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

FORM 10-Q

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

For the quarterly period ended July 29, 2023

OR

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

For the transition period from to

Commission File Number: 001-33261

AEROVIRONMENT, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-2705790** (I.R.S. Employer Identification No.)
241 18th Street South, Suite 415 **Arlington, Virginia** (Address of principal executive offices)	**22202** (Zip Code)

(805) 520-8350
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

As of August 30, 2023, the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 26,290,440.

AeroVironment, Inc.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	July 29, 2023 (Unaudited)	April 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 105,871	$ 132,859
Accounts receivable, net of allowance for doubtful accounts of $124 at July 29, 2023 and $156 at April 30, 2023	79,214	87,633
Unbilled receivables and retentions	107,258	105,653
Inventories, net	175,396	138,814
Prepaid expenses and other current assets	13,949	12,043
Total current assets	481,688	477,002
Long-term investments	22,578	23,613
Property and equipment, net	39,770	39,795
Operating lease right-of-use assets	25,742	27,363
Deferred income taxes	27,633	27,206
Intangibles, net	40,540	43,577
Goodwill	180,797	180,801
Other assets	7,312	5,220
Total assets	$ 826,060	$ 824,577
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 28,824	$ 31,355
Wages and related accruals	16,875	35,637
Customer advances	19,940	16,645
Current portion of long-term debt	10,000	7,500
Current operating lease liabilities	8,272	8,229
Income taxes payable	4,058	2,342
Other current liabilities	19,220	19,626
Total current liabilities	107,189	121,334
Long-term debt, net of current portion	118,537	125,904
Non-current operating lease liabilities	19,454	21,189
Other non-current liabilities	1,901	746
Liability for uncertain tax positions	2,705	2,705
Deferred income taxes	1,729	1,729
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value:		
Authorized shares—10,000,000; none issued or outstanding at July 29, 2023 and April 30, 2023	—	—
Common stock, $0.0001 par value:		
Authorized shares—100,000,000		
Issued and outstanding shares—26,292,130 shares at July 29, 2023 and 26,216,897 shares at April 30, 2023	4	4
Additional paid-in capital	386,140	384,397
Accumulated other comprehensive loss	(4,515)	(4,452)
Retained earnings	192,916	171,021
Total AeroVironment, Inc. stockholders' equity	574,545	550,970
Noncontrolling interest	—	—
Total equity	574,545	550,970
Total liabilities and stockholders' equity	$ 826,060	$ 824,577

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

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

	Three Months Ended	
	July 29, 2023	July 30, 2022
Revenue:		
Product sales	$ 119,471	$ 57,974
Contract services	32,876	50,542
	152,347	108,516
Cost of sales:		
Product sales	61,608	32,899
Contract services	25,079	41,903
	86,687	74,802
Gross margin:		
Product sales	57,863	25,075
Contract services	7,797	8,639
	65,660	33,714
Selling, general and administrative	23,827	21,943
Research and development	15,466	15,045
Income (loss) from operations	26,367	(3,274)
Other loss:		
Interest expense, net	(2,008)	(1,603)
Other expense, net	(1,129)	(406)
Income (loss) before income taxes	23,230	(5,283)
Provision for income taxes	1,314	2,606
Equity method investment loss, net of tax	(21)	(500)
Net income (loss)	21,895	(8,389)
Net income attributable to noncontrolling interest	—	(6)
Net income (loss) attributable to AeroVironment, Inc.	$ 21,895	$ (8,395)
Net income (loss) per share attributable to AeroVironment, Inc.		
Basic	$ 0.84	$ (0.34)
Diluted	$ 0.84	$ (0.34)
Weighted-average shares outstanding:		
Basic	26,088,277	24,804,232
Diluted	26,179,042	24,804,232

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

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

	Three Months Ended	
	July 29, 2023	July 30, 2022
Net income (loss)	$ 21,895	$ (8,389)
Other comprehensive income (loss):		
Unrealized gain on available-for-sale investments, net of deferred tax expense of $0 and $6 for the three months ended July 29, 2023 and July 30, 2022, respectively	—	20
Change in foreign currency translation adjustments	(63)	(1,064)
Total comprehensive income (loss)	21,832	(9,433)
Net income attributable to noncontrolling interest	—	(6)
Comprehensive income (loss) attributable to AeroVironment, Inc.	$ 21,832	$ (9,439)

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

AeroVironment, Inc.
Condensed Consolidated Statements of Stockholders' Equity
For the three months ended July 29, 2023 and July 30, 2022 (Unaudited)
(In thousands except share data)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total AeroVironment, Inc.	Non-Controlling	
	Shares	Amount	Capital	Earnings	(Loss) Income	Equity	Interest	Total
Balance at April 30, 2023	26,216,897	$ 4	$ 384,397	$ 171,021	$ (4,452)	$ 550,970	$ —	$ 550,970
Net income	—	—	—	21,895	—	21,895	—	21,895
Foreign currency translation	—	—	—	—	(63)	(63)	—	(63)
Restricted stock awards	91,913	—	—	—	—	—	—	—
Restricted stock awards forfeited	(3,438)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(13,242)	—	(1,298)	—	—	(1,298)	—	(1,298)
Issuance cost for shares issued	—	—	(163)	—	—	(163)	—	(163)
Stock based compensation	—	—	3,204	—	—	3,204	—	3,204
Balance at July 29, 2023	26,292,130	$ 4	$ 386,140	$ 192,916	$ (4,515)	$ 574,545	$ —	$ 574,545

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total AeroVironment, Inc.	Non-Controlling	
	Shares	Amount	Capital	Earnings	(Loss) Income	Equity	Interest	Total
Balance at April 30, 2022	24,951,287	$ 2	$ 267,248	$ 347,233	$ (6,514)	$ 607,969	$ 241	$ 608,210
Net (loss) income	—	—	—	(8,395)	—	(8,395)	6	(8,389)
Unrealized loss on investments	—	—	—	—	20	20	—	20
Foreign currency translation	—	—	—	—	(1,064)	(1,064)	—	(1,064)
Restricted stock awards	55,817	—	—	—	—	—	—	—
Restricted stock awards forfeited	(6,138)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(10,376)	—	(824)	—	—	(824)	—	(824)
Stock based compensation	—	—	2,217	—	—	2,217	—	2,217
Balance at July 30, 2022	24,990,590	$ 2	$ 268,641	$ 338,838	$ (7,558)	$ 599,923	$ 247	$ 600,170

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

	Three Months Ended	
	July 29, 2023	July 30, 2022
Operating activities		
Net income (loss)	$ 21,895	$ (8,389)
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:		
Depreciation and amortization	6,951	14,000
Loss from equity method investments	21	500
Amortization of debt issuance costs	214	211
Provision for doubtful accounts	(15)	23
Reserve for inventory excess and obsolescence	3,330	220
Other non-cash expense, net	173	153
Non-cash lease expense	2,184	1,590
Loss (gain) on foreign currency transactions	132	(44)
Unrealized loss on available-for-sale equity securities, net	1,013	—
Deferred income taxes	(427)	(381)
Stock-based compensation	3,204	2,217
Loss on disposal of property and equipment	116	485
Amortization of debt securities discount	—	130
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	8,207	8,053
Unbilled receivables and retentions	(1,603)	14,754
Inventories	(40,004)	(11,927)
Income taxes receivable	—	442
Prepaid expenses and other assets	(4,401)	46
Accounts payable	(2,780)	3,323
Other liabilities	(15,272)	(9,519)
Net cash (used in) provided by operating activities	(17,062)	15,887
Investing activities		
Acquisition of property and equipment	(3,632)	(5,393)
Equity method investments	—	(2,774)
Redemptions of available-for-sale investments	—	13,280
Purchases of available-for-sale investments	—	(1,326)
Net cash (used in) provided by investing activities	(3,632)	3,787
Financing activities		
Principal payments of term loan	(5,000)	(2,500)
Payment of debt issuance costs	(9)	—
Tax withholding payment related to net settlement of equity awards	(1,298)	(824)
Other	(8)	(7)
Net cash used in financing activities	(6,315)	(3,331)
Effects of currency translation on cash and cash equivalents	21	(391)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(26,988)	15,952
Cash, cash equivalents and restricted cash at beginning of period	132,859	77,231
Cash, cash equivalents and restricted cash at end of period	$ 105,871	$ 93,183
Supplemental disclosures of cash flow information		
Cash paid, net during the period for:		
Income taxes	$ 35	$ —
Interest	$ 1,782	$ 2,169
Non-cash activities		
Unrealized gain on available-for-sale investments, net of deferred tax expense of $0 and $6 for the three months ended July 29, 2023 and July 30, 2022, respectively	$ —	$ (20)
Change in foreign currency translation adjustments	$ (63)	$ (1,064)
Issuances of inventory to property and equipment, ISR in-service assets	$ —	$ 3,364
Acquisitions of property and equipment included in accounts payable	$ 969	$ 543

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

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

1. Organization and Significant Accounting Policies

Organization

AeroVironment, Inc., a Delaware corporation (the "Company"), is engaged in the design, development, production, delivery and support of a technologically advanced portfolio of intelligent, multi-domain robotic systems and related services for government agencies and businesses. AeroVironment, Inc. supplies unmanned systems ("UMS"), loitering munitions systems ("LMS") and related services primarily to organizations within the U.S. Government and to international allied governments.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements have been included. The results of operations for the three months ended July 29, 2023 are not necessarily indicative of the results for the full year ending April 30, 2024. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended April 30, 2023, included in the Company's Annual Report on Form 10-K.

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

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

On September 15, 2021, the Company entered into a Share Sale and Purchase Agreement with Toygun Savunma Sanayi ve Havacilik Anonim Sirketi ("Toygun") whereby the Company sold 35% of the common shares of the Company's Turkish joint venture, Altoy Savunma Sanayi ve Havacilik Anonim Sirketi ("Altoy"), to Toygun. On October 14, 2022, the Company sold an additional 35% of the common shares of Altoy to Toygun. As a result of the share sales, the Company decreased its interest in Altoy from 85% to 15% and has determined that it no longer controls Altoy. Therefore, the Company no longer consolidates Altoy in the Company's unaudited condensed consolidated financial statements. As the Company has the ability to exercise significant influence over the operating and financial policies of Altoy, the Company accounts for the investment as an equity method investment and records its proportion of any gains or losses of Altoy in equity method investments, net of tax. Refer to Note 5—Equity Method Investments for further details.

