, LLC**, a Utah limited liability company (“**Landlord**”), and **AEROVIRONMENT, INC.**, a Delaware corporation (“**Tenant**”).

BASIC LEASE PROVISIONS

Premises: The entire rentable area of the Building (as defined below), containing approximately 130,733 square feet (the “**Premises**”).

Building: The building located at approximately 4387 West 2100 South, West Valley City, Utah, within the Project containing approximately 130,733 square feet and commonly known as Building 2 (the “**Building**”), which Building will be located on Lot 501, 201 Commerce Center Subdivision No. 5, according to the official plat thereof, on file and of record in the office of the Salt Lake County Recorder, State of Utah (the “**Lot**”). .

Project: The industrial park project of which the Building and the Lot are a part, which project to depicted on the Site Plan attached hereto as Exhibit A (the “**Project**”).

Lease Term: Beginning on the Commencement Date (as defined below) and ending on the last day of the 126th full calendar month thereafter, unless sooner terminated or extended pursuant to the terms and provisions of this Lease.

Commencement Date: The earlier of (a) the date Tenant occupies the Premises and begins conducting business therein, or (b) the date of Substantial Completion (as defined in Paragraph 2 below) of the Improvements (as defined in Exhibit B attached hereto) (or such earlier date that Substantial Completion of the Improvements would have occurred but for any “Tenant Delay” as defined in Exhibit B attached hereto) (the “**Commencement Date**”).

Option to Extend: Subject to Paragraph 43, two, 5-year renewal options

Monthly Base Rent: The monthly Base Rent shall be as follows:

<u>Month of Lease Term:</u>	<u>Monthly Base Rent:</u>
1-12	\$146,420.96
13-24	\$151,545.69
25-36	\$156,849.79
37-48	\$162,339.54
49-60	\$168,021.42
61-72	\$173,902.17
73-84	\$179,988.74
85-96	\$186,288.35
97-108	\$192,808.44
109-120	\$199,556.74
121-126	\$206,541.22

Initial Estimated Monthly Operating Expense Payments: \$0.27 per square foot (does not include utilities, which are to be paid separately in accordance with Paragraph 7 herein). (estimate only and subject to adjustment to actual costs and expenses according to the provisions of this Lease)

Prepaid Rent: \$241,839.13

Security Deposit: \$241,839.13 (the “**Security Deposit**”).

Permitted Use: General industrial/warehouse use for the purpose of receiving, storing, shipping and selling (but limited to wholesale sales, subject to all rules and regulations established by Landlord from time to time and Tenant’s compliance with Paragraph 3 below) products, materials and merchandise made and/or distributed by Tenant (the “**Permitted Use**”).

Tenant’s Notice Address: Prior to the Commencement Date:
241 18th Street South, #650
Arlington, VA 22202

Attention: General Counsel
Telephone: (703) 418-2828

with a copy to:
Attention: Facilities Manager
900 Enchanted Way
Simi Valley, CA 93065
Telephone:(805) 520-8350

From and after the Commencement Date: To the Premises.

Landlord’s Notice Address: QOZ 201CC TWO, LLC
9090 South Sandy Parkway
Sandy, Utah 84070
Attention: Stephen Layton

Broker(s): Jeff Richards with CBRE, representing Landlord, and Tom Dischmann and Matt McAfee with CBRE, representing Tenant.

Guarantor: None.

Addenda: Rules and Regulations; Exhibit A (Site Plan); Exhibit B (Work Letter and Construction Agreement); Exhibit C (Environmental Questionnaire);

References in these Basic Lease Provisions to other articles and sections are for convenience and designate some of the other articles and sections where references to the particular Basic Lease Provisions appear. Each reference in this Lease to any of the Basic Lease Provisions shall be construed to incorporate all of the terms provided under each such Basic Lease Provision. In the event of any conflict between any Basic Lease Provision and the balance of this Lease, the latter shall control.

LEASE

1. Granting Clause; Lease Term.

(a) In consideration of the obligation of Tenant to pay rent as herein provided and in consideration of the other terms, covenants, and conditions hereof, Landlord leases to Tenant, and Tenant leases from Landlord, the Premises, to have and to hold for the Lease Term, subject to the terms, covenants and conditions of this Lease. The term of this Lease shall commence on the "Commencement Date" specified in or established above, and except as otherwise provided herein, shall continue in full force and effect through the number of months as provided above (the "**Lease Term**"); provided, however, that if the Commencement Date is a date other than the first day of a calendar month, the Lease Term shall consist of the remainder of the calendar month including and following the Commencement Date, plus said number of full calendar months. Tenant agrees to accept possession of the Premises at such time as Landlord is able to tender the same, which date shall thenceforth be deemed the Commencement Date. After the Commencement Date, Tenant shall, upon demand, execute and deliver a letter of acceptance of delivery of the Premises specifying the Commencement Date. If Landlord does not deliver possession of the Premises to Tenant by the Commencement Date, Landlord shall not have any liability whatsoever to Tenant on account of such failure to deliver possession of the Premises to Tenant. If Landlord does not deliver possession of the Premises to Tenant by September 1st, 2027 (such date, the "**Delivery Deadline**"), unless such delay is caused by an act or omission of Tenant, then Tenant shall have the right to terminate the Lease by delivering written notice of such termination to Landlord on or before the fifth (5th) day after the Delivery Deadline. Time is of the essence. In the event of a termination of the Lease pursuant to this Subsection (a), the effective date of termination shall be the date of delivery of Tenant's termination notice, and the parties shall have no further liability to each other with respect to the Premises. The termination remedy herein shall constitute Tenant's sole and exclusive remedy in connection with Landlord's failure to timely deliver the Premises to Tenant. Landlord and Tenant agree that the rentable square footage of the Premises as set forth above and the Building as set forth above shall be conclusive and binding on the parties. Notwithstanding the foregoing, if the Commencement Date has not occurred prior to the expiration of two (2) years after the Effective Date, this Lease shall automatically terminate and neither party shall have any further obligations or rights under this Lease from and after such date.

(b) Approximately sixty (60) days prior to Landlord's estimated date of Substantial Completion of the Improvements, Landlord shall provide Tenant with written notice of same. Subject to all Legal Requirements (defined below), Tenant may enter the Premises following receipt of such notice, for the sole purposes of installing Tenant's furniture, fixtures and equipment, and for storing Tenant's products, materials and merchandise (associated with the Permitted Use) made and/or distributed by Tenant; provided, however Tenant shall only be permitted to enter such portions of the Premises (and at such times) as Landlord reasonably determines will not interfere with the construction and performance of the Improvements. Notwithstanding the foregoing, in no event shall Tenant enter the Premises until such time as Tenant has provided Landlord with evidence that Tenant has fulfilled its obligation to provide insurance pursuant to the provisions of this Lease. Such early entry in and of itself will not advance the Commencement Date unless Tenant commences to conduct business from the Premises and Landlord's Work is completed. All of the provisions of this Lease shall apply to Tenant and Landlord during any early entry, including, without limitation, the indemnities set forth in this Lease and Tenant's obligation to not interfere with Landlord's construction and performance of the Improvements, but excluding only the obligation to pay Base Rent and Operating Expenses until the Commencement Date has occurred, whereupon Base Rent and Operating Expenses shall immediately commence. During any such early entry, Landlord shall not be responsible for any loss, including theft, damage or destruction to any work, furniture, fixtures, equipment, material, merchandise and/or products installed or stored by Tenant at the Premises or for any injury to Tenant or its agents, employees, contractors, subcontractors, subtenants, assigns, licensees or invitees, unless caused by the gross negligence or willful misconduct of Landlord. Landlord shall have the right to post appropriate notices of non-responsibility in connection with any early entry by Tenant.

2. Acceptance of Premises. Tenant shall accept the Premises on the Commencement Date in its "as-is" condition, subject to all Landlord warranties, applicable laws, ordinances, regulations, covenants and restrictions, and Landlord shall have no obligation to perform or pay for any repair or other work therein, except that Landlord shall cause the Tenant Improvements (as defined in the Work Letter and Construction Agreement attached hereto as Exhibit B) to be installed within the Premises in accordance with the terms of Exhibit B. Tenant shall have the right to inspect the Premises prior to delivery of possession of the Premises to Tenant. To the extent that Landlord makes

any repairs, replacements or improvements (whether structural or otherwise) on Landlord's own behalf, Tenant shall have the right to reinspect the Premises prior to delivery of possession of the Premises to Tenant. The term "**Substantial Completion**" shall mean the completion of the Tenant Improvements, subject only to punch list items identified by Tenant in a written notice to Landlord delivered within thirty (30) days after Landlord tenders possession of the Premises, such that none of the Tenant Improvements remaining incomplete or needing adjustment shall materially impair, or prevent the obtaining of permits for, Tenant's use, occupancy and enjoyment of the Premises. In the event of any dispute as to whether Substantial Completion has occurred, the sign-off by the municipal building inspector shall be conclusive, except that delay in receipt thereof or in Substantial Completion caused by Tenant, including Tenant Delays or attributable to Tenant's uncompleted work being contained within the scope of the same building permit as the Tenant Improvements shall be charged to Tenant in the amount of the daily Base Rent and Operating Expenses multiplied by the number of days of such delay. Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes. Except as provided in Paragraph 10, in no event shall Landlord have any obligation for any defects in the Premises or any limitation on its use. The taking of possession of the Premises shall be conclusive evidence that Tenant accepts the Premises and that the Premises were in good condition at the time possession was taken except for items that are Landlord's responsibility under Paragraphs 10 and 45 and any punchlist items agreed to in writing by Landlord and Tenant.

3. **Use; Compliance with Legal Requirements.**

(a) Subject to Tenant's compliance with all zoning ordinances and Legal Requirements (as hereinafter defined), the Premises shall be used only for the Permitted Use; provided, however, no retail sales may be made from the Premises except for limited ancillary retail sales to Tenant's customers in connection with picking up products, materials and/or merchandise (made and/or distributed by Tenant in connection with the Permitted Use) at the Premises from time-to-time (subject to all rules and regulations established by Landlord from time to time and Tenant's compliance with Paragraph 14 below). For purposes of this Lease, including, without limitation, Paragraph 18 below, Tenant's customers shall be deemed to be "invitees" of Tenant. Tenant shall not conduct or give notice of any auction, liquidation, or going out of business sale on the Premises. Tenant will use the Premises in a careful, safe and proper manner and will not commit waste, overload the floor or structure of the Premises or subject the Premises to use that would damage the Premises. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would disturb, interfere with, or endanger Landlord or any tenants of the Project. Outside storage, including without limitation, storage of trucks and other vehicles (other than overnight parking of operative trucks related to Tenant's Permitted Use of the Premises), is prohibited without Landlord's prior written consent. Subject to the terms and conditions set forth herein, Landlord consents to Tenant's use and occupancy of the Premises 24 hours per day, 7 days per week for the Permitted Use.

(b) Tenant, at its sole expense, shall comply with all laws, including, without limitation, the Americans With Disabilities Act, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, covenants and restrictions now or hereafter applicable to the Premises (collectively, "**Legal Requirements**"). The Premises shall not be used as a place of public accommodation under the Americans With Disabilities Act or similar state statutes or local ordinances or any regulations promulgated thereunder, all as may be amended from time to time. Tenant shall, at its expense, make any alterations or modifications, within or without the Premises, that are required by Legal Requirements related to Tenant's specific use or occupation of the Premises. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant's or Landlord's insurance, increase the insurance risk, or cause the disallowance of any sprinkler credits. If any increase in the cost of any insurance on the Premises or the Project is caused by Tenant's use or occupation of the Premises, or because Tenant vacates the Premises, then Tenant shall pay the amount of such increase to Landlord. Any entrance into or occupation of the Premises by Tenant prior to the Commencement Date shall be subject to all obligations of Tenant under this Lease.

(c) Tenant and its employees and invitees shall have the non-exclusive right to use, in common with others, the access drives and other any areas designated by Landlord from time to time as common areas for the use and enjoyment of all tenants and occupants of the Project, subject to such reasonable rules and regulations as Landlord may promulgate from time to time.

4. **Base Rent.**

(a) Tenant shall pay Base Rent in the amounts set forth in the Basic Lease Provisions. The Prepaid Rent (as set forth in the Basic Lease Provisions above) shall be due and payable on the date this Lease is executed and shall be applied against Base Rent and Operating Expenses first due under this Lease, and Tenant promises to pay to Landlord in advance, without demand, deduction or set-off, monthly installments of Base Rent on or before the first day of each calendar month succeeding the Commencement Date. Payments of Base Rent for any fractional calendar month shall be prorated. All payments required to be made by Tenant to Landlord hereunder shall be payable at such address as Landlord may specify from time to time by at least thirty days' prior written notice delivered in accordance herewith. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations and shall constitute rent. Tenant shall have no right at any time to abate, reduce, or set-off any rent due hereunder except where expressly provided in this Lease. Tenant acknowledges that late payment by Tenant to Landlord of any rent due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impractical to determine. Therefore, if Tenant is delinquent in any monthly installment of Base Rent, estimated Operating Expenses or other sums due and payable hereunder for more than ten (10) days, Tenant shall pay to Landlord on demand a late charge equal to five percent (5%) of such delinquent sum; provided that such late charge shall not be assessed by Landlord for the first delinquent payment of Base Rent so long as Tenant pays such amount within ten (10) days of receipt of notice of non-payment. The parties agree that such late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of such late payment by Tenant. The late charge shall be deemed to be rent, and the right to require it shall be in addition to all of Landlord's other rights and remedies for a payment failure of Tenant, including the right to charge interest on the past due amount, and shall not be construed as a penalty. Additionally, Tenant shall pay to Landlord all sales, use, transaction privilege, or other excise tax that may at any time be levied or imposed upon, or measured by, any amount payable by Tenant under this Lease.

(b) Subject to the terms and conditions of this Paragraph 4(b), provided that no Event of Default exists under this Lease, and no Event of monetary Default has occurred under this Lease during the term of the Lease, Tenant shall be credited with the payment of monthly Base Rent with respect to the Premises for the first (1st) through sixth (6th) months of the initial Lease Term only (collectively, the "**Base Rent Credit**") (for a total Base Rent Credit equal to \$878,525.76 in the aggregate, subject to the terms hereof). No such Base Rent Credit shall reduce or limit any other amounts which are otherwise payable by Tenant under this Lease (including, without limitation, Operating Expenses and utilities). Tenant understands and agrees that the foregoing Base Rent Credit is conditioned upon no Event of Default occurring under this Lease. Accordingly, upon the occurrence of any Event of Default under this Lease, the foregoing Base Rent Credit shall immediately become null and void, and any Base Rent previously credited to Tenant shall immediately become due and payable, and Tenant shall no longer receive any credit on account of such Base Rent Credit. Tenant agrees and acknowledges that notwithstanding the fact that Landlord may elect not to cause the Base Rent Credit to become null and void on account of any particular default by Tenant, Landlord shall at all times retain the right to cause the Base Rent Credit to become null and void in the event of any Event of Default.

5. **Security Deposit.** Concurrently with the execution of this Lease, Tenant shall deposit with Landlord the Security Deposit in the amount set forth above. The Security Deposit shall be held by Landlord as security for the performance of Tenant's obligations under this Lease. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of an Event of Default (hereinafter defined), Landlord may use all or part of the Security Deposit to pay delinquent payments due under this Lease, and the cost of any damage, injury, expense or liability caused by such Event of Default, without prejudice to any other remedy provided herein or provided by law. Tenant shall pay Landlord on demand the amount that will restore the Security Deposit to its original amount. Landlord's obligation respecting the Security Deposit is that of a debtor, not a trustee; no interest shall accrue thereon. The Security Deposit shall be the property of Landlord, but shall be paid to Tenant when Tenant's obligations under this Lease have been completely fulfilled. Landlord shall be released from any obligation with respect to the Security Deposit upon transfer of this Lease and the Premises to a person or entity assuming Landlord's obligations under this Paragraph 5. In the event of a sale or other disposition of the Premises, Landlord shall transfer the Security Deposit to the new owner, and, thereafter, Landlord shall be released by Tenant from all responsibility for returning the Security Deposit, and Tenant shall look solely to the new owner for return of the Security Deposit. If Tenant assigns this Lease, Tenant's rights in the Security Deposit shall be deemed to be assigned to the assignee, such Security Deposit shall be held by Landlord as a Security Deposit made by the assignee and Landlord shall have no further responsibility for return of the Security Deposit to Tenant.

6. **Operating Expense Payments.**

(a) During each month of the Lease Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12th of the annual cost, as reasonably estimated by Landlord from time to time, of Tenant's Proportionate Share (hereinafter defined) of Operating Expenses for the Project. Payments thereof for any fractional calendar month shall be prorated. The provisions of this Paragraph 6 shall survive the expiration or earlier termination of the Lease.

