

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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)
900 Innovators Way
Simi Valley, CA
(Address of Principal Executive Offices)

95-2705790
(I.R.S. Employer Identification No.)
93065
(Zip Code)

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

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

Title of Class
Common Stock, par value \$0.0001 per share

Trading Symbol(s)
AVAV

Name of each exchange on which registered
The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [] No [x]

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 [x] 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 [x] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

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 [x] Accelerated filer [] Smaller reporting company []
Non-accelerated filer [] 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 Act). Yes [] No [x]

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price on the NASDAQ Global Select Market on October 28, 2018 was approximately \$1,893.7 million.

As of June 19, 2019, the issuer had 23,942,558 shares of common stock, par value \$0.0001 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the conclusion of the registrant's fiscal year ended April 30, 2019, are incorporated by reference into Part III of this Form 10-K.

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K, or Annual Report, contains forward-looking statements, which reflect our current views about future events and financial results. We have made these statements in reliance on the safe harbor created by the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act). Forward-looking statements include our views on future financial results, financing sources, product development, capital requirements, market growth and the like, and are generally identified by terms such as “may,” “will,” “should,” “could,” “targets,” “projects,” “predicts,” “contemplates,” “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans” and similar words. Forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors which could cause the actual results to differ materially from the forward-looking statement. These uncertainties and other factors include, among other things:

- unexpected technical and marketing difficulties inherent in major research and product development efforts;
- availability of U.S. government funding for defense procurement and research and development programs;
- the extensive regulatory requirements governing our contracts with the U.S. government and the results of any audit or investigation of our compliance therewith;
- our ability to remain a market innovator and to create new market opportunities;
- the potential need for changes in our long-term strategy in response to future developments;
- unexpected changes in significant operating expenses, including components and raw materials;
- changes in the supply, demand and/or prices for our products and services;
- increased competition, including from firms that have substantially greater resources than we have and in the UAS business from lower-cost consumer drone manufacturers who may seek to enhance their systems’ capabilities over time;
- the complexities and uncertainty of obtaining and conducting international business, including export compliance and other reporting requirements;
- the impact of potential security and cyber threats;
- uncertainty in the customer adoption rate of commercial use unmanned aircraft systems;
- changes in the regulatory environment;
- our ability to successfully integrate business we acquire;
- unfavorable results in legal proceedings; and
- general economic and business conditions in the United States and elsewhere in the world.

Set forth below in Item 1A, “Risk Factors” are additional significant uncertainties and other factors affecting forward-looking statements. The reader should understand that the uncertainties and other factors identified in this Annual Report are not a comprehensive list of all the uncertainties and other factors that may affect forward-looking

statements. We do not undertake any obligation to update or revise any forward-looking statements or the list of uncertainties and other factors that could affect those statements.

Item 1. Business.

Sale of EES Business Segment

On June 29, 2018, we completed the sale of substantially all of the assets and related liabilities of its efficient energy systems business segment (“the EES Business”) to Webasto Charging Systems, Inc. (“Webasto”) pursuant to an Asset Purchase Agreement (the “Purchase Agreement”) between Webasto and AeroVironment. As of April 30, 2018, we determined that the EES Business met the criterion for classification as an asset held for sale and represented a strategic shift in our operations. Therefore, the assets and liabilities and the results of operations of the EES Business are reported in this Annual Report as discontinued operations for all periods presented.

The disclosures and references in this Annual Report, including financial data, the description of our business operations in this Item 1, and risk factors related to our operations included in Item 1A relate to our continuing operations, unless otherwise specifically noted.

Overview

We design, develop, produce, support and operate a technologically-advanced portfolio of products and services for government agencies and businesses. We supply unmanned aircraft systems (“UAS”) and related services primarily to organizations within the U.S. Department of Defense (“DoD”) and to international allied governments, and tactical missile systems and related services to organizations within the U.S. Government. We derive the majority of our revenue from these business areas and we believe that the markets for these solutions have significant growth potential. Additionally, we believe that some of the innovative potential products and services in our research and development pipeline will emerge as new growth platforms in the future, creating additional market opportunities.

Our success with current products and services stems from our investment in research and development and our ability to invent and deliver advanced solutions, utilizing proprietary and commercially available technologies, to help our government and commercial customers operate more effectively and efficiently. We develop these highly innovative solutions by working very closely with our key customers to solve their most important challenges related to our areas of expertise. Our core technological capabilities, developed through more than 45 years of innovation, include robotics; sensor design, development, miniaturization and integration; embedded software and firmware; miniature, low power wireless digital communications; lightweight aerostructures; high-altitude systems design, integration and operations; machine vision, machine learning and autonomy; low SWaP (Size, Weight and Power) system design and integration; manned-unmanned teaming, unmanned-unmanned teaming; power electronics and electric propulsion systems; efficient electric power conversion, storage systems and high density energy packaging; controls and systems integration; vertical takeoff and landing flight, fixed wing flight and hybrid aircraft flight; image stabilization and target tracking; advanced flight control systems; fluid dynamics; robotic systems autonomy; human-machine interface development; and integrated mission solutions for austere environments.

Our business focuses primarily on the design, development, production, marketing, support and operation of innovative UAS and tactical missile systems and the delivery of UAS-related services that provide situational awareness, remote sensing, multi-band communications, force protection and other information and mission effects to increase the safety and effectiveness of our customers’ operations.

Our Strategy

As a technology solutions provider, our strategy is to grow our business by developing and acquiring innovative, safe and reliable new solutions that provide customers with valuable capabilities. Delivering these capabilities will enable us to create new markets or market segments, gain market share and grow as market adoption increases. We believe that by introducing new solutions that provide customers with compelling value we are able to create new markets or market segments and then grow our positions within those markets or market segments profitably,

instead of entering established, existing markets and competing directly against large, incumbent competitors that may possess advantages in scope, scale, resources and relationships.

We intend to grow our business by preserving a leadership position in our core UAS and tactical missile systems markets, and by creating new solutions that enable us to create and establish leadership positions in new markets. Key components of this strategy include the following:

Grow existing markets and create new adjacent markets. Our small UAS and tactical missile systems enjoy leading positions in their respective markets. We intend to increase the penetration of our small UAS products and services within the U.S. military, the military forces of allied nations, other government agencies and non-government organizations, including commercial entities, and to increase the penetration of our tactical missile systems within the U.S. military and allied nations. We believe that the broad adoption of our small UAS by the U.S. military will continue to spur demand by allied nations, and that our efforts to pursue new applications are creating opportunities beyond the early adopter military market.

Deliver innovative new solutions into existing and new markets. Customer-focused innovation is the primary driver of our growth. We plan to continue pursuing internal and customer-funded research and development to develop better, more capable products, services and business models, both in response to and in anticipation of emerging customer needs. In some cases, these innovations result in upgrades to existing offerings, expanding their value among existing customers and markets. In other cases, these innovations become entirely new solutions that position us to address new markets, customers and business opportunities. We believe focused research and development investments will allow us to deliver innovative new products and services that address market needs within and outside of our current target markets, and enable us to create new opportunities for growth. We view strategic partnerships as a means by which to further the reach of our innovative solutions through access to new markets, customers and complementary capabilities.

Foster our entrepreneurial culture and continue to attract, develop and retain highly-skilled personnel. Our company culture encourages innovation and entrepreneurialism, which helps to attract and retain highly-skilled professionals. We intend to preserve this culture to encourage the development of the innovative, highly technical system solutions and business models that give us our competitive advantage. A core component of our culture is our intent to operate with trust and teamwork in all of our interactions, contributing to a positive work environment and engendering loyalty among our employees and customers.

Preserve our agility and flexibility. We respond rapidly to evolving markets, solve complicated customer problems, and strive to deliver new products, services and capabilities quickly, efficiently and affordably relative to available alternatives. We believe our agility and flexibility help us to strengthen our relationships with customers and partners. We intend to maintain our agility and flexibility, which we believe to be important sources of differentiation when we compete against organizations with more extensive resources.

Effectively manage our growth portfolio for long-term value creation. Our production and development programs and services present numerous investment opportunities that we believe will deliver long-term growth by providing our customers with valuable new capabilities. We evaluate each opportunity independently and within the context of other investment opportunities to determine its relative timing and potential, and thereby its priority. This process helps us to make informed decisions regarding potential growth capital requirements and supports our allocation of resources based on relative risks and returns to maximize long-term value creation, which is a key element of our growth strategy. We also review our portfolio on a regular basis to determine if and when to narrow our focus on the highest potential growth opportunities.

Customers

We sell the majority of our UAS and services to organizations within the DoD, including the U.S. Army, Marine Corps, Special Operations Command, Air Force and Navy, and allied governments. We sell our tactical missile systems to organizations within the U.S. government. We also develop High Altitude Pseudo-Satellite (“HAPS”) systems for a commercial customer based in Japan.

During our fiscal year ended April 30, 2019, we generated approximately 28% of our revenue from the U.S. Army pursuant to orders placed under contract by the U.S. Army on behalf of itself as well as for several other organizations within the DoD. Other U.S. government agencies and government subcontractors accounted for 20% of our sales revenue, while purchases by foreign inclusive of foreign military sales made through the DoD, commercial and consumer customers accounted for the remaining 52% of sales revenue during our fiscal year ended April 30, 2019.

Technology, Research and Development

Technological Competence and Intellectual Property

Our company was founded by the late Dr. Paul B. MacCready, the former Chairman of our board of directors and an internationally renowned innovator who was instrumental in establishing our entrepreneurial and creative culture. This culture has consistently enabled us to attract and retain highly-motivated, talented employees and has established our reputation as an innovative leader in the industries in which we compete.

The innovations developed by our company and our founder include, among others: the world's first effective human-powered and manned solar-powered airplanes; the first modern passenger electric car, the EV1 prototype for General Motors; the world's highest flying airplane in level flight, Helios™, a solar-powered unmanned aircraft system that reached over 96,000 feet above sea level in 2001; Global Observer, the world's first liquid hydrogen-fueled unmanned aircraft system; the Nano Hummingbird™, the world's first flapping wing unmanned aircraft system capable of precise hover and omni-directional flight; and Blackwing™, the first submarine-launched unmanned aircraft system deployed by the U.S. Navy. The Smithsonian Institution possesses seven vehicles developed by our company or our founder in its permanent collection. Our history of innovation excellence is the result of our talented, creative and skilled employees whom we encourage to invent and develop innovative new solutions.

A component of our ongoing innovation is a screening process that helps our business managers identify early market needs, which assists us in making timely investments into critical technologies necessary to develop solutions to address these needs. Similarly, we manage new product and business concepts through a commercialization process that balances spending, resources, time and intellectual property considerations against market requirements and potential returns on investment. Strongly linking our technology and business development activities to customer needs in attractive growth markets constitutes an important element of this process. Through the process we revisit our customer requirement assumptions to evaluate continued investment and to help ensure that our products and services deliver high value.

As of April 30, 2019, we had issued and retained 179 U.S. patents, as well as 67 pending U.S. patent applications; 10 active Patent Cooperation Treaty applications; and numerous foreign patents and pending applications. In many cases, when appropriate and to preserve confidentiality, we opt to protect our intellectual property through trade secrets as opposed to filing for patent protection.

The U.S. government has licenses to some of our intellectual property that was specifically developed in performance of government contracts, and may use or authorize others to use this intellectual property. In some cases we fund the development of certain intellectual property to maximize its value and limit its use by potential competitors. While we consider the development and protection of our intellectual property to be integral to the future success of our business, at this time we do not believe that a loss or limitation of rights to any particular piece of our intellectual property would have a material adverse effect on our overall business.

