

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

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**FORM 10-Q**

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R **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**  
For the quarterly period ended **October 27, 2007**

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**

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**AEROVIRONMENT, INC.**

**Delaware**  
(State or other jurisdiction of incorporation or organization)

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

**181 W. Huntington Drive, Suite 202**  
**Monrovia, California**  
(Address of principal executive offices)

**91016**  
(Zip Code)

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

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

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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 R No £

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

Large accelerated filer £ Accelerated filer £ Non-accelerated filer R

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

As of November 29, 2007, the number of shares outstanding of the registrant's common stock, \$0.0001 par value, was 20,136,672.

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**AeroVironment, Inc.**

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

Item 1.	<a href="#">Financial Statements:</a>	
	<a href="#">Consolidated Balance Sheets as of October 27, 2007 (Unaudited) and April 30, 2007</a>	3
	<a href="#">Consolidated Statements of Income for the three and six months ended October 27, 2007 (Unaudited) and October 28, 2006 (Unaudited)</a>	4
	<a href="#">Consolidated Statements of Cash Flows for the six months ended October 27, 2007 (Unaudited) and October 28, 2006 (Unaudited)</a>	5
	<a href="#">Notes to Consolidated Financial Statements (Unaudited)</a>	6
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	12
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	17
Item 4T.	<a href="#">Controls and Procedures</a>	17

**PART II. OTHER INFORMATION**

Item 1.	<a href="#">Legal Proceedings</a>	18
Item 1A.	<a href="#">Risk Factors</a>	18
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	18
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	18
Item 4.	<a href="#">Submission of Matters to a Vote of Security Holders</a>	18
Item 5.	<a href="#">Other Information</a>	18
Item 6.	<a href="#">Exhibits</a>	19
	<a href="#">Signatures</a>	20
	Exhibit Index	

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**Aero Vironment, Inc.**  
**Consolidated Balance Sheets**  
**(In thousands except share data)**

	<u>October 27,</u> <u>2007</u>	<u>April 30,</u> <u>2007</u>
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,283	\$ 20,920
Restricted cash	406	389
Short-term investments	92,400	88,325
Accounts receivable, net of allowance for doubtful accounts of \$204 at October 27, 2007 and \$149 at April 30, 2007	26,034	7,691
Unbilled receivables and retentions	12,837	26,494
Inventories, net	12,704	14,015
Income tax receivable	4,807	-
Deferred income taxes	1,785	1,730
Prepaid expenses and other current assets	1,747	1,504
Total current assets	167,003	161,068
Property and equipment, net	9,667	6,229
Deferred income taxes	761	761
Other assets	119	119
Total assets	<u>\$ 177,550</u>	<u>\$ 168,177</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 10,791	\$ 16,024
Wages and related accruals	6,539	8,942
Customer advances	101	139
Income taxes payable	-	4,564
Other current liabilities	3,287	1,544
Total current liabilities	20,718	31,213
Deferred rent	979	541
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value:		
Authorized shares — 10,000,000		
None issued or outstanding		
Common stock, \$0.0001 par value:		
Authorized shares — 100,000,000		
Issued and outstanding shares — 20,081,738 at October 27, 2007 and 18,875,957 at April 30, 2007	2	2
Additional paid-in capital	94,614	83,611
Retained earnings	61,237	52,810
Total stockholders' equity	155,853	136,423
Total liabilities and stockholders' equity	<u>\$ 177,550</u>	<u>\$ 168,177</u>

See accompanying notes to consolidated financial statements (unaudited).

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>October 27, 2007</u>	<u>October 28, 2006</u>	<u>October 27, 2007</u>	<u>October 28, 2006</u>
Revenue:				
Product sales	\$ 34,042	\$ 30,968	63,726	\$ 54,812
Contract services	19,659	14,221	39,179	21,934
	<u>53,701</u>	<u>45,189</u>	<u>102,905</u>	<u>76,746</u>
Cost of sales:				
Product sales	20,611	18,249	38,902	32,550
Contract services	14,163	9,170	28,239	14,440
	<u>34,774</u>	<u>27,419</u>	<u>67,141</u>	<u>46,990</u>
Gross margin	18,927	17,770	35,764	29,756
Research and development	3,802	3,180	8,102	7,021
Selling, general and administrative	8,573	6,735	16,299	12,867
Income from operations	6,552	7,855	11,363	9,868
Other income				
Interest income	1,143	141	2,122	347
Income before income taxes	7,695	7,996	13,485	10,215
Provision for income taxes	2,531	3,102	4,477	3,956
Net income	<u>\$ 5,164</u>	<u>\$ 4,894</u>	<u>9,008</u>	<u>\$ 6,259</u>
Earnings per share data (a):				
Basic	\$ 0.26	\$ 0.36	0.47	\$ 0.46
Diluted	0.24	0.31	0.42	\$ 0.40
Weighted average shares outstanding (a):				
Basic	19,652,095	13,620,154	19,279,094	13,564,438
Diluted	21,346,349	15,584,150	21,218,731	15,528,435

(a) All share information has been adjusted to reflect a 7.0378-for-one stock split which was effective January 18, 2007.

See accompanying notes to consolidated financial statements (unaudited).

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

	<b>Six months ended</b>	
	<b>October 27, 2007</b>	<b>October 28, 2006</b>
<b>Operating activities</b>		
Net income	\$ 9,008	\$ 6,259
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,595	1,349
Provision for doubtful accounts	55	76
Deferred income taxes	(55)	-
Stock-based compensation	185	8
Tax benefit from exercise of stock options	9,999	210
Gain on disposition of property and equipment	-	(4)
Changes in operating assets and liabilities:		
Accounts receivable	(18,398)	(670)
Unbilled receivables and retentions	13,657	(2,758)
Inventories	1,311	2,446
Income tax receivable	(4,807)	-
Other assets	(243)	(1,443)
Accounts payable	(5,233)	(1,188)
Customer advances	(38)	(7,643)
Other liabilities	(5,368)	1,075
Net cash and cash equivalents provided by (used in) operating activities	1,668	(2,283)
<b>Investing activities</b>		
Acquisitions of property and equipment	(5,032)	(1,289)
Proceeds from sale of property and equipment	-	15
Purchases of short-term investments	(497,239)	-
Sales of short-term investments	493,164	-
Net cash and cash equivalents used in investing activities	(9,107)	(1,274)
<b>Financing activities</b>		
Transfers (to) from restricted cash	(17)	1,143
Repayments of line of credit	-	(6,232)
Proceeds from line of credit	-	6,232
Exercise of stock options	819	204
Net cash and cash equivalents provided by financing activities	802	1,347
Net decrease in cash and cash equivalents	(6,637)	(2,210)
Cash and cash equivalents at beginning of period	20,920	15,388
Cash and cash equivalents at end of period	<u>\$ 14,283</u>	<u>\$ 13,178</u>

See accompanying notes to consolidated financial statements (unaudited)

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

**1. Organization and Significant Accounting Policies**

***Organization***

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

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements have been included. The results of operations for the three and six months ended October 27, 2007 are not necessarily indicative of the results for the full year ending April 30, 2008. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended April 30, 2007, included in AeroVironment, Inc.’s Annual Report on Form 10-K.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, including estimates of anticipated contract costs and revenue utilized in the revenue recognition process, that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year presentation.

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

***Segments***

The Company’s products are sold and divided among three reportable segments, as defined by Statement of Financial Accounting Standards (“SFAS”) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, to reflect the Company’s strategic goals. 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 is the Chief Executive Officer, who reviews the revenue and gross margin results for each of these segments in order to make resource allocation decisions, including the focus of research and development, or R&D, activities, and assessing performance. The Company’s reportable segments are business units that offer different products and services and are managed separately.

***Government Contracts***

Payments to the Company on government cost reimbursable contracts are based on provisional, or estimated indirect rates, which are subject to an annual audit by the Defense Contract Audit Agency (“DCAA”). The cost audits result in the negotiation and determination of the final indirect cost rates that the Company may use for the period(s) audited. The final rates, if different from the provisional rates, may create an additional receivable or liability for the Company.

For example, during the course of its audits, the DCAA may question our incurred project costs, and if the DCAA believes we have accounted for such costs in a manner inconsistent with the requirements under Federal Acquisition Regulations, the DCAA auditor may recommend to our administrative contracting officer to disallow such costs. Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future.

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

**Earnings Per Share**

Basic earnings per share is computed using the weighted-average number of common shares outstanding. The dilutive effect of potential common shares outstanding is included in diluted earnings per share and excludes any anti-dilutive effects of options.

The reconciliation of diluted to basic shares is as follows:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>October 27, 2007</u>	<u>October 28, 2006</u>	<u>October 27, 2007</u>	<u>October 28, 2006</u>
Denominator for basic earnings per share:				
Weighted average common shares outstanding	19,652,095	13,620,154	19,279,094	13,564,438
Dilutive effect of employee stock options	1,694,254	1,963,996	1,939,637	1,963,997
Denominator for diluted earnings per share	<u>21,346,349</u>	<u>15,584,150</u>	<u>21,218,731</u>	<u>15,528,435</u>

All share information has been adjusted to reflect a 7.0378-for-one stock split which was effective January 18, 2007.

During the three and six months ended October 27, 2007 certain options were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive. The number of options which met this anti-dilutive criterion was approximately 108,000 and 77,000 for the three and six months ended October 27, 2007, respectively. During the three and six months ended October 28, 2006 there were no stock options that were anti-dilutive to earnings per share.

**Recently Issued Accounting Standards**

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN No. 48"), *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company adopted the provisions of this interpretation effective May 1, 2007. The adoption of FIN No. 48 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. See Note 8, Income Taxes, for further discussion.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which is the year beginning May 1, 2008 for the Company. The adoption of SFAS No. 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which is the year beginning May 1, 2008 for the Company. The adoption of SFAS No. 159 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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

**2. Inventories, net**

Inventories consist of the following:

	<u>October 27, 2007</u>	<u>April 30, 2007</u>
	(In thousands)	
Raw materials	\$ 6,718	\$ 5,418
Work in process	3,247	3,514
Finished goods	3,902	6,221
Inventories, gross	13,867	15,153
Reserve for inventory obsolescence	(1,163)	(1,138)
Inventories, net	<u>\$ 12,704</u>	<u>\$ 14,015</u>

**3. Warranty Reserves**

The warranty reserve is included in other current liabilities. The related expense is included in cost of sales. Warranty reserve activity is summarized as follows for the three and six months ended October 27, 2007 and October 28, 2006 (in thousands):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>October 27, 2007</u>	<u>October 28, 2006</u>	<u>October 27, 2007</u>	<u>October 28, 2006</u>
Beginning balance	\$ 243	\$ 355	\$ 263	\$ 344
Warranty expense	262	149	470	301
Warranty costs incurred	(123)	(139)	(351)	(280)
Ending balance	<u>\$ 382</u>	<u>\$ 365</u>	<u>\$ 382</u>	<u>\$ 365</u>

**4. Bank Borrowings**

The Company has a working capital line of credit with a bank with a borrowing limit of \$25,000,000. Borrowings bear interest at the bank's prime commercial lending rate minus 0.25%, which was 7.50% as of October 27, 2007 and 8.25% as of April 30, 2007. The line of credit is secured by substantially all of the Company's assets. Interest on amounts outstanding under the line of credit are due monthly. All principal plus accrued but unpaid interest on the line of credit is due August 31, 2009. The Company had no outstanding balance on the line of credit as of October 27, 2007 and April 30, 2007.

The credit facility contains several financial covenants, including that the Company not exceed maximum liquidity and leverage ratios, and limitations on additional indebtedness. The facility includes customary default provisions, and all outstanding obligations may become immediately due and payable in the event of the Company's default. The Company was in compliance with these covenants as of October 27, 2007 and April 30, 2007.

The Company has entered into standby letter-of-credit agreements and bank guarantee agreements with financial institutions and customers primarily relating to the guarantee of the Company's future performance on certain contracts to provide products and services and to secure advance payments the Company has received from certain international customers. As of October 27, 2007 and April 30, 2007, the Company had standby letters of credit totaling \$0.4 million and had received no claims against such letters of credit. These letters of credit expire upon release by the customer.

**5. Stockholders' Equity**

In connection with its initial public offering completed on January 26, 2007, the Company reincorporated in Delaware, effective on December 6, 2006, and effected a 7.0378-to-one stock split on January 18, 2007. All share and per share data have been adjusted to reflect this split.



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

**6. Stock-Based Compensation**

For the three and six months ended October 27, 2007 the Company recorded stock-based compensation of approximately \$117,000 and \$185,000, respectively. For the three and six months ended October 28, 2006, the Company recorded stock-based compensation of approximately \$8,000.