On August 17, 2022, the Company closed its acquisition of Planck Aerosystems, Inc. ("Planck") pursuant to the purchase agreement, and post-acquisition, Planck has been incorporated into the Unmanned Systems segment. The assets, liabilities and operating results of Planck have been included in the Company's unaudited condensed consolidated financial statements. Refer to Note 16—Business Acquisitions for further details.

Recently Adopted Accounting Standards

The Company did not adopt any accounting standards during the three months ended July 29, 2023.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Specifically, the Company's reserves for inventory excess and obsolescence have been reclassified from changes in inventories to non-cash adjustments within operating activities on the consolidated statements of cash flows for all periods presented. Reportable segment presentation for the three months ended July 30, 2022 have been reclassified to conform to the current year reportable segments: Unmanned Systems ("UMS"), Loitering Munition Systems ("LMS") and MacCready Works ("MW") resulting from the Company's reorganization, which was effective May 1, 2023. Refer to Note 18—Segments for further details.

Revenue Recognition

The Company's revenue is generated pursuant to written contractual arrangements to design, develop, manufacture and/or modify complex products and to provide related engineering, technical and other services according to the specifications of its customers. These contracts may be firm fixed price ("FFP"), cost plus fixed fee ("CPFF"), or time and materials ("T&M"). The Company considers all such contracts to be within the scope of ASU 2014-09, *Revenue from Contracts with Customers* ("ASC 606").

Performance Obligations

A performance obligation is a promise in a contract to transfer distinct goods or services to a customer, and it is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized when each performance obligation under the terms of a contract is satisfied. Revenue is measured at the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using its observable standalone selling price for products and services. When the standalone selling price is not directly observable, the Company uses its best estimate of the standalone selling price of each distinct good or service in the contract using the cost plus margin approach. This approach estimates the Company's expected costs of satisfying the performance obligation and then adds an appropriate margin for that distinct good or service.

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

The Company's performance obligations are satisfied over time or at a point in time. Performance obligations are satisfied over time if the customer receives the benefits as the Company performs, if the customer controls the asset as it is being developed or produced, or if the product being produced for the customer has no alternative use and the Company has a contractual right to payment for the Company's costs incurred to date plus a reasonable margin. The contractual right to payment is generally supported by termination for convenience clauses that allow the customer to unilaterally terminate the contract for convenience, pay the Company for costs incurred plus a reasonable profit, and take control of any work in process. Revenue for LMS product deliveries and Customer-Funded Research and Development contracts is recognized over time as costs are incurred. Contract services revenue is composed of revenue recognized on contracts for the provision of services, including repairs and maintenance, training, engineering design, development and prototyping activities, and technical support services. Contract services revenue is recognized over time as services are rendered. Typically, revenue is recognized over time using an input measure (e.g., costs incurred to date relative to total estimated costs at completion) to measure progress. Contract services revenue, which historically included revenue from intelligence, surveillance, and reconnaissance ("ISR") services, is recognized over time as services are rendered. In accordance with ASC 606, the Company elected the right to invoice practical expedient in which if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, such as flight hours for ISR services, the entity may recognize revenue in the amount to which the entity has a right to invoice. In the past, the Company operated its medium unmanned aircraft systems

(“MUAS”)in overseas locations to support U.S. military operations under ISR services contracts under a contractor-owned, contractor-operated (“COCO”) arrangement. During the year ended April 30, 2023, all COCO sites were closed. Training services are recognized over time using an output method based on days of training completed.

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

For performance obligations which are not satisfied over time per the aforementioned criteria above, revenue is recognized at the point in time in which each performance obligation is fully satisfied. The Company’s Small UAS (“SUAS”), MUAS and unmanned ground vehicles (“UGV”) product sales revenue is composed of revenue recognized on contracts for the delivery of SUAS, MUAS and UGV systems and spare parts, respectively. Revenue is recognized at the point in time when control transfers to the customer, which generally occurs when title and risk of loss have passed to the customer.

Performance obligations satisfied over time accounted for 39% and 60% of revenue during the three months ended July 29, 2023 and July 30, 2022, respectively. Performance obligations satisfied at a point in time accounted for 61% and 40% of revenue during the three months ended July 29, 2023 and July 30, 2022, respectively.

On July 29, 2023, the Company had approximately $539,731,000 of remaining performance obligations under fully funded contracts with its customers, which the Company also refers to as funded backlog. The Company currently expects to recognize approximately 80% of the remaining performance obligations as revenue in fiscal 2024 and the remaining 20% in fiscal 2025.

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

Contract Estimates

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

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

The nature of the Company’s contracts gives rise to several types of variable consideration, including undefinitized contract actions which are within the scope of ASC 606 with final contract values to be negotiated, penalty fees and incentive awards generally for late delivery and early delivery, respectively. The Company generally estimates such variable consideration as the most likely amount. In addition, the Company includes the estimated variable consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the related uncertainty is resolved. These estimates are based on historical award experience, anticipated performance and the Company’s best judgment at the time. Based on experience in estimating these amounts, they are included in the transaction price of the Company’s contracts and the associated remaining performance obligations.

As a significant change in one or more of these estimates could affect the profitability of the Company's contracts, the Company regularly reviews and updates its contract-related estimates. Changes in cumulative revenue estimates, due to changes in the estimated transaction price or cost estimates, are recorded using a cumulative catch-up adjustment in the period identified for contracts with performance obligations recognized over time. Changes in cumulative revenue estimates due to changes in the estimated transaction price are recorded using a cumulative catch-up adjustment in the period identified for contracts with performance obligations at a point in time, including undefinitized contract actions. In the period undefinitized contract actions become definitized, a cumulative catch-up adjustment is recorded to reflect the final consideration, which could have a material positive or negative impact.

If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the total loss in the quarter it is identified, and it is recorded in other current liabilities. The balance of forward loss reserves as of July 29, 2023 and April 30, 2023 was $1,404,000 and $1,878,000, respectively. The Company recorded the forward loss reserves as the total estimated costs to complete the contracts are in excess of the total remaining consideration of the contracts. No adjustment on the forward loss reserve for any one contract was material to the Company's unaudited condensed consolidated financial statements for the three months ended July 29, 2023 or July 30, 2022.

The impact of adjustments in contract estimates on the Company's operating earnings can be reflected in either operating costs and expenses, or revenue. The aggregate impact of adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was not significant for the three month periods ended July 29, 2023 or July 30, 2022. No adjustment on any one contract was material to the Company's unaudited condensed consolidated financial statements for the three month period ended July 29, 2023. During the three months ended July 30, 2022, the Company revised its estimates of the total expected costs to complete an LMS variant contract. The aggregate impact of these adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was a decrease to revenue of approximately $1,146,000.

Revenue by Category

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

	Three Months Ended	
Revenue by segment	**July 29, 2023**	**July 30, 2022**
UMS	$ 98,207	$ 67,775
LMS	30,917	23,011
MW	23,223	17,730
Total revenue	$ 152,347	$ 108,516

	Three Months Ended	
Revenue by contract type	**July 29, 2023**	**July 30, 2022**
FFP	$ 129,942	$ 80,829
CPFF	21,293	26,456
T&M	1,112	1,231
Total revenue	$ 152,347	$ 108,516

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

	Three Months Ended	
Revenue by customer category	**July 29, 2023**	**July 30, 2022**
U.S. government	$ 101,348	$ 67,299
Non-U.S. government	50,999	41,217
Total revenue	$ 152,347	$ 108,516

	Three Months Ended	
Revenue by geographic location	**July 29, 2023**	**July 30, 2022**
Domestic	$ 58,126	$ 50,103
International	94,221	58,413
Total revenue	$ 152,347	$ 108,516

Contract Balances

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable, unbilled receivables, and customer advances and deposits on the condensed consolidated balance sheet. In the Company's services contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals, which is generally monthly, or upon the achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets recorded in unbilled receivables and retentions on the condensed consolidated balance sheet. However, the Company sometimes receives advances or deposits from its customers before revenue is recognized, resulting in contract liabilities recorded in customer advances on the condensed consolidated balance sheet. Contract liabilities are not a significant financing component as they are generally utilized to pay for contract costs within a one-year period or are used to ensure the customer meets contractual requirements. These assets and liabilities are reported on the condensed consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. For the Company's product revenue, the Company generally receives cash payments subsequent to satisfying the performance obligation via delivery of the product, resulting in billed accounts receivable. Changes in the contract asset and liability balances during the three month period ended July 29, 2023 were not materially impacted by any other factors. For the Company's contracts, there are no significant gaps between the receipt of payment and the transfer of the associated goods and services to the customer for material amounts of consideration.

Revenue recognized for the three month periods ended July 29, 2023 that was included in contract liability balances as of April 30, 2023 was $2,538,000, and revenue recognized for the three month periods ended July 30, 2022 that was included in contract liability balances as of April 30, 2022 was $1,925,000.

Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and assess performance. During the quarter ended July 29, 2023, the Company's CODM, the Chief Executive Officer, makes operating decisions, assesses performance and makes resource allocation decisions, including the allocation for research and development ("R&D"). Accordingly, the Company identifies three reportable segments. Refer to Note 18—Segments for further details.

Investments

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

Fair Values of Financial Instruments

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

Government Contracts

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

For example, during the course of its audits, the DCAA may question the Company's incurred costs, and if the DCAA believes the Company has accounted for such costs in a manner inconsistent with the requirements under Federal Acquisition Regulations, the DCAA auditor may recommend to the Company's administrative contracting officer to disallow such costs. Historically, the Company has not experienced material disallowed costs as a result of government audits. However, the Company can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. The Company's revenue recognition policy calls for revenue recognized on all cost reimbursable government contracts to be recorded at actual rates unless collectability is not reasonably assured. At July 29, 2023 and April 30, 2023, the Company had no reserve for incurred cost claim audits.