Research, Development and Commercialization Projects

A core component of our business strategy is the focused development and commercialization of innovative solutions that we believe can become new products or services that enable us to create large new markets or accelerate the growth of our current products and services. We invest in an active pipeline of these commercialization projects that range in maturity from technology validation to early market adoption. We cannot predict when, if ever, we will successfully commercialize these projects, or the exact level of capital expenditures they could require, which could be substantial.

For the fiscal years ended April 30, 2019, 2018 and 2017, our internal research and development spending amounted to 11%, 10% and 12%, of our revenue, respectively, and customer-funded research and development spending amounted to an additional 24%, 20% and 19%, of our revenue, respectively.

Sales and Marketing

Our marketing strategy is based on developing leadership positions in new markets that we create through the introduction of innovation solutions that improve customer operational effectiveness and efficiency. Our ability to operate in an agile, flexible manner helps us achieve first mover advantage and work closely with early customers to achieve the successful adoption of our solutions. Once we establish a market position we work to maintain our leadership while seeking to grow our revenue by expanding sales and through continuous innovation and customer support. Our reputation for innovation is a key component of our brand and has been acknowledged through a variety of awards and recognized in numerous articles in domestic and international publications. We have many U.S. registered trademarks including those for AeroVironment, AV, Switchblade, Raven, and Wasp, and have several pending applications for trademark registration.

International Sales

We contract with international sales representatives and team with domestic organizations in a number of foreign markets and believe that these markets represent growth opportunities for our business. Our international sales accounted for approximately 52%, 47% and 36%, of our revenue for the fiscal years ended April 30, 2019, 2018 and 2017, respectively.

Competition

We believe that the principal competitive factors in the markets for our products and services include product performance; safety; features; acquisition cost; lifetime operating cost, including maintenance and support; ease of use; rapid integration with existing equipment and processes; quality; reliability; customer support; and brand and reputation.

Manufacturing and Operations

We pursue a lean and efficient production strategy across our business, focusing on rapid prototyping, supply chain management, final assembly, integration, quality and final acceptance testing. Using concurrent engineering techniques within an integrated product team structure, we rapidly prototype design concepts and products, while working to optimize our designs to meet manufacturing requirements, mission capabilities and customer specifications. Within this framework we develop our products with feedback and input from manufacturing, quality, supply chain management, key suppliers, logistics personnel and customers. We incorporate this input into product designs in an effort to maximize the efficiency and quality of our products while minimizing time to market. As a result, we believe that we significantly reduce the time required to move a product from its design phase to full rate production deliveries while achieving high reliability, quality and yields.

We outsource certain production activities, such as the fabrication of certain aerostructures, the manufacture and assembly of electronic printed circuit boards, payload components, and the production of our Quantix drone, to qualified suppliers, with many of whom we have long-term relationships. This outsourcing enables us to focus on our core expertise of final assembly, system integration and test processes for our products, ensuring high levels of quality and reliability. We forge strong relationships with key suppliers based on their ability to grow with our production needs and support our growth plans. We continue to expand upon our suppliers' expertise to improve our existing products and develop new solutions. We rely on both single and multiple suppliers for certain components and subassemblies. (See "Risk Factors—If critical components or raw materials used to manufacture our products become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products, which could damage our business" for more information.) All of our production systems operate in accordance with our AS9001D registered Quality Management System (QMS), which is focused on continuous improvement in order to increase acceptance rates, reduce lead times and lower cost.

Customer Funded Research and Development

We actively pursue externally funded projects that help us to strengthen our technological capabilities. Our UAS business submits bids to large research customers such as the Defense Advanced Research Projects Agency, the U.S. Air Force, the U.S. Army and the U.S. Special Operations Command for projects that we believe have future commercial application. In some cases commercial enterprises may fund our research and development activities, as with our HAPSMobile Inc. development program. Providing these services contributes to the development and enhancement of our technical competencies. In an effort to manage the ability of our key technical personnel to support multiple, high-value research and development initiatives, we attempt to limit the volume of customer funded research and development projects that we accept. This process enables us to focus these personnel on projects we believe offer the greatest current and future value to our business.

Seasonality

Historically our revenue in the second half of our fiscal years has exceeded our revenue in the first half of our fiscal years. Our revenue was balanced between the first and second halves of fiscal year 2019. The factors that affect our revenue recognition between accounting periods include the timing of new contract awards, the availability of U.S. government and international government funding, lead time to manufacture our family of systems to customer specification, customer acceptance and other regulatory requirements.

Raw Materials and Suppliers

Historically, we have not experienced significant delays in the supply or availability of our key raw materials or components provided by our suppliers, nor have we experienced a significant price increase for raw materials or components. We do not anticipate any such delays or significant price increases in our fiscal year 2020.

Contract Mix

The table below shows our revenue for the periods indicated by contract type, including both government and commercial sales:

| | Fiscal Year Ended | | |
|------------------------------|-------------------|------|------|
| | April 30, | | |
| | 2019 | 2018 | 2017 |
| Fixed-price contracts | 71 % | 79 % | 76 % |
| Cost-reimbursable contracts | 28 % | 21 % | 23 % |
| Time-and-materials contracts | 1 % | — % | 1 % |

Employees

As of April 30, 2019, we had 699 full time employees, of whom 254 were in research and development and engineering, 36 were in sales and marketing, 244 were in operations and 165 were general and administrative personnel. We believe that we have a good relationship with our employees.

Backlog

Consistent with ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), we define backlog as remaining unsatisfied performance obligations under firm orders for which work has not been performed. As of April 30, 2019 and 2018, our backlog was approximately \$164.3 million and \$164.4 million, respectively. We expect that approximately 92% of our backlog will be filled during our fiscal year ending April 30, 2020.

In addition to our backlog, we had unfunded backlog of \$45.2 million and \$58.1 million as of April 30, 2019 and 2018, respectively. 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, or 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 small UAS because that contract was awarded to seven companies in 2018, including AeroVironment, and we cannot be certain that we will receive 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, are renewed, or new contracts are awarded. A portion of our contracts, specifically our IDIQ contracts, do not 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.

Other Information

AeroVironment, Inc. was originally incorporated in California in July 1971 and reincorporated in Delaware in 2006.

Our principal executive offices are located at 900 Innovators Way, Simi Valley, California 93065. Our telephone number is (805) 520-8350. Our website home page is <http://www.avinc.com>. We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Annual Report.

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements for our annual stockholders' meetings, as well as any amendments to those reports, available free of charge through our website as soon as reasonably practical after we electronically file that material with, or furnish it to, the Securities and Exchange Commission, or SEC. You can learn more about us by reviewing our SEC filings. Our SEC reports can be accessed through the investor relations page of our web site at <http://investor.avinc.com>. The SEC also maintains a web site at www.sec.gov that contains our reports, proxy statements and other information regarding us.

Our Business

Our UAS business addresses the increasing economic and security value of network-centric intelligence, surveillance and reconnaissance ("ISR"), communications, remote sensing and effects delivery with innovative UAS and tactical missile system solutions.

Industry Background

Small UAS

The defense market for small UAS has grown significantly since the early 2000s driven largely by the demands associated with the global threat environment and resulting procurement by military customers, the early adopters for this technology. Small UAS now represent an accepted and enduring capability for the military. The U.S. military's transformation into a smaller, more agile force that operates via a network of observation, communication and precision targeting technologies accelerated following the terrorist attacks of September 11, 2001, as it required improved, distributed observation and targeting of enemy combatants who operate in small groups, often embedded in dense population centers or dispersed in remote locations, to operate effectively in a counterinsurgency threat environment. We believe that UAS, which range from large systems, such as Northrop Grumman's *Global Hawk* and General Atomics' *Predator*, *Sky Warrior*, *Reaper* and *Gray Eagle*, to small systems, such as our Raven, Wasp AE, and Puma AE, serve as integral components of today's military force. These systems provide critical observation and communications capabilities serving the increasing demand for actionable intelligence, while reducing risk to individual "warfighters."

Small UAS can provide real-time observation and communication capabilities to the small units who control them. As airspace regulations in the U.S. and other nations evolve to accommodate the commercial use of small UAS, significant growth in the number of entities developing small UAS solutions for markets such as precision agriculture is taking place.

Tactical Missile Systems

The development of weapons capable of rapid deployment and precision strike that also minimize the risk to surrounding civilians, property and operators has accelerated due to advances in enabling technologies. Weapons such as laser-guided missiles, “smart” bombs and GPS-guided artillery shells have dramatically improved the accuracy of strikes against hostile targets. When ground forces find themselves engaged in a firefight or near a hostile target, their ability to employ a precision weapon system quickly and easily can mean the difference between mission success and failure. A rapidly deployable solution could address emerging requirements beyond ground engagements for use in other types of missions and from a variety of sea, air and land platforms. We believe that embedding a precision lethal payload into a remotely controlled, man-portable delivery system provides warfighters with a valuable and more cost-effective alternative to existing munition and missile systems.

High-Altitude Pseudo-Satellite, or HAPS, UAS

We believe a market opportunity exists for HAPS UAS that can fly for months at a time to provide continuous remote sensing and communications in an affordable manner over great distances. Existing solutions such as terrestrial cellular towers, communications satellites and manned and unmanned aircraft address some of the emerging demand for this capability, but do so at relatively high financial and resource costs. Next generation mobile telephony, referred to as 5G, can use higher frequencies than those currently employed by 4G and LTE networks. These higher frequencies are not capable of traveling large distances as compared to the frequencies associated with existing networks. As a result, 5G deployment requires the installation of a large number of base stations and cellular towers to complement existing infrastructure, resulting in a significant investment of time, resources and capital. Geosynchronous satellites provide fixed, continuous communications capabilities to large portions of the globe, but they operate more than 20,000 miles from the surface of the earth, therefore limiting the bandwidth they can provide, introducing latency in communications signals and requiring relatively larger, higher power ground stations. Remote sensing satellites typically operate at lower altitudes, but are unable to maintain geosynchronous positions, meaning they are moving with respect to the surface of the earth, resulting in a limited presence over specific areas of interest and significant periods of time during which they are not present over those areas. A new category of constellations consisting of a large number of very small and low earth orbiting satellites is proposed to provide a lower cost alternative with more ubiquitous coverage for reconnaissance and communication, but has yet to be deployed in meaningful quantities and may not be capable of providing the uninterrupted service and quality required by commercial mobile carriers. High-altitude balloons carrying communication payloads are subject to wind direction and speed, and therefore may not be able to deliver the continuous, uninterrupted service and connection quality required by commercial mobile carriers. UAS that are capable of operating in an affordable manner for extended periods of time over an area of interest without gaps in availability while carrying a communications or observation payload could help to satisfy this need.

Our Solutions

We supply our UAS products and services to multiple customers within and outside of the United States.

Small UAS Products

Our small UAS, including Raven, Wasp AE, and Puma AE, are designed to operate reliably at very low altitudes in a wide range of environmental conditions, providing a vantage point from which to collect and deliver valuable information. Military forces employ our small UAS to deliver ISR and communications, including real-time tactical reconnaissance, tracking, combat assessment and geographic data, directly to the small tactical unit or individual operator, thereby increasing flexibility in mission planning and execution. In commercial applications, we operate our small UAS as part of a turnkey information solution to deliver advanced analysis that can reduce customers’ costs, enhance their safety and increase their revenue. Our small UAS wirelessly transmit critical live video and other

information generated by their payload of electro-optical, infrared or other sensors directly to a hand-held ground control unit, enabling the operator to view and capture images, during the day or at night, on the control unit. Our Quantix data collection drone generates a volume of high-resolution data significantly larger than wireless bandwidth can accommodate, requiring the transfer of data once the air vehicle has landed. With the exception of Quantix, our ground control systems allow the operator to control the aircraft by programming it for GPS-based autonomous navigation using operator-designated way-points, or by manual flight operation. The ground control systems are designed for durability and ease of use in harsh environments and incorporate a user-friendly, intuitive user interface. All of our fixed wing small UAS currently in production for military customers operate from our common ground control system. Our Quantix system plots its own flight path and launches, flies and lands autonomously to complete its mission.