(b) The term "**Operating Expenses**" means all costs and expenses incurred by Landlord in connection with the ownership, maintenance, and/or operation of the Building and/or Project including, but not limited to costs of: common area utilities; maintenance, repair and replacement of all or any portions of the Project, including without limitation, paving and parking areas, roads, roof of the Premises, roof membrane, alleys, and driveways; mowing, snow removal, landscaping, and exterior painting; the cost of maintaining utility lines, fire sprinklers and fire protection systems, exterior lighting and mechanical and building systems serving the Building or Project; amounts paid to contractors and subcontractors for work or services performed in connection with any of the foregoing; charges or assessments of any association, common maintenance regime or any restrictive covenants to which the Project is subject; fees payable to tax consultants and attorneys for consultation and contesting taxes; environmental insurance, environmental management fees and environmental audits; the cost of any insurance deductibles for insurance maintained by Landlord; property management fees payable to a property manager, including any affiliate of Landlord, or if there is no property manager, an administration fee of fifteen percent (15%) of Operating Expenses payable to Landlord; security services, if any; trash collection, sweeping and removal; and additions or alterations made by Landlord to the Project or the Building in order to comply with Legal Requirements (other than those expressly required herein to be made by Tenant) or that reduce Operating Expenses, provided that the cost of such additions or alterations that are required to be capitalized for federal income tax purposes shall be amortized on a straight line basis over a period equal to the useful life thereof for federal income tax purposes and included in Operating Expenses only to the extent of the amortized amount for the respective calendar year. In addition, Operating Expenses shall include (1) Taxes (hereinafter defined) due and payable for each calendar year during the Lease Term, and (2) the cost of insurance maintained by Landlord for the Project for each calendar year during the Lease Term. If less than one hundred percent (100%) of the net rentable area of the Building and/or Project is occupied by tenants at all times during any calendar year, then Operating Expenses for such year shall include all additional costs and expenses that Landlord reasonably determines would have been incurred had one hundred percent (100%) of the Building and Project been occupied at all times during such year by tenants. Notwithstanding the foregoing, Operating Expenses do not include: (i) debt service under mortgages or ground rent underground leases; (ii) costs of restoration to the extent of net insurance proceeds received by Landlord with respect thereto; (iii) leasing commissions or the costs of renovating space for tenants; (iv) any costs or legal fees incurred in connection with a dispute with any particular tenant; or (v) except as set forth above, the cost of any repairs or replacements which are classified as capital improvements under generally accepted accounting principles.

(c) If Tenant's total payments of Operating Expenses for any year are less than Tenant's Proportionate Share of actual Operating Expenses for such year, then Tenant shall pay the difference to Landlord within thirty (30) days after demand, and if more, then Landlord shall retain such excess and credit it against Tenant's next payments, or, if there are no further payments required under this Lease, within thirty (30) days after Landlord's reconciliation shows such excess. For purposes of calculating Tenant's Proportionate Share of Operating Expenses, a year shall mean a calendar year except the first year, which shall begin on the Commencement Date, and the last year, which shall end on the expiration of this Lease.

(d) With respect to Operating Expenses which Landlord allocates to the entire Project, Tenant's "**Proportionate Share**" shall be the percentage obtained by dividing the square footage of the Premises by the square footage of all premises in the Project which are occupied and open for business by commercial tenants from time to time during the applicable calendar or fiscal year (as the case may be), as reasonably adjusted by Landlord in the future for changes in the physical size of the Premises or the Project; and, with respect to Operating Expenses which Landlord allocates only to the Building, Tenant's "**Proportionate Share**" shall be 100%. Landlord may equitably increase Tenant's Proportionate Share for any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Project or Building that includes the Premises or that varies with occupancy or use. The estimated Operating Expenses for the Premises set forth in the Basic Lease Provisions are only estimates, and Landlord makes no guaranty or warranty that such estimates will be accurate.

(e) Provided Tenant is not then in default beyond any applicable cure period of its obligations to pay rent, or any other payments required to be made by it under this Lease, Tenant shall have the right, once each calendar year, to cause a Qualified Person (as defined below) to reasonably review all relevant and supporting data for any portion of an actual statement of annual Operating Expenses delivered by Landlord (the “**Actual Statement**”) (provided, however, Tenant may not have an audit right to all documentation relating to Building operations unless such documentation is relevant and necessary for Tenant to properly document a pass-through billing statement, but real estate tax statements, and information on utilities, repairs, maintenance and insurance will be available), in accordance with the following procedure:

(1) Tenant shall, within thirty (30) days after any Actual Statement is delivered, deliver a written notice to Landlord specifying the portions of the Actual Statement that are claimed to be incorrect; provided, however, Tenant shall pay to Landlord all amounts due from Tenant to Landlord as specified in the Actual Statement as provided in Paragraph 6(c) above. In no event shall Tenant be entitled to withhold, deduct, or offset any monetary obligation of Tenant to Landlord under the Lease (including without limitation, Tenant’s obligation to make all payments of rent and all payments of Tenant’s Operating Expenses) pending the completion of and regardless of the results of any review of records under this Paragraph. The right of Tenant under this Paragraph may only be exercised once for any Actual Statement, and if Tenant fails to meet any of the above conditions as a prerequisite to the exercise of such right, the right of Tenant under this Paragraph for a particular Actual Statement shall be deemed waived.

(2) Tenant acknowledges that Landlord maintains its records for the Project at the office of Landlord’s property manager, and Tenant agrees that any review of records under this Paragraph shall be at the sole expense of Tenant and shall be conducted by a Qualified Person. Tenant acknowledges and agrees that any records reviewed under this Paragraph constitute confidential information of Landlord, which shall not be disclosed to anyone other than the Qualified Person performing the review, the principals of Tenant who receive the results of the review, and Tenant’s accounting employees. The disclosure of such information to any other person, whether or not caused by the conduct of Tenant, shall constitute a material breach of this Lease.

(3) Any errors disclosed by the review shall be promptly corrected by Landlord, provided, however, that if Landlord disagrees with any such claimed errors, Landlord shall have the right to cause another review to be made by a Qualified Person. In the event of a disagreement between the two (2) reviews, the two (2) Qualified Persons who conducted Landlord’s and Tenant’s reviews shall jointly designate a third (3rd) Qualified Person, at Tenant’s sole cost and expense (except as otherwise indicated in this Lease), to conduct a review of Landlord’s records. The review of such third (3rd) Qualified Person shall be deemed correct and binding upon the parties. In the event that the final results of such review of Landlord’s records reveal that Tenant has overpaid obligations for the preceding period, the amount of such overpayment shall be credited against Tenant’s subsequent installment obligations to pay the estimated Operating Expenses; provided, however, if Tenant has overpaid by more than five percent (5%), Landlord shall pay the reasonable out-of-pocket cost of the review of Landlord’s records by Tenant’s Qualified Person and the reasonable out-of-pocket cost of the review of Landlord’s records by the third (3rd) Qualified Person. If this Lease has expired, Landlord shall return the amount of such overpayment to Tenant within thirty (30) days after such reviews have been made. In the event that such results show that Tenant has underpaid its obligations for a preceding period, the amount of such underpayment shall be paid by Tenant to Landlord with the next succeeding installment obligation of estimated Operating Expenses. A “**Qualified Person**” means an accountant or other person experienced in accounting for income and expenses of industrial projects engaged solely by Tenant on terms which do not entail any compensation based or measured in any way upon any savings in rent or reduction in Operating Expenses achieved through the inspection process.

(f) Portions of the Project are or may be owned or leased from time to time by various persons which maintain, repair and replace their own facilities and, therefore, contribute to the Project’s Operating Expenses on a basis other than that described herein (collectively, the “**Other Tenant**”). The contributions received from the Other Tenant towards the Project’s Operating Expenses shall be credited against the total Project Operating Expenses and the balance of those items (the “**Reduced Items**”) to which contributions are so made by the Other Tenants shall be prorated in the following manner: Tenant’s Proportionate Share of the Reduced Items shall be determined by multiplying that portion of the Reduced Items that remains after applying the contributions paid by the Other Tenants

by a fraction, the numerator of which is the square footage of the Premises and the denominator of which is the square footage of all existing space leasable for commercial purposes in the Project except for the Other Tenants. Notwithstanding the foregoing, if any owner or tenant of a portion of the Project separately maintains its own common areas, the Project's Operating Expenses shall not include costs relating to the common areas so maintained by such owner or tenant, and the square footage of such owner's or tenant's premises shall not be included in the denominator for purposes of calculation of Tenant's Proportionate Share of the Project's Operating Expenses.

7. **Utilities.**

(a) Tenant shall timely pay for all water, gas, electricity, heat, light, power, telephone, sewer, sprinkler services, refuse and trash collection, and other utilities and services used on the Premises, all maintenance charges for utilities, and any storm sewer charges or other similar charges for utilities imposed by any governmental entity or utility provider, together with any taxes, penalties, surcharges or the like pertaining to Tenant's use of the Premises. Landlord shall have no responsibilities whatsoever in connection with the foregoing. Other than sewer and storm water, Landlord shall cause any utilities applicable to Tenant to be separately metered or charged directly to Tenant by the provider. Tenant shall pay its share of all charges for jointly metered utilities based upon consumption, as reasonably determined by Landlord. Tenant agrees to limit use of water and sewer for normal restroom use. Unless caused by any gross negligence, or willful misconduct of Landlord, no interruption or failure of utilities shall result in the termination of this Lease or the abatement of rent or result in any liability of Landlord.

(b) Tenant shall, at its sole cost and expense, contract directly with a janitorial service and shall pay for all janitorial services used on or for the Premises. Landlord shall have no obligations whatsoever in connection therewith. All janitorial services and employees utilized by Tenant shall be subject to Landlord's prior written consent.

(c) Notwithstanding anything to the contrary contained in this Lease, Tenant agrees that Landlord, at its election, may contact any utility company providing utility services to the Premises in order to obtain data on the energy being consumed by the occupant of the Premises. Furthermore, if required by laws imposed on Landlord, Tenant agrees to provide Landlord with Tenant's energy consumption data within thirty (30) days after Landlord's request for the same. Tenant agrees to take such further actions as are necessary in order to further the purpose of this paragraph, including, without limitation, providing to Landlord the names and contact information for all utility providers serving the Premises, copies of utility bills, written authorization from Tenant to any such utility company to release information to Landlord, and any other relevant information reasonably requested by Landlord or the applicable utility company.

8. **Taxes.** Landlord shall pay all taxes, assessments, special assessments, improvement districts, and governmental charges (collectively referred to as "**Taxes**") that accrue against the Project during the Lease Term. Taxes shall be included as part of the Operating Expenses charged to Tenant pursuant to Paragraph 6 hereof during each year of the Lease Term, based upon Landlord's reasonable estimate of the amount of Taxes, and shall be subject to reconciliation and adjustment pursuant to Paragraph 6 once the actual amount of Taxes is known. Taxes shall include, without limitation, any increase in any of the foregoing based upon construction of improvements on the Project or changes in ownership. Landlord may contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens thereof and any costs incurred in such contest may be included as part of Taxes. All capital levies or other taxes assessed or imposed on Landlord upon the rents payable to Landlord under this Lease and any franchise tax, any excise, transaction, sales, business & occupation, or privilege tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises and/or the Project or any portion thereof shall be paid by Tenant to Landlord monthly in estimated installments or upon demand, at the option of Landlord, as additional rent; provided, however, in no event shall Tenant be liable for any net income taxes imposed on Landlord unless such net income taxes are in substitution for any Taxes payable hereunder. If any such tax or excise is levied or assessed directly against Tenant, then Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in the Premises, whether levied or assessed against Landlord or Tenant, and if any such taxes are levied or assessed against Landlord or Landlord's property and (1) Landlord pays them or (2) the assessed value of Landlord's property is increased thereby and Landlord pays the increased taxes, then Tenant shall pay to Landlord such taxes within ten (10) days after Landlord's request therefor.

9. **Insurance.**

(a) Tenant Insurance Requirements.

(i) Effective as of the earlier of: (x) the date Tenant enters or occupies the Premises; or (y) the Commencement Date, and continuing during the Lease Term, Tenant, at its expense, shall obtain and maintain in full force the following insurance coverage (subject to increases in coverage amounts and additional types of coverage, as reasonably determined by Landlord from time to time):

(1) Commercial general liability insurance which insures against claims for bodily injury, personal injury, advertising injury, and property damage based upon, involving, or arising out of the use, occupancy, or maintenance of the Premises and the Project. Such insurance shall afford, at a minimum, the following limits:

Each Occurrence	\$1,000,000
General Aggregate	\$2,000,000
Products/Completed Operations Aggregate	\$1,000,000
Personal and Advertising Injury Liability	\$1,000,000
Fire Damage Legal Liability	\$100,000
Medical Payments	\$5,000

Any general aggregate limit shall apply on a per location basis. Tenant's commercial general liability insurance shall include Landlord, its trustees, officers, directors, members, agents, and employees, Landlord's mortgagees, and Landlord's representatives, as additional insureds. This coverage shall be written on the most current ISO CGL form (or its equivalent), shall include contractual liability, premises-operations and products-completed operations and shall contain an exception to any pollution exclusion which insures damage or injury arising out of heat, smoke, or fumes from a hostile fire. Such insurance shall be written on an occurrence basis and contain a standard separation of insureds provision.

(2) Business automobile liability insurance covering owned, hired and non-owned vehicles with limits of \$1,000,000 combined single limit per occurrence.

(3) Workers' compensation insurance in accordance with the laws of the state in which the Premises are located with employer's liability insurance in an amount not less than \$1,000,000.

(4) Umbrella/excess liability insurance, on an occurrence basis, that applies excess of the required commercial general liability, business automobile liability, and employer's liability policies with the following minimum limits:

Each Occurrence	\$5,000,000
Annual Aggregate	\$5,000,000

Umbrella/Excess liability policies shall contain an endorsement stating that any entity qualifying as an additional insured on the insurance stated in the Schedule of Underlying Insurance shall be an additional insured on the umbrella/excess liability policies, and that they apply immediately upon exhaustion of the insurance stated in the Schedule of Underlying Insurance as respects the coverage afforded to any additional insured. The umbrella/excess liability policies shall also provide that they apply before any other insurance, whether primary, excess, contingent or on any other basis, available to an additional insured on which the additional insured is a named insured (which shall include any self-insurance), and that the insurer will not seek contribution from such insurance.

(5) Property insurance "the equivalent of causes of loss – special form" including windstorm, theft, sprinkler leakage and boiler and machinery coverage on all of Tenant's trade fixtures, furniture, inventory and other personal property in the Premises, and on any alterations, additions, or improvements made by Tenant upon the Premises all for the full replacement cost thereof. Tenant shall use the proceeds from such insurance for the replacement of trade fixtures, furniture, inventory and other personal property and for the restoration of Tenant's improvements, alterations, and additions to the Premises. Landlord shall be named as loss payee with respect to alterations, additions, or improvements of the Premises where the tenant cannot remove at the end of the lease term wherein ownership then reverts to the landlord.

(6) Business income and extra expense insurance with limits not less than one hundred percent (100%) of all income and charges payable by Tenant under this lease for a period of twelve (12) months.

(ii) All policies required to be carried by Tenant hereunder shall be issued by an insurance company licensed or authorized to do business in the state in which the Project is located with a rating of at least "A-: VIII" or better as set forth in the most current issue of Best's Insurance Reports, unless otherwise approved by Landlord. Tenant shall not do or permit anything to be done that would invalidate the insurance policies required herein. Liability insurance maintained by Tenant shall be primary coverage on behalf of Landlord, its trustees, officers, directors, members, agents, and employees, Landlord's mortgagees, and Landlord's representatives and any policies of Landlord, its trustees, officers, directors, members, agents, and employees, Landlord's mortgagees, and Landlord's representatives shall be non contributory. Certificates of insurance, acceptable to Landlord, evidencing the existence and amount of each insurance policy required hereunder shall be delivered to Landlord prior to delivery or possession of the Premises and ten (10) days following each renewal date. Certificates of insurance shall evidence that Landlord, its trustees, officers, directors, members, agents, and employees, Landlord's mortgagees, and Landlord's representatives are included as additional insureds on liability policies and that Landlord is included as loss payee on the property insurance as stated in Paragraph 9(a)(i)(5) above. Further, each policy shall contain provisions giving Landlord and each of the other additional insureds at least thirty (30) days prior written notice of cancellation and ten (10) days for non-renewal..

(iii) In the event that Tenant fails to provide evidence of insurance required to be provided by Tenant in this Lease, prior to the Commencement Date and thereafter during the Lease Term, within ten (10) days following Landlord's request thereof and thirty (30) days prior to the expiration of any such coverage, Landlord shall be authorized (but not required) to procure such coverage in the amount stated with all costs thereof to be chargeable to Tenant and payable upon written invoice thereof.