Earnings (Loss) Per Share

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

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

	Three Months Ended	
	July 29, 2023	July 30, 2022
Net income (loss) attributable to AeroVironment, Inc.	$ 21,895	$ (8,395)
Denominator for basic earnings (loss) per share:		
Weighted average common shares	26,088,277	24,804,232
Dilutive effect of employee stock options, restricted stock and restricted stock units	90,765	—
Denominator for diluted earnings (loss) per share	26,179,042	24,804,232

Potentially dilutive shares not included in the computation of diluted weighted-average common shares because their effect would have been anti-dilutive were 738 for the three months ended July 29, 2023. Due to the net loss for the three months ended July 30, 2022, no shares reserved for issuance upon exercise of stock options or shares of unvested restricted stock were included in the computation of diluted loss per share as their inclusion would have been anti-dilutive. Potentially dilutive shares not included in the computation of diluted weighted-average common shares because their effect would have been anti-dilutive were 164,312 for the three months ended July 30, 2022, respectively.

Recently Issued Accounting Standards

No recently issued accounting standards are expected to impact the Company.

2. Investments

Investments consist of the following (in thousands):

	July 29, 2023	April 30, 2023
Long-term investments:		
Available-for-sale securities:		
Equity securities and warrants	3,955	4,969
Total long-term available-for-sale securities investments	3,955	4,969
Equity method investments		
Investments in limited partnership funds	18,623	18,644
Total equity method investments	18,623	18,644
Total long-term investments	$ 22,578	$ 23,613

Equity Securities

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

	Three Months Ended July 29, 2023
Net loss recognized during the period on equity securities	$ (1,013)
Less: Net loss recognized during the period on equity securities sold during the period	—
Unrealized loss recognized during the period on equity securities still held at the reporting date	$ (1,013)

3. Fair Value Measurements

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

- Level 1—Inputs to the valuation based upon quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.

- Level 2—Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data.

- Level 3—Inputs to the valuation that are unobservable inputs for the asset or liability.

The Company's financial assets measured at fair value on a recurring basis at July 29, 2023, were as follows (in thousands):

Description	Fair Value Measurement Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Equity securities	$ 3,715	$ —	$ —	$ 3,715
Warrants	—	240	—	240
Total	$ 3,715	$ 240	$ —	$ 3,955

The Company's financial liabilities measured at fair value on a recurring basis at July 29, 2023, were as follows (in thousands):

Description	Fair Value Measurement Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Contingent consideration	$ —	$ —	$ 2,206	$ 2,206
Total	$ —	$ —	$ 2,206	$ 2,206

The Company's financial assets measured at fair value on a recurring basis at April 30, 2023, were as follows (in thousands):

Description	Fair Value Measurement Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Equity securities	$ 4,714	$ —	$ —	$ 4,714
Warrants	—	255	—	255
Total	$ 4,714	$ 255	$ —	$ 4,969

The Company's financial liabilities measured at fair value on a recurring basis at April 30, 2023, were as follows (in thousands):

Description	Fair Value Measurement Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Contingent consideration	$ —	$ —	$ 2,109	$ 2,109
Total	$ —	$ —	$ 2,109	$ 2,109

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

Description	Fair Value Measurements Using Significant Unobservable Inputs Liabilities (Level 3)
Balance at May 1, 2023	$ 2,109
Business acquisition	—
Transfers to Level 3	—
Total fair value measurement adjustments (realized or unrealized)	
Included in selling, general and administrative	97
Settlements	—
Balance at July 29, 2023	$ 2,206
The amount of total (gains) or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at July 29, 2023	$ —

On May 3, 2021, the Company closed its acquisition of Telerob Gesellschaft für Fernhantierungstechnik mbH ("Telerob GmbH"), including Telerob GmbH's wholly-owned subsidiary, Telerob USA, Inc. ("Telerob USA," and collectively with Telerob GmbH, "Telerob") pursuant to its Share Purchase Agreement (the "Telerob Purchase Agreement") with Unmanned Systems Investments GmbH (the "Telerob Seller"). Pursuant to the Telerob Purchase Agreement, the Telerob Sellers may receive up to a maximum of €6,000,000 (approximately $6,609,000) in additional cash consideration if specific revenue and contract award targets for Telerob are achieved during the 36 month period after closing. The contingent consideration was valued using a Black-Scholes option-pricing model. The analysis considered, among other items, contractual terms of the Telerob Purchase Agreement, the Company's discount rate, the timing of expected future cash flows and the probability that the revenue and contract award targets required for payment of the contingent consideration will be achieved. The fair value of the contingent consideration is recorded in other current liabilities on the condensed consolidated balance sheet. The first year earnout of €2,000,000 (approximately $2,206,000) was not achieved. During the fiscal year ended April 30, 2023, the second year earnout of €2,000,000 (approximately $2,206,000) was achieved and will be paid during the three months ended October 28, 2023.

On September 12, 2022, the Company invested $5,000,000 and acquired 500,000 shares and 500,000 privately placed, redeemable warrants of Amprius Technologies, Inc. The privately placed, redeemable warrants have an exercise price of $12.50 and redemption price of $20.00. The Company measures the fair value of the privately placed, redeemable warrants using the quoted market price of the public warrants which have an exercise price of $11.50 and a redemption price of $18.00 and classifies the warrants as a level 2 fair value measurement. On September 9, 2022, the Company acquired 10,000 shares of Nauticus Robotics, Inc. for $100,000.

4. Inventories, net

Inventories consist of the following (in thousands):

	July 29, 2023	April 30, 2023
Raw materials	$ 70,599	$ 67,775
Work in process	66,148	43,276
Finished goods	55,986	42,968
Inventories, gross	192,733	154,019
Reserve for inventory excess and obsolescence	(17,337)	(15,205)
Inventories, net	$ 175,396	$ 138,814

5. Equity Method Investments

Investments in Limited Partnership Funds

In July 2019, the Company made its initial capital contribution to a limited partnership fund focusing on highly relevant technologies and start-up companies serving defense and industrial markets. Under the terms of the limited partnership agreement, the Company contributed a total of $10,000,000 during the fiscal years ended April 30, 2021 and 2022, and there were no further contribution commitments to this fund as of April 30, 2022. In March 2022, the Company entered into a limited partnership agreement with a second limited partnership fund also focusing on highly relevant technologies and start-up companies serving defense and industrial markets. Under the terms of the second limited partnership agreement, the Company is committed to contributions totaling $20,000,000 over an expected five year period. During the fiscal year ended April 30, 2023, the Company made total contributions of $5,778,000. The Company made no capital contributions during the three months ended July 29, 2023. Under the terms of the second limited partnership agreement, the Company has committed to make additional capital contributions of $14,222,000 to the fund. The Company accounts for investments in limited partnerships as equity method investments as the Company is deemed to have influence when it holds more than a minor interest. For the three months ended July 29, 2023 and July 30, 2022, the Company recorded its ownership percentage of the net losses of the limited partnerships, or $(21,000) and $(500,000), respectively, in equity method investment loss, net of $0 tax in the unaudited condensed consolidated statements of operations, respectively. At July 29, 2023 and April 30, 2023, the carrying value of the investments in the limited partnership funds of $18,623,000 and $18,644,000, respectively, was recorded in long-term investments on the unaudited condensed consolidated balance sheet.

Investment in Altoy

On September 15, 2021, the Company entered into a Share Sale and Purchase Agreement with Toygun whereby the Company sold 35% of the common shares of Altoy to Toygun. On October 14, 2022, the company sold an additional 35% of the common shares of Altoy to Toygun. As a result of the sales, the Company decreased its interest in Altoy from 85% to 15%. The Company no longer controls Altoy, and therefore, has deconsolidated Altoy in the Company's unaudited condensed consolidated financial statements. The Company maintains significant influence, accounts for its investment in Altoy as an equity method investment and records its proportion of any gains or losses of Altoy in equity method investment loss, net of tax. For the three months ended July 29, 2023, the Company recorded $0 for its ownership percentage of the net loss of the limited partnership in equity method investment loss, net of tax in the unaudited condensed consolidated statements of operations. At July 29, 2023 and April 30, 2023, the carrying value of the investment in Altoy of $114,000 was recorded in other assets on the unaudited condensed consolidated balance sheet.

6. Warranty Reserves

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The warranty reserve is included in other current liabilities on the unaudited condensed consolidated balance sheet. The related expense is included in cost of sales. Warranty reserve activity is summarized as follows for the three months ended July 29, 2023 and July 30, 2022, respectively (in thousands):

	Three Months Ended	
	July 29, 2023	July 30, 2022
Beginning balance	$ 3,642	$ 2,190
Warranty expense	1,750	1,239
Warranty costs settled	(765)	(441)
Ending balance	$ 4,627	$ 2,988

7. Intangibles, net

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

	July 29, 2023	April 30, 2023
Technology	$ 60,815	$ 60,817
Licenses	1,008	1,008
Customer relationships	72,644	72,645
Backlog	2,894	2,895
In-process research and development	550	550
Non-compete agreements	320	320
Trademarks and tradenames	68	68
Other	150	150
Intangibles, gross	138,449	138,453
Less accumulated amortization	(97,909)	(94,876)
Intangibles, net	$ 40,540	$ 43,577

The weighted average amortization period at July 29, 2023 and April 30, 2023 was three and four years, respectively. Amortization expense for the three months ended July 29, 2023 and July 30, 2022 was $3,030,000 and $5,869,000, respectively.