We designed our small UAS to be transportable by a single person, assembled without tools in less than five minutes and launched and operated by one or two people, with limited training required. The efficient and reliable electric motors used in all of our small UAS are powered by modular battery packs that can be replaced quickly, enabling rapid return to flight. We designed all of our small UAS to be reusable for hundreds of flights under normal operating circumstances and to be recovered through an autonomous landing feature that enables a controlled descent to a designated location.

In military applications, our small UAS provide forward aerial observation capabilities that enable tactical commanders to observe around the next corner, to the next intersection or past a ridgeline in real-time. This information facilitates faster, safer movement through urban, rural and mountainous environments and can enable troops to be proactive based on field intelligence rather than reactive to attack. Moreover, by providing this information, our systems reduce the risk to warfighters and to the surrounding population by providing the ability to tailor the military response to the threat. U.S. military personnel regularly use our small UAS, such as Raven, for missions such as force protection, combat observation and damage assessment. These reusable systems are easy to transport, assemble and operate and are relatively quiet when flying at typical operational altitudes of 200 to 300 feet above ground level, the result of our efficient electric propulsion systems. Furthermore, their small size makes them difficult to see from the ground. In addition, the low cost of our small UAS relative to larger systems and alternatives makes it practical for customers to deploy these assets in large quantities directly to warfighters.

In emerging commercial applications, our small UAS enable enterprises to manage valuable assets such as crops, powerlines and railroad infrastructure, more effectively and safely than previously possible. Our Quantix data collection drone and AeroVironment Decision Support System (“AVDSS”), a cloud-based platform for processing, analyzing and storing collected data, are designed to provide agriculture operations with more accurate and timely information regarding their crops. Better and more timely information can translate into more efficient activities that facilitate more efficient use of scarce resources such as water for agriculture.

Our small UAS offering also includes spare equipment, alternative payload modules, batteries, chargers, repair services and customer support. We provide training by our highly-skilled instructors, who typically possess extensive military experience, and continuous refurbishment and repair services for our products. We designed our Quantix system for minimal training so customers can learn how to operate it on their own. By maintaining close contact with our customers and users in the field, we gather critical feedback on our products and incorporate that information into ongoing product development and research and development efforts. This approach enables us to improve our solutions in response to, and in anticipation of, evolving customer needs.

Each system in our small UAS portfolio typically includes multiple aircraft, our common and interoperable hand-held ground control system and an array of spare parts and accessories. Our current small UAS portfolio for defense applications consists of the following aircraft:

| Small UAS | Wingspan | Weight | Standard | Range | Flight Time | |
|-----------|----------|--------|---|--|-------------|---------|
| Product | (ft.) | (lbs.) | Recovery | (mi.) | (min.)(1) | |
| | | | Sensors | (1) | | |
| Puma AE | 9.2 | 14 | Vertical autonomous landing capable (ground or water) | Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared | 9.0 | 210 |
| Raven | 4.5 | 4.5 | Vertical autonomous landing capable | Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared | 6.0 | 60 - 90 |
| Wasp AE | 3.3 | 2.8 | Vertical autonomous landing capable (ground or water) | Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared | 3.0 | 50 |

- (1) Represents point-to-point minimum customer-mandated specifications for all operating conditions. In optimal conditions, the performance of our products may significantly exceed these specifications. Our digital data links (“DDL”) relay can enable operational modes that can extend range significantly.

The ground control system serves as the primary interface between the operator and our small UAS designed for defense applications, and allows the operator to control the direction, speed and altitude of the aircraft as well as the orientation of the sensors to view the visual information they produce through real-time, streaming video and metadata. Our common ground control system interfaces with each of our air vehicles, providing a common user interface with each of our air vehicles. In addition to the thousands of air vehicles delivered to our customers, thousands of ground control systems are also in our customers’ hands.

Our line of miniature gimballed sensor payloads provides small UAS operators with enhanced observation and target tracking functionality. Our DDL is integrated into Puma AE, Raven and Wasp AE systems, enhancing their capabilities, and ultimately, the utility of our small UAS by enabling more efficient radio spectrum utilization and communications security. Small UAS incorporating our DDL offer many more channels as compared to our analog link, increasing the number of air vehicles that can operate in a given geographic area. Additionally, our DDL enables each air vehicle to operate as an Internet-Protocol addressable hub capable of routing and relaying video, voice and data to and from multiple other nodes on this *ad hoc* network. This capability enables beyond line-of-sight operation of our small UAS, further enhancing their value proposition to our customers.

Tactical Missile Systems Products

Our tactical missile systems consist of tube-launched aircraft that deploy with the push of a button, fly at higher speeds than our small UAS, and perform either effects delivery or reconnaissance missions. Switchblade, the first of our tactical missile systems products, can be transported in its launch tube, within a backpack, and deployed within minutes to defend against lethal threats such as snipers and mortar launchers. With a high level of precision, including a customized warhead, wave-off, loiter and re-engagement capabilities, Switchblade can neutralize a target rapidly and accurately without causing collateral damage. Furthermore, because it streams live electro-optical and thermal video to its operator, Switchblade can be called off in the final moments prior to a strike should the situation require, minimizing damage to non-combatants. Blackwing, a variant of Switchblade, launches from a submerged submarine and carries extra batteries instead of a warhead, providing longer flight time for reconnaissance operations.

Support Services

In support of our small UAS for defense applications we offer a suite of services that help to ensure the successful operation of our products by our customers. These services generate incremental revenue for us and provide us with continuous feedback to understand the performance of our systems, anticipate our customers’ needs and develop additional customer insights. We believe that this ongoing feedback loop enables us to continue to provide our customers with innovative solutions that help them succeed. We provide spare parts as well as repair, refurbishment and replacement services in a manner that seeks to minimize supply chain delays, and we support our customers with spare parts, replacement aircraft and support whenever and wherever they need them. One of our facilities also serves as the primary depot for repairs and spare parts.

We provide comprehensive training services to support all of our small UAS for defense applications. Our highly-skilled instructors typically have extensive military experience. We deploy training teams throughout the continental United States and overseas to support our customers’ training needs on both production and development-stage systems.

Customer Funded Research and Development

We provide specialized services in support of customer-funded research and development projects, delivering new value-added technology solutions to our customers. These types of projects typically involve developing new system solutions and technology or new capabilities for existing solutions that we introduce as retrofits or upgrades. We recognize customer-funded research and development projects as revenue.

Technology, Research and Development

Our primary areas of technological competence represent the sum of numerous technical skills and capabilities that help to differentiate our approach and product offerings. The following list highlights a number of our key UAS technological capabilities:

- robotics technologies;
- sensor design, development, miniaturization and integration;
- embedded software and firmware, analytics processing, database systems, web, desktop and mobile applications, standards-based interfaces;
- miniature, low power wireless digital communications;
- lightweight, low speed aerostructures and aerodynamic design;
- high-altitude long-endurance systems design, integration and flight operations
- machine vision, machine learning, advanced auto flight control, auto target recognition, autonomous mission planning and teaming
- low SWaP (Size, Weight and Power) system design and integration
- manned-unmanned teaming, unmanned-unmanned teaming;
- power electronics and electric propulsion systems;
- efficient electric power conversion, storage systems and high-density energy packaging;
- controls and systems integration;
- vertical takeoff and landing flight, fixed-wing flight and hybrid flight unmanned aircraft systems;
- image stabilization and target tracking;
- advanced flight control systems;
- fluid dynamics;
- robotic systems autonomy;
- human-machine interface development; and
- integrated mission solutions for austere environments.

Three of our UAS and tactical missile systems development initiatives are described below:

Tactical Missile System Variants. We pioneered our first rapidly deployable, high-precision tactical missile system, named Switchblade, for use by defense ground forces. Switchblade is now deployed by the U.S. military to provide force protection to its troops overseas in combat operations. During a multitude of demonstrations over the course of several years, multiple potential customers

requested modifications to Switchblade to accommodate their specific mission requirements. We performed a number of successful demonstrations and are now developing several variants of Switchblade for new customers and applications, including deployment from sea and air vehicles. Blackwing, a submarine-launched reconnaissance system, represents one of the variants. Other variants have transitioned into production and sale to U.S. customers. We believe these new variants have the potential to expand our tactical missile systems opportunities significantly.

Commercial Unmanned Aircraft Systems-Based Information Solutions. In the same way our small UAS provide situational awareness to military customers, we can employ our small UAS with advanced sensors to scan vast or inaccessible infrastructure, plants or wildlife, then process and analyze the resulting data to produce actionable information for a wide variety of companies in industries that include energy, agriculture and natural resource management. Our Quantix data collection drone is designed for highly automated vegetation and topographical scanning of more than 400 acres in its 45 minute flight time. Equipped with fixed electro-optical and multi-spectral sensors, Quantix takes off vertically, transitions to horizontal operation, flies its designated mission, then lands itself vertically at its launch point. Lower resolution data can be viewed immediately through the wireless transmission of image data from the Quantix to its commercial tablet controller pre-loaded with custom software. Further automated analysis can be performed by uploading the data to the AVDSS, a cloud-based platform for processing, analyzing and storing collected data. We have developed this capability based on extensive work with early adopters for anticipated adoption in what could be a large market.

HAPS Unmanned Aircraft Systems. Building on our decades of groundbreaking development and demonstration of high altitude solar-powered UAS, in fiscal year 2018 we established a joint venture with SoftBank Corp. to create a global broadband and telecommunications company to demonstrate and deploy HAPS UAS around the world. As of April 30, 2019, AeroVironment owned a 10% share of HAPSMobile Inc., while SoftBank owned a majority share of 90%. During the first fiscal quarter of fiscal year 2020, our ownership was diluted to approximately 5%. The joint venture is funding AeroVironment's development and demonstration of solar-powered HAPS UAS. AeroVironment possesses exclusive rights to manufacture and supply the solar HAPS UAS developed by the joint venture to HAPSMobile Inc., subject to meeting contractual performance criteria. HAPSMobile Inc. possesses exclusive rights to market the solar HAPS UAS for commercial markets globally, while AeroVironment possesses exclusive rights to market the solar HAPS UAS for non-commercial markets globally, with the exception of Japan.

Sales and Marketing

We organize our U.S. UAS business development team members by target market and customer and we locate team members in close proximity to the customers they support, where possible. We organize our program managers by product and focus on designing optimal solutions and contract fulfillment, as well as internalizing feedback from customers and users. By maintaining assigned points of contact with our customers, we believe that we are able to maintain our relationships, service existing contracts effectively and gain vital feedback to improve our responsiveness and product offerings. We employ a direct-sale and dealer-based distribution strategy for our Commercial Information Solutions.