(iv) The limits of insurance required by this Lease, or as carried by Tenant, shall not limit the liability of Tenant or relieve Tenant of any obligation under this Lease. Any deductibles selected by Tenant shall be the sole responsibility of Tenant.

(v) The Tenant insurance requirements stipulated in Paragraph 9(a)(i) above are based upon current industry standards. Landlord reserves the right to require additional coverage or to increase limits as industry standards change.

(vi) Should Tenant engage the services of any contractor to perform work in the Premises, Tenant shall ensure that such contractor carries commercial general liability, business automobile liability, umbrella/excess liability, worker's compensation and employer's liability coverages in substantially the same forms as required of Tenant under this Lease and in amounts approved by Landlord and/or Landlord's property manager. Contractor shall include Landlord, its trustees, officers, directors, members, agents and employees, Landlord's mortgagees and Landlord's representatives as additional insureds on the liability policies required hereunder. All policies required to be carried by any contractor shall be issued by and binding upon an insurance company licensed or authorized to do business in the state in which the Project is located with a rating of at least "A-: VIII" or better as set forth in the most current issue of Best's Insurance Reports, unless otherwise approved by Landlord. Certificates of insurance, acceptable to Landlord, evidencing the existence and amount of each insurance policy required hereunder shall be delivered to Landlord prior to the commencement of any work in the Premises. Further, each policy will contain provisions giving Landlord and each of the other additional insureds with at least thirty (30) days' prior written notice of any cancelation, non-renewal or material change in coverage. The above requirements shall apply equally to any subcontractor engaged by contractor.

(b) Landlord's Insurance. Landlord shall obtain and maintain the following: (1) Property insurance "the equivalent of causes of loss – special form" covering the full replacement cost of the Building (excluding foundations), less a commercially reasonable deductible if Landlord so chooses; provided, however, Landlord shall not be obligated to insure any furniture, equipment, trade fixtures, machinery, goods, or supplies which Tenant may keep or maintain in the Premises or any alteration, addition, or improvement which Tenant may make upon the Premises; and (2) Commercial general liability insurance, which shall be in such amount as Landlord so determines and shall be in addition to, and not in lieu of, any insurance required to be maintained by Tenant. Tenant shall not be included as an additional

insured on any policy of liability insurance maintained by Landlord. In addition, Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may deem necessary, including, but not limited to, flood insurance, earthquake insurance and rent loss insurance. The premiums for all such insurance shall be included as part of the Operating Expenses charged to Tenant pursuant to Paragraph 6 hereof. The Project or Building may be included in a blanket policy (in which case the cost of such insurance allocable to the Project or Building will be determined by Landlord based upon the insurer's cost calculations). Tenant shall also reimburse Landlord for any increased premiums or additional insurance that Landlord reasonably deems necessary as a result of Tenant's use of the Premises. Tenant shall not be named as an additional insured on any policy of liability insurance maintained by Landlord.

(c) Waiver of Subrogation. Landlord waives any and all rights of recovery against Tenant for or arising out of damage to, or destruction of the Premises to the extent that Landlord's property insurance policies then in force insure against such damage or destruction and permit such waiver and only to the extent of insurance proceeds actually received by Landlord for such damage or destruction. Tenant waives any and all rights of recovery against Landlord for or arising out of damage to or destruction of any property of Tenant to the extent that Tenant's property insurance policies then in force or the policies required by this Lease, whichever is broader, insure against such damage or destruction. Landlord will not be responsible for or liable to Tenant for any loss or damage that may be occasioned by or through the acts or omissions of persons occupying adjoining premises or any part of the premises adjacent to or connected with the Premises or any part of the Building or for any loss or damage resulting to Tenant or its property from burst, stopped or leaking water, gas, sewer or steam pipes or falling plaster, or electrical wiring or for any damage or loss of property within the Premises from any causes whatsoever, including but not limited to theft, and/or acts or threatened acts of terrorism, damage or injury due to mold, excepting only losses or damages resulting from the gross negligence or willful misconduct of Landlord. Landlord will not be liable under any circumstances to Tenant for any incidental or consequential damages.

10. Landlord's Repairs. This Lease is intended to be a net lease. Landlord shall maintain and repair, as part of Operating Expenses, only the fire sprinklers and fire protection systems, roof (including structural components thereof), foundation piers and structural members of the exterior walls, steel columns and structural girders of the Building in good repair, reasonable wear and tear and uninsured losses and damages caused by Tenant, its agents, employees, contractors, licensees and invitees excluded. The term "walls" as used in this Paragraph 10 shall not include windows, glass or plate glass, doors or overhead doors, special store fronts, dock bumpers, dock plates or levelers, or office entries, all of which shall be maintained by Tenant. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Paragraph 10, after which Landlord shall have thirty (30) days to repair such item; *provided, however*, that if more than thirty (30) days is reasonably required to cure such failure, Landlord shall have such time to repair as reasonably required if Landlord commences such cure within such 30-day period and thereafter diligently prosecutes such cure to completion. Landlord shall also maintain in good repair and condition (including replacements as necessary) the parking areas, the common areas of the Project and other common areas of the Building, including, but not limited to driveways, alleys, roadways, lighting facilities and fixtures, utility lines, conduits, storm and sanitary sewer systems, landscape and grounds within the common areas and surrounding the Premises, the cost of such maintenance, repair and replacement to be paid in accordance with Paragraph 6 hereof. Tenant hereby waives the benefit of any other statute providing a right to make repairs and deduct the cost thereof from the rent.

11. Tenant's Repairs.

(a) Subject to Landlord's obligations in Paragraph 10, Tenant, at its sole expense, shall repair, replace and maintain in good condition and in compliance with all Legal Requirements all portions of the Premises and all areas, improvements and systems exclusively serving the Premises including, without limitation, dock, dock equipment and loading areas, truck doors, plumbing, water, and sewer lines up to points of common connection, entries, doors, door frames, ceilings, windows, window frames, interior walls, and the interior side of demising walls, and heating, ventilation and air conditioning systems, and other building and mechanical systems serving the Premises. Such repair and replacements include capital expenditures and repairs whose benefit may extend beyond the Lease Term. Within thirty (30) days of the Commencement Date, Tenant, at Tenant's expense, shall enter into maintenance service contracts with providers reasonably acceptable to Landlord for the maintenance and repair of the heating, ventilation and air conditioning systems and other mechanical and building systems serving the Premises. The scope of services and contractors under such maintenance contracts maintained by Tenant shall be subject to Landlord's prior

written approval.

(b) In the event that any repair or maintenance obligation required to be performed by Tenant hereunder may affect the structural integrity of the Building (e.g., roof, foundation, structural members of the exterior walls) or any Building systems (e.g., plumbing, electrical, HVAC, fire and life safety), prior to commencing any such repair, Tenant shall provide Landlord with written notice of the necessary repair or maintenance and a brief summary of the structural component or components of the Building, and/or the Building systems, that may be affected by such repair or maintenance. Any such repair or maintenance shall be performed by a contractor approved by Landlord.

(c) Within the fifteen (15) day period prior to the expiration or termination of this Lease, Tenant shall deliver to Landlord a certificate from an engineer reasonably acceptable to Landlord certifying that the hot water equipment and the HVAC system are then in good repair and working order. If Tenant fails to perform any repair or replacement for which it is responsible, Landlord may perform such work and be reimbursed by Tenant within ten (10) days after demand therefor. Subject to Paragraphs 9 and 15, Tenant shall bear the full cost of any repair or replacement to any part of the Building or Project that results from damage caused by Tenant, its agents, contractors, or invitees and any repair that benefits only the Premises.

12. **Tenant-Made Alterations and Trade Fixtures.**

(a) Except for basic nonstructural, cosmetic alterations including, but not limited to, carpeting or painting that have absolutely no impact or effect on the structure or the roof, exterior, mechanical, water, electrical, gas, plumbing, fire, life safety, HVAC, telephone, sewer or other systems or facilities of the Building, any alterations, additions, or improvements made by or on behalf of Tenant to the Premises ("**Tenant-Made Alterations**") shall be subject to Landlord's prior written consent. Tenant shall cause, at its expense, all Tenant-Made Alterations to comply with insurance requirements and with Legal Requirements and shall construct at its expense any alteration or modification required by Legal Requirements as a result of any Tenant-Made Alterations.

(b) All Tenant-Made Alterations shall be constructed in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only good grades of materials shall be used. All plans and specifications for any Tenant-Made Alterations shall be submitted to Landlord for its approval. Landlord may monitor construction of the Tenant-Made Alterations. Tenant shall reimburse Landlord for its costs in reviewing plans and specifications and in monitoring construction not to exceed five percent (5%) of the total cost of such Tenant-Made Alterations. Landlord's right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or construction comply with applicable laws, codes, rules and regulations.

(c) Tenant shall provide Landlord with the identities and mailing addresses of all persons performing work or supplying materials, prior to beginning such construction, and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. In the event Tenant-Made Alterations are expected to cost more than \$400,000.00, Tenant shall furnish security or make other arrangements satisfactory to Landlord to assure payment for the completion of all work free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion of any Tenant-Made Alterations, Tenant shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who did work on the Tenant-Made Alterations and final lien waivers from all such contractors and subcontractors.

(d) Upon surrender of the Premises, all Tenant-Made Alterations and any leasehold improvements constructed by Landlord or Tenant shall remain on the Premises as Landlord's property, except to the extent Landlord requires removal at Tenant's expense of any such items or Landlord and Tenant have otherwise agreed in writing in connection with Landlord's consent to any Tenant-Made Alterations. Prior to the expiration or termination of this Lease, Tenant, at its sole expense, shall repair any and all damage caused by such removal and restore the Premises to their condition existing upon the Commencement Date, normal wear and tear excepted.

(e) Tenant, at its own cost and expense and without Landlord's prior approval, may erect such shelves, bins, machinery and trade fixtures (collectively "**Trade Fixtures**") in the ordinary course of its business

provided that such items do not alter the basic character of the Premises, do not overload or damage the Premises, and may be removed without injury to the Premises, and the construction, erection, and installation thereof complies with all Legal Requirements and with Landlord's requirements set forth above. Prior to the expiration or termination of this Lease, Tenant, at its sole expense, shall remove its Trade Fixtures and shall repair any and all damage caused by such removal.

13. **Signs.** All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall be subject to Landlord's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed, and shall conform in all respects to Landlord's requirements. Tenant shall not make any changes to the exterior of the Premises, install any exterior lights, decorations, balloons, flags, pennants, banners, or painting, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises, without Landlord's prior written consent. Landlord shall not be required to notify Tenant of whether it consents to any sign until it (a) has received detailed, to-scale drawings thereof specifying design, material composition, color scheme, and method of installation, and (b) has had a reasonable opportunity to review them. Upon surrender or vacation of the Premises, Tenant shall have removed all signs and repair, paint, and/or replace the building fascia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for sign and exterior treatments.

14. **Parking.** Tenant shall be entitled to park on any parking spaces on the Lot, subject to Tenant's obligation to comply with all Legal Requirements, the terms of this Lease and all rules and regulations which are prescribed from time to time by Landlord. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties. All motor vehicles (including all contents thereof) shall be parked in the Project's parking areas at the sole risk of Tenant, it being expressly agreed and understood Landlord has no duty to insure any of said motor vehicles (including the contents thereof), and Landlord is not responsible for the protection and security of such vehicles. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LEASE, LANDLORD SHALL HAVE NO LIABILITY WHATSOEVER FOR ANY PROPERTY DAMAGE OR LOSS WHICH MIGHT OCCUR ON THE PARKING AREAS OR AS A RESULT OF OR IN CONNECTION WITH THE PARKING OF MOTOR VEHICLES IN ANY OF THE PARKING SPACES UNLESS SUCH DAMAGE OR LOSS IS CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD. Except as set forth above, Tenant shall not park vehicles, trucks or truck trailers in drive aisles, other common areas, parking areas reserved for parking by other Tenants in the Project or on the street adjacent to the Project.

15. **Restoration.**

(a) If at any time during the Lease Term the Premises are damaged by a fire or other casualty, Landlord shall notify Tenant within thirty (30) days after such damage as to the amount of time Landlord reasonably estimates it will take to restore the Premises. If the restoration time is estimated to exceed 120 days from the date Landlord receives all permits, approvals, and licenses required to begin reconstruction, either Landlord or Tenant may elect to terminate this Lease upon notice to the other party given no later than thirty (30) days after Landlord's notice. If neither party elects to terminate this Lease or if Landlord estimates that restoration will take 120 days or less, then, subject to receipt of sufficient insurance proceeds, Landlord shall promptly restore the Premises excluding the Tenant-Made Alterations, the Tenant Improvements and any other improvements installed by Tenant or by Landlord and paid by Tenant, subject to delays arising from the collection of insurance proceeds or from Force Majeure events. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord and shall promptly re-enter the Premises and commence doing business in accordance with this Lease. Base Rent shall be abated for the period of repair and restoration in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises. Notwithstanding the foregoing, either party may terminate this Lease upon thirty (30) days written notice to the other if the Premises are damaged during the last year of the Lease Term, the cost to repair such damage exceeds \$100,000.00 and Landlord reasonably estimates that it will take more than thirty (30) days to repair such damage. Tenant shall pay to Landlord, within thirty (30) days following Landlord's demand therefor, Tenant's Proportionate Share of the amount of the deductible under Landlord's insurance policy. If the damage involves portions of the Building other than the Premises, Tenant shall pay only a portion of the deductible based on the ratio of the costs of repairing the damage to the Premises to the total cost of repairing all of the damage to the Building.

(b) If the Premises are destroyed or substantially damaged by any peril not covered by the insurance maintained by Landlord or any Landlord's mortgagee requires that insurance proceeds be applied to the indebtedness secured by its mortgage (defined hereinafter), Landlord may terminate this Lease by delivering written notice of termination to Tenant within thirty (30) days after such destruction or damage or such requirement is made known by any such Landlord's mortgagee, as applicable, whereupon all rights and obligations hereunder shall cease and terminate, except for any liabilities of Tenant which accrued prior to Lease termination. If Landlord elects to repair or restore such damage or destruction, this Lease shall continue in full force and effect, but Base Rent shall be proportionately reduced as provided in Paragraph 15(a). If Landlord elects to terminate this Lease, such termination shall be effective as of the date of the occurrence of such damage or destruction.

(c) Notwithstanding the foregoing, if the Premises or the Project are wholly or partially damaged or destroyed as a result of the gross negligence or willful misconduct or omission of Tenant, Tenant shall forthwith diligently undertake to repair or restore all such damage or destruction at Tenant's sole cost and expense, or Landlord may at its option undertake such repair or restoration at Tenant's sole cost and expense; provided, however, that Tenant shall be relieved of its repair and payment obligations pursuant to this Paragraph 15(c) to the extent that insurance proceeds are collected by Landlord to repair such damage, although Tenant shall in such events pay to Landlord the full amount of the deductible under Landlord's insurance policy and any amounts not insured. This Lease shall continue in full force and effect without any abatement or reduction in Base Rent or Operating Expenses or other payments owed by Tenant.

(d) The provisions of this Paragraph 15 shall constitute Tenant's sole and exclusive remedy in the event of damage or destruction to the Premises or Project, and Tenant waives and releases all statutory rights and remedies in favor of Tenant in the event of damage or destruction. No damages, compensation or claim shall be payable by Landlord for any inconvenience, any interruption or cessation of Tenant's business, or any annoyance, arising from any damage or destruction of all or any portion of the Premises or Project unless such damage or destruction arises out of Landlord's gross negligence or willful misconduct.

16. **Condemnation**. If any part of the Premises or the Project should be taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "**Taking**" or "**Taken**"), and (a) the Taking would prevent or materially interfere with Tenant's use of the Premises, (b) in Landlord's judgment would materially interfere with or impair its ownership or operation of the Project or (c) as a result of such Taking, Landlord's mortgagee accelerates the payment of any indebtedness securing all or a portion of the Project, then upon written notice by Landlord this Lease shall terminate and Base Rent shall be apportioned as of said date. If part of the Premises shall be Taken, and this Lease is not terminated as provided above, the Base Rent payable hereunder during the unexpired Lease Term shall be reduced to such extent as may be fair and reasonable under the circumstances, and Landlord shall restore the Premises as near as reasonably attainable to its condition prior to the Taking; provided, however, Landlord's obligation to so restore the Premises shall be limited to the award Landlord receives in respect of such Taking that is not required to be applied to the indebtedness secured by a mortgage. In the event of any such Taking, Landlord shall be entitled to receive the entire price or award from any such Taking without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award, including, without limitation any award for a Taking of Tenant's leasehold interest hereunder. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for moving expenses and damage to Tenant's Trade Fixtures, if a separate award for such items is made to Tenant. This Paragraph shall be Tenant's sole and exclusive remedy in the event of any taking and Tenant hereby waives any rights and the benefits of any statute granting Tenant specific rights in the event of a Taking which are inconsistent with the provisions of this Paragraph.