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

	Year ending April 30,
2024	$ 8,773
2025	9,494
2026	6,857
2027	5,786
2028	5,175
	$ 36,085

8. Goodwill

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

	UMS	LMS	MW	Total
Balance at April 30, 2023	$ 161,547	$ —	$ 19,254	$ 180,801
Change to goodwill	(4)	—	—	(4)
Balance at July 29, 2023	$ 161,543	$ —	$ 19,254	$ 180,797

Effective May 1, 2023, the reporting segments for goodwill are UMS, LMS and MW. The UMS segment includes goodwill from the acquisitions of Pulse Aerospace, LLC (“Pulse”), Arcturus UAV, Inc. (“Arcturus”), Telerob and Planck acquisitions. The MW segment includes goodwill from the purchase of certain assets of Intelligent Systems Group business segment (“ISG”) of Progeny Systems Corporation. The goodwill change to UMS is attributable to the Telerob acquisition recorded in Euros and translated to dollars at each reporting date. The MUAS reporting unit, included in the UMS reportable segment, is considered at an increased risk of failing future quantitative goodwill impairment tests as an impairment was recorded during the most recent annual goodwill impairment test performed during the fourth quarter ended April 30, 2023. The Company’s annual impairment test for the fiscal year ending April 30, 2024 will be performed during the fourth quarter. The intangibles included in the MUAS reporting unit of $16,701,000 as of July 29, 2023 will also be evaluated for potential impairment during the fourth quarter.

9. Debt

In connection with the consummation of the acquisition of Arcturus, a California corporation, pursuant to a Stock Purchase Agreement with Arcturus and each of the shareholders and other equity interest holders of Arcturus, to purchase 100% of the issued and outstanding equity of Arcturus (the "Arcturus Acquisition") on February 19, 2021, the Company, as borrower, and Arcturus, as guarantor, entered into a Credit Agreement with certain lenders, letter of credit issuers, Bank of America, N.A., as the administrative agent and the swingline lender, and BofA Securities, Inc., JPMorgan Chase Bank, N.A., and U.S. Bank National Association, as joint lead arrangers and joint bookrunners (the "Credit Agreement").

The Credit Agreement and its associated Security and Pledge Agreement set forth the terms and conditions for (i) a five-year $100,000,000 revolving credit facility, which includes a $10,000,000 sublimit for the issuance of standby and commercial letters of credit (the "Revolving Facility"), and (ii) a five-year amortized $200,000,000 term A loan (the "Term Loan Facility", and together with the Revolving Facility, the "Credit Facilities"). Certain existing letters of credit issued by JPMorgan Chase Bank were reserved for under the Revolving Facility at closing and remain outstanding under the terms thereof. Upon execution of the Credit Agreement, the Company drew the full principal of the Term Loan Facility for use in the acquisition of Arcturus. The Term Loan Facility requires payment of 5% of the outstanding obligations in each of the first four loan years, with the remaining 80% payable in loan year five, consisting of three quarterly payments of 1.25% each, with the remaining outstanding principal amount of the Term Loan Facility due and payable on the final maturity date. Proceeds from the Term Loan Facility were used in part to finance a portion of the cash consideration for the Arcturus Acquisition. Borrowings under the Revolving Facility may be used for working capital and other general corporate purposes.

Any borrowing under the Credit Agreement may be repaid, in whole or in part, at any time and from time to time without premium or penalty other than customary breakage costs, and any amounts repaid under the Revolving Facility may be reborrowed. Mandatory prepayments are required under the revolving loans when borrowings and letter of credit usage exceed the aggregate revolving commitments of all lenders. Mandatory prepayments are also required in connection with the disposition of assets to the extent not reinvested and unpermitted debt transactions.

In support of its obligations pursuant to the Credit Facilities, the Company has granted security interests in substantially all of the personal property of the Company and its domestic subsidiaries, including a pledge of the equity interests in its subsidiaries (limited to 65% of outstanding equity interests in the case of foreign subsidiaries), and the proceeds thereof, with customary exclusions and exceptions. The Company's existing and future domestic subsidiaries, including Arcturus, are guarantors for the Credit Facilities.

The Credit Agreement contains certain customary representations and warranties and affirmative and negative covenants, including certain restrictions on the ability of the Company and its subsidiaries (as defined in the Credit Agreement) to incur any additional indebtedness or guarantee indebtedness of others, to create liens on properties or assets, or to enter into certain asset and stock-based transactions. In addition, the Credit Agreement includes certain financial maintenance covenants, requiring that (x) the Consolidated Leverage Ratio (as defined in the Credit Agreement) shall not be more than 3.00 to 1.00 as of the end of any fiscal quarter and (y) the Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Agreement) shall not be less than 1.25 to 1.00 as of the end of any fiscal quarter.

On February 4, 2022, the Company entered into a First Amendment to Credit Agreement and Waiver relating to its existing Credit Agreement (the "First Amendment to Credit Agreement"). The First Amendment to Credit Agreement waives any event of default that may have occurred as a result of the potential failure by the Company to comply with the consolidated leverage ratio covenant set forth in the Credit Agreement for the fiscal quarter ended January 29, 2022. In addition, the parties amended the maximum permitted Consolidated Leverage Ratio, such that such ratio may not exceed 4.00 to 1.00 for the Company's fiscal quarters ended January 29, 2022 and April 30, 2022; 3.50 to 1.00 for any of the Company's fiscal quarters ending during the period from May 1, 2022 to October 31, 2022; and 3.00 to 1.00 for any fiscal quarter ending thereafter. On June 6, 2023, the Company entered into a Second Amendment to Credit Agreement relating to its existing credit Agreement which increased the sublimit from $10,000,000 to $25,000,000.

The Credit Agreement, as amended by the First Amendment to Credit Agreement, contains certain customary events of default, which include failure to make payments when due thereunder, the material inaccuracy of representations or warranties, failure to observe or perform certain covenants, cross-defaults, bankruptcy and insolvency-related events, certain judgments, certain ERISA-related events, invalidity of loan documents, or a Change of Control (as defined in the Credit Agreement). Upon the occurrence and continuation of an event of default, the Lenders may cease making future loans under the Credit Agreement and may declare all amounts owing under the Credit Agreement to be immediately due and payable.

The First Amendment to Credit Agreement also implemented certain secured overnight financing rate ("SOFR") interest rate mechanics and interest rate reference benchmark replacement provisions in order to effectuate the transition from LIBOR as a reference interest rate. Following the First Amendment to Credit Agreement, the Company has a choice of interest rates between (a) Term SOFR (with a 0% floor) plus the Applicable Margin; or (b) Base Rate (defined as the highest of (a) the Federal Funds Rate plus one-half percent (0.50%), (b) the Bank of America prime rate, and (c) the one (1) month SOFR plus one percent (1.00%)) plus the Applicable Margin. The Applicable Margin is based upon the Consolidated Leverage Ratio (as defined in the Credit Agreement) and whether the Company elects SOFR (ranging from 1.50 - 2.50%) or Base Rate (ranging from 0.50 - 1.50%). The Company may choose interest periods of one, three or six months with respect to Term SOFR and all such rates will include a 0.10% SOFR adjustment. The Company also remains responsible for certain commitment fees from 0.20-0.35% depending on the Consolidated Leverage Ratio, and administrative agent expenses incurred in relation to the Credit Facilities. In the event of a default, an additional 2% default interest rate in addition to the applicable rate if specified or the Base Rate plus Applicable Margin if an applicable rate is not specified. As of July 29, 2023, the Company is in compliance with all amended covenants.

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

	July 29, 2023	April 30, 2023
	(In thousands)	(In thousands)
Term loan	$ 130,000	$ 135,000
Revolving credit facility	—	—
Total debt	130,000	135,000
Less current portion	10,000	7,500
Total long-term debt, less current portion	120,000	127,500
Less unamortized debt issuance costs - term loans	1,463	1,596
Total long-term debt, net of unamortized debt issuance costs - term loans	$ 118,537	$ 125,904
Unamortized debt issuance costs - revolving credit facility	$ 723	$ 795
Current period interest rate	7.0%	7.1%

Future long-term debt principal payments at July 29, 2023 were as follows:

	(In thousands)
2024	$ 7,500
2025	10,000
2026	112,500
2027	—
2028	—
	$ 130,000

10. Leases

The Company leases certain buildings, land and equipment. At contract inception the Company determines whether the contract is, or contains, a lease and whether the lease should be classified as an operating or a financing lease. Operating leases are recorded in operating lease right-of-use assets, current operating lease liabilities and non-current operating lease liabilities on the unaudited condensed consolidated balance sheet.

The Company recognizes operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses its incremental borrowing rate based on the information available at commencement date to determine the present value of future payments and the appropriate lease classification. The Company defines the initial lease term to include renewal options determined to be reasonably certain. The Company's leases have remaining lease terms of less than one year to seven years, some of which may include options to extend the lease for up to nine years, and some of which may include options to terminate the lease after three years. If the Company determines the option to extend or terminate is reasonably certain, it is included in the determination of lease assets and liabilities. For operating leases, the Company recognizes lease expense for these leases on a straight-line basis over the lease term.

Many of the Company's real estate lease agreements contain incentives for tenant improvements, rent holidays, or rent escalation clauses. For tenant improvement incentives, if the incentive is determined to be a leasehold improvement owned by the lessee, the Company generally records incentive as a reduction to fixed lease payments thereby reducing rent expense. For rent holidays and rent escalation clauses during the lease term, the Company records rental expense on a straight-line basis over the term of the lease. For these lease incentives, the Company uses the date of initial possession as the commencement date, which is generally when the Company is given the right of access to the space and begins to make improvements in preparation for intended use.

The Company does not have any material restrictions or covenants in its lease agreements, sale-leaseback transactions, land easements or residual value guarantees.

In determining the inputs to the incremental borrowing rate calculation, the Company makes judgments about the value of the leased asset, its credit rating and the lease term including the probability of its exercising options to extend or terminate the underlying lease. Additionally, the Company makes judgments around contractual asset substitution rights in determining whether a contract contains a lease.