Manufacturing and Operations

Continued investment in infrastructure has established our manufacturing capability to meet demand with scalable capacity. We have the manufacturing infrastructure to produce UAS products at rates higher than our historical volumes, support initial low rate production for new UAS development programs and tactical missile systems and execute initial low-rate production of large UAS. By drawing upon experienced personnel across various manufacturing industries including aerospace, automotive and volume commodities, we have instituted lean production systems and leverage our International Organization for Standardization, or ISO certification for Quality Management, integrated supply chain strategy, document control systems and process control methodologies for production. Presently, we

perform small UAS manufacturing at the 85,000 square foot manufacturing facility we established in 2005. Our 9001:2019 + AS9100D certified manufacturing facilities are designed to accommodate demand of up to 1,000 aircraft per month. ISO 9001:2019 + AS9100D refers to a set of voluntary standards for quality management systems. The 9001:2019 standards are established by the ISO to govern quality management systems used worldwide. We are regularly independently audited and certified to be compliant to by a third party, accredited registrar. Accreditation of SAI Global, our third party registrar is by the ANSI National Accreditation Board. These audits performed as part of certification evaluate the effectiveness of companies' quality management systems and their compliance with ISO standards. Some companies and government agencies view ISO certification as a positive factor in supplier assessments.

Competition

The market for defense small UAS continues to evolve in response to changing technologies, shifting customer needs and expectations and the potential introduction of new products. We believe that a number of established domestic and international defense contractors have developed or are developing small UAS that continue to compete, or will compete, directly with our products. Some of these contractors have significantly greater financial and other resources than we possess. Our current principal small UAS competitors include Elbit Systems Ltd., FLIR Systems, Inc., L3 Technologies, Inc., and Lockheed Martin Corporation. We do not view large UAS such as Northrop Grumman Corporation's *Global Hawk*, General Atomics, Inc.'s *Predator* and its derivatives, The Boeing Company's *ScanEagle* and Textron Inc.'s *Shadow* as direct competitors to our small UAS because they perform different missions, do not typically deliver their information directly to front-line ground forces and are not hand-launched and controlled. However, we cannot be certain that these platforms will not become direct competitors in the future. Potential competition from consumer-focused drone manufacturers could emerge as their capabilities increase and their prices remain low relative to existing defense solutions, which could result in some level of military consideration even if such drones do not meet traditional military performance or security specifications.

The market for HAPS UAS is in an early stage of development. As a result, this category is not well defined and is characterized by multiple potential solutions. An existing contractor that claims to provide high altitude long endurance UAS is Northrop Grumman Corporation with its *Global Hawk*. Several aerospace and defense contractors are pursuing this market opportunity with proposed very long duration UAS, including The Boeing Company, Airbus, Lockheed Martin Corporation and Northrop Grumman Corporation. Some internet technology companies have acquired small firms that focus on this type of capability and represent potential future competitors. Companies pursuing airships (high altitude aircraft that are kept buoyant by a body of gas that is lighter than air) as a solution for this market include Lockheed Martin Corporation and Northrop Grumman Corporation. Loon LLC is pursuing the deployment of lighter-than-air high altitude balloons without propulsion to create networks that can provide connectivity. Companies pursuing conventional satellites as a solution for this market include The Boeing Company, Lockheed Martin Corporation, General Dynamics Corporation, EADS N.V., Ball Corporation and Orbital Sciences Corporation. Companies pursuing Low Earth Orbit, or LEO, micro or cubesat satellite constellations for global communication and remote sensing include Amazon, OneWeb, SpaceX and The Boeing Company. Companies owning and operating terrestrial cellular tower networks include American Tower Corporation, Crown Castle International Corp. and SBA Communications Corporation.

The market for tactical missile systems is in an early stage of development, but it is evolving rapidly. Competitors in this market include Textron Inc., Raytheon Company and Lockheed Martin Corporation.

The market for commercial UAS products and services is in an early stage of development, but is evolving rapidly, generating a great deal of interest as government regulations evolve to accommodate commercial UAS operations in the National Airspace System and in the airspace systems of other countries. Given the breadth of applications and the diversity of industries that could benefit from UAS technology, a growing number of potential competitors in this market include consumer drone manufacturers such as Dà-Jiāng Innovation, who seek to enhance their systems' capabilities over time; other small UAS manufacturers, including large aerospace companies such as Lockheed Martin Corporation, and drone and aerial surveying and mapping service providers such as PrecisionHawk, Sentera and SlantRange; ground-based surveying and mapping service providers; satellite imagery providers; and specialty system manufacturers, software as a service and other service providers aiming to address specific market segments. The emerging non-military market is attracting numerous additional competitors and significant venture

capital funding given perceived lower barriers to entry and a much more fragmented marketplace as compared to the military market. Potential additional competitors include start-up companies providing low cost solutions.

We believe that the principal competitive factors in the markets for our UAS products and services include product performance, features, acquisition cost, lifetime operating cost, including maintenance and support, ease of use, integration with existing equipment and processes, quality, reliability, customer support, brand and reputation.

Regulation

Due to the fact that we contract with the DoD and other agencies of the U.S. government, we are subject to extensive federal regulations, including the Federal Acquisition Regulations, Defense Federal Acquisitions Regulations, Truth in Negotiations Act, Foreign Corrupt Practices Act, False Claims Act and the regulations promulgated under the DoD Industrial Security Manual, which establishes the security guidelines for classified programs and facilities as well as individual security clearances. The federal government audits and reviews our performance on contracts, pricing practices, cost structure, and compliance with applicable laws, regulations and standards. Like most government contractors, our contracts are audited and reviewed on a continual basis by federal agencies, including the Defense Contract Management Agency, or DCMA, and the Defense Contract Audit Agency, or DCAA.

Certain of these regulations impose substantial penalties for violations, including suspension or debarment from government contracting or subcontracting for a period of time. We monitor all of our contracts and contractual efforts to minimize the possibility of any violation of these regulations.

In addition, we are subject to industry-specific regulations due to the nature of the products and services we provide. For example, certain aspects of our business are subject to further regulation by additional U.S. government authorities, including (i) the FAA, which regulates airspace for all air vehicles in the U.S. National Airspace System, (ii) the National Telecommunications and Information Administration and the Federal Communications Commission, which regulate the wireless communications upon which our UAS depend in the United States and (iii) the Defense Trade Controls of the U.S. Department of State that administers the International Traffic in Arms Regulations, which regulate the export of controlled technical data, defense articles and defense services.

On June 21, 2016 the FAA released its final rules that allow routine use of certain small UAS in the U.S. National Airspace System. The FAA rules, which went into effect in August 2016, provide safety rules for small UAS (under 55 pounds) conducting non-recreational operations. The rules limit flights to visual-line-of-sight daylight operation, unless the UAS has anti-collision lights in which case twilight operation is permitted. The final rule also addresses height and speed restrictions, operator certification, optional use of a visual observer, aircraft registration and marking and operational limits, including prohibiting flights over unprotected people on the ground who are not directly participating in the operation of the UAS. Current FAA regulations require drone operators to register their systems with the FAA and secure operating licenses for their drones as per the Part 107 specifications. These regulations continue to evolve to accommodate the integration of UAS into the national airspace system for commercial applications, including HAPS UAS.

Furthermore, our non-U.S. operations are subject to the laws and regulations of foreign jurisdictions, which may include regulations that are more stringent than those imposed by the U.S. government on our U.S. operations.

Government Contracting Process

We sell the significant majority of our small UAS and tactical missile system products and services as the prime contractor under contracts with the U.S. government. Certain important aspects of our government contracts are described below.

Bidding Process

Most of our current government contracts were awarded through a competitive bidding process. The U.S. government awards competitive-bid contracts based on proposal evaluation criteria established by the procuring agency.

Competitive-bid contracts are awarded after a formal bid and proposal competition among providers. Interested contractors prepare a bid and proposal in response to the agency's request for proposal or request for information. A bid and proposal is usually prepared in a short time period in response to a deadline and requires the extensive involvement of numerous technical and administrative personnel. Following award, competitive-bid contracts may be challenged by unsuccessful bidders.

Funding

The funding of U.S. government programs is subject to congressional appropriations. Although multi-year contracts may be authorized in connection with major procurements, Congress generally appropriates funds on a fiscal year basis, even though a program may continue for many years. Consequently, programs are often only partially funded initially, and additional funds are committed only as Congress makes further appropriations.

The U.S. military funds its contracts for our full-rate production UAS either through operational need statements or as programs of record. Operational need statements require allocations of discretionary spending or reallocations of funding from other government programs. Funding for our production of initial Raven system deliveries, for example, was provided through operational need statements. We define a program of record as a program which, after undergoing extensive DoD review and product testing, is included in the five-year government budget cycle, meaning that funding is allocated for purchases under these contracts during the five-year cycle, absent affirmative action by the customer or Congress to change the budgeted amount. Despite being included in the five-year budget cycle, funding for these programs is subject to annual approval.

Material Government Contract Provisions

All contracts with the U.S. government contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts, including rights that allow the government to:

- terminate existing contracts for convenience, in whole or in part, when it is in the interest of the government to do so;
- terminate contracts for default upon the occurrence of certain enumerated events;
- unilaterally modify contracts with regard to certain performance requirements;
- cancel multi-year contracts and related orders, if funds for contract performance for any subsequent year become unavailable;
- potentially obtain rights in, or ownership to, intellectual property associated with products and systems developed or delivered by a contractor as a result of its performance of the contract;
- adjust contract costs and fees on the basis of audits completed by its agencies;
- suspend or debar a contractor from doing business with the U.S. government; and
- control or prohibit the export of certain items.

Generally, government contracts are subject to oversight audits by government representatives. Compensation, if any, in the event of a termination for default is limited to payment for work completed at the time of termination. In the event of a termination for convenience, the contractor may receive the contract price for completed work, as well as its costs of performance of terminated work including an allowance for profit and reasonable termination settlement costs.

Government Contract Categories

We have three types of government contracts, each of which involves a different payment methodology and level of risk related to the cost of performance. These basic types of contracts are typically referred to as fixed-price contracts, cost reimbursable contracts, including cost-plus-fixed fee, cost-plus-award fee, and cost-plus-incentive fee, and time-and-materials contracts.

In some cases, depending on the urgency of the project and the complexity of the contract negotiation, we will enter into a Letter Contract prior to finalizing the terms of a definitive fixed-price, cost reimbursable or time-and-materials definitive contract. A Letter Contract is a written preliminary contractual instrument that provides limited initial funding and authorizes us to begin immediately manufacturing supplies or performing services while negotiating the definitive terms of the procurement.

Fixed-Price. These contracts are not subject to adjustment by reason of costs incurred in the performance of the contract. With this type of contract, we assume the risk that we will not be able to perform at a cost below the fixed-price, except for costs incurred because of contract changes ordered by the customer. Upon the U.S. government's termination of a fixed-price contract, generally we would be entitled to payment for items delivered to and accepted by the U.S. government and, if the termination is at the U.S. government's convenience, for payment of fair compensation for work performed plus the costs of settling and paying claims by any terminated subcontractors, other settlement expenses and a reasonable allowance for profit on the costs incurred.

Cost Reimbursable. Cost reimbursable contracts include cost-plus-fixed fee contracts, cost-plus-award fee contracts and cost-plus-incentive fee contracts, each of which are described below. Under each type of contract, we assume the risk that we may not be able to recover costs if they are not allowable under the contract terms or applicable regulations, or if the costs exceed the contract funding.

- Cost-plus-fixed fee contracts are cost reimbursable contracts that provide for payment of a negotiated fee that is fixed at the inception of the contract. This fixed fee does not vary with actual cost of the contract, but may be adjusted as a result of changes in the work to be performed under the contract. This contract type poses less risk of loss than a fixed-price contract, but our ability to win future contracts from the procuring agency may be adversely affected if we fail to perform within the maximum cost set forth in the contract.
- A cost-plus-award fee contract is a cost reimbursable contract that provides for a fee consisting of a base amount, which may be zero, fixed at inception of the contract and an award amount, based upon the government's satisfaction with the performance under the contract. With this type of contract, we assume the risk that we may not receive the award fee, or only a portion of it, if we do not perform satisfactorily.
- A cost-plus-incentive fee contract is a cost reimbursable contract that provides for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs.