17. **Assignment and Subletting**.

(a) Without Landlord's prior written consent, Tenant shall not assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises (each being a "**Transfer**") and any attempt to do any of the foregoing shall be void and of no effect. For purposes of this Paragraph 17, a transfer of the ownership interests controlling Tenant shall be deemed a Transfer of this Lease unless such ownership interests are publicly traded. Notwithstanding the above, Tenant may assign or sublet the Premises, or any part thereof, to any entity controlling Tenant, controlled by Tenant

or under common control with Tenant (a "**Tenant Affiliate**"), without the prior written consent of Landlord; provided, however, Tenant shall provide at least ten (10) days written notice prior to assigning this Lease to, or entering into any sublease with, any Tenant Affiliate. Tenant shall reimburse Landlord for all of Landlord's actual out-of-pocket expenses not to exceed \$3,000.00 in connection with any Transfer, other than to a Tenant Affiliate. Tenant acknowledges and agrees that Landlord may withhold its consent to any proposed assignment or subletting for any reasonable basis including, but not limited to: (1) Tenant is in default of this Lease; (2) the assignee or subtenant is unwilling to assume in writing all of Tenant's obligations hereunder; (3) the assignee or subtenant has a financial condition which is reasonably unsatisfactory to Landlord or Landlord's mortgagee; (4) the Premises will be used for different purposes than those set forth in Paragraph 3(a) or for a use requiring or generating Hazardous Materials, or (5) the proposed assignee or subtenant or an affiliate thereof is an existing tenant in the Project or is or has been in discussions with Landlord regarding space within the Project.

(b) Notwithstanding any Transfer, unless mutually agreed to in writing between Tenant and Landlord, in Landlord's sole discretion, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such Transfer). In the event that the rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto) exceeds the rental payable under this Lease, then Tenant shall be bound and obligated to pay Landlord as additional rent hereunder all such excess rental and other excess consideration, after deducting reasonable brokerage commissions, and attorneys' fees actually incurred by Tenant and payable to non-affiliated third parties in connection with such assignment or subleasing, all of which must be amortized over the applicable assignment or sublease term, together with all sales, use, transaction privilege, or other excise tax that may at any time be levied or imposed upon said excess rental and other excess consideration, within ten (10) days following receipt thereof by Tenant. If such Transfer is for less than all of the Premises, such excess rental and other excess consideration shall be calculated on a rentable square foot basis.

(c) If this Lease is assigned or if the Premises is subleased (whether in whole or in part) or in the event of the mortgage, pledge, or hypothecation of Tenant's leasehold interest or grant of any concession or license within the Premises or if the Premises be occupied in whole or in part by anyone other than Tenant, then upon a default by Tenant hereunder Landlord may collect rent from the assignee, sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding subparagraph, apply the amount collected to the next rent payable hereunder; and all such rentals collected by Tenant shall be held in trust for Landlord and immediately forwarded to Landlord. No such transaction or collection of rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder. Any approved assignment or sublease shall be expressly subject to the terms and conditions of this Lease. Landlord's consent to any Transfer shall not waive Landlord's rights as to any subsequent Transfers. Notwithstanding anything to the contrary contained in this Lease, if Tenant or any proposed transferee claims that Landlord has unreasonably withheld or delayed its consent under this Paragraph 17 or otherwise has breached or acted unreasonably under this Paragraph 17, their sole remedies shall be a declaratory judgment and an injunction for the relief sought without any monetary damages, and Tenant hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed transferee.

18. **Indemnification.**

(a) Subject to Paragraph 9(c), Tenant agrees to indemnify, defend (with counsel reasonably acceptable to Landlord) and hold harmless Landlord, and Landlord's agents, employees and contractors, from and against any and all claims, demands, losses, liabilities, causes of action, suits, judgments, damages, costs and expenses (including attorneys' fees) (collectively, "**Claims**"), arising from any occurrence in or about the Premises, the use and occupancy of the Premises, or from any activity, work, or thing done, permitted or suffered by Tenant, its agents, employees, contractors, shareholders, partners, invitees, subtenants or assignees in or about the Premises or due to any other act or omission of Tenant, its subtenants, assignees, invitees, employees, contractors and agents, from Tenant's failure to perform its obligations under this Lease, or with respect to handling, storage, use and/or disposal of Explosives (as defined below) by Tenant or any of its subtenants, assignees, invitees, employees, contractors and

agents (other than any loss arising from the gross negligence of Landlord or its agents). This indemnity provision shall survive termination or expiration of this Lease. The furnishing of insurance required hereunder shall not be deemed to limit Tenant's obligations under this Paragraph 18. Landlord shall not be liable to Tenant, and Tenant hereby waives all Claims against Landlord and the other indemnified parties, for any damages arising from any act, omission or neglect of any other tenant in the Project and in no event shall Landlord or any of the other indemnified parties be liable for any injury or interruption to Tenant's business or any loss of income therefrom under any circumstances and neither Landlord nor any of the other indemnified parties shall be liable for any indirect or consequential losses or damages suffered by Tenant.

(b) Subject to Paragraph 9(c), Landlord agrees to indemnify, defend (with counsel reasonably acceptable to Tenant) and hold harmless Tenant, and Tenant's agents, employees and contractors, from and against any and all Claims arising from the use and occupancy of the Premises by Landlord (other than any loss arising from the sole or gross negligence of Tenant or its agents). This indemnity provision shall survive termination or expiration of this Lease. Subject to Paragraph 9(c), the furnishing of insurance required hereunder shall not be deemed to limit Landlord's obligations under this Paragraph 18. Tenant shall not be liable to Landlord, and Landlord hereby waives all Claims against Tenant and the other indemnified parties, to the extent any damages arising from any act, omission or neglect of any other tenant in the Project and in no event shall Tenant or any of the other indemnified parties be liable for any injury or interruption to Landlord's business or any loss of income therefrom under any circumstances and neither Tenant nor any of the other indemnified parties shall be liable for any indirect or consequential losses or damages suffered by Landlord.

19. **Inspection and Access.**

(a) Upon five (5) business days prior notice (except in emergencies, in which case no notice shall be required), Landlord and its agents, representatives, and contractors may enter the Premises at any reasonable time to inspect the Premises and to make such repairs as may be required or permitted pursuant to this Lease and for any other business purpose so long as such entry does not materially interfere with Tenant's ability to conduct Tenant's business. In the event of any repairs (other than repairs covered by Paragraph 15, which will be governed by Paragraph 15), Landlord shall use commercially reasonable efforts to not materially interfere with Tenant's ability to conduct Tenant's business. Landlord and Landlord's representatives may enter the Premises during business hours for the purpose of showing the Premises to prospective purchasers or, during the last year of the Lease Term, to prospective tenants, subject to any applicable notice requirement. Landlord may erect a suitable sign on the Premises stating the Premises are available to let or that the Project is available for sale. Landlord may grant easements, make public dedications, designate common areas and create restrictions on or about the Premises, provided that no such easement, dedication, designation or restriction materially interferes with Tenant's use or occupancy of the Premises. At Landlord's request, Tenant shall execute such instruments as may be necessary for such easements, dedications or restrictions.

(b) Tenant shall at all times, except in the case of emergencies and regularly scheduled services, have the right to escort Landlord, its respective agents, employees and representatives while the same are in the Premises. Additionally, given Tenant's status as a U.S. Department of Defense contractor, Tenant shall have the right to prohibit any individual who does not qualify as a U.S. person under U.S. export laws from access to the Premises, which shall include the right to verify such individual's status by requesting to see such individual's passport or other similar documents.

(c) In addition to the above, and notwithstanding anything to the contrary contained in this Lease, except in an emergency, Landlord shall give Tenant no less than five (5) business days prior notice of any entry to any Secured Compartmented Information Facility ("**SCIF**") (which notice may be verbal) and shall enter such SCIF space only when accompanied by a representative of Tenant ("Access Representative"). Furthermore, Landlord acknowledges and agrees that pursuant to Tenant's security regulations and those of Tenant's government customers, access to the SCIF space or portions thereof may be restricted and may require, among other things (except in an emergency) (i) advance notice, and (ii) continuous escort by an Access Representative or another authorized personnel of Tenant and/or its customers. Tenant shall provide Landlord with current information concerning such Access Representative as the same may change from time to time.

20. **Quiet Enjoyment.** If Tenant shall perform all of the covenants and agreements herein required to

be performed by Tenant, Tenant shall, subject to the terms of this Lease, any ground lease, mortgage or deed of trust now or hereafter encumbering the Premises and all matters of record, at all times during the Lease Term, have peaceful and quiet enjoyment of the Premises against any person claiming by, through or under Landlord, but not otherwise.

21. **Surrender.** No act by Landlord shall be an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless it is in writing and signed by Landlord. Upon termination of the Lease Term or earlier termination of Tenant's right of possession, Tenant shall surrender the Premises to Landlord in the same condition as received, broom clean, ordinary wear and tear and casualty loss and condemnation covered by Paragraphs 15 and 16 excepted. Tenant and Landlord shall meet thirty (30) days prior to the schedule expiration date for a joint inspection of the Premises at the time of vacating. In the event of Tenant's failure to give such notice or to participate in such joint inspection, Landlord's inspection shall be deemed conclusive for purposes of determining Tenant's responsibility for repairs and restoration. No such performance by Landlord shall create any liability on the part of Landlord whatsoever. Any Trade Fixtures, Tenant-Made Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property. All obligations of Tenant hereunder not fully performed as of the termination of the Lease Term shall survive the termination of the Lease Term, including without limitation, indemnity obligations, payment obligations with respect to Operating Expenses and all obligations concerning the condition and repair of the Premises. If Tenant fails to perform any obligation prior to the expiration or earlier termination of this Lease, Landlord may, but shall not be obligated to, perform such obligation and Tenant shall pay Landlord all costs associated therewith, plus an administrative fee of 10% of such costs, promptly upon Landlord's delivery to Tenant of an invoice therefor, and any time required by Landlord to complete such obligations shall be considered a period of holding over and the terms of Paragraph 22 shall apply.

22. **Holding Over.** If Tenant fails to vacate the Premises after the termination of the Lease Term, Tenant shall be, at Landlord's sole election, a tenant at will or at sufferance, and Tenant shall pay, in addition to any other rent or other sums then due Landlord, base rental equal to 125% of the Base Rent in effect on the expiration or termination date computed on a monthly basis for each month or part thereof during such holdover, even if Landlord consents to such holdover (which consent shall be effective only if in writing). All other payments shall continue under the terms of this Lease. Tenant shall also be liable for all Operating Expenses incurred during such holdover period. In addition, Tenant shall be liable for all damages (including attorneys' fees and expenses) of whatever type (including consequential damages) incurred by Landlord as a result of such holding over. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Paragraph 22 shall not be construed as consent for Tenant to retain possession of the Premises. If Tenant fails to surrender the Leased Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender, and any lost profits to Landlord resulting therefrom.

23. **Events of Default.** Each of the following events shall be an event of default ("**Event of Default**") by Tenant under this Lease:

(a) Tenant shall fail to pay any installment of Base Rent or any other payment required herein when due, and such failure shall continue for a period of five (5) business days from receipt of notice from Landlord of late payment; provided, however, that if Tenant fails to pay Base Rent or any other payment more than two (2) times in any twelve (12) month period, then the third (3rd) such violation shall be deemed an Event of Default (without any notice).

(b) Tenant or any guarantor or surety of Tenant's obligations hereunder shall (1) make a general assignment for the benefit of creditors; (2) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "**proceeding for relief**"); (3) become the subject of any proceeding for relief which is not dismissed within sixty (60) days of its filing or entry; or (4) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be

dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).

(c) Any guarantor of this Lease rescinds or terminate its guaranty.

(d) Any insurance required to be maintained by Tenant pursuant to this Lease shall be cancelled or terminated or shall expire or shall be reduced or materially changed and is not cured within fifteen (15) days of such cancellation, termination, expiration, reduction, or material change, except, in each case, as permitted in this Lease.

(e) Tenant shall attempt or there shall occur any assignment, subleasing or other transfer of Tenant's interest in or with respect to this Lease except as otherwise permitted in this Lease.

(f) Tenant shall fail to discharge or bond over any lien placed upon the Premises in violation of this Lease within thirty (30) days after any such lien or encumbrance is filed against the Premises.

(g) Tenant or guarantor shall fail to execute any instrument of subordination or attornment or any estoppel certificate within the time periods set forth in Paragraphs 27 and 29 respectively following Landlord's request for the same.

(h) Tenant shall breach any of the requirements of Paragraph 30 and such failure shall continue for a period of thirty (30) days or more after notice from Landlord to Tenant.

(i) Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Paragraph 23, and except as otherwise expressly provided herein, such default shall continue for more than thirty (30) days after Landlord shall have given Tenant written notice of such default.

(j) The failure of Tenant or Tenant's employees, agents or representatives to observe or comply with any of the rules and regulations of the Project as the same may be amended from time to time in accordance with this Lease, and such failure shall continue for five (5) business days or more after written notice from Landlord to Tenant; provided, however, that if Tenant or Tenant's employees, agents or representatives shall breach the same rule or regulation more than two (2) times in any twelve (12) month period, then the third (3rd) such violation shall be deemed an Event of Default (without any notice).

(k) Any notices to be provided by Landlord under this Paragraph 23 shall be in lieu of, and not in addition to, any other notice required under applicable Utah law.

24. **Landlord's Remedies.** Upon the occurrence of any Event of Default, Landlord shall have the following rights and remedies, in addition to those allowed by law or in equity, any one or more of which may be exercised or not exercised without precluding the Landlord from exercising any other remedy provided in this Lease or otherwise allowed by law or in equity:

(a) **Termination of Lease.** Landlord may terminate this Lease and Tenant's right to possession of the Premises. If Tenant has abandoned and vacated the Premises, the mere entry of the Premises by Landlord in order to perform acts of maintenance, cure defaults, preserve the Premises or to attempt to relet the Premises, or the appointment of a receiver in order to protect the Landlord's interest under this Lease, shall not be deemed a termination of Tenant's right to possession or a termination of this Lease unless Landlord has notified Tenant in writing that this Lease is terminated. Notification of any default described in Paragraph 23 of this Lease shall be in lieu of, and not in addition to, any other notice required under Utah law. If Landlord terminates this Lease and Tenant's right to possession of the Premises, Landlord may recover from Tenant:

(1) The actual worth at the time of the award of unpaid rent which had been earned at the time of termination; plus

(2) The actual worth at the time of the award of the amount by which the unpaid rent

which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(3) The actual worth at the time of the award of the amount by which the unpaid rent for the balance of the Lease Term after the time of the award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(4) Other actual amounts directly contributable to Tenant's default of this Lease to compensate the Landlord for the detriment solely caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including any legal expenses, brokers commissions or finders fees (in connection with reletting the Premises and the pro rata portion of any leasing commission paid by Landlord in connection with this Lease which is applicable to the portion of the Lease Term, including option periods, which is unexpired as of the date on which this Lease terminated), the costs of repairs, cleanup, refurbishing, removal and storage or disposal of Tenant's personal property, equipment, fixtures and anything else that Tenant is required under this Lease to remove but does not remove (including those alterations which Tenant is required to remove pursuant to an election by Landlord and Landlord actually removes whether notice to remove shall be delivered to Tenant), and any costs for alterations, additions and renovations incurred by Landlord in regaining possession of and reletting (or attempting to relet) the Premises. Tenant shall also reimburse Landlord for the pro rata portion of leasehold improvement costs paid by Landlord to install leasehold improvements on the Premises which is applicable to that portion of the Lease Term including any terminated option periods which is unexpired as of the date on which this Lease terminated, discounted to present value. In any such event, and at Landlord's expense, Landlord shall provide documentation in support of the actual amounts claimed as being incurred as a result of Tenant's default of this Lease.

All computations of the "actual worth at the time of the award" of amounts recoverable by Landlord under (1) and (2) hereof shall be computed by allowing interest at the maximum lawful contract rate per annum. The "worth at the time of the award" recoverable by Landlord under (3) and the discount rate for purposes of determining any amounts recoverable under (4), if applicable, shall be computed by discounting the amount recoverable by Landlord at the discount rate of the Federal Reserve Bank, San Francisco, California, at the time of the award plus one percent (1%).

Upon termination of this Lease, whether by lapse of time or otherwise, Tenant shall immediately vacate the Premises and deliver possession to Landlord, and Landlord shall have the right to re-enter the Premises.