The fair value of stock options granted was estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions for the three and six months ended October 27, 2007:

	<b>Three Months Ended October 27, 2007</b>	<b>Six Months Ended October 27, 2007</b>
Expected term (in years)	6.5	6.5
Expected volatility	21.25%	19.74%
Risk-free interest rate	4.32%	5.01%
Expected dividend	—	—
Weighted average fair value at grant date	\$ 6.45	\$ 7.72

The fair value of stock options granted was estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions for the three and six months ended October 28, 2006:

	<b>Three and Six Months Ended October 28, 2006</b>
Expected term (in years)	6.5
Expected volatility	22.41%
Risk-free interest rate	4.56%
Expected dividend	—
Weighted average fair value at grant date	\$ 4.12

The expected term of stock options represents the weighted average period the Company expects the stock options to remain outstanding, using a midpoint model based on the Company's historical exercise and post-vesting cancellation experience and the remaining contractual life of its outstanding options.

The expected volatility is based on peer group volatility in the absence of historical market data for the Company's stock, as permitted under Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*. The peer group volatility was derived based on historical volatility of a comparable peer group index consisting of companies operating in a similar industry.

The risk free interest rate is based on the implied yield on a U.S. Treasury zero-coupon bond with a remaining term that approximates the expected term of the option.

The expected dividend yield of zero reflects that the Company has not paid any cash dividends since inception and does not anticipate paying cash dividends in the foreseeable future.

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

Information related to the Company's stock option plans at October 27, 2007 and for the six months then ended is as follows:

	2006 Plan		2002 Plan		1994 Directors' Plan		1992 Plan	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at April 30, 2007	—	\$ —	1,532,423	\$ 1.95	35,189	\$ 0.59	1,941,706	\$ 0.55
Options granted	243,310	21.48	—	—	—	—	—	—
Options exercised	—	—	(102,325)	0.76	—	—	(301,527)	.59
Options canceled	—	—	(5,630)	0.64	—	—	—	—
Outstanding at July 28, 2007	243,310	21.48	1,424,468	2.04	35,189	0.59	1,640,179	0.55
Options granted	40,000	19.87	—	—	—	—	—	—
Options exercised	—	—	(176,635)	1.13	—	—	(625,294)	0.58
Options canceled	—	—	(21,113)	3.63	—	—	—	—
Outstanding at October 27, 2007	283,310	21.25	1,226,720	2.09	35,189	0.59	1,014,885	0.53
Options exercisable at October 27, 2007	—	—	717,885	1.29	35,189	0.59	1,014,885	0.53

**7. Customer Funded Research & Development**

Customer-funded R&D costs are incurred pursuant to contracts (revenue arrangements) to perform R&D activities according to customer specifications. These costs are direct contract costs and are expensed to cost of sales when the corresponding revenue is recognized, which is generally as the R&D services are performed. Revenues from customer-funded R&D were approximately \$5,817,000 and \$10,103,000 for the three and six months ended October 27, 2007, respectively. Revenues from customer-funded R&D were approximately \$5,109,000 and \$7,048,000 for the three and six months ended October 28, 2006, respectively.

**8. Income Taxes**

On May 1, 2007, the Company adopted the provisions of FIN No. 48. The Company recorded a reduction to retained earnings of approximately \$581,000 as a result of the implementation of FIN 48. At the adoption date of May 1, 2007, the Company had approximately \$4,369,000 of unrecognized tax benefits. At October 27, 2007, the Company had approximately \$4,673,000 of unrecognized tax benefits all of which would impact the Company's effective tax rate if recognized. The Company estimates that none of its unrecognized tax benefits will decrease in the next twelve months.

The Company records interest and penalties on uncertain tax positions to income tax expense. As of May 1, 2007 and October 27, 2007, the Company had accrued approximately \$208,000 of interest and penalties related to uncertain tax positions. The Company is currently under audit by various state jurisdictions but does not anticipate any material adjustments from these examinations. The tax years 2004 to 2007 remain open to examination by the IRS for federal income taxes. The tax years 2003 to 2007 remain open for major state taxing jurisdictions.

For the three months ended and six months ended October 27, 2007, the Company increased the unrecognized tax benefits by approximately \$152,000 and \$304,000, respectively, which impacted the company's effective tax rate.

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

**9. Segment Data**

The Company's product segments are as follows:

- Unmanned Aircraft Systems (“UAS”) — engages primarily in the design, manufacture, sale and support of small unmanned aircraft systems.
- PosiCharge Systems (“PosiCharge”) — engages primarily in the design, manufacture, sale and support of fast charge systems and related services for users of electrical industrial vehicles.
- Energy Technology Center— provides contract engineering for electric energy-related projects, and engages in the design, manufacture, sale and support of power processing test systems.

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

The segment results are as follows (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 27, 2007</b>	<b>October 28, 2006</b>	<b>October 27, 2007</b>	<b>October 28, 2006</b>
Revenue:				
UAS	\$ 46,604	\$ 37,875	\$ 88,477	\$ 62,858
PosiCharge	5,236	4,515	10,594	9,458
Energy Technology Center	1,861	2,799	3,834	4,430
Total	<u>53,701</u>	<u>45,189</u>	<u>102,905</u>	<u>76,746</u>
Gross margin:				
UAS	16,910	14,516	31,001	23,787
PosiCharge	1,402	1,821	3,347	3,761
Energy Technology Center	615	1,433	1,416	2,208
Total	<u>18,927</u>	<u>17,770</u>	<u>35,764</u>	<u>29,756</u>
Research and development	3,802	3,180	8,102	7,021
Selling, general and administrative	<u>8,573</u>	<u>6,735</u>	<u>16,299</u>	<u>12,867</u>
Income from operations	6,552	7,855	11,363	9,868
Interest income	1,143	141	2,122	347
Income before income taxes	<u>\$ 7,695</u>	<u>\$ 7,996</u>	<u>\$ 13,485</u>	<u>\$ 10,215</u>

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

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

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

### Critical Accounting Policies and Estimates

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

There have been no material changes made to the critical accounting estimates during the periods presented in the consolidated financial statements from those disclosed in the Form 10-K for the fiscal year ended April 30, 2007.

### Fiscal Periods

Our fiscal year ends on April 30 and our fiscal quarters end on the last Saturday of July, October and January.

**Results of Operations**

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

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

**Three Months Ended October 27, 2007 Compared to Three Months Ended October 28, 2006**

	<b>Three Months Ended</b>	
	<b>October 27, 2007</b>	<b>October 28, 2006</b>
	<b>(Unaudited)</b>	
<b>Revenue:</b>		
UAS	\$ 46,604	\$ 37,875
PosiCharge	5,236	4,515
Energy Technology Center	1,861	2,799
Total	<u>\$ 53,701</u>	<u>\$ 45,189</u>
<b>Gross margin:</b>		
UAS	\$ 16,910	\$ 14,516
PosiCharge	1,402	1,821
Energy Technology Center	615	1,433
Total	<u>\$ 18,927</u>	<u>\$ 17,770</u>

**Revenue.** Revenue for the three months ended October 27, 2007 was \$53.7 million, as compared to \$45.2 million for the three months ended October 28, 2006, representing an increase of \$8.5 million, or 19%. UAS led the revenue growth on the strength of its small UAS product sales and service offerings. UAS revenue increased \$8.7 million, or 23%, to \$46.6 million for the three months ended October 27, 2007, primarily due to increased UAS service and product sales and customer-funded R&D. The increase in UAS services revenue was primarily due to an increase in the provision of Raven spares and training services. These contract logistics services, or CLS, are cost reimbursable arrangements, which typically result in lower gross margin than fixed price contracts. The increase in product sales resulted primarily from higher Raven B manufacturing volume. The completion of Raven B customer testing and evaluation in the second half of fiscal 2007 led to the initiation of full-rate production, in turn resulting in an increase in procurement. PosiCharge revenue increased by \$0.7 million, or 16%, to \$5.2 million for the three months ended October 27, 2007, primarily due to increased installations of our fast charge systems. Energy Technology Center revenue decreased by \$0.9 million, or 34%, to \$1.9 million for the three months ended October 27, 2007, primarily due to lower sales of power processing test equipment.

**Cost of Sales.** Cost of sales for the three months ended October 27, 2007 was \$34.8 million, as compared to \$27.4 million for the three months ended October 28, 2006, representing an increase of \$7.4 million, or 27%. The increase in cost of sales was caused primarily by higher UAS cost of sales of \$6.3 million, and PosiCharge cost of sales of \$1.2 million partially offset by lower Energy Technology Center cost of sales of \$0.1 million.

**Gross Margin.** Gross margin for the three months ended October 27, 2007 was \$18.9 million, as compared to \$17.8 million for the three months ended October 28, 2006, representing an increase of \$1.1 million, or 7%. UAS gross margin increased \$2.4 million, or 16%, to \$16.9 million for the three months ended October 27, 2007. As a percentage of revenue, gross margin for UAS decreased to 36% from 38%. The decrease in UAS gross margin percent was primarily due to increased program costs resulting in lower effective fee rates on government contracts. PosiCharge gross margin decreased \$0.4 million to \$1.4 million for the three months ended October 27, 2007. As a percentage of revenue, PosiCharge gross margin decreased from 40% to 27% primarily due to higher engineering support costs. Energy Technology Center gross margin decreased \$0.8 million to \$0.6 million for the three months ended October 27, 2007. As a percentage of revenue, Energy Technology Center gross margin decreased from 51% to 33%, primarily due to higher sustaining engineering costs for power processing test equipment deliveries.

**Research and Development.** R&D expense for the three months ended October 27, 2007 was \$3.8 million, or 7% of revenue, which was higher than R&D expense of \$3.2 million, or 7% of revenue, for the three months ended October 28, 2006. R&D expense increased \$0.6 million primarily due to higher investment in development initiatives including Global Observer, Digital Data Link and Switchblade.

[Table of Contents](#)

**Selling, General and Administrative.** SG&A expense for the three months ended October 27, 2007 was \$8.6 million, or 16% of revenue, compared to SG&A expense of \$6.7 million, or 15% of revenue, for the three months ended October 28, 2006. The increase in SG&A expense of \$1.9 million was caused primarily by higher selling and marketing infrastructure costs associated with business growth.

**Income Tax Expense.** Our effective income tax rate was 32.9% for the three months ended October 27, 2007, as compared to 38.8% for the three months ended October 28, 2006. This decrease was largely due to tax-exempt interest received from our short-term investments. During the three months ended October 28, 2006, we did not receive any tax-exempt interest.

**Six Months Ended October 27, 2007 Compared to Six Months Ended October 28, 2006**

	Six Months Ended	
	October 27, 2007	October 28, 2006
(Unaudited) (In thousands)		
Revenue:		
UAS	\$ 88,477	\$ 62,858
PosiCharge	10,594	9,458
Energy Technology Center	3,834	4,430
Total	<u>\$ 102,905</u>	<u>\$ 76,746</u>
Gross margin:		
UAS	\$ 31,001	\$ 23,787
PosiCharge	3,347	3,761
Energy Technology Center	1,416	2,208
Total	<u>\$ 35,764</u>	<u>\$ 29,756</u>

**Revenue.** Revenue for the six months ended October 27, 2007 was \$102.9 million, as compared to \$76.7 million for the six months ended October 28, 2006, representing an increase of \$26.2 million, or 34%. UAS led the revenue growth on the strength of its small UAS product sales and service offerings. UAS revenue increased \$25.6 million, or 41%, to \$88.5 million for the six months ended October 27, 2007, largely due to increased UAS service and product sales and customer-funded R&D. The increase in UAS services revenue was primarily due to an increase in the provision of Raven spares and training services. The increase in product sales resulted primarily from higher Raven B manufacturing volume. The completion of Raven B customer testing and evaluation in the second half of fiscal 2007 led to the initiation of full-rate production, in turn resulting in an increase in procurement. PosiCharge revenue increased by \$1.1 million, or 12%, to \$10.6 million for the six months ended October 27, 2007, primarily due to increased installations of our fast charge systems. Energy Technology Center revenue decreased by \$0.6 million, or 13%, to \$3.8 million for the six months ended October 27, 2007, primarily due to lower sales of power processing test equipment.

**Cost of Sales.** Cost of sales for the six months ended October 27, 2007 was \$67.1 million, as compared to \$47.0 million for the six months ended October 28, 2006, representing an increase of \$20.1 million, or 43%. The increase in cost of sales was caused primarily by higher UAS cost of sales of \$18.4 million, PosiCharge cost of sales of \$1.5 million, and Energy Technology Center cost of sales of \$0.2 million.