We typically experience lower profit margins and lower risk under cost reimbursable contracts than under fixed-price contracts. Upon the termination of a cost reimbursable contract, generally we would be entitled to reimbursement of our allowable costs and, if the termination is at the U.S. government's convenience, a total fee proportionate to the percentage of work completed under the contract.

Time-and-Materials. Under a time-and-materials contract, our compensation is based on a fixed hourly rate established for specified labor or skill categories. We are paid at the established

hourly rates for the hours we expend performing the work specified in the contract. Labor costs, overhead, general and administrative costs and profit are included in the fixed hourly rate. Materials, subcontractors, travel and other direct costs are reimbursed at actual costs plus an amount for material handling. We make critical pricing assumptions and decisions when developing and proposing time-and-materials labor rates. We risk reduced profitability if our actual costs exceed the costs incorporated into the fixed hourly labor rate. One variation of a standard time-and-materials contract is a time-and-materials, award fee contract. Under this type of contract, a positive or negative incentive can be earned based on achievement against specific performance metrics.

Indefinite Delivery Indefinite Quantity Contract Form

The U.S. government frequently uses IDIQ contracts and IDIQ-type contract forms, such as cost reimbursable and fixed price contracts with multiple one-year options, to obtain fixed-price, cost reimbursable and time-and-materials contractual commitments to provide products or services over a period of time pursuant to established general terms and conditions. At the time of the award of an IDIQ contract or IDIQ-type contract, the U.S. government generally commits to purchase only a minimal amount of products or services from the contractor to whom such contract is awarded.

After award of an IDIQ contract the U.S. government may issue task orders for specific services or products it needs. The competitive process to obtain task orders under an award contract is limited to the pre-selected contractors. If an IDIQ contract has a single prime contractor, then the award of task orders is limited to that contractor. If the contract has multiple prime contractors, then the award of the task order is competitively determined among only those prime contractors.

IDIQ and IDIQ-type contracts typically have multi-year terms and unfunded ceiling amounts that enable, but do not commit, the U.S. government to purchase substantial amounts of products and services from one or more contractors.

Item 1A. Risk Factors.

General Business Risks

We rely heavily on sales to the U.S. government, particularly to agencies of the Department of Defense.

Historically, we have derived a significant portion of our total sales and substantially all of our small UAS sales from the U.S. government and its agencies. Sales to the U.S. government, either as a prime contractor or subcontractor, represented approximately 58% of our revenue for the fiscal year ended April 30, 2019. The DoD, our principal U.S. government customer, accounted for approximately 46% of our revenue for the fiscal year ended April 30, 2019. We believe that the success and growth of our business for the foreseeable future will continue to depend to a significant degree on our ability to win government contracts, in particular from the DoD. Many of our government customers are subject to budgetary constraints and our continued performance under these contracts, or award of additional contracts from these agencies, could be jeopardized by spending reductions, including constraints on government spending imposed by the Budget Control Act of 2011 and its subsequent amendments, or budget cutbacks at these agencies. The funding of U.S. government programs is uncertain and dependent on continued congressional appropriations and administrative allotment of funds based on an annual budgeting process. We cannot assure you that current levels of congressional funding for our products and services will continue and that our business will not decline. Additionally, if annual budget appropriations or continuing resolutions are not enacted timely, we could face U.S. government shutdowns, which could adversely impact our programs and contracts with the U.S. government, our ability to receive timely payment from U.S. government entities and our ability to timely obtain export licenses for our products to fulfill contracts with our international customers.

The U.S. military funds our contracts primarily through operational needs statements, and to a lesser extent, through programs of record, which provides us with less visibility and certainty on future funding allocations for our contracts. Furthermore, all of our contracts with the U.S. government are terminable by the U.S. government at will. A significant decline in government expenditures generally, or with respect to programs for which we provide products,

could adversely affect our business and prospects. Our operating results may also be negatively impacted by other developments that affect these government programs generally, including the following:

- changes in government programs that are related to our products and services;
- adoption of new laws or regulations relating to government contracting or changes to existing laws or regulations;
- changes in political or public support for security and defense programs;
- delays or changes in the government appropriations and budget process;
- uncertainties associated with the current global threat environment and other geo-political matters; and
- delays in the payment of our invoices by government payment offices.

These developments and other factors could cause governmental agencies to reduce their purchases under existing contracts, to exercise their rights to terminate contracts at-will or to abstain from renewing contracts, any of which would cause our revenue to decline and could otherwise harm our business, financial condition and results of operations.

Military transformation and changes in overseas operational levels may affect future procurement priorities and existing programs, which could limit demand for our UAS.

Over the last decade, operational activity in Afghanistan and Iraq led to adoption and an increase in demand for our small UAS. More recently, the U.S. military has reduced its presence and operational activity in Afghanistan and Iraq, reducing demand for certain of our small UAS products from prior levels. We cannot predict whether the reduction in overseas operational levels will continue, how future procurement priorities related to defense transformation will be impacted or how changes in the threat environment will impact opportunities for our small UAS business in terms of existing, additional or replacement programs. If defense transformation or overseas operations cease or slow down, then our business, financial condition and results of operations could be impacted negatively.

We operate in evolving markets, which makes it difficult to evaluate our business and future prospects.

Our UAS are sold in new and rapidly evolving markets. The commercial UAS market is in the early stages of customer adoption. The market for HAPS UAS is also in an early stage of development. Accordingly, our business and future prospects may be difficult to evaluate. We cannot accurately predict the extent to which demand for our products will increase, if at all. The challenges, risks and uncertainties frequently encountered by companies in rapidly evolving markets could impact our ability to do the following:

- generate sufficient revenue to maintain profitability;
- acquire and maintain market share;
- achieve or manage growth in our operations;
- develop and renew contracts;
- attract and retain additional engineers and other highly-qualified personnel;
- successfully develop and commercially market new products;
- adapt to new or changing policies and spending priorities of governments and government agencies; and

- access additional capital when required and on reasonable terms.

If we fail to address these and other challenges, risks and uncertainties successfully, our business, results of operations and financial condition would be materially harmed.

We face competition from other firms, many of which have substantially greater resources.

The defense industry is highly competitive and generally characterized by intense competition to win contracts. Our current principal small UAS competitors include Elbit Systems Ltd., FLIR Systems, Inc., L3 Technologies, Inc. and Lockheed Martin Corporation. We do not view large UAS such as Northrop Grumman Corporation's *Global Hawk*, General Atomics, Inc.'s *Predator* and related products, The Boeing Company's *ScanEagle* and Textron Inc.'s *Shadow* as direct competitors because they perform different missions, do not typically deliver their information directly to front-line ground forces, and are not hand launched and controlled. However, we cannot be certain that these platforms will not become direct competitors in the future. The HAPS UAS market is in an early stage of development and our HAPS UAS faces competition from several aerospace and defense contractors and internet technology companies pursuing the high altitude long endurance UAS market for global communication and remote sensing, including The Boeing Company, Airbus, Lockheed Martin Corporation and Northrop Grumman Corporation, and competition from companies pursuing alternative solutions for this market such as Lockheed Martin Corporation and Northrop Grumman Corporation with airships (high altitude aircraft that are kept buoyant by a body of gas that is lighter than air) and companies pursuing conventional satellites and Low Earth Orbit, or LEO, micro or cubesat satellite constellations. Our tactical missile systems business faces competition from competitors including Textron Inc., Raytheon Company and Lockheed Martin Corporation.

Some of these firms have substantially greater financial, management, research and marketing resources than we have. Our UAS services business also faces competition from smaller businesses that can provide training and logistics services for multiple UAS platforms, including our small UAS.

Our competitors may be able to provide customers with different or greater capabilities or benefits than we can provide in areas such as technical qualifications, past contract performance, geographic presence, price and the availability of key professional personnel, including those with security clearances. Furthermore, many of our competitors may be able to utilize their substantially greater resources and economies of scale to develop competing products and technologies, manufacture in high volumes more efficiently, divert sales away from us by winning broader contracts or hire away our employees by offering more lucrative compensation packages. Small business competitors may be able to offer more cost competitive solutions, due to their lower overhead costs, and take advantage of small business incentive and set-aside programs for which we are ineligible. The market for small UAS and services is expanding, and competition intensifying as additional competitors enter the market and current competitors expand their product lines. In order to secure contracts successfully when competing with larger, well-financed companies, we may be forced to agree to contractual terms that provide for lower aggregate payments to us over the life of the contract, which could adversely affect our margins. In addition, larger diversified competitors serving as prime contractors may be able to supply underlying products and services from affiliated entities, which would prevent us from competing for subcontracting opportunities on these contracts. Our failure to compete effectively with respect to any of these or other factors could have a material adverse effect on our business, prospects, financial condition or operating results.

If the UAS, tactical missile systems, and commercial UAS markets do not experience significant growth, if we cannot expand our customer base or if our products do not achieve broad acceptance, then we may not be able to achieve our anticipated level of growth.

We cannot accurately predict the future growth rates or sizes of the markets for our products. Demand for our products may not increase, or may decrease, either generally or in specific markets, for particular types of products or during particular time periods. We believe the market for commercial UAS is nascent. Moreover, there are only a limited number of major programs under which the U.S. military, our primary customer, is currently funding the development or purchase of our UAS and tactical missile systems. Although we have expanded our UAS customer base to include foreign governments, and domestic non-military agencies, we cannot assure you that our continued efforts to further

increase our sales to these customers will be successful. The expansion of the UAS, tactical missile systems, and commercial UAS markets in general, and the market for our products in particular, depends on a number of factors, including the following:

- customer satisfaction with these types of systems as solutions;
- the cost, performance and reliability of our products and products offered by our competitors;
- customer perceptions regarding the effectiveness and value of these types of systems;
- limitations on our ability to market our UAS and tactical missile systems products and services outside the United States due to U.S. government regulations;
- obtaining timely regulatory approvals, including, with respect to our small UAS business, access to airspace and wireless spectrum; and
- marketing efforts and publicity regarding these types of systems.

Even if UAS, tactical missile systems, and commercial UAS gain wide market acceptance, our products may not adequately address market requirements and may not continue to gain market acceptance. If these types of systems generally, or our products specifically, do not gain wide market acceptance, then we may not be able to achieve our anticipated level of growth and our revenue and results of operations would decline.

Our international business poses potentially greater risks than our domestic business.

We derived approximately 52% of our revenue from international sales, including U.S. government foreign military sales in which an end user is a foreign government, during the fiscal year ended April 30, 2019 compared to 47% for the fiscal year ended April 30, 2018. We expect to continue to derive an increasing portion of our revenue from international sales. Our international revenue and operations are subject to a number of material risks, including the following:

- the unavailability of, or difficulties in obtaining any, necessary U.S. governmental authorizations for the export of our products to certain foreign jurisdictions;
- regulatory requirements that may adversely affect our ability to operate in foreign jurisdictions, sell certain products or repatriate profits to the United States;
- the complexity and necessity of using foreign representatives and consultants;
- the complexities of operating a business in an international location through a subsidiary or joint venture structure that may include foreign business partners, subcontractors and suppliers;
- the complexity of shipping our products internationally through multiple jurisdictions with varying legal requirements;
- difficulties in enforcing agreements and collecting receivables through foreign legal systems and other relevant legal issues, including fewer legal protections for intellectual property;
- potential fluctuations in foreign economies and in the value of foreign currencies and interest rates;
- potential preferences by prospective customers to purchase from local (non-U.S.) sources;
- general economic and political conditions in the markets in which we operate;

- laws or regulations relating to non-U.S. military contracts that favor purchases from non-U.S. manufacturers over U.S. manufacturers;
- the imposition of tariffs, embargoes, export controls and other trade restrictions; and
- different and changing legal and regulatory requirements, including those pertaining to anti-corruption, anti-boycott, data protection and privacy, employment law, intellectual property and contracts in the jurisdictions in which we currently operate or may operate in the future.