(b) **Lease to Remain in Effect.** Notwithstanding Landlord's right to terminate this Lease, Landlord may, at its option, even though Tenant has breached this Lease and abandoned the Premises, continue this Lease in full force and effect and not terminate Tenant's right to possession, and enforce all of Landlord's rights and remedies under this Lease. In such event, Landlord may continue the Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due. Further, in such event Landlord shall be entitled to recover from Tenant all costs of maintenance and preservation of the Premises, and all costs, including attorneys' fees and receivers' fees, incurred in connection with appointment of and performance by a receiver to protect the Premises and Landlord's interest under this Lease. No re-entry or taking possession of the Premises by Landlord shall be construed as an election to terminate this Lease unless a notice (signed by a duly authorized representative of Landlord) of intention to terminate this Lease is given to Tenant.

(c) **All Sums Collectible as Rent.** All sums due and owing to Landlord by Tenant under this Lease shall be collectible by Landlord as rent.

(d) **No Surrender.** No act or omission by Landlord or its agents during the Lease Term shall be an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless made in writing and signed by a duly authorized representative of Landlord. Landlord shall be entitled to a restraining order or injunction to prevent Tenant from defaulting under any of its obligations other than the payment of rent or other sums due hereunder.

(e) **Effect of Termination.** Neither the termination of this Lease nor the exercise of any remedy under this Lease or otherwise available at law or in equity shall affect either party's right of indemnification

set forth in this Lease or otherwise available at law or in equity for any act or omission of the other party, and all rights to indemnification and other obligations of each party intended to be performed after termination of this Lease shall survive termination of this Lease.

25. **Tenant's Remedies/Limitation of Liability; Self Help.**

(a) **Tenant's Remedies/Limitation of Liability.** Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within thirty (30) days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of thirty (30) days, then after such period of time as is reasonably necessary). All obligations of Landlord hereunder shall be construed as covenants, not conditions; and Tenant may not terminate this Lease for breach of Landlord's obligations hereunder. In no event may Tenant terminate this Lease or withhold the payment of rent or other charges provided for in this Lease as a result of a Landlord Default, unless Tenant first obtains a judicial order expressly authorizing Tenant to do so pursuant to a judicial proceeding, notice of which has been given to Landlord by personal service as required by the Utah Rules of Civil Procedure for such proceeding. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term "Landlord" in this Lease shall mean only the owner, for the time being of the Premises, and in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, but such obligations shall be binding during the Lease Term upon each new owner for the duration of such owner's ownership. Any liability of Landlord (and its partners, shareholders or members) to Tenant (or any person or entity claiming by, through or under Tenant) for any default by Landlord under this Lease or arising out of the relationship between Landlord and Tenant shall be limited solely to Tenant's actual direct, but not consequential, damages therefor and shall be recoverable only from Landlord's equity interest in the Building, and in no event shall any personal liability be asserted against Landlord, its partners, shareholders, members, directors, employees or agents in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord.

(b) **Self-Help.** If after all of the required notices have been given and all of the time periods for cure have expired under Paragraph 25(a), and Landlord has not performed the obligation concerned, then after at least five (5) business days' prior notice to Landlord (which notice shall be in addition to any other notices previously given, and shall clearly set forth in all caps, at least 14 font, bold type Tenant's intent to exercise its self-help remedy under this Paragraph 25(b)), Tenant may, in compliance with the provisions of this Lease, perform such obligation in a first-class and workmanlike manner. If Tenant takes such action, and such work will affect the Building structure or systems, then Tenant shall use only those contractors used or approved by Landlord in the Building for work on such structure or systems. If Landlord fails to provide approval of such contractors within ten (10) days of Tenant's request for approval, such contractors shall be deemed approved. However, notwithstanding the foregoing to the contrary, if at any time prior to Tenant's performance of such obligation, Landlord, acting reasonably, gives Tenant notice that Landlord disputes Tenant's claim of non-performance by Landlord, describing in reasonable detail the basis of such dispute and the measures previously implemented to resolve such dispute, which notice is certified (to the extent reasonably appropriate) by Landlord's architect and/or contractor, this Paragraph 25(b) shall be inapplicable, and Tenant shall not have a right of self-help, with respect to such obligation pending the resolution of such dispute. Landlord shall reimburse Tenant for the reasonable, actual cost of performing such obligation within ten (10) business days after receipt of an invoice from Tenant, accompanied by evidence of payment in full by Tenant and any appropriate executed lien waivers.

26. **Waiver of Jury Trial.** TO THE FULLEST EXTENT PERMITTED BY LAW, TENANT AND LANDLORD WAIVE ANY RIGHT TO TRIAL BY JURY OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN LANDLORD AND TENANT ARISING OUT OF THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT, OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED HERETO.

27. **Subordination**

(a) This Lease and Tenant's interest and rights hereunder are and shall be subject and subordinate at all times to the lien of any deed of trust or mortgage or any ground lease, now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications,

consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant agrees, at the election of the holder of any such mortgage, to attorn to any such holder. The provisions of this Paragraph 27 shall be self-operative and no further instrument shall be required to effect such subordination or attornment; however, Tenant agrees to execute, acknowledge and deliver such instruments, confirming such subordination and such instruments of attornment as shall be requested by any such holder within ten (10) business days of such request. Tenant's obligation to furnish each such instrument requested hereunder in the time period provided is a material inducement for Landlord's execution of this Lease and any failure of Tenant to timely deliver each instrument shall be deemed an Event of Default. Tenant hereby appoints Landlord attorney in fact for Tenant irrevocably (such power of attorney being coupled with an interest) to execute, acknowledge and deliver any such instrument and instruments for and in the name of the Tenant and to cause any such instrument to be recorded.

(b) Notwithstanding the foregoing, any such holder may at any time subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution, delivery or recording and in that event such holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such mortgage and had been assigned to such holder. The term "**mortgage**" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "**holder**" of a mortgage shall be deemed to include the beneficiary under a deed of trust.

(c) Tenant shall not seek to enforce any remedy it may have for any default on the part of Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail to any mortgage holder whose address has been given to Tenant, and affording such mortgage holder a reasonable opportunity to perform Landlord's obligations hereunder. Notwithstanding any such attornment or subordination of a mortgage to this Lease, the holder of any mortgage shall not be liable for any acts of any previous landlord, shall not be obligated to install any tenant improvements, and shall not be bound by any amendment to which it did not consent in writing nor any payment of rent made more than one month in advance.

(d) With respect to any mortgage currently encumbering the Premises or that encumbers the Premises in the future, upon the written request of Tenant, Landlord shall use reasonable, good faith efforts to obtain a commercially reasonable non-disturbance agreement (a "**Non-Disturbance Agreement**") from the holder of such mortgage which provides that Tenant's possession of the Premises, and this Lease, including the Option to extend the Term hereof, will not be disturbed so long as no Event of Default exists and Tenant attorns to the record owner of the Premises. Tenant acknowledges that the Non-Disturbance Agreement will be in the form that such holder typically provides tenants such as Tenant, taking into account the terms of this Lease, the creditworthiness of Tenant and such criteria as the holder of such mortgage customarily applies. Such Non-Disturbance Agreement may provide, among other things, that (i) such holder shall be entitled to receive notice of any Landlord default under this Lease plus a reasonable opportunity to cure such default; (ii) such holder shall not be bound by any modification or amendment to this Lease, or any cancellation or surrender of this Lease, without such holder's consent, (iii) such holder shall not be bound by any obligation under this Lease or any agreement to perform or pay for any improvements to the Premises; and (iv) such holder or any successor landlord shall not: (a) be liable for any act or omission of any prior landlord or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Tenant might have against any prior landlord; (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior landlord. Landlord shall have no obligation to negotiate the terms of the Non-Disturbance Agreement on Tenant's behalf, or to incur any legal fees or other out-of-pocket expenses in obtaining the Non-Disturbance Agreement.

28. **Mechanic's Liens.** Tenant has no express or implied authority to create or place any lien or encumbrance of any kind upon, or in any manner to bind the interest of Landlord or Tenant in, the Premises or to charge the rentals payable hereunder for any claim in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs. Landlord may record, at its election, notices of non-responsibility pursuant to applicable law in connection with any work performed by Tenant. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises and that it will save and hold Landlord harmless from all loss, cost or expense based on or arising out of asserted claims or liens against the leasehold estate or against the interest of Landlord in the Premises or under this Lease. Tenant shall give Landlord immediate written

notice of the placing of any lien or encumbrance against the Premises and cause such lien or encumbrance to be discharged within thirty (30) days of the filing or recording thereof; provided, however, Tenant may contest such liens or encumbrances as long as such contest prevents foreclosure of the lien or encumbrance and Tenant causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such thirty (30) day period. Without limiting any other rights or remedies of Landlord, if Tenant fails for any reason to cause a lien or encumbrance to be discharged within thirty (30) days of the filing or recording thereof, then Landlord may take such action(s) as it deems necessary to cause the discharge of the same (including, without limitation, by paying any amount demanded by the party who has filed or recorded such lien or encumbrance, regardless of whether the same is in dispute), and Landlord shall be reimbursed by Tenant for all costs and expenses incurred by Landlord in connection therewith within five (5) business days following written demand therefor.

29. **Estoppel Certificates.** Tenant (and any guarantor) agrees, from time to time, within ten (10) business days after request of Landlord, to execute and deliver to Landlord, or Landlord's designee, any estoppel certificate requested by Landlord, stating that this Lease is in full force and effect, the date to which rent has been paid, that Landlord is not in default hereunder (or specifying in detail the nature of Landlord's default), the termination date of this Lease and such other matters pertaining to this Lease as may be requested by Landlord. Tenant's obligation to furnish each estoppel certificate in a timely fashion is a material inducement for Landlord's execution of this Lease and any failure of Tenant to timely deliver each estoppel certificate shall be deemed an Event of Default. No cure or grace period provided in this Lease shall apply to Tenant's obligation to timely deliver an estoppel certificate. Additionally, if Tenant fails to timely deliver an estoppel certificate it shall be conclusively presumed that: (a) this Lease is in full force and effect without modification in accordance with the terms set forth in the request; (b) that there are no breaches or defaults on the part of Landlord; and (c) no more than one (1) month's rent has been paid in advance.

30. **Environmental Requirements.**

(a) Except for Hazardous Material contained in products used by Tenant in de minimis quantities for routine cleaning and maintenance of floors, bathrooms, windows, kitchens, and administrative offices on the Premises or Project, which products have been disclosed by Tenant to Landlord in the Environmental Questionnaire (as defined below), Tenant hereby represents, warrants and covenants that Tenant will not produce, use, store or generate any "Hazardous Materials" (as defined below) on, under or about the Premises and/or Project. Tenant has fully and accurately completed Landlord's Pre-Leasing Environmental Exposure Questionnaire ("**Environmental Questionnaire**") attached hereto as Exhibit C incorporated herein by reference. If Tenant's Environmental Questionnaire indicates that Tenant will be utilizing Hazardous Materials, in addition to all other rights and remedies Landlord may have under this Lease, including, without limitation, declaring a default hereunder by Tenant for a breach of representation, Landlord may require Tenant to execute an amendment to this Lease relating to such Hazardous Materials use and Tenant's failure to execute any such amendment within ten (10) days of Landlord's delivery thereof to Tenant shall constitute a default hereunder by Tenant. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements and all requirements of this Lease. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture, or release of Hazardous Materials on the Premises, and Tenant shall promptly deliver to Landlord a copy of any notice of violation relating to the Premises or Project of any Environmental Requirement. Tenant shall not conduct any invasive environmental testing or investigation (including, without limitation, any testing of any soils) on or about the Project without obtaining Landlord's prior written consent, and any investigations or remediation on or about the Project shall be conducted only by a consultant approved in writing by Landlord and pursuant to a work letter approved in writing by Landlord.

(b) The term "**Environmental Requirements**" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, permits, authorizations, orders, policies or other similar requirements of any governmental authority, agency or court regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; the Clean Air Act; the Clean Water Act; the Toxic Substances Control Act and all state and local counterparts thereto, and any common or civil law obligations including, without limitation, nuisance or trespass, and any other requirements of Paragraphs 3 and 31 of this Lease. The term "**Hazardous Materials**" means and includes any substance, material, waste, pollutant, or contaminant that is or could be regulated under any Environmental Requirement or that may adversely affect human health or the environment, including, without limitation, any solid

or hazardous waste, hazardous substance, asbestos, petroleum (including crude oil or any fraction thereof, natural gas, synthetic gas, polychlorinated biphenyls (PCBs), and radioactive material). For purposes of Environmental Requirements, to the extent authorized by law, Tenant is and shall be deemed to be the responsible party, including without limitation, the “owner” and “operator” of Tenant’s “facility” and the “owner” of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

(c) Tenant hereby discloses that Tenant will handle, store and use on the Premises DOT Class 1, Division 2, 3 & 4 explosives (“Explosives”) necessary for Tenant’s business, which Explosives are used to propel a drone out of a launch tube. Tenant represents and warrants to Landlord and Tenant is permitted and licensed to handle, store and use such Explosives, which Tenant shall maintain in good standing. Tenant’s handling, transporting, storage, use, and disposal of any and all such Explosives shall at all times be performed in a safe manner and in strict compliance with all Environmental Requirements; provided that Tenant shall not dispose any Explosives on or around the Premises. Tenant shall not allow any Explosives to be discharged or Hazardous Materials to be released on the Project nor contaminate the Premises, land or the environment.

(d) Tenant, at its sole cost and expense, shall remove all Hazardous Materials stored, disposed of or otherwise released by Tenant, its assignees, subtenants, agents, employees, contractors or invitees onto or from the Premises, in a manner and to a level satisfactory to Landlord in its sole discretion, but in no event to a level and in a manner less than that which complies with all Environmental Requirements and does not limit any future uses of the Premises or require the recording of any deed restriction or notice regarding the Premises. Tenant shall perform such work at any time during the period of the Lease upon written request by Landlord or, in the absence of a specific request by Landlord, before Tenant’s right to possession of the Premises terminates or expires. If Tenant fails to perform such work within the time period specified by Landlord or before Tenant’s right to possession terminates or expires (whichever is earlier), Landlord may at its discretion, and without waiving any other remedy available under this Lease or at law or equity (including without limitation an action to compel Tenant to perform such work), perform such work at Tenant’s cost. Tenant shall pay all costs incurred by Landlord in performing such work within ten (10) days after Landlord’s request therefor. Such work performed by Landlord is on behalf of Tenant and Tenant remains the owner, generator, operator, transporter, and/or arranger of the Hazardous Materials for purposes of Environmental Requirements. Tenant agrees not to enter into any agreement with any person, including without limitation any governmental authority, regarding the removal of Hazardous Materials that have been disposed of or otherwise released onto or from the Premises without the written approval of the Landlord.

(e) Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys’ fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the Premises or disturbed in breach of the requirements of this Paragraph 30, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials or any breach of the requirements under this Paragraph 30 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Paragraph 30 shall survive any termination of this Lease.

(f) Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant’s compliance with Environmental Requirements, its obligations under this Paragraph 30, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord’s prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant’s operations. Such inspections and tests shall be conducted at Tenant’s expense. Landlord’s receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant. Tenant shall promptly notify Landlord of any communication or report that Tenant makes to any governmental authority regarding any possible violation of Environmental Requirements or release or threat of release of any Hazardous Materials onto or from the Premises. Tenant shall, within five (5) days of receipt thereof, provide Landlord with a copy of any documents or correspondence received from any governmental agency or other party relating to a possible violation of Environmental Requirements or claim or liability associated with the release or threat of release of any Hazardous

Materials onto or from the Premises.

(g) In addition to all other rights and remedies available to Landlord under this Lease or otherwise, Landlord may, in the event of a breach of the requirements of this Paragraph 30 that is not cured within thirty (30) days following notice of such breach by Landlord, require Tenant to provide financial assurance (such as insurance, escrow of funds or third party guarantee) in an amount and form satisfactory to Landlord. The requirements of this Paragraph 30 are in addition to and not in lieu of any other provision in the Lease.

31. **Rules and Regulations.** Tenant, its employees, agents, and guests, will perform and abide by the rules and regulations attached hereto and any amendments or additions to such rules and regulations made from time to time by Landlord; provided, however, and notwithstanding any provision hereof (a) any amendments or additions to the rules and regulations shall be commercially reasonable and applied in a non-discriminatory manner; (b) in no event shall Tenant be bound by any amendments or additions to the rules and regulations that materially, adversely affect Tenant's use of the Premises for any permitted use; materially, adversely affect Tenant's access to the Premises; or materially increase Tenant's obligations hereunder. In the event of any conflict between said rules and regulations and other provisions of this Lease, the other terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project.

32. **Security Service.** Tenant acknowledges and agrees that, while Landlord may (but shall not be obligated to) patrol the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises.