**Gross Margin.** Gross margin for the six months ended October 27, 2007 was \$35.8 million, as compared to \$29.8 million for the six months ended October 28, 2006, representing an increase of \$6.0 million, or 20%. UAS gross margin increased \$7.2 million to \$31.0 million for the six months ended October 27, 2007. As a percentage of revenue, gross margin for UAS decreased to 35% from 38%. The decrease in UAS gross margin percent was primarily due to lower fixed price revenue relative to cost reimbursable revenue and increased program costs resulting in lower effective fee rates on government contracts compared to the same period in the prior year. PosiCharge gross margin decreased \$0.4 million to \$3.3 million for the six months ended October 27, 2007. As a percentage of revenue, PosiCharge gross margin decreased from 40% to 32% primarily due to increased engineering support costs. Energy Technology Center gross margin decreased \$0.8 million to \$1.4 million for the six months ended October 27, 2007. As a percentage of revenue, Energy Technology Center gross margin decreased from 50% to 37%, primarily due to an increase in sustaining engineering costs for power processing test equipment deliveries.

**Research and Development.** R&D expense for the six months ended October 27, 2007 was \$8.1 million, or 8% of revenue, which was higher than R&D expense of \$7.0 million or 9% of revenue for the six months ended October 28, 2006. R&D expense increased \$1.1 million primarily due to higher investment in development initiatives including Global Observer, Digital Data Link, Switchblade, and Architectural Wind.

## Table of Contents

**Selling, General and Administrative.** SG&A expense for the six months ended October 27, 2007 was \$16.3 million, or 16% of revenue, compared to SG&A expense of \$12.9 million, or 17% of revenue, for the six months ended October 28, 2006. The increase in SG&A expense of \$3.4 million was caused primarily by higher selling and marketing infrastructure associated with business growth and added expense for being a public company.

**Income Tax Expense.** Our effective income tax rate was 33.2% for the six months ended October 27, 2007, as compared to 38.7% for the six months ended October 28, 2006. This decrease was largely due to tax-exempt interest income received from our short-term investments. During the six months ended October 28, 2006, we did not receive any tax-exempt interest.

**Backlog.** We define funded backlog as unfilled firm orders for products and services for which funding currently is appropriated to us under the contract by the customer. Because of possible future changes in delivery schedules and/or cancellations of orders, funded 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 funded backlog represented. As of October 27, 2007 and April 30, 2007, our funded backlog was \$66.3 million and \$60.9 million, respectively.

In addition to funded backlog, we define unfunded backlog as the total remaining potential order amounts under cost reimbursable and fixed price contracts with multiple one-year options, or indefinite delivery indefinite quantity ("IDIQ") contracts. Unfunded backlog does not obligate the U.S. government to purchase goods or services. There can be no assurance that unfunded backlog will result in any orders in any particular period, if at all. As of October 27, 2007 and April 30, 2007, our unfunded backlog was \$486.0 million and \$477.5 million, respectively. Unfunded backlog does not include potential order amounts under options to purchase additional aircraft included in our Global Observer contract.

## **Liquidity and Capital Resources**

We currently have no material cash commitments, except for normal recurring trade payables, accrued expenses and ongoing R&D costs, all of which we anticipate funding through our existing working capital, funds provided by operating activities and our working capital line of credit. 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, funds available through our working capital line of credit and other financing sources will be sufficient to meet our anticipated working capital, capital expenditure and debt service requirements, if any, during the next twelve months. There can be no assurance, however, that our business will continue to generate cash flow at current levels. If we are unable to generate sufficient cash flow from operations, then we may be required to sell assets, reduce capital expenditures or obtain additional financing.

Our primary liquidity needs are for financing working capital, investing in capital expenditures, supporting product development efforts, introducing new products and enhancing existing products, and marketing acceptance and adoption of our products and services. Our future capital requirements, to a certain extent, are also subject to general conditions in or affecting the defense 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 short-term borrowing are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Although we are currently not a party to any agreement or letter of intent with respect to potential investment in, or acquisitions of, businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing.

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

[Table of Contents](#)

**Cash Flows**

The following table provides our cash flow data for the six months ended October 27, 2007 and October 28, 2006 (in thousands):

	<b>Six Months Ended</b>	
	<b>October 27, 2007</b>	<b>October 28, 2006</b>
	<b>(Unaudited)</b>	
Net cash provided by (used in) operating activities	\$ 1,668	\$ (2,283)
Net cash used in investing activities	\$ (9,107)	\$ (1,274)
Net cash provided by financing activities	\$ 802	\$ 1,347

**Cash Provided by Operating Activities.** Net cash provided by operating activities for the six months ended October 27, 2007 increased by \$4.0 million to \$1.7 million, compared to net cash used in operating activities of \$2.3 million for the six months ended October 28, 2006. This increase in net cash provided by operating activities was primarily due to an increase in tax benefits from stock options exercises of \$9.8 million and higher net income of \$2.7 million partially offset by higher working capital needs of \$8.9 million.

**Cash Used in Investing Activities.** Net cash used in investing activities increased by \$7.8 million to \$9.1 million for the six months ended October 27, 2007, compared to net cash used in investing activities of \$1.3 million for the six months ended October 28, 2006. The increase in net cash used in investing activities was primarily due to higher investments in tax exempt municipal auction rate securities of \$4.1 million and higher capital expenditures of \$3.7 million. During the six months ended October 27, 2007 and October 28, 2006, we used cash to purchase property and equipment totaling \$5.0 million and \$1.3 million, respectively.

**Cash Provided by Financing Activities.** Net cash provided by financing activities decreased by \$0.5 million to \$0.8 million for the six months ended October 27, 2007, compared to the six months ended October 28, 2006. During the six months ended October 27, 2007 and October 28, 2006, we received proceeds from stock option exercises of \$0.8 million and \$0.2 million, respectively.

**Line of Credit and Term Loan Facilities**

We have a revolving line of credit with a bank, under which we may borrow up to \$25.0 million. Borrowings bear interest at the bank's prime commercial lending rate minus 0.25%, which was 7.50% as of October 27, 2007 and 8.25% as of April 30, 2007. The line of credit is secured by substantially all of our assets. Interest on amounts outstanding under the line of credit are due monthly. All principal plus accrued but unpaid interest is due August 31, 2009. We had no outstanding balance on the line of credit as of October 27, 2007 and April 30, 2007.

The credit facility contains certain financial covenants, including that we not exceed maximum liquidity and leverage ratios, and limitations on additional indebtedness. The facility includes customary default provisions, and all outstanding obligations may become immediately due and payable in the event of our default.

We have entered into standby letter-of-credit agreements and bank guarantee agreements with financial institutions and customers primarily relating to the guarantee of our future performance on certain contracts to provide products and services and to secure advance payments we have received from certain international customers. As of October 27, 2007, we had standby letters of credit totaling \$0.4 million and had received no claims against such letters of credit. These letters of credit expire upon release by the customer.

During the second quarter, there were no material changes in our off balance sheet arrangements or contractual obligations and commercial commitments from those disclosed in the Form 10-K for the fiscal year ended April 30, 2007.

**Inflation**

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

**New Accounting Standards**

See Notes to Consolidated Financial Statements (Unaudited) included elsewhere herein for disclosure on new accounting pronouncements.



## **Quantitative and Qualitative Disclosures about Market Risk**

### ***Interest Rate Risk***

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

### ***Foreign Currency Exchange Rate Risk***

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

## **ITEM 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. Please refer to Item 7A — Quantitative and Qualitative Disclosures About Market Risk, contained in our April 30, 2007 Annual Report on Form 10-K for the fiscal year ended April 30, 2007, for further discussion on quantitative and qualitative disclosures about market risk.

## **ITEM 4T. CONTROLS AND PROCEDURES**

### ***Controls and Procedures***

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

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

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

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

### ***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 Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended October 27, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to any material legal proceedings. We are, however, subject to lawsuits from time to time in the ordinary course of business.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2007. Please refer to that section for disclosures regarding the risks and uncertainties related to our business.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On September 26, 2007, we held our 2007 annual meeting of stockholders. As of the date of the meeting, there were 19,352,932 shares of common stock entitled to vote. There were 18,035,513 shares (93.2% of the shares entitled to vote) represented at the meeting in person or by proxy. Immediately prior to and following the meeting, our board of directors was comprised Joseph F. Alibrandi, Kenneth R. Baker, Timothy E. Conner, Arnold L. Fishman, Murray Gell-Mann and Charles R. Holland. The following summarizes vote results for those matters submitted to our stockholders for action at the annual meeting:

1. Proposal to elect Kenneth R. Baker, Murray Gell-Mann and Charles R. Holland as Class I directors for three year terms:

<u>Director</u>	<u>For</u>	<u>Withheld</u>
Kenneth R. Baker	17,875,106	160,407
Murray Gell-Mann	17,873,293	162,220
Charles R. Holland	17,870,466	165,047

2. Proposal to ratify the appointment of the accounting firm of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending April 30, 2008.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
17,917,812	114,925	2,776

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">10.1*</a>	Award Contract, dated September 24, 2007, between AeroVironment, Inc. and United States Special Operations Command, as amended.
<a href="#">31.1</a>	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.
<a href="#">31.2</a>	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.
<a href="#">32</a>	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this report and submitted separately to the Securities and Exchange Commission.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 6, 2007

AEROVIRONMENT, INC.

By: /s/ Timothy E. Conver

Timothy E. Conver  
Chief Executive Officer and President  
(Principal Executive Officer)

/s/ Stephen C. Wright

Stephen C. Wright  
Chief Financial Officer (Principal  
Financial and Accounting Officer)

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

<b>AWARD/CONTRACT</b>		1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 350)		RATING DO-A1		PAGE OF PAGES 1 42	
2. CONTRACT (Proc. Inst. Ident.) NO. H92222-07-C-0072		3. EFFECTIVE DATE 24 Sep 2007		4. REQUISITION/PURCHASE REQUEST/PROJECT NO.			
5. ISSUED BY HQ USSOCOM SOAL-K ATTN: MS. KIM DEBOIS-SOUSA 7701 TAMPA POINT BLVD MACDILL AFB FL 33621-5323		CODE H92222		6. ADMINISTERED BY (If other than Item 5) DCMA LOS ANGELES 16111 PLUMMER ST. BLDG. 10, 2ND FLOOR SEPULVEDA CA 91343		CODE S0512A	
7. NAME AND ADDRESS OF CONTRACTOR (No., street, city, county, state and zip code) AEROVIRONMENT INC. DAVID RINDELS 181 W. HUNTINGTON DR. SUITE 202 MONROVIA CA 91016-3456				8. DELIVERY £ FOB ORIGIN T OTHER (See below)			
				9. DISCOUNT FOR PROMPT PAYMENT			
				10. SUBMIT INVOICES (4 copies unless otherwise specified) TO THE ADDRESS SHOWN IN:		ITEM  <b>Block 6</b>	
CODE 60107		FACILITY CODE					
11. SHIP TO/MARK FOR AEROVIRONMENT INC. DAVID RINDELS 181 W. HUNTINGTON DR. SUITE 202 MONROVIA CA 91016-3456		CODE		12. PAYMENT WILL BE MADE BY DFAS COLUMBUS CENTER WEST ENTITLEMENT OPERATIONS P.O. BOX 182381 COLUMBUS OH 43218-2381		CODE HQ0339	
13. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION: £ 10 U.S.C. 2304(c) ( ) £ 41 U.S.C. 253(c) ( )				14. ACCOUNTING AND APPROPRIATION DATA <b>See Schedule</b>			
15A. ITEM NO.	15B. SUPPLIES/ SERVICES	15C. QUANTITY	15D. UNIT	15E. UNIT PRICE	15F. AMOUNT		
	<b>SEE SCHEDULE</b>						
<b>15G. TOTAL AMOUNT OF CONTRACT</b>						<b>\$57,145,690.00 EST</b>	
16. TABLE OF CONTENTS							
(X)	SEC.	DESCRIPTION	PAGE(S)	(X)	SEC.	DESCRIPTION	PAGE(S)
<b>PART I - THE SCHEDULE</b>				<b>PART II - CONTRACT CLAUSES</b>			
X	A	SOLICITATION/ CONTRACT FORM	1	X	I	CONTRACT CLAUSES	30 - 39
X	B	SUPPLIES OR SERVICES AND PRICES/ COSTS	2 - 12	<b>PART III - LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACHMENTS</b>			
X	C	DESCRIPTION/ SPECS./ WORK STATEMENT	13	X	J	LIST OF ATTACHMENTS	40
X	D	PACKAGING AND MARKING	14 - 18	<b>PART IV - REPRESENTATIONS AND INSTRUCTIONS</b>			
X	E	INSPECTION AND ACCEPTANCE	19		K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS	
X	F	DELIVERIES OR PERFORMANCE	20 - 21		L	INSTRS., CONDS., AND NOTICES TO OFFERORS	
X	G	CONTRACT ADMINISTRATION DATA	22 - 27		M	EVALUATION FACTORS FOR AWARD	
X	H	SPECIAL CONTRACT REQUIREMENTS	28 - 29				
CONTRACTING OFFICER WILL COMPLETE ITEM 17 OR 18 AS APPLICABLE							
17. T CONTRACTOR'S NEGOTIATED AGREEMENT (Contractor is required to sign this document and return 1 copies to issuing office.) Contractor agrees to furnish and deliver all items or perform all these services set forth or otherwise identified above and on any continuation sheets for the consideration stated herein. The rights and obligations of the parties to this contract shall be subject to and governed by the following documents: (a) this award/contract, (b) the solicitation, if any, and (c) such provisions, representations, certifications, and specifications, as are attached or incorporated by reference herein. (Attachments are listed herein.)				18. £ AWARD (Contractor is not required to sign this document.) Your offer on Solicitation Number <u>H92222-07-N-0001-0001</u> including the additions or changes made by you which additions or changes are set forth in full above, is hereby accepted as to the items listed above and on any continuation sheets. This award consummates the contract which consists of the following documents: (a) the Government's solicitation and your offer, and (b) this award/contract. No further contractual document is necessary.			
19A. NAME AND TITLE OF SIGNER (Type or print)				20A. NAME AND TITLE OF CONTRACTING OFFICER			