Negative developments in any of these areas in one or more countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, threats to our intellectual property, difficulty in collecting receivables and a higher cost of doing business, any of which could negatively impact our business, financial condition or results of operations. While we have adopted policies and procedures to facilitate compliance with laws and regulations applicable to our international sales, our failure, or the failure by our employees or others working on our behalf, to comply with such laws and regulations may result in administrative, civil or criminal liabilities, including suspension or debarment from government contracts or suspension of our export privileges. Moreover, our sales, including sales to customers outside the United States, substantially all are denominated in U.S. dollars, and downward fluctuations in the value of foreign currencies relative to the U.S. dollar may make our products more expensive than other products, which could harm our business.

We could be prohibited from shipping our products to certain countries if we are unable to obtain U.S. government authorization regarding the export of our products, or if current or future export laws limit or otherwise restrict our business. In addition, failure to comply with export laws could result in fines, export restrictions and other sanctions and penalties.

We must comply with U.S. and other laws regulating the export of our products. In some cases, explicit authorization from the relevant U.S. government authorities is needed to export our products. The export regulations and the governing policies applicable to our business are subject to change. We cannot provide assurance that such export authorizations will be available for our products in the future. Compliance with these laws has not significantly limited our operations or our sales in the recent past, but could significantly limit them in the future. We maintain an export compliance program but there are risks that our compliance controls may be ineffective. We have voluntarily disclosed export violations to the U.S. Department of State, a number of which are currently under review by the department. The U.S. Department of State has imposed significant fines, penalties and sanctions, including suspension of export privileges, on companies that have violated the export laws. If the State Department determines that the conduct in our voluntary disclosures warrants the imposition of significant fines, penalties or sanctions, it could have a material adverse impact on our business, operations and financial condition and limit or prevent us from being able to sell our products in certain international jurisdictions.

If we are unable to manage the increasing complexity of our business or achieve or manage our expected growth, our business could be adversely affected.

The complexity of our business has increased significantly over the last several years. We have expanded the number of business areas being pursued, shifting from primarily a U.S. government focused business to a business that includes substantial international product sales and added commercial services and formed a joint venture with SoftBank Corp. to develop HAPS UAS. We also acquired Pulse Aerospace, LLC, a Kansas-based developer of UAS capable of vertical take-off and landing (VTOL), in June 2019. These have increased complexity and our expected growth has placed, and will continue to place, a strain on our management and our administrative, operational and financial infrastructure. We anticipate further growth of headcount and facilities will be required to address expansion in our product offerings and the geographic scope of our customer base. However, if we are unsuccessful in our efforts, our business could decline. Our success will depend in part upon the ability of our senior management to manage our increased complexity and expected growth effectively. To do so, we must continue to hire, train, manage and integrate a significant number of qualified managers and engineers. If our new employees perform poorly, or if we are unsuccessful

in hiring, training, managing and integrating these new employees, or retaining these or our existing employees, then our business may experience declines.

To support our expected growth, we must continue to improve our operational, financial and management information systems. If we are unable to manage our growth while maintaining our quality of service, or if new systems that we implement to assist in managing our growth do not produce the expected benefits, then our business, prospects, financial condition or operating results could be adversely affected.

Any efforts to expand our offerings beyond our current markets may not succeed, which could negatively impact our operating results.

Until recently, we have focused on selling our small UAS to the U.S. military. We have, however, expanded our small UAS sales into other government and commercial markets, including the launch of our Quantix data collection drone and AV DSS for agriculture operations, and formed a joint venture with SoftBank Corp. to develop HAPS UAS for global communication and remote sensing applications. Our efforts to expand our product offerings beyond our traditional markets may divert management resources from existing operations and require us to commit significant financial resources to unproven businesses that may not generate additional sales, either of which could significantly impair our operating results.

The markets in which we compete are characterized by rapid technological change, which requires us to develop new products and product enhancements, and could render our existing products obsolete.

Continuing technological changes in the market for our products could make our products less competitive or obsolete, either generally or for particular applications. Our future success will depend upon our ability to develop and introduce a variety of new capabilities and enhancements to our existing product offerings, as well as introduce a variety of new product offerings, to address the changing needs of the markets in which we offer our products. Delays in introducing new products and enhancements, the failure to choose correctly among technical alternatives or the failure to offer innovative products or enhancements at competitive prices may cause existing and potential customers to purchase our competitors' products.

If we are unable to devote adequate resources to develop new products or cannot otherwise successfully develop new products or enhancements that meet customer requirements on a timely basis, our products could lose market share, our revenue and profits could decline, and we could experience operating losses.

We expect to incur substantial research and development costs and devote significant resources to identifying and commercializing new products and services, which could significantly reduce our profitability and may never result in revenue to us.

Our future growth depends on penetrating new markets, adapting existing products to new applications, and introducing new products and services that achieve market acceptance. We plan to incur substantial research and development costs as part of our efforts to design, develop and commercialize new products and services and enhance existing products. We spent \$34.2 million, or 11% of our revenue, in our fiscal year ended April 30, 2019 on research and development activities. We believe that there are significant investment opportunities in a number of business areas. Because we account for research and development as an operating expense, these expenditures will adversely affect our earnings in the future. Further, our research and development programs may not produce successful results, and our new products and services may not achieve market acceptance, create additional revenue or become profitable, which could materially harm our business, prospects, financial results and liquidity.

Failure to obtain necessary regulatory approvals from the FAA or other governmental agencies, or limitations put on the use of small UAS in response to public privacy concerns, may prevent us from expanding the sales of our small UAS to non-military customers in the United States.

The regulation of small UAS for commercial use in the United States is undergoing substantial change and the ultimate treatment is uncertain. In 2006, the FAA issued a clarification of its existing policies stating that, in order to

engage in commercial use of small UAS in the U.S. National Airspace System, a public operator must obtain a COA from the FAA, or fly in restricted airspace. The FAA's COA approval process requires that the public operator certify the airworthiness of the aircraft for its intended purpose, that a collision with another aircraft or other airspace user is extremely improbable, that the small unmanned aircraft system complies with appropriate cloud and terrain clearances and that the operator or spotter of the small unmanned aircraft system is generally within one half-mile laterally and 400 feet vertically of the small unmanned aircraft system while in operation. Furthermore, the FAA's clarification of existing policy stated that the rules for radio-controlled hobby aircraft do not apply to public or commercial use of small UAS.

On February 14, 2012, the FAA Modernization and Reform Act of 2012 was enacted, establishing various deadlines for the FAA to allow expanded use of small UAS for both public and commercial applications. On June 21, 2016, the FAA released its final rules regarding the routine use of certain small UAS (under 55 pounds) in the U.S. National Airspace System pursuant to the act. The rules, which became effective in August 2016, provided safety regulations for small UAS conducting non-recreational operations and contain various limitations and restrictions for such operations, including a requirement that operators keep UAS within visual-line-of-sight and prohibiting flights over unprotected people on the ground who are not directly participating in the operation of the UAS. We cannot assure you that these new rules will result in the expanded use of our small UAS by law enforcement or other non-military government agencies or commercial entities and we may not be able to expand our sales of small UAS beyond our military customers, which could harm our business prospects.

In addition, there exists public concern regarding the privacy implications of U.S. commercial and law enforcement use of small UAS. This concern has included calls to develop explicit written policies and procedures establishing usage limitations. We cannot assure you that the response from regulatory agencies, customers and privacy advocates to these concerns will not delay or restrict the adoption of small UAS by non-military customers.

Our products and services are complex and could have unknown defects or errors, which may give rise to claims against us, diminish our brand or divert our resources from other purposes.

Our UAS rely on complex avionics, sensors, user-friendly interfaces and tightly-integrated, electromechanical designs to accomplish their missions. Despite testing, our products have contained defects and errors and may in the future contain defects, errors or performance problems when first introduced, when new versions or enhancements are released, or even after these products have been used by our customers for a period of time. These problems could result in expensive and time-consuming design modifications or warranty charges, delays in the introduction of new products or enhancements, significant increases in our service and maintenance costs, exposure to liability for damages, damaged customer relationships and harm to our reputation, any of which could materially harm our results of operations and ability to achieve market acceptance. In addition, increased development and warranty costs could be substantial and could reduce our operating margins.

The existence of any defects, errors, or failures in our products or the misuse of our products could also lead to product liability claims or lawsuits against us. A defect, error or failure in one of our UAS could result in injury, death or property damage and significantly damage our reputation and support for our UAS in general. We anticipate this risk will grow as our UAS begin to be used in U.S. domestic airspace and urban areas. We also remain liable for warranty and product liability claims for our EV charging systems and power cycling and test systems sold prior the closing of the transaction contemplated by the Purchase Agreement, which products have the potential to cause injury, death or property damage in the event that they are misused, malfunction or fail to operate properly due to unknown defects or errors.

Although we maintain insurance policies, we cannot provide assurance that this insurance will be adequate to protect us from all material judgments and expenses related to potential future claims or that these levels of insurance will be available in the future at economical prices or at all. A successful product liability claim could result in substantial cost to us. Even if we are fully insured as it relates to a claim, the claim could nevertheless diminish our brand and divert management's attention and resources, which could have a negative impact on our business, financial condition and results of operations.

If critical components or raw materials used to manufacture our products become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products, which could damage our business.

We obtain hardware components, various subsystems and systems from a limited group of suppliers. We do not have long-term agreements with any of these suppliers that obligate them to continue to sell components, subsystems, systems or products to us. Our reliance on these suppliers involves significant risks and uncertainties, including whether our suppliers will provide an adequate supply of required components, subsystems, or systems of sufficient quality, will increase prices for the components, subsystems or systems and will perform their obligations on a timely basis.

In addition, certain raw materials and components used in the manufacture of our products are periodically subject to supply shortages, and our business is subject to the risk of price increases and periodic delays in delivery. Particularly, the market for electronic components is experiencing increased demand, creating substantial uncertainty regarding our suppliers' continued production of key components for our products. If we are unable to obtain components from third party suppliers in the quantities and of the quality that we require, on a timely basis and at acceptable prices, then we may not be able to deliver our products on a timely or cost effective basis to our customers, which could cause customers to terminate their contracts with us, increase our costs and seriously harm our business, results of operations and financial condition. Moreover, if any of our suppliers become financially unstable, or otherwise unable or unwilling to provide us with raw materials or components, then we may have to find new suppliers. It may take several months to locate alternative suppliers, if required, or to redesign our products to accommodate components from different suppliers. We may experience significant delays in manufacturing and shipping our products to customers and incur additional development, manufacturing and other costs to establish alternative sources of supply if we lose any of these sources or are required to redesign our products. We cannot predict if we will be able to obtain replacement components within the time frames that we require at an affordable cost, if at all.

Our earnings and profit margins may decrease based on the mix of our contracts and programs and other factors related to our contracts.

In general, we perform our production work under fixed-price contracts and our repair and customer-funded research and development work under cost-plus-fee contracts. Under fixed-price contracts, we perform services under a contract at a stipulated price. Under cost-plus-fee contracts, which are subject to a contract ceiling amount, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based. We typically experience lower profit margins under cost-plus-fee contracts than under fixed-price contracts, though fixed-price contracts involve higher risks. In general, if the volume of services we perform under cost-plus-fee contracts increases relative to the volume of services we perform under fixed-price contracts, we expect that our operating margin will decline. In addition, our earnings and margins may decrease depending on the costs we incur in contract performance, our achievement of other contract performance objectives and the stage of our performance at which our right to receive fees, particularly under incentive and award fee contracts, is finally determined.