33. **Force Majeure.** Neither party shall be held responsible for delays in the performance of its obligations hereunder when caused by strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, governmental controls, delay in issuance of permits, enemy or hostile governmental action, civil commotion, fire or other casualty, and other causes beyond the reasonable control of the party whose performance is affected ("**Force Majeure**"); provided, however, that the provisions of this Paragraph 33 shall not, however, operate to excuse Tenant from the prompt payment of Base Rent or any other amount required to be paid by Tenant under this Lease, or excuse Landlord from the prompt payment of any amount required to be paid by Landlord under this Lease.

34. **Entire Agreement.** This Lease constitutes the complete and entire agreement of Landlord and Tenant with respect to the subject matter hereof. No representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations, or representations are superseded by this Lease. This Lease may not be amended except by an instrument in writing signed by both parties hereto.

35. **Severability.** If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added, as a part of this Lease, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

36. **Brokers.** Tenant represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, other than the broker(s), if any, set forth in the Basic Lease Provisions above, and Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to this leasing transaction.

37. **Miscellaneous.**

(a) Any payments or charges due from Tenant to Landlord hereunder shall be considered rent

for all purposes of this Lease.

(b) If and when included within the term “Tenant,” as used in this instrument, there is more than one person, firm or corporation, each shall be jointly and severally liable for the obligations of Tenant.

(c) All notices required or permitted to be given under this Lease shall be in writing and shall be sent by registered or certified mail, return receipt requested, or by a reputable national overnight courier service, with proof of delivery and postage prepaid, or by hand delivery and sent to the notice address for each party listed in the Basic Lease Provisions. Either party may by notice given aforesaid change its address for all subsequent notices. Except where otherwise expressly provided to the contrary, notice shall be deemed given upon delivery.

(d) Except as otherwise expressly provided in this Lease or as otherwise required by law, Landlord retains the absolute right to withhold any consent or approval.

(e) Tenant shall, within ten (10) business days after Landlord’s request, furnish to Landlord current financial statements for Tenant and any guarantor of this Lease, prepared in accordance with generally accepted accounting principles or other reasonable accounting standards consistently applied and certified by Tenant to be true and correct. If such financial statements are available online, Tenant shall have complied with the requirements of this Paragraph 37(e) if Tenant provides to Landlord within such ten (10) -business day period the website where such financial statements may readily be obtained by Landlord. If Tenant is a public reporting company registered with the SEC, the ten (10) day furnishing requirement shall not apply and Tenant shall have complied with the requirements of this Paragraph 37(e) if Tenant’s most recent annual 10-K report and any then-existing subsequent quarterly 10-Q and 8-K reports are publicly available. After the date of this Lease, Landlord shall only request Tenant’s or any guarantor’s financial statements if required or requested to do so by a current or prospective lender or purchaser. Tenant shall have no obligation to produce financial statements in addition to those, if any, then existing, and shall have no obligation to produce financial statements more often than twice in any twelve (12)-month period.

(f) Tenant shall be permitted to disclose the terms and conditions of this Lease to: (i) affiliated companies, lenders, prospective lenders and prospective purchasers (including prospective purchases of the Tenant’s equity), provided that the recipient is advised of the confidential nature thereof and is bound to maintain the confidentiality of the same (subject to exclusions herein); and (ii) to the extent legally required by (a) any subpoena, court order, or other applicable administrative, regulatory or legal process or proceeding including, but not limited to, any applicable SEC filing requirements, or (b) any law or regulation, however only to the extent required by process, proceeding law or regulation, provided that the recipient, to the extent practicable, is advised of the confidential nature thereof.

(g) Neither this Lease nor a memorandum of lease shall be filed by or on behalf of Tenant in any public record unless required by law. Landlord may prepare and file, and upon request by Landlord, Tenant will execute a memorandum of lease.

(h) Each party acknowledges that it has had the opportunity to consult counsel with respect to this Lease, and therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto.

(i) The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution of this Lease by both parties.

(j) Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(k) Any amount not paid by Tenant within ten (10) days after its due date in accordance with the terms of this Lease shall bear interest from such due date until paid in full at the lesser of the highest rate permitted

by applicable law or fifteen percent (15%) per year. It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken, reserved, or received with respect to this Lease, then it is Landlord's and Tenant's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.

(l) Construction and interpretation of this Lease shall be governed by the laws of the state in which the Project is located, excluding any principles of conflicts of laws.

(m) Time is of the essence as to the performance of both party's obligations under this Lease.

(n) Any guaranty delivered in connection with this Lease is an integral part of this Lease and constitutes consideration given to Landlord to enter into this Lease.

(o) All exhibits, guaranty and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. In the event of any conflict between such exhibits or addenda (other than the rules and regulations) and the terms of this Lease, such exhibits or addenda shall control. In the event of a conflict between the rules and regulations attached hereto and the terms of this Lease, the terms of this Lease shall control.

(p) In the event either party shall commence an action to enforce any provision of this Lease, the prevailing party in such action shall be entitled to receive from the other party, in addition to damages, equitable or other relief, any and all costs and expenses incurred, including reasonable attorneys' fees and court costs and the fees and costs of expert witnesses, and fees incurred to enforce any judgment obtained. This provision with respect to attorneys fees incurred to enforce a judgment shall be severable from all other provisions of this Lease, shall survive any judgment, and shall not be deemed merged into the judgment. Tenant shall also reimburse Landlord for all costs incurred by Landlord in connection with enforcing its rights under this Lease in a bankruptcy proceeding, or other proceeding under Title 11 of the United States Code, as amended, including without limitation, legal fees, experts' fees and expenses, court costs and consulting fees.

(q) There shall be no merger of the leasehold estate hereby created with the fee estate in the Premises or any part thereof if the same person acquires or holds, directly or indirectly, this Lease or any interest in this Lease and the fee estate in the leasehold Premises or any interest in such fee estate.

(r) To the extent Tenant or its agents or employees discover any water leakage, water damage or mold in or about the Premises or Project, Tenant shall promptly notify Landlord thereof in writing.

(s) Whenever Tenant requests Landlord to take any action not required of it hereunder or give any consent required or permitted under this Lease, Tenant will reimburse Landlord for Landlord's actual, out-of-pocket costs payable to third parties and incurred by Landlord in reviewing the proposed action or consent, including reasonable attorneys', engineers' or architects' fees, within 30 days after Landlord's delivery to Tenant of a statement of such costs. Tenant will be obligated to make such reimbursement without regard to whether Landlord consents to any such proposed action.

(t) Tenant and its telecommunications companies, including local exchange telecommunications companies and alternative access vendor services companies, shall have no right of access to and within the Building, for the installation and operation of telecommunications systems, including voice, video, data, Internet, and any other services provided over wire, fiber optic, microwave, wireless, and any other transmission systems ("**Telecommunications Services**"), for part or all of Tenant's telecommunications within the Building and from the Building to any other location without Landlord's prior written consent. All providers of Telecommunications Services shall be required to comply with the rules and regulations of the Building, applicable Legal Requirements and Landlord's policies and practices for the Building. Tenant acknowledges that Landlord shall

not be required to provide or arrange for any Telecommunications Services and that Landlord shall have no liability to a Tenant-related party in connection with the installation, operation or maintenance of Telecommunications Services or any equipment or facilities relating thereto. Tenant, at its cost and for its own account, shall be solely responsible for obtaining all Telecommunications Services.

(u) Tenant (if a corporation, partnership or other business entity) hereby represents and warrants to Landlord that Tenant is and will remain during the Lease Term a duly formed and existing entity qualified to do business in the state in which the Premises are located, that Tenant has full right and authority to execute and deliver this Lease, that each person signing on behalf of Tenant is authorized to do so, and that Tenant's organizational identification number assigned by the Delaware Secretary of State is 4175915. Landlord hereby represents and warrants to Tenant that Landlord is a duly formed and existing entity qualified to do business in the state in which the Premises are located, that Landlord has full right and authority to execute and deliver this Lease, and that each person signing on behalf of Landlord is authorized to do so.

(v) Landlord and Tenant agree that all administrative fees and late charges prescribed in this Lease are reasonable estimates of the costs that Landlord will incur by reason of Tenant's failure to comply with the provisions of this Lease, and the imposition of such fees and charges shall be in addition to all of Landlord's other rights and remedies hereunder or at law, and shall not be construed as a penalty.

(w) Landlord may during the Lease Term construct, renovate, improve, alter, or modify (collectively, "**Renovations**") the Project and/or the Building, and in connection with any Renovations, Landlord may, among other things, erect scaffolding or other necessary structures around the Building, limit or eliminate access to portions of the Project, including portions of the common areas, or perform work in the Building and common areas, which work may create noise, dust or leave debris in the Building and common areas so long as such Renovations do not unreasonably interfere with Tenant's right to occupy the Premises. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of rent or damages from Landlord so long as such Renovations do not unreasonably interfere with Tenant's right to occupy the Premises.

38. **Landlord's Lien/Security Interest.** Tenant hereby grants Landlord a security interest, and this Lease constitutes a security agreement, within the meaning of and pursuant to the Uniform Commercial Code of the state in which the Premises are situated as to all of Tenant's personal property situate in, or upon, or used in connection with the Premises (except merchandise sold in the ordinary course of business) as security for all of Tenant's obligations hereunder, including without limitation, the obligation to pay rent. Such personalty thus encumbered includes specifically all trade and other fixtures for the purpose of this Paragraph 38 and inventory, equipment, contract rights, accounts receivable and the proceeds thereof. In order to perfect such security interest, Tenant hereby acknowledges that Landlord has the right to file UCC financing statements at Tenant's expense at the state and county Uniform Commercial Code filing offices. Tenant further agrees to execute such other financing statements as reasonably requested by Landlord to further secure Landlord's interest under this Paragraph 38 as often as Landlord in its discretion shall require; and Tenant hereby irrevocably appoints Landlord its agent for the purpose of executing and filing such financing statements on Tenant's behalf as Landlord shall deem necessary.

39. **Limitation of Liability of Landlord's Partners, and Others.** Tenant agrees that any obligation or liability whatsoever of Landlord which may arise at any time under this Lease, or any obligation or liability which may be incurred by Landlord pursuant to any other instrument, transaction, or undertaking contemplated hereby, shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of the constituent partners of Landlord or any of their respective directors, officers, representatives, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

40. **OFAC.** Tenant represents and warrants to Landlord that Tenant is currently in compliance with and shall at all times during the Lease Term (including any extension thereof) remain in compliance with the regulations of the Office of Foreign Asset Control ("**OFAC**") of the Department of the Treasury (including those named on OFAC's Specially Designated and Blocked Persons List) and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action relating thereto.

41. **Intentionally Deleted.**

42. **Easements; CC&R's.** Landlord reserves to itself the right, from time to time, to grant such easements, rights and dedications that Landlord deems necessary or desirable, and to cause the recordation of parcel maps, easement agreements and covenants, conditions and restrictions, so long as such easements, rights, dedications, maps and covenants, conditions and restrictions do not unreasonably interfere with the permitted use of the Premises by Tenant. Tenant shall sign any of the aforementioned documents upon request of Landlord and failure to do so shall constitute a material breach of this Lease.

43. **Option to Extend.** Landlord hereby grants to Tenant two (2) options to extend the Lease Term (each, an "**Option**"), for a period of five (5) consecutive years each (each, an "**Option Term**") commencing upon the expiration of the then schedule expiration of the Lease Term, upon each of the following conditions and terms:

(a) Tenant shall give to Landlord, and Landlord shall actually receive, on a date which is at least two hundred seventy (270) days and not more than one (1) year prior to the then scheduled expiration date of the Lease Term, a written notice of Tenant's exercise of the Option (the "**Option Notice**"), time being of the essence. If the Option Notice is not timely so given and received, the Option shall automatically expire.

(b) Tenant shall have no right to exercise the Option, notwithstanding any provision hereof to the contrary, (1) during the time commencing from the date Landlord gives to Tenant a notice of Event of Default pursuant to this Lease and continuing until the noncompliance alleged in said notice of Event of Default is cured, or (2) during the period of time commencing on the day after a monetary obligation to Landlord is due from Tenant and unpaid (without any necessity for notice thereof to Tenant) and continuing until the obligation is paid, or (3) if Tenant has committed any non-curable breach.

(c) The period of time within which the Option may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise the Option because of the provisions of Paragraph 43(b) above.

(d) At Landlord's sole election, all Option rights of Tenant under this Paragraph 43 shall terminate and be of no further force or effect, notwithstanding Tenant's due and timely exercise of the Option, if, after such exercise, (1) Tenant fails to pay to Landlord a monetary obligation of Tenant for a period of ten (10) days after such obligation becomes due or (2) Tenant fails to commence to cure any Event of Default under this Lease within ten (10) business days after the date that Landlord gives notice to Tenant of such Event of Default and/or Tenant fails thereafter to diligently prosecute said cure to completion within thirty (30) days after the date of such notice, or (3) Tenant has committed any incurable breach, or is otherwise in default of any of the terms, covenants and conditions of this Lease.

(e) The Option granted to Tenant in this Lease are personal to Aerovironment, Inc., a Delaware corporation (the "**Original Tenant**"), and may be exercised only by the Original Tenant or a Tenant Affiliate while occupying the entire Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Tenant. The Option herein granted to Tenant is not assignable separate and apart from this Lease, nor may the Option be separated from this Lease in any manner, either by reservation or otherwise.

(f) All of the terms and conditions of this Lease except where specifically modified by this Paragraph 43 or as otherwise stated to be applicable only to the initial Lease Term shall apply during any extended Lease Term.

(g) The monthly Base Rent payable during the Option Term shall be equal to the greater of (x) the then current fair market value for the highest and best use of the Premises; or (y) the monthly Base Rent payable during the immediately preceding term of this Lease. The then current fair market value for the highest and best use of the Premises shall be determined as of the beginning of each Option Term, as follows:

(1) Promptly following receipt by Landlord of Tenant's Option Notice, Landlord and Tenant shall attempt to reach agreement on the Base Rent for the applicable Option Term, which Base Rent

shall be set in accordance with the criteria described above. If Landlord and Tenant are able to agree on the Base Rent for such Option Term, Landlord and Tenant shall immediately execute an amendment to this Lease stating the Base Rent for the Option Term.

(2) If the parties are unable to agree on the Base Rent for the applicable Option Term within forty-five (45) days following Landlord's receipt of the Option Notice, then each party, at its cost and by giving notice to the other party, shall have ten (10) days within which to appoint a licensed commercial real estate broker with at least seven (7) years experience in the West Valley City real estate market, to determine and set the Base Rent for the Option Term at the then current fair market monthly rental value for the highest and best use of the Premises (but not less than the monthly Base Rent payable during the immediately preceding term of this Lease) for a term equal to the Option Term. If a party does not appoint a broker within such ten (10) day period, the single broker appointed shall be the sole broker and shall set the Base Rent for the Option Term. If two brokers are appointed by the parties as stated in this paragraph, they shall meet promptly and attempt to set the Base Rent for the Option Term. If they are unable to agree within forty five (45) days after the second broker has been appointed, they shall attempt to select a third broker meeting the qualifications stated in this paragraph within ten (10) days after the last day the two brokers are given to set the Base Rent for the Option Term. If they are unable to agree on the third broker, either of the parties to this Lease, by giving ten (10) days notice to the other party, may apply to the presiding judge of the court of the County in which the Premises are located, for the selection of a third broker who meets the qualifications stated in this paragraph. Each of the parties shall bear the cost of its own broker and one-half (1/2) of the cost of appointing the third broker and of paying the third broker's fee. The third broker, however selected, shall be a person who has not previously acted in any capacity for either party.

(3) Within twenty (20) days after the selection of the third broker, a majority of the brokers shall set the Base Rent for the Option Term. If a majority of the brokers are unable to agree upon the Base Rent within the stipulated period of time, the two closest brokers shall be added together and their total divided by two, and the resulting quotient shall be the Base Rent for the Premises during such Option Term. Notwithstanding the foregoing, in no event, however, shall the Base Rent for the Option Term be less than the Base Rent payable during the immediately preceding term of this Lease.

(h) If the Base Rent for the Option Term has not been determined by the commencement date of the Option Term, then until such Base Rent is determined, Tenant shall pay Base Rent to Landlord at the rate in effect immediately preceding the Option Term, and if the actual Base Rent for the Option Term is determined to be higher, then within fifteen (15) days after the determination of such higher Base Rent, Tenant shall pay to Landlord the difference for each month of the Option Term for which Base Rent has already become due.