		TEL:	EMAIL:
19B. NAME OF CONTRACTOR	19C. DATE SIGNED.	20B UNITED STATES OF AMERICA	20C. DATE SIGNED
BY _____ <i>(Signature of person authorized to sign)</i>		BY _____ <i>(Signature of Contracting Officer)</i>	
NSN 7540-01-152-8069	26-107	STANDARD FORM 26 (REV. 4-85)	

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Section B - Supplies or Services and Prices

CONTRACT DESCRIPTION

This contract provides design, fabrication, integration, and testing of one hydrogen powered GO UAS (including one aircraft and Ground Control Station (GCS) with integrated modular payloads (GFE)). [\*]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0001	GO DESIGN AND DEVELOPMENT CPFF Design elements and develop sub-elements of the Global Observer Unmanned Aircraft System (UAS) IAW Section C item 0001 and Attachment (1) SOW paras 4.1.1 - 4.1.4. FOB: Destination		Lot		
				ESTIMATED COST	\$[*] (EST.)
				FIXED FEE	\$[*]
				<b>TOTAL EST COST + FEE</b>	<b>\$[*] (EST.)</b>

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000101	AIR VEHICLE SEGMENT CPFF Design elements and develop sub-elements of the Air Vehicle segment of the Global Observer UAS IAW Section C item 0001 and Attachment (1) SOW para 4.1.1. FOB: Destination [*] CIN: [*]				\$[*]

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

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000102	CONTROL SEGMENT CPFF Design elements and develop sub-elements of the Ground segment of the Global Observer UAS Review IAW Section C item 0001 and Attachment (1) SOW para 4.1.2. FOB: Destination [*] CIN: [*]				\$[*]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000103	PAYLOAD SEGMENT CPFF Design elements and develop sub-elements of the Payload segment of the Global Observer UAS IAW Section C item 0001 and Attachment (1) SOW para 4.1.3. FOB: Destination [*] CIN: [*]				\$[*]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000104	FACILITIES & EQUIPMENT CPFF Provide facilities and equipment for the design and development of the Global Observer UAS IAW Section C item 0001 and Attachment (1) SOW para 4.1.4. (solely funded by AV Inc IR&D) FOB: Destination				

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

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0002	GO #1 MFG, INTEGRATE & TEST CPFF Manufacture, integrate and test the GO UAS, to include 1 air vehicle, and 1 launch & recovery element (LRE) IAW Section C item 0002 and Attachment (1) SOW para's 4.2.1 - 4.2.3 (GCS/ISP/Integration/2 TCDL + 1 UHF Integrated Comm. Suite). FOB: Destination		Lot		
				ESTIMATED COST	\$[*] (EST.)
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$[*] (EST.)
	[*] CIN: [*]				\$[*]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0003	GO #1 SYSTEM TEST AND EVALUATION CPFF GO UAS System-level test and evaluation incl integrated tests IAW C item 0003 and Attachment (1) SOW paragraphs 4.3.1 - 4.3.2. FOB: Destination		Lot		
				ESTIMATED COST	\$[*] (EST.)
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$[*] (EST.)

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

H92222-07-C-0072  
5

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000301	GROUND TEST CPFF IAW Section C item 0003 and Attachment (1) SOW para 4.3.1. FOB: Destination				

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000302	FLIGHT PERFORMANCE ENVELOPE TEST CPFF IAW Section C item 0003 and Attachment (1) SOW para 4.3.2. FOB: Destination				

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0004 OPTION	GO SYSTEM DEMONSTRATION CPFF Integrate and demonstrate payload and provide air vehicle and LRE for MUA of the GO UAS IAW Section C item 0004 and Attachment (1) SOW para's 4.4.1 - 4.4.2. FOB: Destination				
				ESTIMATED COST	\$[*]
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$[*]

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

H92222-07-C-0072  
6

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000401 OPTION	INTEGRATED PAYLOAD TESTING				



CPFF  
IAW Section C item 0004 and Atch (1) SOW para 4.4.1.  
FOB: Destination

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
000402 OPTION	MILITARY UTILITY ASSESSMENT GO #1 CPFF IAW Section C item 0004 and Attachment (1) SOW para 4.4.2. FOB: Destination		Lot		

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0005	TRAVEL COST In support of items 0001 - 0004 IAW Section C Item 0005 and Attachment (1) SOW para 4.5. FOB: Destination		Lot		
				ESTIMATED COST	\$[*]
	[*] CIN: [*]				\$[*]

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

H92222-07-C-0072  
7

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0006	DATA DELIVERABLES NSP IAW Exhibit A Contract Data Requirements List (CDRLs) and Table 1 of Attachment (1) SOW paragraph 4.6. FOB: Destination		Lot		NSP

See Exhibit A

VALUE CLINS 0001-0003 & 0005: \$[\*]  
VALUE OPT CLIN 0004: \$ [\*]  
TOTAL VALUE CLINS 0001-0006: \$[\*]\*

\*Rounding error.

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

H92222-07-C-0072  
8

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1001 OPTION	Engineering Trade Studies CPFF If exercised, to be priced IAW Atch 3 Rates. If and to extent travel is required it shall be IAW Section C Item 0005 and Attachment (1) SOW para 4.5. FOB: Destination		Lot		
				ESTIMATED COST	\$[*]
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$[*]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1002 OPTION	Payload Assemblies & Integration CPFF BLOS/EO/IR/Comms Relay. If exercised, to be priced IAW Atch 3 Rates. Material shall be Cost onlv. If and to extent travel is required it shall be IAW Section C Item 0005 and Attachment (1) SOW		Lot		

para 4.5.  
 FOB: Destination

ESTIMATED COST	\$[*]
FIXED FEE	\$[*]
TOTAL EST COST + FEE	\$[*]

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

H92222-07-C-0072

9

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1003 OPTION	SYSTEMS INTEGRATION LAB CPFF				
	If exercised, to be priced IAW applicable Atch 3 Rates and 9% profit and SOW para to be negotiated. If and to extent travel is required it shall be IAW Section C Item 0005 and Attachment (1) SOW para 4.5. FOB: Destination				
				ESTIMATED COST	\$[*]
				FIXED FEE	\$[*]
				TOTAL EST	\$0.00
					\$ (EST.)

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1004 OPTION	GO #2 MFG, INTEGRATE & TEST(Acft &LRE) CPFF		Lot		
	IAW Section C Item 1001 and Attachment (1) SOW para's 4.2.1 - 4.2.3 and 5.4. FOB: Destination				
				ESTIMATED COST	\$[*]
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$[*]

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

H92222-07-C-0072

10

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1005 OPTION	GO #3 MFG, INTEGRATE & TEST (Acft) CPFF		Lot		
	IAW Section C Item 1001 and Attachment (1) SOW para's 4.2.1 - 4.2.3 and 5.5 (excluding initial spares package). FOB: Destination				
				ESTIMATED COST	\$[*]
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$[*]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1006 OPTION	SPARE SUBSYSTEMS & ASSOCIATED SUPT EQUIP CPFF		Lot		
	If exercised, items specified at Atch 2 Assembly List (as updated quarterly), and/or such other items not listed and identified during development. FOB: Destination				
				ESTIMATED COST	\$[*]
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$[*]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1007 OPTION	GO SYSTEM TEST AND EVALUATION CPFF		Lot		
	If exercised, testing is in support two Global Observer aircraft. If only one aircraft is available for testing see C-1 description for 1007. FOB: Destination				
				ESTIMATED COST	\$[*]

FIXED FEE	\$[*]
TOTAL EST COST + FEE	\$[*]

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

H92222-07-C-0072  
11

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1008 OPTION	System Demonstration Supt CPFF IAW Sec C description for Item 1004 and SOW para 4.4 and 5.8. FOB: Destination	1	Lot		
				ESTIMATED COST	\$[*]
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$[*]

ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
1009 OPTION	EXTENDED USER EVALUATION CPFF If exercised, to be priced IAW applicable Atch 3 Rates and 9% profit and SOW para to be negotiated. If and to extent travel is required it shall be IAW Section C Item 0005 and Attachment (1) SOW para 4.5. FOB: Destination		Lot		
				ESTIMATED COST	\$[*]
				FIXED FEE	\$[*]
				TOTAL EST COST + FEE	\$ (EST.)

VALUE OPTION CLINS 1001-1009: \$ [\*]

TOTAL CONTRACT VALUE : \$108,407,744

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

H92222-07-C-0072  
12

Section C - Descriptions and Specifications

C-1 DESCRIPTION OF LINE ITEMS

Item 0001 Design and develop the Global Observer Unmanned Aircraft System (GO UAS) IAW Attachment 1 SOW Para's 4.1.1 – 4.1.4 with corresponding data deliverables due IAW SOW 4.6 Table 1.

Item 0002 Manufacture, integrate, and sub-system test the GO UAS #1, to include 1 air vehicle and 1 launch and recovery element (LRE) IAW Attachment 1 SOW Para's 4.2.1 – 4.2.3 with corresponding data deliverables due IAW SOW 4.6 Table 1.

Item 0003 GO UAS #1 system-level test and evaluation IAW Attachment 1 SOW Para's 4.3.1 – 4.3.2 with corresponding data deliverables due IAW SOW 4.6 Table 1.

Item 0005 Travel in support of supplier visits and for Technical Interchange Meetings (TIMs) for items 0001, 0002, 0003, and 0004 in accordance with Attachment 1 SOW Para 4.5 (see Section G clause 5652.231-9001).

Item 0006 Data deliverables shall be in accordance with Exhibit A Contract Data Requirements List (CDRL) (See Attachment 1 SOW Para 4.6 Table 1).

Options:

Item 0004 Integration of a payload and demonstrating system performance during flight testing of GO UAS #1 IAW Attachment 1 SOW Para's 4.4.1 – 4.4.2 with corresponding data deliverables due IAW SOW 4.6 Table 1..

Item 1001, if and to extent exercised, consists of engineering trade studies, including research, analysis, and documentation, to provide potential GO technical solutions IAW Attachment 1 SOW Para 5.1.

Item 1002, if and to extent exercised, provide and/or integrate payloads and associated equipment IAW Attachment 1 SOW Para 5.2.

Item 1003, if and to extent exercised, procure Systems Integration Laboratory (SIL) articles and conduct SIL integration and testing, IAW Attachment 1 SOW Para 5.3.

Item 1004, if and to extent exercised, manufacture, assemble, integrate, and functional test GO #2, to include 1 air vehicle (acft) and 1 LRE IAW Attachment 1 SOW Para 5.4.

Item 1005, if and to extent exercised, manufacture, assemble, integrate, and functional test GO #3, to include 1 air vehicle (acft) IAW Attachment 1 SOW Para's 4 5.5.

Item 1006, if and to extent exercised, manufacture, assemble, integrate, and functional test spare subsystems and associated support equipment IAW Attachment 1 SOW Para 5.6.

Item 1007, if and to extent exercised, provides for additional performance-envelope testing IAW Attachment 1 SOW Para 5.7.. This option provides for sufficient additional testing for up to 3 aircraft.

Item 1008, if and to extent exercised operations and logistics support for the conduct of additional JCTD Military Utility Assessments (MUAs) IAW Attachment 1 SOW Para 5.8. This option provides for sufficient additional support for assesments for up to 3 aircraft.

Item 1009, if and to extent exercised, contractor shall operate, maintain (including contractor logistics support), and conduct sustaining engineering for the JCTD systems (LRE, payloads & GO units 1,2 and/or 3) following the MUA IAW Attachment 1 SOW Para 5.9.