We use estimates in accounting for many of our programs and changes in our estimates could adversely affect our future financial results.

Contract accounting requires judgments relative to assessing risks, including risks associated with estimating contract transaction prices and costs, assumptions for schedule and technical issues, customer-directed delays and reductions in scheduled deliveries, and unfavorable resolutions of claims and contractual matters. Due to the size and nature of many of our contracts, the estimation of total costs at completion is complicated and subject to many variables. For example, we must make assumptions regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials; and consider incentives or penalties related to performance on contracts and include them in the 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. Because of the significance of the judgments and estimation processes described above, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition.

Cost overruns on our contracts could subject us to losses, decrease our operating margins and adversely affect our future business.

Fixed-price contracts (including both government and commercial contracts) represented approximately 71% of our revenue for the fiscal year ended April 30, 2019. If we fail to anticipate technical problems, estimate costs accurately or control costs during our performance of fixed-price contracts, then we may incur losses on these contracts because we absorb any costs in excess of the fixed price. Under cost-plus-fee contracts, if costs exceed the contract ceiling or are not allowable under the provisions of the contract or applicable regulations, then we may not be able to obtain reimbursement for all such costs. Under time and materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses. Because many of our contracts involve advanced designs and innovative technologies, we may experience unforeseen technological difficulties and cost overruns. Under each type of contract, if we are unable to control the costs we incur in performing under the contract, then our financial condition and results of operations could be materially adversely affected. Cost overruns also may adversely affect our ability to sustain existing programs and obtain future contract awards.

Our senior management and key employees are important to our customer relationships and overall business.

We believe that our success depends in part on the continued contributions of our senior management and key employees. We rely on our executive officers, senior management and key employees to generate business and execute programs successfully. In addition, the relationships and reputation that members of our management team and key employees have established and maintain with government defense personnel contribute to our ability to maintain good customer relations and to identify new business opportunities. We do not have employment agreements with any of our executive officers or key employees, and these individuals could terminate their employment with us at any time. The loss of any of our executive officers, members of our senior management team or key employees could significantly delay or prevent the achievement of our business objectives and could materially harm our business and customer relationships and impair our ability to identify and secure new contracts and otherwise manage our business.

We must recruit and retain highly-skilled employees to succeed in our competitive business.

We depend on our ability to recruit and retain employees who have advanced engineering and technical services skills and who work well with our customers. These employees are in great demand and are likely to remain a limited resource in the foreseeable future. If we are unable to recruit and retain a sufficient number of these employees, then our ability to maintain our competitiveness and grow our business could be negatively affected. In addition, because of the highly technical nature of our products, the loss of any significant number of our existing engineering personnel could have a material adverse effect on our business and operating results. Moreover, some of our U.S. government contracts contain provisions requiring us to staff a program with certain personnel the customer considers key to our successful performance under the contract. In the event we are unable to provide these key personnel or acceptable substitutes, the customer may terminate the contract.

Our business may be dependent upon our employees obtaining and maintaining required security clearances, as well as our ability to obtain security clearances for the facilities in which we perform sensitive government work.

Certain of our U.S. government contracts require our employees to maintain various levels of security clearances, and we are required to maintain certain facility security clearances complying with DoD requirements. The DoD has strict security clearance requirements for personnel who work on classified programs. Obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, recruit and retain employees who already hold security clearances. If our employees are unable to obtain security clearances in a timely manner, or at all, or if our employees who hold security clearances are unable to maintain the clearances or terminate employment with us, then a customer requiring classified work could terminate the contract or decide not to renew it upon its expiration. In addition, we expect that many of the contracts on which we will bid will require us to demonstrate our ability to obtain facility security clearances and employ personnel with specified types of security clearances. To the extent we are not able to obtain facility security clearances or engage employees with the required security clearances for a particular contract, we may not be able to bid on or win new contracts, or effectively rebid on expiring contracts.

Our future profitability may be dependent upon achieving cost reductions and projected economies of scale from increasing manufacturing quantities of our products. Failing to achieve such reductions in manufacturing costs and projected economies of scale could materially adversely affect our business.

We have limited experience manufacturing small UAS and tactical missile systems in high volume. We do not know whether or when we will be able to develop efficient, low-cost manufacturing capabilities and processes that will enable us to manufacture (or contract for the manufacture of) these products in commercial quantities while meeting the volume, speed, quality, price, engineering, design and production standards required to successfully market our products. Our failure to develop such manufacturing processes and capabilities in locations that can efficiently service our markets could have a material adverse effect on our business, financial condition, results of operations and prospects. Our future profitability is, in part, dependent upon achieving increased savings from volume purchases of raw materials and component parts, achieving acceptable manufacturing yield and capitalizing on machinery efficiencies. We expect our suppliers to experience a sharp increase in demand for their products. As a result, we may not have reliable access to supplies that we require or be able to purchase such materials or components at cost effective prices. There is no assurance that we will ever be in a position to realize any material, labor and machinery cost reductions associated with higher purchasing power and higher production levels. Failure to achieve these cost reductions could adversely impact our business and financial results.

We face significant risks in the management of our inventory, and failure to effectively manage our inventory levels may result in product recalls or supply imbalances that could harm our business.

We maintain a variety of parts and components in inventory to allow us to customize our UAS products for specific customer requirements, which parts are subject to obsolescence and expiration. Due to the long-lead time for obtaining certain UAS product components and the manufacturing cycles, we need to make forecasts of demand and commit significant resources towards manufacturing our products. As such, we are subject to significant risks in managing the inventory needs of our business during the year, including estimating the appropriate demand for our products. Should orders and market conditions differ significantly from our estimates, our future results of operations could be materially adversely affected. In the future, we may be required to record write-downs of finished products and materials on-hand and/or additional charges for excess purchase commitments as a result of future changes in our sales forecasts or customer orders.

Due to the volatile and flammable nature of certain components of our products and equipment, fires or explosions may disrupt our business or cause significant injuries, which could adversely affect our financial results.

The development and manufacture of certain of our products involves the handling of a variety of explosive and flammable materials as well as high power equipment. From time to time, these activities may result in incidents that could cause us to temporarily shut down or otherwise disrupt some manufacturing processes, causing production delays and resulting in liability for workplace injuries and/or fatalities. We have safety and loss prevention programs that require detailed reviews of process changes and new operations, along with routine safety audits of operations involving explosive materials, to mitigate such incidents, as well as a variety of insurance policies, however our insurance coverage may be inadequate to cover all claims and losses related to such incidents. We may experience such incidents in the future, which could result in production delays or otherwise have a material adverse effect on our business and financial condition.

The operation of UAS in urban environments may be subject to risks, such as accidental collisions and transmission interference, which may limit demand for our UAS in such environments and harm our business and operating results.

Urban environments may present certain challenges to the operators of UAS. UAS may accidentally collide with other aircraft, persons or property, which could result in injury, death or property damage and significantly damage the reputation of and support for UAS in general. As the usage of UAS has increased, particularly by military customers, the danger of such collisions has increased. Furthermore, the incorporation of our DDL technology into our small UAS has increased the number of vehicles which can operate simultaneously in a given area and with this increase has come an increase in the risk of accidental collision. In addition, obstructions to effective transmissions in urban environments,

such as large buildings, may limit the ability of the operator to utilize the aircraft for its intended purpose. The risks or limitations of operating UAS in urban environments may limit their value in such environments, which may limit demand for our UAS and consequently materially harm our business and operating results.

As a manufacturer of commercial UAS, we are subject to various government regulations and may be subject to additional regulations in the future, violation of which could subject us to sanctions or otherwise harm our business.

As a manufacturer of consumer products, we are subject to significant government regulations, including, in the United States, those issued under the Consumer Products Safety Act, as well as those issued under product safety and consumer protection statutes in our international markets. Failure to comply with any applicable product safety or consumer protection regulation could result in sanctions that could have a negative impact on our business, financial condition and results of operations.

Governments and regulatory agencies in the markets where we manufacture and sell products may enact additional regulations relating to product safety and consumer protection in the future, and may also increase the penalties for failure to comply with product safety and consumer protection regulations. In addition, one or more of our customers might require changes in our products, such as the non-use of certain materials, in the future. Complying with any such additional regulations or requirements could impose increased costs on our business. Similarly, increased penalties for non-compliance could subject us to greater expenses in the event any of our products were found to not comply with such regulations. Such increased costs or penalties could harm our business.

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

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

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

We are subject to pending legal proceedings that may disrupt our business, cause us to incur substantial costs, expose us to significant legal liabilities and could have a material adverse impact on our financial performance.

We are subject to various legal proceedings and claims, including a lawsuit filed by a former employee alleging claims arising out of the termination of his employment and a lawsuit filed by Webasto alleging several claims against us arising out of or related to our sale of our EES Business to Webasto in June 2018 and the NHTSA recall. Additional lawsuits may arise in the future. Occasionally we are also involved in governmental inquiries and investigations and administrative and regulatory proceedings. Our activities relating to defending and responding to any such proceedings may result in substantial legal expenses, may disrupt our sales and marketing or other business activities, including our relationships with our customers, suppliers, employees and other third parties, and divert management’s and our employees’ attention from our day-to-day operations, which may have an adverse impact on our financial performance. The results of any such proceedings are unpredictable. We record accruals for liabilities where we believe a loss is probable and reasonably estimable, however, our actual losses may differ significantly from our estimates. An adverse

or unfavorable resolution of any proceedings against us could have a material impact on our financial position, cash flows and results of operations.

Our quarterly operating results may vary widely.

Our quarterly revenue, cash flow and operating results have and may continue to fluctuate significantly in the future due to a number of factors, including the following:

- fluctuations in revenue derived from government contracts, including cost-plus-fee contracts and contracts with a performance-based fee structure;
- the size and timing of orders from military and other governmental agencies, including increased purchase requests from government customers for equipment and materials in connection with the U.S. government's fiscal year end, which may affect our quarterly operating results;
- the mix of products that we sell in the period;
- seasonal fluctuations in customer demand for some of our products or services;
- unanticipated costs incurred in the introduction of new products;
- fluctuations in the adoption of our products in new markets;
- our ability to win additional contracts from existing customers or other contracts from new customers;
- cancellations, delays or contract amendments by our U.S. governmental agency and foreign government customers;
- changes in policy or budgetary measures that adversely affect our U.S. governmental agency and foreign government customers;
- the cost of complying with various regulatory requirements applicable to our business and the potential penalties or sanctions that could be imposed for non-compliance; and
- our ability to obtain the necessary export licenses for sales of our products and services to international customers.

Changes in the volume of products and services provided under existing contracts and the number of contracts commenced, completed or terminated during any quarter may cause significant variations in our cash flow from operations because a relatively large amount of our expenses are fixed. We incur significant operating expenses during the start-up and early stages of large contracts and typically do not receive corresponding payments in that same quarter. We may also incur significant or unanticipated expenses when contracts expire or are terminated or are not renewed. In addition, payments due to us from government agencies may be delayed due to billing cycles or as a result of failures of governmental budgets to gain congressional and presidential approval in a timely manner.

Shortfalls in available external research and development funding could adversely affect us.

We depend on our research and development activities to develop the core technologies used in our UAS products and for the development of our future products. A portion of our research and development activities depends on funding by commercial companies and the U.S. government. U.S. government and commercial spending levels can be impacted by a number of variables, including general economic conditions, specific companies' financial performance and competition for U.S. government funding with other U.S. government-sponsored programs in the budget formulation and appropriation processes. To the extent that these external sources of funding are reduced or

eliminated, company funding for research and development could be reduced. Any reductions in available research and development funding could harm our business, financial condition and operating results.