44. **Right of First Offer.** Subject to the provisions of this Paragraph 44, Landlord hereby grants the Original Tenant a one-time right of first offer to lease any available space in Building 3 and Building 4 (as such buildings are identified on the site plan attached hereby as Exhibit A) following the construction of such buildings (any such space, a "**First Offer Space**"). Notwithstanding the foregoing, (i) such first offer right of Tenant shall commence only following the expiration or earlier termination of the first lease pertaining to such First Offer Space entered into by Landlord after the date of this Lease (collectively, the "**Superior Leases**"), including any renewal or extension of such Superior Leases, whether or not such renewal or extension is pursuant to an express written provision in such lease or otherwise, and regardless of whether any such renewal is consummated pursuant to a lease amendment or a new lease, (ii) such first offer right shall be subordinate and secondary to all rights of expansion, first refusal, first offer or similar rights granted to the tenants of the Superior Leases (the rights described in items (i) and (ii) above to be known collectively as "**Superior Rights**"), (iii) such right of first offer shall not be triggered by the lease of space in the Project by Landlord to an existing tenant of the Project in connection with the relocation of such existing tenant's premises in the Project, and (iv) such right of first offer shall automatically expire and be of no further force or effect following the Lease Term and any applicable extensions.

(a) **Procedure for Offer.** Landlord shall notify Tenant ("**First Offer Notice**") on the first occasion during the initial Lease Term, if any (but on no subsequent occasion), that Landlord determines that Landlord shall commence the marketing of a First Offer Space because such space shall become available for lease to third parties, where no holder of a Superior Right desires to lease such space. The First Offer Notice shall describe the space so offered to Tenant and shall set forth Landlord's proposed material economic terms and conditions applicable

to Tenant's lease of such space (collectively, the "**Economic Terms**"). Notwithstanding the foregoing or anything to the contrary herein, Landlord's obligation to deliver the First Offer Notice shall not apply during any renewal or extension of the initial Lease Term.

(b) Procedure for Acceptance. If Tenant wishes to exercise Tenant's right of first offer with respect to the space described in the First Offer Notice, then within ten (10) days after delivery of the First Offer Notice to Tenant, Tenant shall deliver an unconditional irrevocable notice to Landlord of Tenant's exercise of its right of first offer with respect to the entire space described in the First Offer Notice, and the Economic Terms shall be as set forth in the First Offer Notice. If Tenant does not unconditionally exercise its right of first offer within the five (5) business day period, then Landlord shall be free to lease the space described in the First Offer Notice to anyone to whom Landlord desires on any terms Landlord desires and Tenant's right of first offer shall terminate as to the First Offer Space described in the First Offer Notice. Notwithstanding anything to the contrary contained herein, Tenant must elect to exercise its right of first offer, if at all, with respect to all of the space offered by Landlord to Tenant at any particular time, and Tenant may not elect to lease only a portion thereof.

(c) Condition of First Offer Space. Tenant shall take the First Offer Space in its "as-is" condition except as otherwise set forth in the Economic Terms.

(d) Lease of First Offer Space. If Tenant timely and properly exercises Tenant's right to lease the First Offer Space as set forth herein, Landlord and Tenant shall execute an amendment (on Landlord's form) adding such First Offer Space to the Lease upon the same non-economic terms and conditions as applicable to the Premises, and upon Landlord's Economic Terms. Unless otherwise specified in Landlord's Economic Terms, Tenant shall commence payment of rent for the First Offer Space and the Lease Term of the First Offer Space shall commence upon the date of delivery of such space to Tenant. The term of Tenant's lease of the First Offer Space shall expire concurrently with the term of Tenant's lease of the initial Premises, unless otherwise specified in Landlord's Economic Terms.

(e) No Defaults. The rights contained in this Paragraph 44 shall be personal to the Original Tenant and may only be exercised by the Original Tenant (and not any assignee, sublessee or other transferee of the Original Tenant's interest in the Lease) if the Original Tenant occupies the entire Premises as of the date of the First Offer Notice. Tenant shall not have the right to lease First Offer Space as provided in this Paragraph 44 if, as of the date of the First Offer Notice, or, at Landlord's option, as of the scheduled date of delivery of such First Offer Space to Tenant, an Event of Default exists under the Lease or an Event of Default has previously occurred under the Lease more than once.

45. **Landlord's Representations and Warranties**

(a) Representations and Warranties. Landlord represents and warrants to Tenant that (unless otherwise expressly indicated) as of the Commencement Date: the Premises (i) shall be in good working order, condition, and repair (including but not limited to all structural, electrical, HVAC, fire suppression and mechanical systems), warehouse floors, truck courts/curbing, fencing, dock equipment and lighting; and (ii) shall comply with all applicable laws; and (iii) shall be suitable for the intended use.

(b) Remedy. If any representation or warranty set forth in Paragraph 45(a) is inaccurate or untrue as of the Commencement Date, Landlord's sole and exclusive obligation and liability (and Tenant's sole and exclusive right and remedy) under this Paragraph 45 shall be to cause the condition causing such representation or warranty to be inaccurate or untrue to be corrected or remedied at Landlord's sole cost and expense. Landlord shall so correct or remedy such condition as soon as reasonably practicable following notice of such condition.

[SIGNATURE PAGE FOLLOWS]

[SIGNATURE PAGE TO LEASE AGREEMENT]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the latest date set forth on this signature page below.

LANDLORD:

QOZ 201CC TWO, LLC,
a Utah limited liability company

By: _____
Name: David S. Layton
Title: Manager
Date: _____

TENANT:

AEROVIRONMENT, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____
Date: _____

RULES AND REGULATIONS

In the event of a conflict between the following Rules and Regulations and the terms of the Lease to which these Rules and Regulations are attached, the terms of the Lease shall control.

1. The sidewalk, entries, and driveways of the Project shall not be obstructed by Tenant, or its agents, or used by them for any purpose other than ingress and egress to and from the Premises. Such restriction shall not apply to the use of applicable security measures approved in writing by Landlord, including but not limited to, security gates and security fences approved in writing by Landlord; provided that no such fence or security measures shall interfere with the use of areas of the Project outside of the Premises by Landlord, other tenants, or their respective owners, officers, employees, agents, representatives, contractors or invitees.

2. Tenant shall not place any objects, including antennas, outdoor furniture, etc., in the parking areas, landscaped areas or other areas outside of its Premises, or on the roof of the Project without Landlord's express written consent.

3. Except for disability assistance dogs, no animals shall be allowed in the offices, halls, or corridors in the Project.

4. Tenant shall not disturb the occupants of the Project or adjoining buildings by the use of any radio or musical instrument or by the making of loud or improper noises.

5. If Tenant desires telegraphic, telephonic or other electric connections in the Premises, Landlord or its agent will direct the electrician as to where and how the wires may be introduced; and, without such direction, no boring or cutting of wires will be permitted. Any such installation or connection shall be made at Tenant's expense.

6. Tenant shall not install or operate any steam or gas engine or boiler, except as specifically approved in the Lease or with Landlord's express written consent. The use of oil, gas or inflammable liquids for heating, lighting or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Project.

7. Parking any type of recreational vehicles is specifically prohibited on or about the Project. Except for the overnight parking of operative vehicles or as expressly permitted in the Lease, no vehicle of any type shall be stored in the parking areas at any time. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle.

8. Tenant shall not wash or service any vehicles in or about the Premises or the Project.

9. Tenant shall maintain the Premises free from rodents, insects and other pests.

10. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs or who shall in any manner do any act in violation of the Rules and Regulations of the Project.

11. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of Tenant by the janitors or any other employee or person.

12. Tenant shall give Landlord prompt notice of any defects in the water, lawn sprinkler, sewage, gas pipes, electrical lights and fixtures, heating apparatus, or any other service equipment affecting the Premises.

13. Tenant shall not permit storage outside the Premises, including without limitation, outside storage of trucks and other vehicles, or dumping of waste or refuse or permit any harmful materials to be placed in any drainage system or sanitary system in or about the Premises without Landlord's express written consent.

14. All moveable trash receptacles provided by the trash disposal firm for the Premises must be kept in the trash enclosure areas, if any, provided for that purpose.
15. No auction, public or private, will be permitted on the Premises or the Project.
16. No awnings shall be placed over the windows in the Premises except with the prior written consent of Landlord.
17. The Premises shall not be used for lodging, sleeping or cooking or for any immoral or illegal purposes or for any purpose other than that specified in the Lease. No gaming devices shall be operated in the Premises.
18. Tenant shall ascertain from Landlord the maximum amount of electrical current which can safely be used in the Premises, taking into account the capacity of the electrical wiring in the Project and the Premises and the needs of other tenants, and shall not use more than such safe capacity. Landlord's consent to the installation of electric equipment shall not relieve Tenant from the obligation not to use more electricity than such safe capacity.
19. Tenant assumes full responsibility for protecting the Premises from theft, robbery and pilferage.
20. Tenant shall not install or operate on the Premises any machinery or mechanical devices of a nature not directly related to Tenant's ordinary use of the Premises and shall keep all such machinery free of vibration, noise and air waves which may be transmitted beyond the Premises.
21. Tenant shall not introduce, disturb or release asbestos or PCBs onto or from the Premises.
22. Tenant shall at all times conduct its operations in a good and workmanlike manner, employing best management practices to minimize the threat of any violation of Environmental Requirements.

EXHIBIT A

SITE PLAN

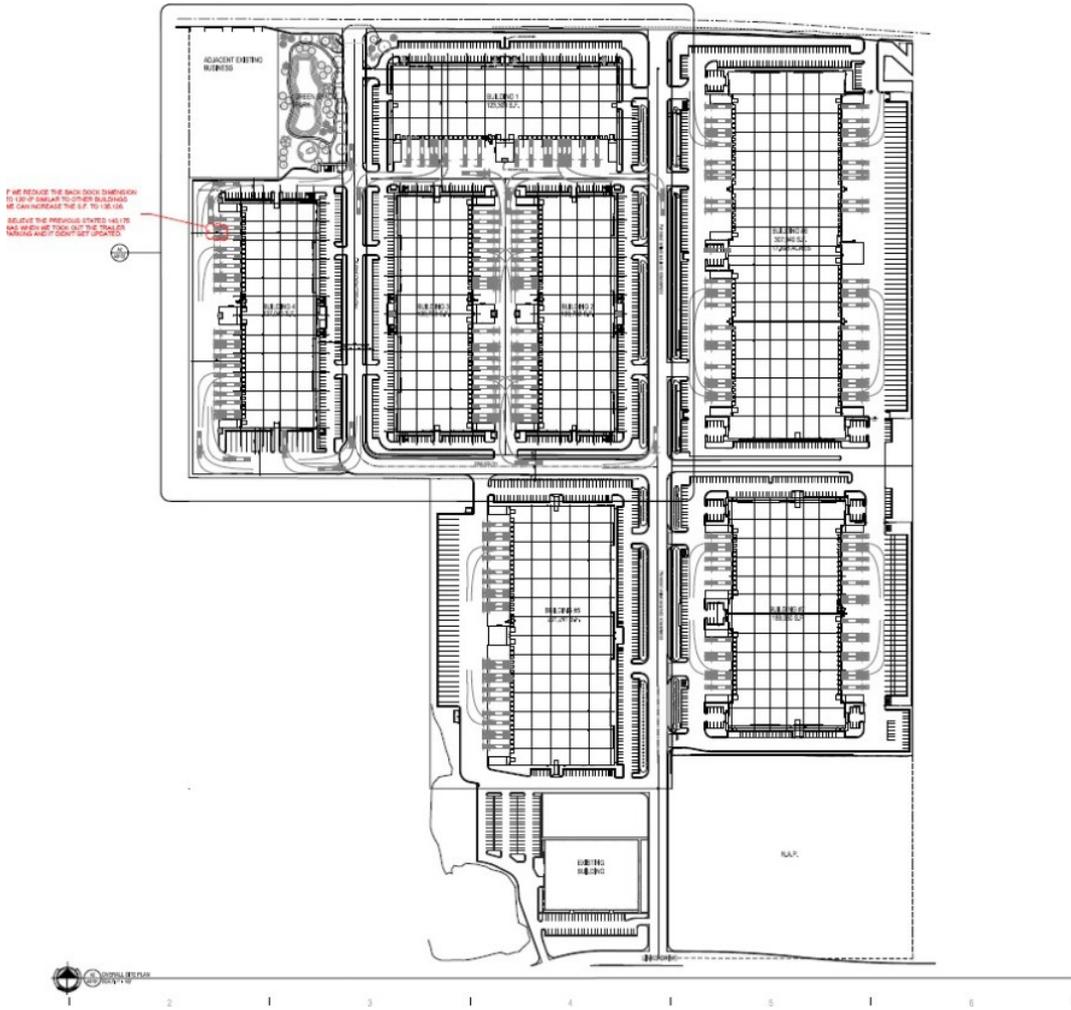


EXHIBIT B

WORK LETTER AND CONSTRUCTION AGREEMENT

(Landlord to Construct Improvements)

A. BASE BUILDING IMPROVEMENTS.

1. Subject to Force Event Delays (as defined below), Landlord shall cause the Base Building Improvements (the “**Base Building Improvements**”) described on Appendix 1 attached hereto to be completed. The Base Building Improvements shall be made at Landlord’s sole cost and expense, and the cost thereof shall not reduce the Tenant Improvement Allowance.

B. TENANT IMPROVEMENTS.

1. Definitions. As used in this Work Letter and in the Lease, the terms “**Tenant Improvements**” and “**Improvements**” are used interchangeably, and shall each mean only those improvements relating to the interior portion of the Premises, which are set forth on the “Final Tenant Plans” (defined in Section B.3(b) of this Work Letter). The construction and installation of the Improvements is sometimes referred to herein as the “**Work**”.

2. Designation of Representatives. Tenant has designated Mark Lewis as its sole representative with respect to the matters set forth in this Work Letter, who shall have full authority and responsibility to act on behalf of the Tenant as required in this Work Letter. Landlord shall designate an individual as its sole representative with respect to the matters set forth in this Work Letter, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Work Letter.

3. Tenant Improvement Plans.

(a) Preliminary Plans. Tenant shall cause the space plan (the “**Preliminary Plans**”) for the Tenant Improvements to be prepared, at Tenant’s cost, subject to the Tenant Improvement Allowance, by a registered professional architect (the “**Architect**”) approved by Landlord, which approval shall not be unreasonably withheld. Within twenty-one (21) days after the Effective Date, Tenant shall furnish the initial draft of the Space Plan to Landlord for Landlord’s review and approval. Landlord shall within one week after receipt either provide comments to such Space Plan or approve the same. If Landlord provides Tenant with comments to the initial draft of the Space Plan, Tenant shall provide a revised Space Plan to Landlord incorporating Landlord’s comments within one week after receipt of Landlord’s comments. Landlord shall within one week after receipt then either provide comments to such revised Space Plan or approve such Space Plan. The process described above shall be repeated, if necessary, until the Space Plan finally has been approved by Landlord. Tenant agrees that the Space Plan shall comply with all Legal Requirements. Landlord’s approval of the Space Plan (or any modifications or changes thereto) shall not impose on Landlord or its agents or representatives any obligation or liability with respect to the design of the Tenant Improvements or the compliance of the Tenant Improvements or the Space Plan with Legal Requirements.

(b) Final Plans. Based on the approved Preliminary Plans, Tenant shall, at its expense, cause the Architect, in consultation with Landlord, Landlord’s engineers and consultant(s), to prepare and deliver to Landlord and Tenant complete architectural, electrical, mechanical, plumbing, life safety and structural drawings, plans and specifications (including all finishes) for the Tenant Improvements, including, exterior fencing and gates (collectively, “**Final Plans**” or “**Final Tenant Plans**”) no later than sixty (60) days following final approval of the Preliminary Plans. The Final Plans shall be approved in the same manner as provided in Section B.3(a) above for approval of the Preliminary Plans. When the Final Plans have been approved by Tenant and Landlord, the Architect shall submit the Final Plans to the appropriate governmental agency for plan checking and the issuance of a building permit for the Improvements. The Architect shall make changes to the Final Plans required by any applicable governmental entity to obtain a building permit for the Improvements. To the extent assignable, Landlord shall assign to Tenant, on a non-exclusive basis, any and all warranties and other rights from or against the Contractor, the Architect or other material and/or service providers relative to the proper design and construction of the Improvements or any component thereof.

(c) Construction Budget. Following approval by Landlord and Tenant of the Final Plans, Landlord shall bid the work on the Tenant Improvements to Interior Construction Specialists and two (2) other general contractors that are reasonably acceptable to Tenant, which contractors shall complete the Tenant Improvements for a guaranteed maximum price. Tenant shall be permitted to review and approve all bids and shall select from such bids the general contractor to perform the Work (the "**Contractor**"). Prior to commencing construction of the Tenant Improvements, Landlord shall submit to Tenant, for Tenant's review and approval, a written statement of the total cost of the Tenant Improvements (the "**Construction Budget**"). Tenant shall review and approve the Construction Budget, within five (5) business days of its receipt from Landlord. The Construction Budget shall contain a construction management fee payable to Landlord which shall not exceed 5% of the total "hard" costs of construction as shown as on the Construction Budget. If Tenant does not approve the Construction Budget, the Landlord shall permit Tenant to value engineer the Tenant Improvements. Following any changes required by Tenant, the Construction Budget shall be provided to Tenant for its review and approval and the foregoing process shall continue until the Construction Budget has been approved by Tenant. In the event the Construction Budget has not been approved by Tenant within sixty (60) days after receipt by Tenant of the initial proposed Construction Budget, Landlord shall be permitted to terminate this Lease upon written notice to Tenant. The costs shown on the Construction Budget which are approved by Tenant shall be referred to herein as the "**Approved Costs**".