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Section D - Packaging and Marking

D-1. CLAUSES INCORPORATED BY FULL TEXT

D-252.211-7003 ITEM IDENTIFICATION AND VALUATION (JUN 2005)

(a) Definitions. As used in this clause'

Automatic identification device means a device, such as a reader or interrogator, used to retrieve data encoded on machine-readable media.

Concatenated unique item identifier means--

(1) For items that are serialized within the enterprise identifier, the linking together of the unique identifier data elements in order of the issuing agency code, enterprise identifier, and unique serial number within the enterprise identifier; or

(2) For items that are serialized within the original part, lot, or batch number, the linking together of the unique identifier data elements in order of the issuing agency code; enterprise identifier; original part, lot, or batch number; and serial number within the original part, lot, or batch number.

Data qualifier means a specified character (or string of characters) that immediately precedes a data field that defines the general category or intended use of the data that follows.

DoD recognized unique identification equivalent means a unique identification method that is in commercial use and has been recognized by DoD. All DoD recognized unique identification equivalents are listed at <http://www.acq.osd.mil/dpap/UID/equivalents.html>.

DoD unique item identification means a system of marking items delivered to DoD with unique item identifiers that have machine-readable data elements to distinguish an item from all other like and unlike items. For items that are serialized within the enterprise identifier, the unique item identifier shall include the data elements of the enterprise identifier and a unique serial number. For items that are serialized within the part, lot, or batch number within the enterprise identifier, the unique item identifier shall include the data elements of the enterprise identifier; the original part, lot, or batch number; and the serial number.

Enterprise means the entity (e.g., a manufacturer or vendor) responsible for assigning unique item identifiers to items.

Enterprise identifier means a code that is uniquely assigned to an enterprise by an issuing agency.

Government's unit acquisition cost means--

(1) For fixed-price type line, subline, or exhibit line items, the unit price identified in the contract at the time of delivery;

(2) For cost-type or undefinitized line, subline, or exhibit line items, the Contractor's estimated fully burdened unit cost to the Government at the time of delivery; and

(3) For items produced under a time-and-materials contract, the Contractor's estimated fully burdened unit cost to the Government at the time of delivery.

Issuing agency means an organization responsible for assigning a non-repeatable identifier to an enterprise (i.e., Dun & Bradstreet's Data Universal Numbering System (DUNS) Number, Uniform Code Council (UCC)/EAN International (EAN) Company Prefix, or Defense Logistics Information System (DLIS) Commercial and Government Entity (CAGE) Code).

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Issuing agency code means a code that designates the registration (or controlling) authority for the enterprise identifier.

Item means a single hardware article or a single unit formed by a grouping of subassemblies, components, or constituent parts.

Lot or batch number means an identifying number assigned by the enterprise to a designated group of items, usually referred to as either a lot or a batch, all of which were manufactured under identical conditions.

Machine-readable means an automatic identification technology media, such as bar codes, contact memory buttons, radio frequency identification, or optical memory cards.

Original part number means a combination of numbers or letters assigned by the enterprise at item creation to a class of items with the same form, fit, function, and interface.

Parent item means the item assembly, intermediate component, or subassembly that has an embedded item with a unique item identifier or DoD recognized unique identification equivalent.

Serial number within the enterprise identifier means a combination of numbers, letters, or symbols assigned by the enterprise to an item that provides for the differentiation of that item from any other like and unlike item and is never used again within the enterprise.

Serial number within the part, lot, or batch number means a combination of numbers or letters assigned by the enterprise to an item that provides for the differentiation of that item from any other like item within a part, lot, or batch number assignment.

Serialization within the enterprise identifier means each item produced is assigned a serial number that is unique among all the tangible items produced by the enterprise and is never used again. The enterprise is responsible for ensuring unique serialization within the enterprise identifier.

Serialization within the part, lot, or batch number means each item of a particular part, lot, or batch number is assigned a unique serial number within that part, lot, or batch number assignment. The enterprise is responsible for ensuring unique serialization within the part, lot, or batch number within the enterprise identifier.

Unique item identifier means a set of data elements marked on items that is globally unique and unambiguous.

Unique item identifier type means a designator to indicate which method of uniquely identifying a part has been used. The current list of accepted unique item identifier types is maintained at [http://www.acq.osd.mil/dpap/UID/uid\\_\\_types.html](http://www.acq.osd.mil/dpap/UID/uid__types.html).

(b) The Contractor shall deliver all items under a contract line, subline, or exhibit line item.

(c) DoD unique item identification or DoD recognized unique identification equivalents.

(1) The Contractor shall provide DoD unique item identification, or a DoD recognized unique identification equivalent, for--

(i) All delivered items for which the Government's unit acquisition cost is \$5,000 or more; and

(ii) The following items for which the Government's unit acquisition cost is less than \$5,000:

Contract line, subline, or exhibit line

item No.

Item description:

(iii) Subassemblies, components, and parts embedded within delivered items as specified in Attachment Number -----.

(2) The concatenated unique item identifier and the component data elements of the DoD unique item identification or DoD recognized unique identification equivalent shall not change over the life of the item.

(3) Data syntax and semantics of DoD unique item identification and DoD recognized unique identification equivalents. The Contractor shall ensure that--

(i) The encoded data elements (except issuing agency code) of the unique item identifier are marked on the item using one of the following three types of data qualifiers, as determined by the Contractor:

(A) Data Identifiers (DIs) (Format 06) in accordance with ISO/IEC International Standard 15418, Information Technology ``EAN/UCC Application Identifiers and ANSI MH 10 Data Identifiers and ANSI MH 10 Data Identifiers and Maintenance.

(B) Application Identifiers (AIs) (Format 05), in accordance with ISO/IEC International Standard 15418, Information Technology ``EAN/UCC Application Identifiers and ANSI MH 10 Data Identifiers and ANSI MH 10 Data Identifiers and Maintenance.

(C) Text Element Identifiers (TEIs), in accordance with the DoD collaborative solution ``DD" format for use until the solution is approved by ISO/IEC JTC1 SC 31. The ``DD" format is described in Appendix D of the DoD Guide to Uniquely Identifying Items, available at <http://www.acq.osd.mil/dpap/UID/guides.htm>; and

(ii) The encoded data elements of the unique item identifier conform to ISO/IEC International Standard 15434, Information Technology--Syntax for High Capacity Automatic Data Capture Media.

(4) DoD unique item identification and DoD recognized unique identification equivalents.

(i) The Contractor shall--

(A) Determine whether to serialize within the enterprise identifier or serialize within the part, lot, or batch number; and

(B) Place the data elements of the unique item identifier (enterprise identifier; serial number; and for serialization within the part, lot, or batch number only; original part, lot, or batch number) on items requiring marking by paragraph (c)(1) of this clause, based on the criteria provided in the version of MIL-STD-130, Identification Marking of U.S. Military Property, cited in the contract Schedule.

(ii) The issuing agency code--

(a) Shall not be placed on the item; and

(B) Shall be derived from the data qualifier for the enterprise identifier.

(d) For each item that requires unique item identification under paragraph (c)(1)(i) or (ii) of this clause, in addition to the information provided as part of the Material Inspection and Receiving Report specified elsewhere in this contract, the Contractor shall report at the time of delivery, either as part of, or associated with, the Material Inspection and Receiving Report, the following information:

(1) Concatenated unique item identifier; or DoD recognized unique identification equivalent.

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- (2) Unique item identifier type.
- (3) Issuing agency code (if concatenated unique item identifier is used).
- (4) Enterprise identifier (if concatenated unique item identifier is used).
- (5) Original part number.
- (6) Lot or batch number.
- (7) Current part number (if not the same as the original part number).
- (8) Current part number effective date.
- (9) Serial number.
- (10) Government's unit acquisition cost.

(e) For embedded DoD serially managed subassemblies, components, and parts that require unique item identification under paragraph (c)(1)(iii) of this clause, the Contractor shall report at the time of delivery, either as part of, or associated with the Material Inspection and Receiving Report specified elsewhere in this contract, the following information:

- (1) Concatenated unique item identifier or DoD recognized unique identification equivalent of the parent item delivered under a contract line, subline, or exhibit line item that contains the embedded subassembly, component, or part.
- (2) Concatenated unique item identifier or DoD recognized unique identification equivalent of the embedded subassembly, component, or part.
- (3) Unique item identifier type.\*\*
- (4) Issuing agency code (if concatenated unique item identifier is used).\*\*
- (5) Enterprise identifier (if concatenated unique item identifier is used).\*\*
- (6) Original part number.\*\*
- (7) Lot or batch number.\*\*
- (8) Current part number (if not the same as the original part number).\*\*
- (9) Current part number effective date.\*\*
- (10) Serial number.\*\*
- (11) Unit of measure.
- (12) Description.

\*\* Once per item.

(f) The Contractor shall submit the information required by paragraphs (d) and (e) of this clause in accordance with the data submission procedures at <http://www.acq.osd.mil/dpap/UID/DataSubmission.htm>.

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(g) Subcontracts. If paragraph (c)(1) of this clause applies, the Contractor shall include this clause, including this paragraph (g), in all subcontracts issued under this contract.

(End of clause)

D-5652.246-9000 Marking of Warranted Items (1998)

Each item covered by a warranty shall be stamped or marked with the contract number, item description, and ship to address. Items shall also include markings that state (i) the existence and substance of the warranty, (ii) the warranty duration, and (iii) who to notify if supplies are found to be defective. Where this is impractical, written notice shall be attached to or furnished with the warranted item.

Unit Identification requirements apply to line items 0002, 1004 and 1005.

(end of clause)

D-5652.247-9000 Packaging & Marking - F.O.B. Destination (1998)

The shipping, address, contract number, device number, and any other "MARK FOR" information shall be clearly marked on the outside of all packages shipped under this contract. Information shall be easily identified without opening the package. This information shall also be included on the inside of all packages.

(end of clause)

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Section E - Inspection and Acceptance

E-1. INSPECTION AND ACCEPTANCE TERMS

Supplies/services will be inspected/accepted at:

CLIN	INSPECT AT	INSPECT BY	ACCEPT AT	ACCEPT BY
0001	Origin	Government	Origin	Government
000101	Origin	Government	Origin	Government
000102	Origin	Government	Origin	Government
000103	Origin	Government	Origin	Government
000104	Origin	Government	Origin	Government
0002	Origin	Government	Origin	Government
0003	Origin	Government	Destination	Government
000301	Origin	Government	Origin	Government
000302	Origin	Government	Origin	Government
0004	Origin	Government	Origin	Government
000401	Origin	Government	Origin	Government
000402	Origin	Government	Origin	Government
0005	Origin	Government	Origin	Government
0006	Destination	Government	Destination	Government
1001	Destination	Government	Destination	Government
1002	Origin	Government	Origin	Government
1003	Origin	Government	Origin	Government
1004	Origin	Government	Destination	Government
1005	Origin	Government	Destination	Government
1006	Origin	Government	Origin	Government
1007	Origin	Government	Destination	Government
1007AA	Origin	Government	Destination	Government
1007AB	Origin	Government	Destination	Government
1007AC	Origin	Government	Destination	Government
1008	Origin	Government	Origin	Government
1009	Origin	Government	Origin	Government

E-2. CLAUSES INCORPORATED BY REFERENCE

52.246-6	Inspection--Time-And-Material And Labor-Hour	MAY 2001
52.246-6 Alt I	Inspection--Time And Material And Labor Hour (May 2001) - Alternate I	APR 1984
252.246-7000	Material Inspection And Receiving Report	MAR 2003
5652.246-9001	Material Inspection and Receiving Reports (DD 250) Mailing Addresses (2001)	JUN 2001

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## Section F - Deliveries or Performance

## F-1. DELIVERY INFORMATION

CLIN	DELIVERY DATE	QUANTITY	SHIP TO ADDRESS	UIC
0001	[*]	N/A	AEROVIRONMENT INC. DAVID RINDELS 181 W. HUNTINGTON DR. SUITE 202 MONROVIA CA 91016-3456 805-581-2187 FOB: Destination	
000101	[*]		(SAME AS PREVIOUS LOCATION) FOB: Destination	
000102	N/A	N/A	N/A	N/A
000103	N/A	N/A	N/A	N/A
000104	N/A	N/A	N/A	N/A
0002	[*]	1	(SAME AS PREVIOUS LOCATION) FOB: Destination	
0003	[*]		AEROVIRONMENT INC. DAVID RINDELS 181 W. HUNTINGTON DR. SUITE 202 MONROVIA CA 91016-3456 805-581-2187 FOB: Destination	
000301	N/A	N/A	N/A	N/A
000302	N/A	N/A	N/A	N/A
0004	[*]		[*] FOB: Destination	
000401	N/A	N/A	N/A	N/A
000402	N/A	N/A	N/A	N/A
0005	N/A	N/A	N/A	N/A
0006	PER EXHIBIT A CDRL		[*] FOB: Destination	F2VUB0
1001	N/A	N/A	[*] FOB: Destination	F2VUB0
1002	N/A	N/A	N/A	N/A