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

	Three Months Ended July 29, 2023	Three Months Ended July 30, 2022
Operating lease cost	$ 2,184	$ 1,590
Short term lease cost	385	188
Variable lease cost	513	260
Sublease income	—	—
Total lease costs, net	$ 3,082	$ 2,038

Supplemental lease information were as follows:

	Three Months Ended July 29, 2023 (In thousands)	Three Months Ended July 30, 2022 (In thousands)
Cash paid for amounts included in the measurement of operating lease liabilities	$ 2,241	$ 1,575
Right-of-use assets obtained in exchange for new lease liabilities	$ 247	$ 1,173
Weighted average remaining lease term	51 months	60 months
Weighted average discount rate	4.3%	3.4%

Maturities of operating lease liabilities as of July 29, 2023 were as follows (in thousands):

2024	$	6,860
2025		8,628
2026		5,233
2027		4,563
2028		2,646
Thereafter		3,249
Total lease payments		31,179
Less: imputed interest		(3,453)
Total present value of operating lease liabilities	$	27,726

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

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

	Three Months Ended July 29, 2023	Three Months Ended July 30, 2022
Balance, net of $0 and $8 deferred taxes, as of April 30, 2023 and April 30, 2022, respectively	$ (4,452)	$ (6,514)
Unrealized gain on available-for-sale investments, net of deferred tax expense of $0 and $6 for the three months ended July 29, 2023 and July 30, 2022, respectively	—	20
Change in foreign currency translation adjustments	(63)	(1,064)
Balance, net of $0 and $2 deferred taxes, as of July 29, 2023 and July 30, 2022, respectively	$ (4,515)	$ (7,558)

12. Customer-Funded Research & Development

Customer-funded R&D costs are incurred pursuant to contracts (revenue arrangements) to perform R&D activities according to customer specifications. These costs are direct contract costs and are expensed to cost of sales as costs are incurred. Revenue from customer-funded R&D contracts is recognized in accordance with ASC 606 over time as costs are incurred. Revenue from customer-funded R&D was approximately $24,383,000 and $22,999,000 for the three months ended July 29, 2023 and July 30, 2022, respectively.

13. Long-Term Incentive Awards

During the three months ended July 29, 2023, the Company granted awards under its 2021 Equity Incentive Plan (the “2021 Plan”) to key employees (“Fiscal 2024 LTIP”). Awards under the Fiscal 2024 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2024, July 2025 and July 2026, and (ii) performance-based restricted stock units (“PRSUs”), which vest based on the Company’s achievement of revenue and non-GAAP operating income targets for the three-year period ending April 30, 2026. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 250% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company’s achievement of the established revenue and non-GAAP operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of the Company’s common stock. For the three months ended July 29, 2023, the Company recorded $634,000 of compensation expense related to the Fiscal 2024 LTIP, respectively. The Company recorded no compensation expense related to the Fiscal 2024 LTIP for the three months ended July 30, 2022. At July 29, 2023, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2023 LTIP is $15,511,000.

During the three months ended July 30, 2022, the Company granted awards under the 2021 Plan to key employees ("Fiscal 2023 LTIP"). Awards under the Fiscal 2023 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2023, July 2024 and July 2025, and (ii) PRSUs, which vest based on the Company's achievement of revenue and non-GAAP operating income targets for the three-year period ending April 30, 2025. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 250% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company's achievement of the established revenue and non-GAAP operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of the Company's common stock. For the three months ended July 29, 2023 and July 30, 2022, the Company recorded $661,000 and $397,000 of compensation expense related to the Fiscal 2023 LTIP, respectively. At July 29, 2023, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2023 LTIP is $11,895,000.

During the three months ended July 31, 2021, the Company granted awards under its amended and restated 2006 Equity Incentive Plan (the "Restated 2006 Plan") to key employees ("Fiscal 2022 LTIP"). Awards under the Fiscal 2022 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2022, July 2023 and July 2024, and (ii) PRSUs, which vest based on the Company's achievement of revenue and non-GAAP operating income targets for the three-year period ending April 30, 2024. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 250% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company's achievement of the established revenue and non-GAAP operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of the Company's common stock. For the three months ended July 29, 2023 and July 30, 2022, the Company recorded $132,000 and $195,000 of compensation expense related to the Fiscal 2022 LTIP, respectively. At July 29, 2023, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2022 LTIP is $9,458,000.

During the three months ended August 1, 2020, the Company also granted awards under the Restated 2006 Plan to key employees ("Fiscal 2021 LTIP"). Awards under the Fiscal 2021 LTIP consist of: (i) time-based restricted stock awards, which vest in equal tranches in July 2021, July 2022 and July 2023, and (ii) PRSUs, which vest based on the Company's achievement of revenue and operating income targets for the three-year period ending April 30, 2023. During the three months ended July 29, 2023, the Company issued a total of 5,772 fully-vested shares of the Company's common stock to settle the PRSUs in the Fiscal 2021 LTIP. For the three months ended July 29, 2023 and July 30, 2022, the Company recorded no compensation expense and $76,000 of compensation expense related to the Fiscal 2021 LTIP, respectively.

At each reporting period, the Company reassesses the probability of achieving the performance targets for the PRSUs. The estimation of whether the performance targets will be achieved requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised. No compensation cost is ultimately recognized for awards for which employees do not render the requisite service and are forfeited.

14. Income Taxes

For the three months ended July 29, 2023, the Company recorded a provision for income taxes of $1,314,000 yielding an effective tax rate of 5.7%. For the three months ended July 30, 2022, the Company recorded a provision for income taxes of $2,606,000 yielding an effective tax rate of (49.3)%. The variance from statutory rates for the three months ended July 29, 2023 was primarily due to foreign derived intangible income deductions and to federal R&D credits. The variance from statutory rates for the three months ended July 30, 2022 was primarily due to a combination of federal R&D credits and the foreign-derived intangible income deduction and projected fiscal 2023 pre-tax income.

15. Share Repurchase Plan and Issuances

The Company's share repurchase program announced September 2015 was terminated by the Company's Board of Directors in September 2022. There were no repurchases of the Company's common stock during the three months ended July 30, 2022.

On September 8, 2022 the Company filed an S-3 shelf registration statement to offer and sell shares of the Company's common stock, including a prospectus supplement in relation to an Open Market Sale Agreement[SM], also dated September 8, 2022, with Jefferies LLC relating to the proposed offer and sale of shares of our common stock having an aggregate offering price of up to $200,000,000 from time to time through Jefferies LLC as the sales agent. There were no shares sold during the three months ended July 29, 2023. As of July 29, 2023, the Company has sold 1,109,730 of its shares for total gross proceeds of $108,686,000, total proceeds received of $105,425,000, net of commission expense and $104,649,000 net of equity issuance costs. The Company has $91,314,000 aggregate offering price remaining available under the registration statement.

16. Business Acquisitions

Planck Acquisition

On August 17, 2022 the Company closed its acquisition of Planck, a leading provider of advanced unmanned aircraft navigation solutions based in San Diego, California. Pursuant to the purchase agreement, the Company paid a total purchase price of $5,105,000 from cash-on-hand plus a $500,000 holdback for certain assets of Planck. Planck is a small technology company incorporated into AeroVironment's UMS segment for the MUAS product line to focus on integrating its flight autonomy solutions, such as ACE™, or Autonomous Control Engine, into the Company's offerings to enable safe, autonomous takeoff and landing from moving platforms on land or at sea in GPS-denied environments. Other solutions include AVEM™, a fully integrated mobile tethered sensor platform designed for persistent autonomous operation from moving vehicles and vessels in any environment, and a suite of machine-learning object detection and tracking systems that are customized for specific end-user needs. The Company accounted for the acquisition under the acquisition method of accounting for business combinations.

The following table summarizes the final allocation of the purchase price over the estimated fair value of the assets and liabilities assumed in the acquisition of Planck. During the three months ended July 29, 2023, the Company finalized its determination of the fair value of the assets and liabilities assumed in the acquisition of Planck and no significant changes were recorded from the original estimation (in thousands):

	August 17, 2022
Fair value of assets acquired:	
Technology	$ 3,200
Backlog	700
Inventories	109
Other assets	19
Property and equipment, net	13
Goodwill	1,633
Total identifiable net assets	$ 5,674
Fair value of liabilities assumed:	
Customer advances	69
Total liabilities assumed	69
Total identifiable net assets	$ 5,605
Fair value of consideration transferred:	
Cash	$ 5,105
Holdback	500
Total consideration	$ 5,605

Determining the fair value of the intangible assets acquired requires significant judgment, including the amount and timing of expected future cash flows, long-term growth rates and discount rates. The fair value of the intangibles assets was determined using a discounted cash flow analysis, which were based on the Company's preliminary estimates of future sales, earnings and cash flows after considering such factors as general market conditions, anticipated customer demand, changes in working capital, long term business plans and recent operating performance. Use of different estimates and judgments could yield materially different results.

The goodwill is attributable to the synergies the Company expects to achieve through leveraging the acquired technology to its existing customers, the workforce of Planck and expected future customers in the MUAS market. For tax purposes the acquisition was treated as an asset acquisition and the goodwill is deductible.

Planck Supplemental Pro Forma Information (unaudited)

The following unaudited pro forma summary presents condensed consolidated information of the Company as if the business acquisition had occurred on May 1, 2021 (in thousands):

	Three Months Ended July 30, 2022
Revenue	$ 110,460
Net loss attributable to AeroVironment, Inc.	$ (7,741)

The Company did not have any material, nonrecurring pro forma adjustments directly attributable to the business acquisition included in the reported pro forma revenue and earnings.

These pro forma amounts have been calculated by applying the Company's accounting policies, assuming transaction costs had been incurred during the three months ended July 31, 2021, reflecting the additional amortization that would have been charged and including the results of Planck prior to acquisition.

The unaudited pro forma supplemental information is based on estimates and assumptions, which the Company believes are reasonable and are not necessarily indicative of the results that have been realized had the acquisition been consolidated in the tables above as of May 1, 2021, nor are they indicative of results of operations that may occur in the future.

17. Pension

As part of the Telerob acquisition, the Company acquired a small foreign-based defined benefit pension plan. The Rheinmetall-Zusatzversorgung service plan covers three former employees based on individual contracts issued to the employees. No other employees are eligible to participate. The Company has reinsurance policies that were taken out for participating former employees, which were pledged to the employees. The measurement date for the Company's pension plan was April 30, 2023.