(d) No Representations Regarding Tenant's Intended Use. Notwithstanding anything to the contrary contained in the Lease or herein, Landlord's participation in the preparation of the Preliminary Plans, the Final Plans and the construction of the Improvements shall not constitute any representation or warranty, express or implied, that the Improvements, if built substantially in accordance with the Preliminary Plans and/or the Final Plans, will be suitable for Tenant's intended purpose. Tenant acknowledges and agrees that the Improvements are intended for use by Tenant and the specifications and design requirements for such Improvements are not within the special knowledge or experience of Landlord. Landlord's sole obligation shall be to arrange the construction of the Improvements substantially in accordance with the requirements of the Final Plans, and any additional costs or expense required for the modification thereof to more adequately meet Tenant's use, whether during or after Landlord's construction thereof, shall be borne entirely by Tenant.

6. Change Orders.

(a) Processing and Cost of Change Orders. After the parties approve the Final Plans and a building permit for the Improvements is issued, any further changes to the Final Plans shall require the prior written approval of Tenant and Landlord. Tenant acknowledges and agrees that it shall have no right to request any change to the Base Building Improvements. If Tenant desires any change in the Final Plans or specifications relative to the Improvements which is reasonable and practical (as determined by Landlord), such changes may only be requested by the delivery to Landlord by Tenant of a proposed written "Change Order" specifically setting forth the requested change. Landlord shall provide Tenant with the Architect's disapproval of the proposed change stating the reason(s) for such disapproval, or if the Architect approves the proposed change, the following items: (i) a summary of any increase in the cost caused by such change (the "**Change Order Cost**"), (ii) a statement of the number of days of any delay caused by such proposed change (the "**Change Order Delay**"), and (iii) a statement of the cost of the Change Order Delay (the "**Change Order Delay Expense**"), which Change Order Delay Expense shall be the product of the number of days of delay multiplied by the estimated daily Base Rent rate. Tenant shall then have three (3) business days to approve the Change Order Cost, the Change Order Delay and the Change Order Delay Expense. If Tenant approves these items, Landlord shall execute the Change Order and cause the appropriate changes to the Final Plans to be made. If Tenant fails to respond to Landlord within said three (3) business day period, the Change Order Cost, the Change Order Delay and the Change Order Delay Expense shall be deemed disapproved by Tenant and Landlord shall have no further obligation to perform any Work set forth in the proposed Change Order. The Change Order Cost shall include all costs associated with the Change Order, including, without limitation, architectural fees, engineering fees and construction costs, as conclusively determined by the Architect and the Contractor, respectively, together with a seven percent (7%) fee of these costs as reimbursement for the expense of administration and coordination of such Change Order by Landlord's Representative. The Change Order Delay shall include all delays caused by the Change Order, including, without limitation, all design and construction delays, as conclusively determined by the Architect and the Contractor respectively.

(b) Change Order Costs. All costs of the Improvements resulting from Change Orders shall be paid by Tenant to Landlord within fifteen (15) days after Tenant's approval of the Change Order.

8. Construction of the Improvements. Landlord shall enter into a construction contract with the Contractor ("**Construction Contract**") for the construction and installation of the Improvements in accordance with the Final Plans, subject to Force Majeure Delays.

9. Payment for Cost of the Tenant Improvements.

(a) Tenant Improvement Allowance. Landlord hereby grants to Tenant a one-time tenant improvement allowance (the "**Tenant Improvement Allowance**") for the work described on the Final Tenant Plans of up to: (i) \$1,960,995 (based on \$15 per square foot of the Premises) for the cost of Tenant Improvements within the Premises. In the event the Tenant Improvement Allowance exceeds the cost reflected on the approved Construction Budget, Tenant shall not be entitled to such excess, but rather such excess funds shall belong to and be the sole property of Landlord.

(b) Costs in Excess of Tenant Improvement Allowance. The cost of each item shown on the Construction Budget approved by Tenant shall be charged against the Tenant Improvement Allowance but only up to the amount of the applicable line item shown on the Construction Budget. If the total cost of the Improvements shown on the Construction Budget approved by Tenant exceeds the Tenant Improvement Allowance, such additional amount shall be referred to as "Excess Costs". Excess Costs shall be paid by Tenant to Landlord prior to the commencement of the construction of the Tenant Improvements.

10. Tenant Delays; Force Majeure Delays.

(a) As used herein, "**Tenant Delays**" means any delay in the completion of the Improvements resulting from any or all of the following: (1) Tenant's failure to timely perform any of its obligations pursuant to this Work Letter, including any failure to complete, on or before the due date therefor, any action item which is Tenant's responsibility pursuant to this Work Letter, including Tenant's failure to grant approvals within the time frames described herein; (2) Tenant's requested modifications to the Preliminary Plans or any Tenant-initiated Change Orders; (3) Tenant's request for materials, finishes, or installations which are not readily available, (4) Change Order Delays, or (5) any other act or failure to act by Tenant, Tenant's representatives, Tenant's architect, Tenant's employees, agents, independent contractors, consultants and/or any other person performing or required to perform services on behalf of Tenant.

(b) "**Force Majeure Delays**" as used in this Work Letter means delays resulting from causes beyond the reasonable control of Landlord or the Contractor, including, without limitation, any delay caused by any action, inaction, order, ruling, moratorium, regulation, statute, condition or other decision of any private party or governmental agency having jurisdiction over any portion of the Project, over the construction of the Improvements or over any uses thereof, or by delays in inspections or in issuing approvals by private parties or permits by governmental agencies, or by fire, flood, unusual inclement weather (i.e., inclement weather patterns inconsistent with weather patterns occurring in the previous ten (10) years in the immediate vicinity of the Premises), strikes, lockouts or other labor or industrial disturbance (whether or not on the part of agents or employees of either party hereto engaged in the construction of the Improvements), civil disturbance, order of any government, court or regulatory body claiming jurisdiction or otherwise, act of public enemy, war, riot, sabotage, blockage, embargo, failure or inability to secure materials, supplies or labor through ordinary sources by reason of shortages or priority, discovery of hazardous or toxic materials, earthquake, or other natural disaster, delays caused by any dispute resolution process, or any cause whatsoever beyond the reasonable control (excluding financial inability) of the party whose performance is required, or any of its contractors or other representatives, whether or not similar to any of the causes hereinabove stated.

11. Walk-Through and Punch List. Within three (3) days after Landlord tenders possession of the Premises, Tenant, Landlord, Architect and Landlord's architect shall jointly conduct a walk-through of the Improvements and shall jointly prepare a punch list ("**Punch List**") of items needing additional work ("**Punch List Items**"); provided, however, the Punch List shall be limited to items which are required by the Construction Contract, the Final Plans, Change Orders and any other changes agreed to by the parties. Landlord agrees to repair the Punch List Items promptly following the joint walk through.

13. Miscellaneous Construction Covenants.

(a) Coordination with Lease. Nothing herein contained shall be construed as constituting (i) Tenant as Landlord's agent for any purpose whatsoever, or (ii) a waiver by Landlord of any of the terms or provisions of the Lease. Any default by Tenant with respect to any portion of this Work Letter, shall be deemed a breach of the Lease for which Landlord shall have all the rights and remedies as in the case of a breach of the Lease by Tenant.

(b) Cooperation. Tenant shall not (and Tenant shall ensure that its agents do not) interfere with the performance of the Work and shall cooperate with Landlord in connection with the performance of the Work, including, without limitation, by moving any equipment and other property which Landlord or its contractor may request be moved. Landlord shall be permitted to perform the Work during Tenant's occupancy of the Premises, during normal business hours (or any hours), without any obligation to pay overtime or other premiums. Tenant hereby agrees that the performance of the Work shall in no way constitute a constructive eviction of Tenant or entitle Tenant to any abatement of rent payable pursuant to this Lease. Landlord shall have no responsibility for, or for any reason be liable to, Tenant for any direct or indirect injury to or interference with Tenant's business arising from the performance of the Work, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's personal property or improvements resulting from the performance of the Work or Landlord's or Landlord's contractor's or agent's actions in connection with the performance of the Work, or for any inconvenience or annoyance occasioned by the performance of the Work or Landlord's or Landlord's contractor's or agent's actions in connection with the performance of the Work.

APPENDIX 1 TO EXHIBIT B

Base Building Improvements

- 32' clear height
- +/- 38 dock high doors
- +/- 6 grade level doors
- ESFR Fire Suppression
- Skylights
- Gas fired warehouse heating
- 6" reinforced concrete slab
- A minimum of 3000 amps, 480 volt, 3 phase power
- 4 dock high doors with 40,000 lb air bag levelers, dock seals, dock lights and bollards. The remainder of the knock outs to be a combination of concrete and glass.
- The truck court area for the unused dock high positions to be converted to employee parking.

EXHIBIT C

ENVIRONMENTAL QUESTIONNAIRE

FOR OFFICE USE ONLY:

Proposed Lease Commencement Date: _____ Marketing Director: _____

Original

Renewal

Expansion

A. PRE-LEASING ENVIRONMENTAL EXPOSURE QUESTIONNAIRE

B. (To be completed prior to Lease Approval)

Property Address: _____

Proposed Tenant: _____
(Include full legal name of proposed tenant and any d/b/a)

Current Address: _____

Description of Proposed Use of Property: _____

PLEASE ANSWER THE FOLLOWING QUESTIONS ACCURATELY AND FULLY, ATTACHING ADDITIONAL PAGES IF NECESSARY. YOUR RESPONSES TO THIS QUESTIONNAIRE, INCLUDING ANY AND ALL ATTACHMENTS, SHALL BE INCORPORATED AS REPRESENTATIONS AND WARRANTIES IN THE LEASE WHEN EXECUTED, AND INCORRECT, MISLEADING OR MATERIALLY INCOMPLETE RESPONSES SHALL BE DEEMED A BREACH OF SAID LEASE.

Will any of the following chemicals, petroleum products or hazardous materials be made, used, placed, or stored on the property in quantities greater than the minimum quantity listed in column (1) below? If yes, please mark column(s) (2), (3), and/or (4) as applicable.

<u>Categories of Chemicals</u>	(1) Minimum <u>Quantity</u>	(2) <u>Made</u>	(3) <u>Used</u>	(4) <u>Placed</u>	(5) <u>Stored</u>
Solvents, Degreasers	1 Gallon	___	___	___	___
Paint Thinners/Remover	1 Gallon	___	___	___	___
Paint	5 Gallons	___	___	___	___
Oil (New)	5 Gallons	___	___	___	___

Gasoline	1 Gallon	_____	_____	_____	_____
Antifreeze	5 Gallons	_____	_____	_____	_____
Other Automotive Fluids	1 Gallon	_____	_____	_____	_____
Diesel Fuel	5 Gallons	_____	_____	_____	_____
Heavy (Toxic) Metal Containing Compounds	1 Pound	_____	_____	_____	_____
Liquid Plastics/Activators	1 Gallon	_____	_____	_____	_____
Flammable Gases	20 Cu Ft	_____	_____	_____	_____
Toxic Gases	20 Cu Ft	_____	_____	_____	_____
Acids	1 GI/5 Lb	_____	_____	_____	_____
Bases (soda, ash, lye, etc.)	1 GI/5 Lb	_____	_____	_____	_____
Other Flammable Materials	1 GI/5 Lb	_____	_____	_____	_____
Other Corrosive Materials	1 GI/5 Lb	_____	_____	_____	_____
Other Toxic Materials	1 GI/5 Lb	_____	_____	_____	_____
Other Reactive Materials	1 GI/5 Lb	_____	_____	_____	_____
Liquid Hazardous Waste	1 Gallon	_____	_____	_____	_____
Solid Hazardous Waste	1 Pound	_____	_____	_____	_____

Yes No

Do your operations require H-occupancy storage or other special constructions? _____

If yes, please explain: _____

Will any of the following structures be used on the property? If yes, describe the contents of each.

<u>Feature</u>	<u>Contents</u>	_____	_____
Underground Tank	_____	_____	_____
Above-ground Tank	_____	_____	_____
Clarifier	_____	_____	_____
Sump	_____	_____	_____
Trench	_____	_____	_____
Waste Pile	_____	_____	_____
Chemical Piping	_____	_____	_____
Floor Drain	_____	_____	_____
Other	_____	_____	_____

Please describe plans for secondary containment and leak monitoring. _____

Will any hazardous wastes or liquid wastes be generated by on site operations or brought on to the property? _____

	Yes	No
If yes, complete the following:		
Identify each such hazardous waste or liquid waste.		
<hr/>		
Describe onsite storage, including secondary containment, and/or treatment.		
Describe your plans for disposal of hazardous wastes or liquid waste including off-site disposal.		
<hr/>		
Will operations result in any wastewater discharges to the sewer?	_____	_____
Will operations result in any wastewater discharges to locations other than the sewer (including storm drain)?	_____	_____
If yes, describe each wastewater stream and plans for handling wastewater discharges:		
<hr/>		
Have you performed any testing or analysis of wastewater discharges or other wastewater effluent from your current facility?	_____	_____
If yes, attach the results of any such testing or analysis.		
Will your operations require any stormwater discharge permits?	_____	_____
If yes, describe: _____		
Will activities on the property require warnings to be given to workers or visitors on the Leased Premises or the surrounding community?	_____	_____
If yes, please describe how you will provide such communications or warnings.		
<hr/>		
Will operations result in any air emissions (including dust)?	_____	_____
If yes, describe: _____		
Will permits from the Southern Coast Air Quality Management District be required?	_____	_____

	Yes	No
Will operations result in air emissions which include hazardous or toxic air pollutants?	_____	_____
If yes, will any public notice or disclosure be required?	_____	_____
Will operations be subject to Risk Management & Preview Planning requirements or other risk reduction requirements?	_____	_____
Will your operations involve any on-site vehicle or equipment maintenance, repair or cleaning, including but not limited to oil changes, oil filter changes, brake pad replacement, battery changes, radiator flushing, radiator fluid replacement, and equipment, and equipment wash down and cleaning?	_____	_____
If yes, describe all such maintenance: _____		
Will these on-site vehicles or equipment use batteries?	_____	_____
If yes, describe battery storage method: _____		
Will your operations include a machine shop?	_____	_____
If yes, describe all operation: _____		
Will your operations include any metal plating or metal fabrication?	_____	_____
If yes, describe: _____		
Will your operations include the use of solvents?	_____	_____
If yes, describe: _____		
Has your present facility or operation ever been the subject of an environmental investigation, an environmental enforcement action, or permit revocation proceeding?	_____	_____
If yes, describe: _____		
Have you ever been identified as a potentially responsible party for any environmental	_____	_____

	Yes	No
cleanup, compliance or abatement proceedings?		
If yes, describe: _____		
Have you ever received a notice of violation or notice to comply from any environmental regulatory agency within the past five years?	_____	_____
If yes, describe: _____		
Have you had any complaints from neighbors relating to noise, odor, air emissions, or dust at your present facility?	_____	_____
If yes, describe: _____		
Have you had any complaints relating to hazardous materials handling, storage, treatment or disposal from neighbors at your present facility?	_____	_____
If yes, describe: _____		
Will the proposed use of the property require the filing of any environmental reports or other documents to any agencies?	_____	_____
Attach copies of all Material Safety Data Sheets ("MSDS") for all chemicals you intend to use, store, or handle on the property.	_____	_____
Has an Environmental Audit been conducted at your present facility? (If yes, attach a copy of any report prepared in connection with any such audit.)	_____	_____
Please provide the Landlord your Emergency Response Plan and any contingency or emergency plans for the property in case of an accidental release of hazardous materials.	_____	_____
Identify the name, title and qualifications/experience of person responsible for your environmental, health and safety program:		
Name: _____		
Title: _____		
Qualifications/experience: _____		
Name and telephone number of person to contact for additional information:		
Name: _____		
Title: _____		
Qualifications/experience: _____		

Please provide any additional information/comments concerning your environmental compliance program and environmental compliance history: _____

The undersigned hereby certifies that the information above is correct and complete.

Name of Proposed Tenant

Name: _____

Title: _____

Date: _____

**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 10, 2026

/s/ Wahid Nawabi

Wahid Nawabi

Chairman, 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, Kevin P. McDonnell, 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 10, 2026

/s/ Kevin P. McDonnell

Kevin P. McDonnell

Executive 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 31, 2026 (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

Chairman, President and Chief Executive Officer

/s/ Kevin P. McDonnell

Kevin P. McDonnell

Executive Vice President and Chief Financial Officer

Dated: March 10, 2026

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.