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1003	[*]	1	[*] FOB: Destination	
1004	[*]	1	AEROVIRONMENT INC. DAVID RINDELS 181 W. HUNTINGTON DR. SUITE 202 MONROVIA CA 91016-3456 805-581-2187 FOB: Destination	
1005	[*]		(SAME AS PREVIOUS LOCATION) FOB: Destination	
1006	N/A	N/A	N/A	N/A
1007	[*]		[*] FOB: Destination	
1008	[*]	1	AEROVIRONMENT INC. DAVID RINDELS 181 W. HUNTINGTON DR. SUITE 202 MONROVIA CA 91016-3456 805-581-2187 FOB: Destination	
1009	N/A	N/A	N/A	

F-2. CLAUSES INCORPORATED BY REFERENCE

52.247-34	F.O.B. Destination	NOV 1991
52.247-48	F.O.B. Destination--Evidence Of Shipment	FEB 1999
52.247-55	F.O.B. Point For Delivery Of Government-Furnished Property	JUN 2003

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

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Section G - Contract Administration Data

**G-1. ACCOUNTING AND APPROPRIATION DATA**

AA: 5773600 297 4750 655050 000000 00000 27434F 667100 F67100 ALD:AA FSR: PSR: DSR

**AMOUNT: \$[\*]**

CIN [\*]

AB: 9770400.11SF SK7 52SW 648JNT 000000 59200 63648D 667100 F67100ALD:AA FSR:000531 PSR:034457 DSR:101833

**AMOUNT: \$[\*]**

CIN [\*]

CIN [\*]

AC: 9770400.34HQ SE7 000000 00000 000000 667100 F67100

**AMOUNT: \$[\*]**

CIN [\*]

AD: 9760400.56SF SE6 52SW S200GA ADVTCL 59200 046402 667100 F67100 ALD: AA FSR: 007271 PSR: 242198

**AMOUNT: \$[\*]**

CIN [\*]

**G-2. Funding Schedule [\*] (2003)**

(a) In accordance with FAR 52.232-22, funds in the amount of \$[\*] have been allotted to cover performance through March 2008.

(b) It is anticipated that additional funds will be obligated in accordance with the following schedule:

Award	- \$[*]
Oct 2007	- \$ [*]
Nov 2007	- \$[*] (to cover costs from Jan 2008-Dec 2008)
Oct 2008	- \$[*] (to fund remainder of CLINs 1-3 & 5).

TOTAL - \$57.146M

(end of clause)

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

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### G-3. CLAUSES INCORPORATED BY FULL TEXT

#### G-52.216-7 ALLOWABLE COST AND PAYMENT (DEC 2002)

##### (a) Invoicing.

(1) The Government will make payments to the Contractor when requested as work progresses, but (except for small business concerns) not more often than once every 2 weeks, in amounts determined to be allowable by the Contracting Officer in accordance with Federal Acquisition Regulation (FAR) subpart 31.2 in effect on the date of this contract and the terms of this contract. The Contractor may submit to an authorized representative of the Contracting Officer, in such form and reasonable detail as the representative may require, an invoice or voucher supported by a statement of the claimed allowable cost for performing this contract.

(2) Contract financing payments are not subject to the interest penalty provisions of the Prompt Payment Act. Interim payments made prior to the final payment under the contract are contract financing payments, except interim payments if this contract contains Alternate I to the clause at 52.232-25.

(3) The designated payment office will make interim payments for contract financing on the (Contracting Officer insert day as prescribed by agency head; if not prescribed, insert "30th") day after the designated billing office receives a proper payment request.

In the event that the Government requires an audit or other review of a specific payment request to ensure compliance with the terms and conditions of the contract, the designated payment office is not compelled to make payment by the specified due date.

**(b) Reimbursing costs.** (1) For the purpose of reimbursing allowable costs (except as provided in subparagraph (b)(2) of the clause, with respect to pension, deferred profit sharing, and employee stock ownership plan contributions), the term "costs" includes only--

(i) Those recorded costs that, at the time of the request for reimbursement, the Contractor has paid by cash, check, or other form of actual payment for items or services purchased directly for the contract;

(ii) When the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid, for--

(A) Supplies and services purchased directly for the contract and associated financing payments to subcontractors, provided payments determined due will be made--

(1) In accordance with the terms and conditions of a subcontract or invoice; and

(2) Ordinarily within 30 days of the submission of the Contractor's payment request to the Government;

(B) Materials issued from the Contractor's inventory and placed in the production process for use on the contract;

(C) Direct labor;

(D) Direct travel;

(E) Other direct in-house costs; and

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(F) Properly allocable and allowable indirect costs, as shown in the records maintained by the Contractor for purposes of obtaining reimbursement under Government contracts; and

(iii) The amount of financing payments that have been paid by cash, check, or other forms of payment to subcontractors.

(2) Accrued costs of Contractor contributions under employee pension plans shall be excluded until actually paid unless--

(i) The Contractor's practice is to make contributions to the retirement fund quarterly or more frequently; and

(ii) The contribution does not remain unpaid 30 days after the end of the applicable quarter or shorter payment period (any contribution remaining unpaid shall be excluded from the Contractor's indirect costs for payment purposes).

(3) Notwithstanding the audit and adjustment of invoices or vouchers under paragraph (g) of this clause, allowable indirect costs under this contract shall be obtained by applying indirect cost rates established in accordance with paragraph (d) of this clause.

(4) Any statements in specifications or other documents incorporated in this contract by reference designating performance of services or furnishing of materials at the Contractor's expense or at no cost to the Government shall be disregarded for purposes of cost-reimbursement under this clause.

**(c) Small business concerns.** A small business concern may receive more frequent payments than every 2 weeks.

**(d) Final indirect cost rates.** (1) Final annual indirect cost rates and the appropriate bases shall be established in accordance with Subpart 42.7 of the Federal Acquisition Regulation (FAR) in effect for the period covered by the indirect cost rate proposal.

(2)(i) The Contractor shall submit an adequate final indirect cost rate proposal to the Contracting Officer (or cognizant Federal agency official) and auditor within the 6-month period following the expiration of each of its fiscal years. Reasonable extensions, for exceptional circumstances only, may be requested in writing by the Contractor and granted in writing by the Contracting Officer. The Contractor shall support its proposal with adequate supporting data.

(ii) The proposed rates shall be based on the Contractor's actual cost experience for that period. The appropriate Government representative and the Contractor shall establish the final indirect cost rates as promptly as practical after receipt of the Contractor's proposal.

(3) The Contractor and the appropriate Government representative shall execute a written understanding setting forth the final indirect cost rates. The understanding shall specify (i) the agreed-upon final annual indirect cost rates, (ii) the bases to which the rates apply, (iii) the periods for which the rates apply, (iv) any specific indirect cost items treated as direct costs in the settlement, and (v) the affected contract and/or subcontract, identifying any with advance agreements or special terms and the applicable rates. The understanding shall not change any monetary ceiling, contract obligation, or specific cost allowance or disallowance provided for in this contract. The understanding is incorporated into this contract upon execution.

(4) Failure by the parties to agree on a final annual indirect cost rate shall be a dispute within the meaning of the Disputes clause.

(5) Within 120 days (or longer period if approved in writing by the Contracting Officer) after settlement of the final annual indirect cost rates for all years of a physically complete contract, the Contractor shall submit a completion invoice or voucher to reflect the settled amounts and rates.

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(6)(i) If the Contractor fails to submit a completion invoice or voucher within the time specified in paragraph (d)(5) of this clause, the Contracting Officer may--

(A) Determine the amounts due to the Contractor under the contract; and

(B) Record this determination in a unilateral modification to the contract.

(ii) This determination constitutes the final decision of the Contracting Officer in accordance with the Disputes clause.

**(e) Billing rates.** Until final annual indirect cost rates are established for any period, the Government shall reimburse the Contractor at billing rates established by the Contracting Officer or by an authorized representative (the cognizant auditor), subject to adjustment when the final rates are established. These billing rates--

(1) Shall be the anticipated final rates; and

(2) May be prospectively or retroactively revised by mutual agreement, at either party's request, to prevent substantial overpayment or underpayment.

**(f) Quick-closeout procedures.** Quick-closeout procedures are applicable when the conditions in FAR 42.708(a) are satisfied.

**(g) Audit.** At any time or times before final payment, the Contracting Officer may have the Contractor's invoices or vouchers and statements of cost audited. Any payment may be (1) Reduced by amounts found by the Contracting Officer not to constitute allowable costs or (2) Adjusted for prior overpayments or underpayments.

**(h) Final payment.** (1) Upon approval of a completion invoice or voucher submitted by the Contractor in accordance with paragraph (d)(4) of this clause, and upon the Contractor's compliance with all terms of this contract, the Government shall promptly pay any balance of allowable costs and that part of the fee (if any) not previously paid.

(2) The Contractor shall pay to the Government any refunds, rebates, credits, or other amounts (including interest, if any) accruing to or received by the Contractor or any assignee under this contract, to the extent that those amounts are properly allocable to costs for which the Contractor has been reimbursed by the Government. Reasonable expenses incurred by the Contractor for securing refunds, rebates, credits, or other amounts shall be allowable costs if approved by the Contracting Officer. Before final payment under this contract, the Contractor and each assignee whose assignment is in effect at the time of final payment shall execute and deliver--

(i) An assignment to the Government, in form and substance satisfactory to the Contracting Officer, of refunds, rebates, credits, or other amounts (including interest, if any) properly allocable to costs for which the Contractor has been reimbursed by the Government under this contract; and

(ii) A release discharging the Government, its officers, agents, and employees from all liabilities, obligations, and claims arising out of or under this contract, except--

(A) Specified claims stated in exact amounts, or in estimated amounts when the exact amounts are not known;

(B) Claims (including reasonable incidental expenses) based upon liabilities of the Contractor to third parties arising out of the performance of this contract; provided, that the claims are not known to the Contractor on the date of the execution of the release, and that the Contractor gives notice of the claims in writing to the Contracting Officer within 6 years following the release date or notice of final payment date, whichever is earlier; and

(C) Claims for reimbursement of costs, including reasonable incidental expenses, incurred by the Contractor under the patent clauses of this contract, excluding, however, any expenses arising from the Contractor's indemnification of the Government against patent liability.

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(End of clause)

**G-52.242-4 CERTIFICATION OF FINAL INDIRECT COSTS (JAN 1997)**

(a) The Contractor shall--

(1) Certify any proposal to establish or modify final indirect cost rates;

(2) Use the format in paragraph (c) of this clause to certify; and

(3) Have the certificate signed by an individual of the Contractor's organization at a level no lower than a vice president or chief financial officer of the business segment of the Contractor that submits the proposal.

(b) ) Failure by the Contractor to submit a signed certificate, as described in this clause, may result in final indirect costs at rates unilaterally established by the Contracting Officer.

(c) The certificate of final indirect costs shall read as follows:

**CERTIFICATE OF FINAL INDIRECT COSTS**

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief: 1. All costs included in this proposal (identify proposal and date) to establish final indirect cost rates for (identify period covered by rate) are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and 2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm:-----

Signature:-----

Name of Certifying Official:-----

Title:-----

Date of Execution:-----

(End of clause)

**G-5652.231-9001 Allowable Travel Costs (2005)**

(a) Pursuant to Public Law 99-234, reasonable and allowable Contractor costs for transportation associated with the performance of this contract may be reimbursed upon mileage, rates, actual costs, or a combination thereof, lodging, meals and incidental expenses may be based upon per diem, actual expense, or a combination therefore, provided that the method used results in a reasonable charge. The cost above shall be determined reasonable and allowable to the extent that they do not exceed, on a daily basis, the maximum per diem rate in effect at the time of travel as set forth in:

(1) Federal Travel Regulations, Volume 2, DoD Civilian Personnel, Appendix A, prescribed by the Department of Defense, for travel in Alaska, Hawaii, the Commonwealth of Puerto Rico, and the territories and possessions of the United States, available on a subscription basis from the Superintendent of Documents, U.S. Government Printing Office, Washington DC 20402, Stock No. 906-010-000000-1; or at [http://www.gsa.gov/Portal/gsa/ep/contentView.do?P=MTT&contentId=13265&contentType=GSA\\_BASIC](http://www.gsa.gov/Portal/gsa/ep/contentView.do?P=MTT&contentId=13265&contentType=GSA_BASIC) in electronic format.



(2) Standardized Regulations (Government Civilians, Foreign Areas), Section 925, "Maximum Travel Per Diem Allowance for Foreign Areas," prescribed by the Department of State, for travel in areas not covered in (a)(1) of this clause, available on a subscription basis from the Superintendent of Documents, U.S. Government Printing Office, Washington DC 20402, Stock No. 744-008-000000-0; or at <http://www.state.gov/m/a/als/prdm/2002/9892.htm> in electronic format

(b) Cited Federal Regulations are not incorporated in their entirety. Only sections defining lodging, meals and incidental expenses and those sections dealing with special or unusual situations and setting forth maximum per diem rates are incorporated herein.