The table below includes the projected benefit obligation and fair value of plan assets as of April 30, 2023. The net fair value of plan assets (in thousands) is recorded in other assets on the unaudited condensed consolidated balance sheet.

	April 30, 2023 (In thousands)
Projected benefit obligation	$ (3,192)
Fair value of plan assets	3,870
Funded status of the plan	$ 678

The projected benefit obligation includes assumptions of a discount rate of 2.4% and pension increase for in-payment benefits of 1.5% for July 29, 2023 and April 30, 2023. The accumulated benefit obligation is approximately equal to the Company's projected benefit obligation. The plan assets consist of reinsurance policies for each of the three pension commitments. The reinsurance policies are fixed-income investments considered a level 2 fair value hierarchy based on observable inputs of the policy. The Company does not expect to make any contributions to the plan in the fiscal year ending April 30, 2024. The Company assumed expected return on plan assets of 2.9% for July 29, 2023 and April 30, 2023.

Expected benefits payments as of April 30, 2023 (in thousands):

2024	$	177
2025		190
2026		192
2027		195
2028		197
2029-2033		1,008
Total expected benefit payments	$	1,959

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

	Three Months Ended July 29, 2023	Three Months Ended July 30, 2022
	(In thousands)	(In thousands)
Expected return on plan assets	$ —	$ —
Interest cost	30	(17)
Actuarial gain	—	241
Net periodic benefit cost	$ 30	$ 224

18. Segments

Effective May 1, 2023, the Company reorganized its segments. Due to the Company's growth as an organization, the reorganization was implemented to drive additional operational improvements, foster synergies and provide leaders with greater autonomy over their product lines. The Company's reportable segments are as follows:

Unmanned Systems—The UMS segment, which consists of the former Small Unmanned Aircraft Systems, Medium Unmanned Aircraft and Unmanned Ground Vehicle Systems segments, focuses primarily on small UAS products designed to operate reliably at lower altitudes in a wide range of environmental conditions, providing a vantage point from which to collect and deliver valuable information as well as related support services including training, spare parts, product repair, product replacement, and the customer contracted operation; medium UAS products designed to operate reliably at medium altitudes with longer range including airborne platforms, payloads and payload integration, ground control systems, and ground support equipment and other items and services related generally to unmanned aircraft systems historically including ISR services; and UGV products designed to help responders remove, contain or neutralize these hazards in situations where improvised explosive devices, caustic chemicals, nuclear, radiological or biological hazards or violent individuals represent significant danger to humans.

Loitering Munitions Systems—The LMS segment, which consists of the former Tactical Missile Systems segment, focuses primarily on tube-launched aircraft that deploy with the push of a button, fly at higher speeds than small UAS products, and perform either effects delivery or reconnaissance missions, and related support services including training, spare parts, product repair, and product replacement. The LMS segment also includes customer-funded research and development programs.

MacCready Works—The MW segment, which consists of the former MacCready Works and High Altitude Pseudo-Satellite systems ("HAPS") segments, focuses on customer-funded research and development in the areas of HAPS, robotics, sensors, software analytics, data intelligence and connectivity. This segment contains the Company's center of excellence for the development of machine learning, object identification and autonomy solutions and also seeks to identify new products, services and businesses for the Company.

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. The following table (in thousands) sets forth segment revenue, gross margin, income (loss) from operations and adjusted income (loss) from operations for the periods indicated. Adjusted income (loss) from operations is defined as income (loss) from operations before intangible amortization, amortization of purchase accounting adjustment related to increasing the carrying value of certain assets to fair value, and acquisition related expenses.

	Three Months Ended July 29, 2023			
	UMS	LMS	MW	Total
Revenue	$ 98,207	$ 30,917	$ 23,223	$ 152,347
Gross margin	48,369	12,323	4,968	65,660
Income (loss) from operations	21,749	4,910	(292)	26,367
Acquisition-related expenses	673	—	—	673
Amortization of acquired intangible assets and other purchase accounting adjustments	2,601	—	565	3,166
Adjusted income from operations	$ 25,023	$ 4,910	$ 273	$ 30,206

	Three Months Ended July 30, 2022			
	UMS	LMS	MW	Total
Revenue	$ 67,775	$ 23,011	$ 17,730	$ 108,516
Gross margin	21,504	7,746	4,464	33,714
(Loss) income from operations	(3,698)	(1,031)	1,455	(3,274)
Acquisition-related expenses	304	—	31	335
Amortization of acquired intangible assets and other purchase accounting adjustments	6,231	—	616	6,847
Adjusted income (loss) from operations	$ 2,837	$ (1,031)	$ 2,102	$ 3,908

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

	July 29, 2023				
	UMS	LMS	MW	Corporate	Total
Identifiable assets	$ 423,495	$ 114,768	$ 48,548	$ 239,249	$ 826,060

	April 30, 2023				
	UMS	LMS	MW	Corporate	Total
Identifiable assets	$ 474,417	$ 103,375	$ 39,650	$ 207,135	$ 824,577

19. Subsequent Events

On August 22, 2023 the Company announced its anticipated acquisition of Tomahawk Robotics, Inc. (“Tomahawk Robotics”), a leader in AI-enabled robotic control systems. The Company and Tomahawk Robotics entered into a definitive agreement under which AeroVironment will acquire 100% of Tomahawk Robotics equity for a total purchase price of $120,000,000 to be paid in a mix of cash and stock. The acquisition will enable deeper integration of both companies’ technology, leading to enhanced interoperability and interconnectivity of unmanned systems through a singular platform with similar control features. Tomahawk Robotics will be incorporated into the Unmanned Systems segment.

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

The following is a discussion and analysis of our financial condition and the results of operations as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the "Condensed Consolidated Financial Statements" and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions. Such forward-looking statements are based on current expectations, estimates and projections about our industry, our management's beliefs and assumptions made by our management. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2023, as updated by our subsequent filings under the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

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

Critical Accounting Policies and Estimates

The following should be read in conjunction with the critical accounting estimates presented in our Annual Report on Form 10-K for the fiscal year ended April 30, 2023.

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

Revenue Recognition

We recognize revenue in accordance with ASU 2014-09, *Revenue from Contracts with Customers* ("ASC 606"). ASC 606 requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which we expect to be entitled in exchange for those goods or services.

Revenue for LMS product deliveries and customer-funded research and development contracts is recognized over time as costs are incurred. Contract services revenue is composed of revenue recognized on contracts for the provision of services, including repairs and maintenance, training, engineering design, development and prototyping activities, and technical support services. Contract services revenue, including ISR services, is recognized over time as services are rendered. We elected the right to invoice practical expedient in which if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, such as flight hours for ISR services, the entity may recognize revenue in the amount to which the entity has a right to invoice. During the year ended April 30, 2023, all of our MUAS COCO sites were closed. Training services are recognized over time using an output method based on days of training completed. For performance obligations satisfied over time, revenue is generally recognized using costs incurred to date relative to total estimated costs at completion to measure progress. Incurred costs represent work performed, which correspond with, and thereby best depict, transfer of control to the customer. Contract costs include labor, materials, subcontractors' costs, other direct costs, and indirect costs applicable on government and commercial contracts.

For performance obligations which are not satisfied over time per the aforementioned criteria above, revenue is recognized at the point in time in which each performance obligation is fully satisfied. Our Unmanned Systems product sales revenue is composed of revenue recognized on contracts for the delivery of SUAS, MUAS and UGV systems and spare parts, respectively. Revenue is recognized at the point in time when control transfers to the customer, which generally occurs when title and risk of loss have passed to the customer.

We review cost performance, estimates-to-complete and variable consideration at least quarterly and in many cases more frequently. Adjustments to original estimates for a contract's revenue, estimated costs at completion and estimated profit or loss are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications, including the finalization of undefinitized contract actions, occur. The impact of revisions in estimate of completion and variable consideration for all types of contracts are recognized on a cumulative catch-up basis in the period in which the revisions are made. Changes in variable consideration associated with the finalization of undefinitized contract actions could result in cumulative catch up adjustments to revenue that could be material. During the three months ended July 29, 2023 and July 30, 2022, changes in accounting estimates on contracts recognized over time are presented below.

For the three months ended July 29, 2023 and July 30, 2022, favorable and unfavorable cumulative catch-up adjustments included in revenue were as follows (in thousands):

	Three Months Ended	
	July 29, 2023	July 30, 2022
Gross favorable adjustments	$ 2,704	$ 1,288
Gross unfavorable adjustments	(1,119)	(2,093)
Net favorable (unfavorable) adjustments	$ 1,585	$ (805)

For the three months ended July 29, 2023, favorable cumulative catch-up adjustments of $2.7 million were primarily due to final cost adjustments on 11 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of $1.1 million were primarily related to higher than expected costs on seven contracts, which individually were not material.

For the three months ended July 30, 2022, favorable cumulative catch-up adjustments of $1.3 million were primarily due to final cost adjustments on 14 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of $2.1 million were primarily related to higher than expected costs on four contracts. During the three months ended July 30, 2022, we revised our estimates of the total expected costs to complete an LMS variant contract. The aggregate impact of these adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was a decrease to revenue of approximately $1.1 million.

Goodwill

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

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

Subsequent to the performance of our annual goodwill impairment test for fiscal year 2023, in May 2023 a trigger event was identified that indicated that the carrying value of the MUAS reporting unit exceeded its fair value. Specifically, we received notification that we were not down selected for a U.S. DoD program of record which resulted in a significant decrease in the projected future cash flows of the MUAS reporting unit. As a result, we updated our estimates of long-term future cash flows to reflect lower revenue and EBITDA growth rate expectations used in the valuation of the MUAS reporting unit. These changes in estimates, resulted in the recognition of a goodwill impairment charge of $156.0 million in the MUAS reporting unit during the fiscal year ended April 30, 2023.