(end of clause)

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## Section H - Special Contract Requirements

### H-1 TECHNICAL SUPPORT

#### H-1a - [\*] TECHNICAL SUPPORT

[\*] is retaining [\*] as technical consultants to support this effort. [\*] shall provide signed Non-Disclosure and Rules of Conduct/Conflict of Interest Statements to the PCO. [\*] shall attend all technical interchange meeting, observe testing, and provide independent assessment to [\*] on status of testing. [\*] and [\*] have a separate Memorandum Of Agreement and Statement of Work associated with [\*] involvement in this contract. [\*] is not authorized to direct any changes or modifications to this contract. Any recommended changes by [\*] shall be identified to the PCO.  
(end of clause)

#### H-1b - Technical Representative [\*]

(a) The Contracting Officer may appoint one or more Government employees as a technical representative to assist the Contracting Officer with scientific engineering or field of discipline matters directly related to the contract. The technical representative is not authorized to act on behalf of the Contracting Officer or to make any commitments or changes that will affect price, quality, quantity, delivery, or any other term or condition of the contract.

(b) The appointments will be in writing, signed by the Contracting Officer.

(end of clause)

#### H-1c - Use of Contractor Support/Advisory Personnel as Contract Specialists [\*] (2005)

The contractor's attention is directed to the fact that contractor personnel may assist the Government in a contract administrator role for administration of this contract. Execution of this contract constitutes approval to release the contract and contractor's proposal to Government Support Contractors who have signed Non-Disclosure and Rules of Conduct/Conflict of Interest Statements.

(end of clause)

### H-2 RESTRICT GOV DATA RIGHTS

Government rights in data shall allow for open architecture and are as delineated in Attachment 6. Specifically, the government data rights will be used to allow the Government [\*].

[\*]

(End of Summary of Changes)

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

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H-3 DISCLOSURE OF UNCLASSIFIED INFORMATION (2007)

a. On September 21, 2001, the Department of Defense designated [\*] a sensitive unit, as defined by Title 10 United States Code (USC) Section 130b (10 USC 130b). In keeping with this designation, unclassified information related to [\*] military technology acquisitions managed by [\*] or any of its component commands, will be designated Controlled Unclassified Information (CUI). As such, the contractor hereby unequivocally agrees that it shall not release to anyone outside the Contractor's organization any unclassified information, regardless of medium (e.g., film, tape, document, contractor's external website, newspaper, magazine, journal, corporate annual report, etc.), pertaining to any part of this contract or any program related to this contract, unless the Contracting Officer has given prior written approval. Furthermore, any release of information which associates [\*], or any component command with an acquisition program, contractor, or this contract is prohibited unless specifically authorized by [\*].

b. Request for approval shall identify the specific information to be released, the medium to be used, and the purpose for the release. The contractor shall submit the request to the Contracting Officer at least 45 days before the propose date for release for approval. No release of any restricted information shall be made without specific written authorization by the Contracting Office.

c. The Contractor shall include a similar requirement in each subcontract under this contract. Subcontractors shall submit request for authorization to release through the prime contractor to the Contracting Officer.

d. The Contractor further understands that Title 18 USC Section 701 specifically prohibits the use of the [\*] emblem or logo in any medium (e.g., corporate website, marketing brochure, news paper, magazine, etc.) unless authorized in writing by [\*]. Forward any request to use the [\*] emblem or logo through the Contracting Officer.

(end of clause)

H-4 BILLING RATES

The following are the billing rates, subject to adjustment in accordance with Section G clause I-52.216-7 Allowable Cost and Payment (Dec 2002), sub-paragraph (e).

AV BILLING RATES

<b>Indirect Rates:</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
<b>Engineering O/H</b>	[*]	[*]	[*]	[*]	[*]
<b>Manufacturing O/H</b>	[*]	[*]	[*]	[*]	[*]
<b>Material Burden</b>	[*]	[*]	[*]	[*]	[*]
<b>G&amp;A</b>	[*]	[*]	[*]	[*]	[*]

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

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## Section I - Contract Clauses

## I-1. CLAUSES INCORPORATED BY REFERENCE

52.203-3	Gratuities	APR 1984
52.209-6	Protecting the Government's Interest When Subcontracting With Contractors Debarred, Suspended, or Proposed for Debarment	SEP 2006
52.215-8	Order of Precedence--Uniform Contract Format	OCT 1997
52.215-17	Waiver of Facilities Capital Cost of Money	OCT 1997
52.215-18	Reversion or Adjustment of Plans for Postretirement Benefits (PRB) Other than Pensions	JUL 2005
52.216-8	Fixed Fee	MAR 1997
52.216-11	Cost Contract--No Fee	APR 1984
52.219-8	Utilization of Small Business Concerns	MAY 2004
52.219-28	Post-Award Small Business Program Rerepresentation	JUN 2007
52.222-3	Convict Labor	JUN 2003
52.222-21	Prohibition Of Segregated Facilities	FEB 1999
52.222-26	Equal Opportunity	APR 2002
52.222-35	Equal Opportunity For Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans	SEP 2006
52.222-36	Affirmative Action For Workers With Disabilities	JUN 1998
52.222-37	Employment Reports On Special Disabled Veterans, Veterans Of The Vietnam Era, and Other Eligible Veterans	SEP 2006
52.226-1	Utilization Of Indian Organizations And Indian-Owned Economic Enterprises	JUN 2000
52.227-1 Alt I	Authorization And Consent (Jul 1995) - Alternate I	APR 1984
52.227-2	Notice And Assistance Regarding Patent And Copyright Infringement	AUG 1996
52.228-3	Worker's Compensation Insurance (Defense Base Act)	APR 1984
52.228-4	Workers' Compensation and War-Hazard Insurance Overseas	APR 1984
52.228-5	Insurance - Work On A Government Installation	JAN 1997
52.228-7	Insurance--Liability To Third Persons	MAR 1996
52.232-7	Payments Under Time-And-Materials And Labor Hour Contracts	FEB 2007
52.232-9	Limitation On Withholding Of Payments	APR 1984
52.232-20	Limitation Of Cost	APR 1984
52.232-22	Limitation Of Funds	APR 1984
52.232-23 Alt I	Assignment of Claims (Jan 1986) - Alternate I	APR 1984
52.232-25	Prompt Payment	OCT 2003
52.232-33	Payment by Electronic Funds Transfer--Central Contractor Registration	OCT 2003
52.233-1	Disputes	JUL 2002
52.233-3	Protest After Award	AUG 1996
52.233-3 Alt I	Protest After Award (Aug 1996) - Alternate I	JUN 1985
52.236-8	Other Contracts	APR 1984
52.242-15	Stop-Work Order	AUG 1989
52.242-17	Government Delay Of Work	APR 1984
52.243-1	Changes--Fixed Price	AUG 1987
52.243-2	Changes--Cost-Reimbursement	AUG 1987
52.243-3	Changes--Time-And-Material Or Labor-Hours	SEP 2000
52.244-6	Subcontracts for Commercial Items	MAR 2007
52.245-3	Identification of Government-Furnished Property	APR 1984
52.245-4	Government-Furnished Property (Short Form)	JUN 2003

52.245-5 Alt I	Government Property (Cost-Reimbursement, Time-and-Material, Or Labor-Hour Contracts) (May 2004) Alternate I	JUN 2003
52.245-5 Dev	Government Property (Cost-Reimbursement, Time-and-Material, or Labor-Hour Contracts) Deviation	MAY 2004
52.245-14	Use of Government Facilities	APR 1984
52.245-17	Special Tooling	MAY 2004
52.245-18	Special Test Equipment	FEB 1993
52.246-8	Inspection Of Research And Development Cost Reimbursement	MAY 2001
52.249-1	Termination For Convenience Of The Government (Fixed Price) (Short Form)	APR 1984
52.249-2	Termination For Convenience Of The Government (Fixed-Price)	MAY 2004
52.249-6	Termination (Cost Reimbursement)	MAY 2004
52.249-6 Alt IV	Termination (Cost Reimbursement) (May 2004) - Alternate IV	SEP 1996
52.249-14	Excusable Delays	APR 1984
52.253-1	Computer Generated Forms	JAN 1991
252.203-7001	Prohibition On Persons Convicted of Fraud or Other Defense-Contract-Related Felonies	DEC 2004
252.204-7002	Payment For Subline Items Not Separately Priced	DEC 1991
252.204-7003	Control Of Government Personnel Work Product	APR 1992
252.204-7004 Alt A	Central Contractor Registration (52.204-7) Alternate A	NOV 2003
252.205-7000	Provision Of Information To Cooperative Agreement Holders	DEC 1991
252.209-7004	Subcontracting With Firms That Are Owned or Controlled By The Government of a Terrorist Country	DEC 2006
252.225-7012	Preference For Certain Domestic Commodities	JAN 2007
252.225-7040	Contractor Personnel Authorized to Accompany U.S. Armed Forces Deployed Outside the United States	JUN 2006
252.227-7013	Rights in Technical Data--Noncommercial Items	NOV 1995
252.227-7014	Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation	JUN 1995
252.227-7015	Technical Data--Commercial Items	NOV 1995
252.227-7016	Rights in Bid or Proposal Information	JUN 1995
252.227-7019	Validation of Asserted Restrictions--Computer Software	JUN 1995
252.227-7027	Deferred Ordering Of Technical Data Or Computer Software	APR 1988
252.227-7030	Technical Data--Withholding Of Payment	MAR 2000
252.227-7037	Validation of Restrictive Markings on Technical Data	SEP 1999
252.231-7000	Supplemental Cost Principles	DEC 1991
252.232-7003	Electronic Submission of Payment Requests	MAR 2007
252.232-7010	Levies on Contract Payments	DEC 2006
252.235-7010	Acknowledgment of Support and Disclaimer	MAY 1995
252.235-7011	Final Scientific or Technical Report	NOV 2004
252.242-7002	Eamed Value Management System	MAR 2005
252.242-7005	Cost/Schedule Status Report	MAR 2005
252.243-7001	Pricing Of Contract Modifications	DEC 1991
252.243-7002	Requests for Equitable Adjustment	MAR 1998
252.245-7001	Reports Of Government Property	MAY 1994

I-2. CLAUSES INCORPORATED BY FULL TEXT

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I-52.215-15 PENSION ADJUSTMENTS AND ASSET REVERSIONS (OCT 2004)

(a) The Contractor shall promptly notify the Contracting Officer in writing when it determines that it will terminate a defined-benefit pension plan or otherwise recapture such pension fund assets.

(b) For segment closings, pension plan terminations, or curtailment of benefits, the amount of the adjustment shall be--

(1) For contracts and subcontracts that are subject to full coverage under the Cost Accounting Standards (CAS) Board rules and regulations (48 CFR Chapter 99), the amount measured, assigned, and allocated in accordance with 48 CFR 9904.413-50(c)(12); and

(2) For contracts and subcontracts that are not subject to full coverage under the CAS, the amount measured, assigned, and allocated in accordance with 48 CFR 9904.413-50(c)(12), except the numerator of the fraction at 48 CFR 9904.413-50(c)(12)(vi) shall be the sum of the pension plan costs allocated to all non-CAS covered contracts and subcontracts that are subject to Federal Acquisition Regulation (FAR) Subpart 31.2 or for which cost or pricing data were submitted.

(c) For all other situations where assets revert to the Contractor, or such assets are constructively received by it for any reason, the Contractor shall, at the Government's option, make a refund or give a credit to the Government for its equitable share of the gross amount withdrawn. The Government's equitable share shall reflect the Government's participation in pension costs through those contracts for which cost or pricing data were submitted or that are subject to FAR Subpart 31.2.

(d) The Contractor shall include the substance of this clause in all subcontracts under this contract that meet the applicability requirement of FAR 15.408(g).

(End of clause)

I-52.217-6 OPTION FOR INCREASED QUANTITY (MAR 1989)

The Government may increase the quantity of supplies called for in the Schedule at the unit price specified. The Contracting Officer may exercise the option by written notice to the Contractor as follows: For OPTION CLINS 1004 and 1005 ONLY within [\*] after contract Award. This does not include CLIN 0004 GO System Demonstration, or the other option CLINS. CLIN 0004 and the other option CLINS can be exercised any time during the term of the contract. Delivery of the added items shall continue at the same rate as the like items called for under the contract, unless the parties otherwise agree.

(End of clause)

I-52.217-9 OPTION TO EXTEND THE TERM OF THE CONTRACT (MAR 2000)

(a) The Government may extend the term of this contract by written notice to the Contractor within five (5) days (insert the period of time within which the Contracting Officer may exercise the option); provided that the Government gives the Contractor a preliminary written notice of its intent to extend at least sixty days (60 days unless a different number of days is inserted) before the contract expires. The preliminary notice does not commit the Government to an extension.

(b) If the Government exercises this option, the extended contract shall be considered to include this option clause.

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(c) The total duration of this contract, including the exercise of any options under this clause, shall not exceed five (5) years.  
(End of clause)

I-52.242-1 NOTICE OF INTENT TO DISALLOW COSTS (APR 1984)

(a) Notwithstanding any other clause of this contract--

(1) The Contracting Officer may at any time issue to the Contractor a written notice of intent to disallow specified costs incurred or planned for incurrence under this contract that have been determined not to be allowable under the contract terms; and

(2) The Contractor may, after receiving a notice under subparagraph (1) above, submit a written response to the Contracting Officer, with justification for allowance of the costs. If the Contractor does respond within 60 days, the Contracting Officer shall, within 60 days of receiving the response, either make a written withdrawal of the notice or issue a written decision.

(b) Failure to issue a notice under this Notice of Intent to Disallow Costs clause shall not affect the Government's rights to take exception to incurred costs.

(End of clause)

I-52.242-3 Penalties for Unallowable Costs. (MAY 2001)

(a) Definition. Proposal, as used in this clause, means either--

(1) A final indirect cost rate proposal submitted by the Contractor after the expiration of its fiscal year which--

(i) Relates to any payment made on the basis of billing rates; or

(ii) Will be used in negotiating the final contract price; or

(2) The final statement of costs incurred and estimated to be incurred under the Incentive Price Revision clause (if applicable), which is used to establish the final contract price.

(b) Contractors which include unallowable indirect costs in a proposal may be subject to penalties. The penalties are prescribed in 10 U.S.C. 2324 or 41 U.S.C. 256, as applicable, which is implemented in Section 42.709 of the Federal Acquisition Regulation (FAR).

(c) The Contractor shall not include in any proposal any cost that is unallowable, as defined in Subpart 2.1 of the FAR, or an executive agency supplement to the FAR.

(d) If the Contracting Officer determines that a cost submitted by the Contractor in its proposal is expressly unallowable under a cost principle in the FAR, or an executive agency supplement to the FAR, that defines the allowability of specific selected costs, the Contractor shall be assessed a penalty equal to--

(1) The amount of the disallowed cost allocated to this contract; plus

2) Simple interest, to be computed--

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- (i) On the amount the Contractor was paid (whether as a progress or billing payment) in excess of the amount to which the Contractor was entitled; and
  - (ii) Using the applicable rate effective for each six-month interval prescribed by the Secretary of the Treasury pursuant to Pub. L. 92-41 (85 Stat. 97).
  - (e) If the Contracting Officer determines that a cost submitted by the Contractor in its proposal includes a cost previously determined to be unallowable for that Contractor, then the Contractor will be assessed a penalty in an amount equal to two times the amount of the disallowed cost allocated to this contract.
  - (f) Determinations under paragraphs (d) and (e) of this clause are final decisions within the meaning of the Contract Disputes Act of 1978 (41 U.S.C. 601, et seq.).
  - (g) Pursuant to the criteria in FAR 42.709-5, the Contracting Officer may waive the penalties in paragraph (d) or (e) of this clause.
  - (h) Payment by the Contractor of any penalty assessed under this clause does not constitute repayment to the Government of any unallowable cost which has been paid by the Government to the Contractor.
- (End of clause)

I-52.247-1 COMMERCIAL BILL OF LADING NOTATIONS (FEB 2006)

When the Contracting Officer authorizes supplies to be shipped on a commercial bill of lading and the Contractor will be reimbursed these transportation costs as direct allowable costs, the Contractor shall ensure before shipment is made that the commercial shipping documents are annotated with either of the following notations, as appropriate:

- (a) If the Government is shown as the consignor or the consignee, the annotation shall be:

"Transportation is for the      and the actual total transportation charges paid to the carrier(s) by the consignor or consignee are assignable to, and shall be reimbursed by, the Government."

- (b) If the Government is not shown as the consignor or the consignee, the annotation shall be:

"Transportation is for the      and the actual total transportation charges paid to the carrier(s) by the consignor or consignee shall be reimbursed by the Government, pursuant to cost-reimbursement contract no.      . This may be confirmed by contacting      ."

(End of clause)

I-52.252-2 CLAUSES INCORPORATED BY REFERENCE (FEB 1998)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this/these address(es):

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<http://farsite.hill.af.mil/>

(End of clause)

I-52.252-6 AUTHORIZED DEVIATIONS IN CLAUSES (APR 1984)

(a) The use in this solicitation or contract of any Federal Acquisition Regulation (48 CFR Chapter 1) clause with an authorized deviation is indicated by the addition of "(DEVIATION)" after the date of the clause.

(b) The use in this solicitation or contract of any insert regulation name (48 CFR ) clause with an authorized deviation is indicated by the addition of "(DEVIATION)" after the name of the regulation.

(End of clause)

I-252.242-7002 EARNED VALUE MANAGEMENT SYSTEM (MAR 2005)

(a) In the performance of this contract, the Contractor shall use an earned value management system (EVMS) that has been recognized by the cognizant Administrative Contracting Officer (ACO) as complying with the criteria provided in DoDI 5000.2, Operation of the Defense Acquisition System.

(b) If, at the time of award, the Contractor's EVMS has not been recognized by the cognizant ACO as complying with EVMS criteria (or the Contractor does not have an existing cost/schedule control system that has been accepted by the Department of Defense), the Contractor shall apply the system to the contract and shall be prepared to demonstrate to the ACO that the EVMS complies with the EVMS criteria referenced in paragraph (a) of this clause.

(c) The Government may require integrated baseline reviews. Such reviews shall be scheduled as early as practicable and should be conducted within 180 calendar days after (1) contract award, (2) the exercise of significant contract options, or (3) the incorporation of major modifications. The objective of the integrated baseline review is for the Government and the Contractor to jointly assess areas, such as the Contractor's planning, to ensure complete coverage of the statement of work, logical scheduling of the work activities, adequate resourcing, and identification of inherent risks.

(d) Unless a waiver is granted by the ACO, Contractor-proposed EVMS changes require approval of the ACO prior to implementation. The ACO shall advise the Contractor of the acceptability of such changes within 30 calendar days after receipt of the notice of proposed changes from the Contractor. If the advance approval requirements are waived by the ACO, the Contractor shall disclose EVMS changes to the ACO at least 14 calendar days prior to the effective date of implementation.

(e) The Contractor agrees to provide access to all pertinent records and data requested by the ACO or duly authorized representative. Access is to permit Government surveillance to ensure that the EVMS complies, and continues to comply, with the criteria referenced in paragraph (a) of this clause.

(f) The Contractor shall require the following subcontractors to comply with the requirements of this clause:

(Contracting Officer to insert names of subcontractors selected for application of EVMS criteria in accordance with 252.242-7001(c).)

(End of clause)

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I-5652.201-9002 Authorized Changes Only by Contracting Officer (2005)

The Contractor shall not comply with any order, direction or request of Government personnel unless it is issued in writing and signed by the Contracting Officer, or is pursuant to specific authority otherwise included as part of this contract. Except as specified herein, no order, statement, or conduct of Government personnel who visit the contractor's facilities or in any other manner communicates with Contractor personnel during the performance of this contract shall constitute a change under the Changes clause in Section I. In the event the Contractor effects any change at the direction of any person other than the Contracting Officer, the change will be considered to have been made without authority and no adjustment will be made in the contract price to cover any increase in cost incurred as a result thereof. The address and telephone number of the Contracting Officer is *(Enter Contracting Officer's name and contact information)*.

(end of clause)

I-5652.216-9000 Fixed Fee Information (2003)

Subject to the requirements of FAR 52.216-8 and all other withholding requirements of this contract, the fixed fee stated in Section B shall be paid to the contractor at the same percentage rate as the percentage of incurred and allowable costs proportionate to the total estimated cost.

(end of clause)

I-5652.216-9005 Government Down Time for Various Reasons (2005)

From time to time Government installations may be closed in response to an unforeseen emergency or similar occurrence, or by order of the President, Secretary of Defense, or installation commander. Designated emergencies include, but are not limited to, adverse weather such as snow or flood, an act of God such as a tornado or earthquake, acts of war or terrorism, computer failures, or a base disaster such as a natural gas leak or fire.

(a) Under such designated emergencies or other ordered base closures, contractor personnel will not be allowed on the Government installation unless specifically approved by the Contracting Officer in accordance with installation policies and procedures. If an emergency requiring installation closure occurs while contractor personnel are on the installation, contractor personnel shall promptly secure all government furnished property appropriately and evacuate in an expedient but safe manner unless otherwise directed by the Contracting Officer.

(b) If the installation closure causes a delay in the work required by the contract, the Government may:

- (i) grant a time extension in each task order delayed by the closure equal to the time of the closure, subject to the availability of funds.
  - (ii) terminate the work or a portion of the work.
  - (iii) reschedule the work on any day satisfactory to both parties.
  - (iv) permit the contractor to perform at an off-site location during the period of installation closure if meaningful work can be accomplished. Contractor shall certify to the government by letter within 5 business days of returning to work the nature and scope of the work completed off-site. There shall be no adjustment to the contract labor rates for work performed off the installation.
  - (v) require that the Contractor continue on-site performance during the installation closure period in accordance with installation procedures.
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(end of clause)

**I-5652.228-9000 Required Insurance (2003)**

The kinds and minimum amounts of insurance required in accordance with 52.228-5 "Insurance-Work on a Government Installation" are as follows:

TYPE	AMOUNT
Automobile Bodily Injury Liability	\$200,000 per person/ \$500,000 per occurrence ( <i>EXAMPLE</i> )
Property Damage Liability	\$20,000 per occurrence ( <i>EXAMPLE</i> )
Workers Compensation & Occupational Disease	As required by federal and State Statutes
Employer's Liability	\$100,000( <i>EXAMPLE</i> )

(end of clause)

**I-5652.232-9002 Time and Materials/Ceiling Price Indefinite Delivery Contracts (1998)**

Ceiling Price: The term "ceiling price" as used in the clauses FAR 52.232-7 "Payments Under Time and Materials and Labor-Hour Contracts", and the term "estimated cost" in FAR 52.232-20 "Limitation of Cost" and 52.232-22 "Limitation of Funds" shall be applicable to each CLIN or SLIN specified in Schedule B. The Government shall not be obligated to pay the contractor any amount in excess of the ceiling price for each CLIN/SLIN set forth in Schedule B unless and until the Contracting Officer has notified the contractor in writing that the ceiling price has been increased and has specified in the notice a revised ceiling price for performance under the contract for that CLIN/SLIN.

(end of clause)

**I-5652.245-9004 Delivery Requirements for Government-Furnished Property (2003)**

Government furnished property available for use by the contractor is listed below:

Final 9/21/07 for final Contract

Government Furnished Property

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I-5652.252-9000 Notice of Incorporation of Section K (1998)

Section K, Certifications and Representations, of the solicitation will not be distributed with the contract; however, Section K is hereby incorporated by reference.

(end of clause)

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## Section J - List of Documents, Exhibits and Other Attachments

## Exhibit/Attachment Table of Contents

DOCUMENT TYPE	DESCRIPTION	PAGES	DATE
Attachment 1	SOW rev 7	23	21 Sep 2007
Attachment 2	ASSEMBLY LIST	2	13 Jul 2007
Attachment 3	RATES	1	15 Sep 2007
Attachment 4	Security Classification Guide (DRAFT)	20	
Attachment 5	DD 254	5	17 Sep 2007
Attachment 6	Govt Data Rights	12	13 Sep 2007
Attachment 7	EVMS Plan	4	14 Sep 2007
Exhibit A	CDRL Exhibit(s)		

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[\*] Attachments 1-7 and Exhibit A have been omitted and are filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

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**Exhibit 31.1**

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

I, Timothy E. Conver, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AeroVironment, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
  - c) 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2007

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

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**Exhibit 31.2**

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

I, Stephen C. Wright, 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) 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) 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
  - c) 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2007

/s/ Stephen C. Wright  
Stephen C. Wright  
Chief Financial Officer

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**Exhibit 32**

**Certification**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

**(Subsections (a) and (b) of Section 1350, Chapter 63 of title 18, United States Code)**

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

The Quarterly Report on Form 10-Q for the quarter ended October 27, 2007 (the "Periodic Report") of the Company fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)) and information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Timothy E. Conver

Timothy E. Conver

Chief Executive Officer and Director

/s/ Stephen C. Wright

Stephen C. Wright

Chief Financial Officer

Dated: December 6, 2007

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.

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