Our MUAS reporting unit is considered at an increased risk of failing future quantitative goodwill impairment tests as an impairment was recorded during the most recent annual goodwill impairment test performed during the fourth quarter ended April 30, 2023. The intangibles included in the MUAS reporting unit of $16.7 million as of July 29, 2023 will also be evaluated for potential impairment during the fourth quarter goodwill impairment test.

The estimates and assumptions used to determine the fair value of our reporting units are highly subjective in nature. Actual results can be materially different from the estimates and assumptions. If actual market conditions are less favorable than those projected by the industry or by us, or if events occur or circumstances change that would reduce the estimated fair value of our indefinite-lived intangible assets below the carrying amounts, we could recognize future impairment charges, the amount of which could be material.

Fiscal Periods

Due to our fixed year end date of April 30, our first and fourth quarters each consist of approximately 13 weeks. The second and third quarters each consist of exactly 13 weeks. Our first three quarters end on a Saturday. Our 2024 fiscal year ends on April 30, 2024 and our fiscal quarters end on July 29, 2023, October 28, 2023 and January 27, 2024, respectively.

Results of Operations

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

Three Months Ended July 29, 2023 Compared to Three Months Ended July 30, 2022

	Three Months Ended	
	July 29, 2023	July 30, 2022
Revenue	$ 152,347	$ 108,516
Cost of sales	86,687	74,802
Gross margin	65,660	33,714
Selling, general and administrative	23,827	21,943
Research and development	15,466	15,045
Income (loss) from operations	26,367	(3,274)
Other loss:		
Interest expense, net	(2,008)	(1,603)
Other expense, net	(1,129)	(406)
Income (loss) before income taxes	23,230	(5,283)
Provision for income taxes	1,314	2,606
Equity method investment loss, net of tax	(21)	(500)
Net income (loss)	$ 21,895	$ (8,389)

We have identified three reportable segments, Unmanned Systems ("UMS"), Loitering Munitions Systems ("LMS") and MacCready Works ("MW"). The UMS segment consists of our small UAS, medium UAS and UGV product lines. The LMS segment consists of our renamed existing tactical missile systems product lines. The MW segment consists of the Company's MacCready Works products and services and the development of High Altitude Pseudo-Satellite systems ("HAPS"). The following table (in thousands) sets forth our revenue, gross margin and adjusted operating income (loss) from operations generated by each reporting segment for the periods indicated. Adjusted operating income is defined as operating income before intangible amortization, amortization of purchase accounting adjustments, and acquisition related expenses. All corporate and headquarter expenses are allocated to the reportable segments.

	Three Months Ended July 29, 2023			
	UMS	LMS	MW	Total
Revenue	$ 98,207	$ 30,917	$ 23,223	$ 152,347
Gross margin	48,369	12,323	4,968	65,660
Income (loss) from operations	21,749	4,910	(292)	26,367
Acquisition-related expenses	673	—	—	673
Amortization of acquired intangible assets and other purchase accounting adjustments	2,601	—	565	3,166
Adjusted income from operations	$ 25,023	$ 4,910	$ 273	$ 30,206

	Three Months Ended July 30, 2022			
	UMS	LMS	MW	Total
Revenue	$ 67,775	$ 23,011	$ 17,730	$ 108,516
Gross margin	21,504	7,746	4,464	33,714
(Loss) income from operations	(3,698)	(1,031)	1,455	(3,274)
Acquisition-related expenses	304	—	31	335
Amortization of acquired intangible assets and other purchase accounting adjustments	6,231	—	616	6,847
Adjusted income (loss) from operations	$ 2,837	$ (1,031)	$ 2,102	$ 3,908

The Company recorded intangible amortization expense and other purchase accounting adjustments in the following categories on the accompanying unaudited condensed consolidated statements of operations:

	Three Months Ended	
	July 29, 2023	July 30, 2022
Cost of sales:		
Product sales	$ 1,041	$ 1,026
Contract services	1,356	1,956
Selling, general and administrative	769	3,865
Total	$ 3,166	$ 6,847

Revenue. Revenue for the three months ended July 29, 2023 was $152.3 million, as compared to $108.5 million for the three months ended July 30, 2022, representing an increase of $43.8 million, or 40%. The increase in revenue was due to an increase in product revenue of $61.5 million, partially offset by a decrease in service revenue of $17.7 million. The increase in product revenue was primarily due to increases in UMS and LMS product revenue. The decrease in service revenue was primarily due to a decrease in UMS and LMS service revenue, partially offset by an increase in MW service revenue. We expect the lower levels of UMS service revenues to continue through fiscal 2024 due to the closure of all COCO site locations. With the higher backlog, the increase in the UMS product revenues as compared to the prior year period is expected to continue for the remainder of the fiscal year ending April 30, 2024.

Cost of Sales. Cost of sales for the three months ended July 29, 2023 was $86.7 million, as compared to $74.8 million for the three months ended July 30, 2022, representing an increase of $11.9 million, or 16%. The increase in cost of sales was a result of an increase in product cost of sales of $28.7 million, partially offset by a decrease in service costs of sales of $16.8 million. The increase in product costs of sales was primarily due to an increase in product revenue, partially offset by a favorable product mix. The decrease in service cost of sales was primarily due to a decrease in service revenue. Cost of sales for the three months ended July 29, 2023 included $2.4 million of intangible amortization and other related non-cash purchase accounting expenses as compared to $3.0 million for the three months ended July 30, 2022. Cost of sales for the three months ended July 30, 2022 also included $4.0 million of depreciation of in-service ISR assets. As a percentage of revenue, cost of sales decreased from 69% to 57%, primarily due to an increase in the proportion of product revenue to total revenue and a favorable product mix.

Gross Margin. Gross margin for the three months ended July 29, 2023 was $65.7 million, as compared to $33.7 million for the three months ended July 30, 2022, representing an increase of $31.9 million, or 95%. The increase in gross margin was primarily due to an increase in product margin of $32.8 million, partially offset by a decrease in service margin of $0.8 million. The increase in product margin was primarily due to the increase in product sales and a favorable product mix. The decrease in service margin was primarily due to the decrease in service revenue. As a percentage of revenue, gross margin increased from 31% to 43%, primarily due to an increase in the proportion of product revenue to total revenue and a favorable product mix.

Selling, General and Administrative. SG&A expense for the three months ended July 29, 2023 was $23.8 million, or 16% of revenue, as compared to SG&A expense of $21.9 million, or 20% of revenue, for the three months ended July 30, 2022. The increase in SG&A expense was primarily due to an increase in employee related expenses, partially offset by a decrease in intangible amortization and other non-cash purchase accounting expenses largely driven by the accelerated amortization of COCO customer relationships recorded during the three months ended April 30, 2023.

Research and Development. R&D expense for the three months ended July 29, 2023 was $15.5 million, or 10% of revenue, as compared to R&D expense of $15.0 million, or 14% of revenue, for the three months ended July 30, 2022, primarily due to an increase in development activities regarding enhanced capabilities for our products, development of new product lines and support for our acquired businesses.

Interest Expense, net. Interest expense, net for the three months ended July 29, 2023 was $2.0 million compared to interest expense, net of $1.6 million for the three months ended June 30, 2022. The increase in interest expense, net was primarily due to an increase in interest expense resulting from higher interest rates on our debt facility, partially offset by lower average outstanding balances.

Other Expense, net. Other expense, net, for the three months ended July 29, 2023 was $1.1 million compared to other expense, net of $0.4 million for the three months ended July 30, 2022. Other expense, net for the three months ended July 29, 2023 includes unrealized losses associated with decreases in the fair market value for equity security investments.

Provision for Income Taxes. Our effective income tax rate was 5.7% for the three months ended July 29, 2023, as compared to (49.3)% for the three months ended June 30, 2022. The increase in our effective income tax rate was in part due to an increase in projected full year income before income taxes combined with increases in expected foreign-derived intangible income deductions and federal R&D tax credits. The effective income tax rate for the three months ended July 29, 2023 was primarily impacted by expected federal R&D tax credits, foreign-derived intangible income deductions and excess tax benefits on equity awards.

Equity Method Investment Loss, net of Tax. Equity method investment loss, net of tax for the three months ended July 29, 2023 was $21 thousand as compared to equity method investment loss, net of tax of $0.5 million for the three months ended July 30, 2022.

Backlog

Consistent with ASC 606, we define funded backlog as remaining performance obligations under firm orders for which funding is currently appropriated to us under a customer contract. As of July 29, 2023, our funded backlog was approximately $539.7 million, as compared to $424.1 million as of April 30, 2023.

In addition to our funded backlog, we also had unfunded backlog of $174.9 million as of July 29, 2023. Unfunded backlog does not meet the definition of a performance obligation under ASC 606. We define unfunded backlog as the total remaining potential order amounts under cost reimbursable and fixed price contracts with (i) multiple one-year options and indefinite delivery, indefinite quantity ("IDIQ") contracts, or (ii) incremental funding. Unfunded backlog does not obligate the customer to purchase goods or services. There can be no assurance that unfunded backlog will result in any orders in any particular period, if at all. Management believes that unfunded backlog does not provide a reliable measure of future estimated revenue under our contracts. Unfunded backlog does not include the remaining potential value associated with a U.S. Army IDIQ-type contract for SUAS because values for each of the other domains within the contract have not been disclosed by the customer, and we cannot be certain that we will secure all task orders issued against the contract.

Because of possible future changes in delivery schedules and/or cancellations of orders, backlog at any particular date is not necessarily representative of actual sales to be expected for any succeeding period, and actual sales for the year may not meet or exceed the backlog represented. Our backlog is typically subject to large variations from quarter to quarter as existing contracts expire or are renewed or new contracts are awarded. A majority of our contracts, specifically our IDIQ contracts, do not currently obligate the U.S. government to purchase any goods or services. Additionally, all U.S. government contracts included in backlog, whether or not they are funded, may be terminated at the convenience of the U.S. government.

Liquidity and Capital Resources

On September 8, 2022 we filed an S-3 shelf registration statement to offer and sell shares of our common stock, including a prospectus supplement in relation to an Open Market Sale Agreement℠, also dated September 8, 2022, with Jefferies LLC relating to the proposed offer and sale of shares of our common stock having an aggregate offering price of up to $200.0 million from time to time through Jefferies LLC as our sales agent. As of July 29, 2023, we have sold 1,109,730 of our shares for total gross proceeds of $108.7 million and $105.4 million proceeds received, net of commission expense and $104.6 million net of equity issuance costs. We have $91.3 million aggregate offering price remaining available under the registration statement.

On February 19, 2021 in connection with the consummation of the Arcturus acquisition, we entered into the Credit Agreement for (i) the Revolving Facility, and (ii) the Term Loan Facility, and together with the Revolving Credit

Facility, the “Credit Facilities”. The Term Loan Facility requires payment of 5% of the outstanding obligations in each of the first four loan years, with the remaining 80.0% payable in loan year five, consisting of three quarterly payments of 1.25% each, with the remaining outstanding principal amount of the Term Loan Facility due and payable on the final maturity date. Proceeds from the Term Loan Facility were used in part to finance a portion of the cash consideration for the Arcturus acquisition. Our ability to borrow under the Revolving Facility is reduced by outstanding letters of credit of $11.3 million as of July 29, 2023. As of July 29, 2023, approximately $88.7 million was available under the Revolving Facility. Borrowings under the Revolving Facility may be used for working capital and other general corporate purposes. Refer to Note 9—Debt to our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details. In addition, Telerob has a line of credit of €5.5 million ($6.1 million) available for issuing letters of credit of which €1.9 million ($2.1 million) was outstanding as of July 29, 2023.

We anticipate funding our normal recurring trade payables, accrued expenses, ongoing R&D costs and obligations under the Credit Facilities through our existing working capital and funds provided by operating activities including those provided by our recent acquisitions. The majority of our purchase obligations are pursuant to funded contractual arrangements with our customers. We believe that our existing cash, cash equivalents, cash provided by operating activities and other financing sources will be sufficient to meet our anticipated working capital, capital expenditure requirements, future obligations related to the recent acquisitions and obligations under the Credit Facilities during the next twelve months. There can be no assurance, however, that our business will continue to generate cash flow at current levels. If we are unable to generate sufficient cash flow from operations, then we may be required to sell assets, reduce capital expenditures or draw on our Credit Facilities. We anticipate that existing sources of liquidity, Credit Facilities, and cash flows from operations will be sufficient to satisfy our cash needs for the foreseeable future.

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

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

During the fiscal year ended April 30, 2022, we made certain commitments outside of the ordinary course of business, including capital contribution commitments to a second limited partnership fund. Under the terms of a new limited partnership agreement, we have committed to make capital contributions to such fund totaling $20.0 million, inclusive of the expected reinvestment of distributions from our existing limited partnership fund, of which $14.2 million was remaining at June 29, 2023. The contributions are anticipated to be paid over the next four fiscal years. The UGV second year earnout of €2.0 million (approximately $2.2 million) is expected to be paid during the three months ended October 28, 2023. The recently announced acquisition of Tomahawk Robotics, Inc. is expected to close during the three months ended October 28, 2023 and a total purchase price of $120.0 million will be paid with a mix of cash and stock. Due to the new internal revenue service tax capitalization rules, Section 174, we expect an increase in cash paid for U.S. federal income taxes during the fiscal year ended April 30, 2024 relative to prior periods.

Cash Flows

The following table provides our cash flow data for the three months ended July 29, 2023 and July 30, 2022 (in thousands):

	Three Months Ended	
	July 29, 2023	July 30, 2022
	(Unaudited)	
Net cash (used in) provided by operating activities	$ (17,062)	$ 15,887
Net cash (used in) provided by investing activities	$ (3,632)	$ 3,787
Net cash used in financing activities	$ (6,315)	$ (3,331)

Cash (Used in) Provided by Operating Activities. Net cash used in operating activities for the three months ended July 29, 2023 increased by $32.9 million to $17.1 million, as compared to net cash provided by operating activities of $15.9 million for the three months ended July 30, 2022. The increase in net cash used in operating activities was primarily due to a decrease in cash as a result of changes in operating assets and liabilities of $61.0 million, largely related to inventories, unbilled receivables and retentions, prepaid expenses and other assets and accounts payable due to year over year timing differences as well as a decrease in non-cash expenses of $2.2 million primarily due to a decrease in depreciation and amortization, partially offset by an increase in net income of $30.3 million.

Cash (Used in) Provided by Investing Activities. Net cash used in investing activities increased by $7.4 million to $3.6 million for the three months ended July 29, 2023, as compared to net cash provided by investing activities of $3.8 million for the three months ended July 30, 2022. The increase in net cash used in investing activities was primarily due to a decrease in net redemptions of available-for-sale investments of $12.0 million, partially offset by a decrease in equity securities investments of $2.8 million and a decrease in acquisitions of property and equipment of $1.8 million.

Cash Used in Financing Activities. Net cash used in financing activities increased by $3.0 million to $6.3 million for the three months ended July 29, 2023, as compared to net cash used in financing activities of $3.3 million for the three months ended July 30, 2022. The increase in net cash used in financing activities was primarily due to an increase in principal payment of the term loan of $2.5 million.

New Accounting Standards

Please refer to Note 1—Organization and Significant Accounting Policies to our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for the conclusion that we did not adopt any accounting standards during the three months ended July 29, 2023.

Recent Developments

On August 22, 2023 we announced our anticipated acquisition of Tomahawk Robotics, Inc. (“Tomahawk Robotics”), a leader in AI-enabled robotic control systems. Under the definitive agreement under we entered into with Tomahawk Robotics, we will acquire 100% of Tomahawk Robotics equity for a total purchase price of $120.0 million to be paid in a mix of cash and stock. Refer to Note 19—Subsequent Events to our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

It is our policy not to enter into interest rate derivative financial instruments. On February 19, 2021 in connection with the consummation of the Arcturus Acquisition, we entered into the Credit Facilities. The current outstanding balance of the Credit Facilities is $130.0 million and bears a variable interest rate. The market interest rate has increased significantly, and if market interest rates continue to increase, interest due on the Credit Facilities would increase. An increase or decrease in the variable interest rate of 100 basis points would result in an increase or decrease to our interest expense for the fiscal year ending April 30, 2024 of approximately $1.0 million.

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. We occasionally engage in forward contracts in foreign currencies to limit our exposure on non-U.S. dollar transactions. With the acquisition of Telerob, a portion of our cash balance is denominated in Euros which is Telerob's functional currency.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

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

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of July 29, 2023, the end of the period covered by this Quarterly Report on Form 10-Q.

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of July 29, 2023, the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended July 29, 2023 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

On August 30, 2023, a securities class action complaint was filed in the U.S. District Court for the Eastern District of Virginia by Jesse Joseph Bissing naming AeroVironment; Wahid Nawabi, our President and Chief Executive Officer; and Kevin McDonnell, our Senior Vice President and Chief Financial Officer, as defendants. See Bissing v. AeroVironment, Inc., No. 1:23-cv-01160 (E.D. Va.). The complaint asserts violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, claiming that the defendants made false and materially misleading statements regarding revenue and earnings guidance issued by the company for our fiscal year 2022. The plaintiff seeks to represent a proposed class of all persons who purchased or otherwise acquired our common stock during the period June 29, 2021 through December 7, 2021. The complaint seeks a jury trial and unspecified compensatory damages, interest, and attorneys' fees and other costs. As of the date of this filing, we have not been served with the complaint.

On August 9, 2021, a former employee filed a class action complaint against AeroVironment in California Superior Court in Los Angeles, California alleging various claims pursuant to the California Labor Code related to wages, meal breaks, overtime and other recordkeeping matters. The complaint seeks a jury trial and payment of various alleged unpaid wages, penalties, interest and attorneys' fees in unspecified amounts. We filed our answer on December 16, 2021. Discovery in this lawsuit has begun and is ongoing. We continue to mount a vigorous defense.

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended April 30, 2023. 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. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

During the three months ended July 29, 2023, none of our directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit Number	Description
2.1(1)	Agreement and Plan of Merger, dated as of August 18, 2023, by and among AeroVironment, Inc., Tropic Merger Sub, Inc., Tomahawk Robotics, Inc., and Shareholder Representative Services LLC, solely in its capacity as the Stockholder Representative.
3.1(2)	Amended and Restated Certificate of Incorporation of AeroVironment, Inc.
3.2(3)	Fourth Amended and Restated Bylaws of AeroVironment, Inc., amended as of December 1, 2022.
10.1(4)	Second Amendment to Credit Agreement and Waiver, dated June 6, 2023, by and among AeroVironment, Inc., certain lenders, letter of credit issuers, Bank of America, N.A., as the administrative agent and the swingline lender, and BofA Securities, Inc., JPMorgan Chase Bank, N.A., and U.S. Bank National Association.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32#	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document – The instance document does not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File formatted as Inline XBRL and contained in Exhibit 101

(1) Incorporated by reference herein to Exhibit 2.1 to the Company's Current Report on Form 8-K filed August 22, 2023 (File No. 001-33261).
(2) Incorporated by reference herein to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed March 9, 2007 (File No. 001-33261).
(3) Incorporated by reference herein to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed December 7, 2022 (File No. 001-33261).
(4) Incorporated by reference herein to Exhibit 10.41 to the Company's Annual Report on Form 10-K, filed with June 27, 2023 (File No. 001-33261).

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

SIGNATURES

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

Date: September 5, 2023

AEROVIRONMENT, INC.

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

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

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

Exhibit 31.1

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

I, Wahid Nawabi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AeroVironment, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 5, 2023

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

Exhibit 31.2

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

I, Kevin P. McDonnell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AeroVironment, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 5, 2023

/s/ Kevin P. McDonnell
Kevin P. McDonnell
Senior Vice President and Chief Financial Officer

Exhibit 32

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

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

The Quarterly Report on Form 10-Q for the quarter ended July 29, 2023 (the “Periodic Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ Kevin P. McDonnell
Kevin P. McDonnell
Senior Vice President and Chief Financial Officer

Dated: September 5, 2023

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.