Our work for the U.S. government and international governments may expose us to security risks.

As a U.S. government contractor, we face various security threats, including cyber security attacks on our information technology infrastructure, attempts to gain access to our proprietary, financial, banking or classified information as well as threats to the physical security of our facilities and employees. Although we utilize various procedures and controls to monitor and mitigate these threats, there can be no assurance that these procedures and controls will be sufficient to prevent disruptions, the unauthorized release of confidential technical, financial or banking information or corruption of data. Accordingly, any significant operational delays, or any destruction, manipulation or improper use of our data, information systems or networks could adversely affect our financial results and damage the reputation for our products and services. Previous cyber-attacks directed at us have not materially impacted our business or financial results, but the impact of future incidents cannot be predicted due to the evolving nature and complexity of cyber-attacks. If we or our partners are subject to data security breaches, we may have a loss in sales or increased costs arising from the restoration or implementation of additional security measures, either of which could materially and adversely affect our business and financial results. Additionally, expenses resulting from cyber security attacks and other security risks may not be fully insured or otherwise mitigated, which could harm our financial results.

In addition, we work in international locations where there are high security risks, which could result in harm to our employees and contractors or substantial costs. Some of our services are performed in or adjacent to high-risk locations, such as Iraq and Afghanistan, where the country or location is experiencing political, social or economic issues, or war or civil unrest. In those locations where we have employees or operations, we may incur substantial costs to maintain the safety of our personnel. Despite these precautions, the safety of our personnel in these locations may continue to be at risk, and we may in the future be negatively impacted by the loss of employees and contractors, which could harm our business and operating results.

We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.

We operate in emerging and rapidly evolving markets, which makes our prospects difficult to evaluate. It is possible that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. If this occurs, then we may need additional financing to pursue our business strategies, including to:

- hire additional engineers and other personnel;
- develop new or enhance existing products;
- enhance our operating infrastructure;
- fund working capital requirements;
- acquire complementary businesses or technologies; or
- otherwise respond to competitive pressures.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. Our former line of credit contained, and future debt financing may contain, covenants or other provisions that limit our operational or financial flexibility. In addition, certain of our customers require that we obtain letters of credit to support our obligations under some of our contracts.

Our cash may be subject to a risk of loss and we may be exposed to fluctuations in the market values of our portfolio investments and in interest rates.

Our assets include a significant amount of cash and investments. We adhere to an investment policy set by our Board of Directors which aims to preserve our financial assets, maintain adequate liquidity and maximize returns. We believe that our cash is held in institutions whose credit risk is minimal and that the value and liquidity of our deposits are accurately reflected in our consolidated financial statements as of April 30, 2019. We currently invest the majority of our cash in U.S. government securities, U.S. government agency securities, municipal bonds and high-grade corporate bonds, the performance of which are subject to additional market risks related to their respective issuers. Nearly all of our cash and bank deposits are not insured by the Federal Deposit Insurance Corporation, or the FDIC. Therefore, our cash and any bank deposits that we now hold or may acquire in the future may be subject to risks, including the risk of loss or of reduced value or liquidity. In the future, should we determine that there is a decline in value of any of our portfolio securities which is not temporary in nature, this would result in a loss being recognized in our consolidated statements of operations.

Unstable market and economic conditions may have serious adverse consequences on our business, financial condition and stock price.

Global credit and financial markets have experienced extreme disruptions in recent years, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that renewed deterioration in credit and financial markets and confidence in economic conditions will not occur. Our general business strategy may be adversely affected by any economic downturn, volatile business environment or continued unpredictable and unstable market conditions. If the current equity and credit markets deteriorate, or do not improve, it may make any necessary debt or equity financing more difficult, more costly and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon implementing business initiatives. These events and the continuing market upheavals could adversely affect our business in a number of ways, including:

Potential Deferment of Purchases and Orders by Customers: Uncertainty about current and future global economic conditions may cause governments, including the U.S. government, which is our largest customer, consumers and businesses to modify, defer or cancel purchases in response to tighter credit, decreased cash availability and declining consumer confidence. Accordingly, future demand for our products could differ materially from our current expectations. Additionally, if customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Any inability of current and/or potential customers to pay us for our products may adversely affect our earnings and cash flow.

Negative Impact from Increased Financial Pressures on Key Suppliers: Our ability to meet customers' demands depends, in part, on our ability to obtain timely and adequate delivery of quality materials, parts and components from our suppliers. Certain of our hardware components and various subsystems are available only from a limited group of suppliers. If certain key suppliers were to become capacity constrained or insolvent as a result of a market downturn, then we may have to find new suppliers. We may experience significant delays in manufacturing and shipping our products to customers and incur additional development, manufacturing and other costs to establish alternative sources of supply if we lose any of these sources or are required to redesign our products. We cannot predict if we will be able to obtain replacement components within the time frames that we require at an affordable cost, if at all. In addition, credit constraints of key suppliers could result in accelerated payment of accounts payable by us, impacting our cash flow.

Customers' Inability to Obtain Financing to Make Purchases from Us and/or Maintain Their Business: Some of our customers may require substantial financing in order to fund their operations and make purchases from us. The inability of these customers to obtain sufficient credit to finance purchases of our products, or otherwise meet their payment obligations to us could adversely impact our financial condition and results of operations. In addition, if a

market downturn results in insolvencies for our customers, it could adversely impact our financial condition and results of operations.

Acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.

In June 2019, we consummated the acquisition of Pulse Aerospace, LLC, a Kansas based developer of VTOL UAS. We intend to consider additional acquisitions that could add to our customer base, technological capabilities or system offerings. Acquisitions, including the acquisition of Pulse Aerospace, involve numerous risks, any of which could harm our business, including the following:

- difficulties in integrating the operations, technologies, products, existing contracts, accounting and personnel of the target company and realizing the anticipated synergies of the combined businesses;
- difficulties in supporting and transitioning customers, if any, of the target company;
- diversion of financial and management resources from existing operations;
- the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, customers and strategic alliances from either our current business or the target company's business;
- assumption of unanticipated problems or latent liabilities, such as problems with the quality of the target company's products or its regulatory compliance; and
- inability to generate sufficient revenue to offset acquisition costs.

Acquisitions also frequently result in the recording of goodwill and other intangible assets which are subject to potential impairments in the future that could harm our financial results. In addition, if we finance acquisitions by issuing equity, or securities convertible into equity, then our existing stockholders may be diluted, which could lower the market price of our common stock. If we finance acquisitions through debt, then such future debt financing may contain covenants or other provisions that limit our operational or financial flexibility.

If we fail to properly evaluate acquisitions or investments, then we may not achieve the anticipated benefits of any such acquisitions, and we may incur costs in excess of what we anticipate. The failure to successfully evaluate and execute acquisitions or investments or otherwise adequately address these risks could materially harm our business and financial results.

Environmental laws and regulations and unforeseen costs could impact our future earnings.

The manufacture and sale of our products in certain states and countries may subject us to environmental and other regulations. For example, we obtain a significant number of our electronics components from companies located in East Asia, where environmental rules may be less stringent than in the United States. Over time, the countries where these companies are located may adopt more stringent environmental regulations, resulting in an increase in our manufacturing costs. Given the increasing focus on environmental compliance by regulators and the general public, any incidence of non-compliance could result in damage to our reputation beyond the fines and other sanctions that could be imposed. Furthermore, certain environmental laws, including the U.S. Comprehensive, Environmental Response, Compensation and Liability Act of 1980, impose strict, joint and several liability on current and previous owners or operators of real property for the cost of removal or remediation of hazardous substances and impose liability for damages to natural resources. These laws often impose liability even if the owner or operator did not know of, or was not

responsible for, the release of such hazardous substances. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are later found to be contaminated. Such persons can be responsible for cleanup costs even if they never owned or operated the contaminated facility. Although we have never been named a responsible party at a contaminated site, we could be named a potentially responsible party in the future. We cannot assure you that such existing laws or future laws will not have a material adverse effect on our future earnings or results of operations.

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

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

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

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact of such future laws, regulations and standards may have on our business. For example, in June 2018, California passed the California Consumer Privacy Act, or CCPA, which provides new data privacy rights for consumers and new operational requirements for companies effective in 2020. Additionally, we expect that existing laws, regulations and standards may be interpreted differently in the future. There remains significant uncertainty surrounding the regulatory framework for the future of personal data transfers from the European Union to the United States with regulations such as the recently adopted General Data Protection Regulation, or GDPR, which imposes more stringent E.U. data protection requirements, provides an enforcement authority, and imposes large penalties for noncompliance. Future laws, regulations, standards and other obligations, including the adoption of the GDPR, as well as changes in the interpretation of existing laws, regulations, standards and other obligations could impair our ability to collect, use or disclose information relating to individuals, which could decrease demand for our products, require us to restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

Although we are working to comply with those federal, state and foreign laws and regulations, industry standards, contractual obligations and other legal obligations that apply to us, such laws, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, our practices or the features of our products. As such, we cannot assure ongoing compliance with all such laws or regulations, industry standards,

contractual obligations and other legal obligations, and our efforts to do so may cause us to incur significant costs or require changes to our business practices, which could adversely affect our business and operating results. Any failure or perceived failure by us to comply with federal, state or foreign laws or regulations, industry standards, contractual obligations or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personal information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business and operating results.

Compliance with the SEC's conflict minerals regulations may increase our costs and adversely impact the supply-chain for our UAS products.

In August 2012, the SEC adopted disclosure rules regarding a company's use of conflict minerals in its products with substantial supply chain verification requirements in the event that the conflict minerals come from, or could have come from, the Democratic Republic of the Congo or adjoining countries. These rules and verification requirements will impose additional costs on us and on our suppliers, including costs related to determining the source of conflict minerals used in our products, which will adversely affect our results of operations. We are dependent on information supplied by our first tier suppliers in conducting due diligence into the origins of conflict minerals in our products and in complying with our SEC reporting obligations. To the extent that information we receive from our suppliers is inaccurate or inadequate, we may not be able to determine whether our products are conflict mineral-free. We may face challenges in satisfying our customers who may require that our products be certified as conflict mineral-free, which could place us at a competitive disadvantage and could harm our business. These regulations could also have the effect of limiting the pool of suppliers from which we source items containing conflict minerals, and we may be unable to obtain conflict-free minerals at competitive prices, if at all, which could increase our costs and adversely affect our results of operations.

Our business and operations are subject to the risks of earthquakes and other natural catastrophic events.

Our corporate headquarters, research and development and manufacturing operations are located in Southern California, a region known for seismic activity and wild fires. A significant natural disaster, such as an earthquake, fire or other catastrophic event, could severely affect our ability to conduct normal business operations, and as a result, our future operating results could be materially and adversely affected.

We self-insure a portion of our health insurance program which may expose us to unexpected costs and negatively affect our results of operations.

We are self-insured for employee medical claims, subject to individual and aggregate stop loss insurance policies. We estimate a liability for claims filed and incurred but not reported based upon recent claims experience and an analysis of the average period of time between the occurrence of a claim and the time it is reported to and paid by us. However, unanticipated changes in assumptions and management estimates underlying our recorded liabilities for medical claims could result in materially different amounts of expense than expected under our health insurance program, which could have an adverse material impact on our financial condition and results of operations.

Risks Related to Our U.S. Government Contracts

We are subject to extensive government regulation, and our failure to comply with applicable regulations could subject us to penalties that may restrict our ability to conduct our business.

As a contractor to the U.S. government, we are subject to and must comply with various government regulations that impact our revenue, operating costs, profit margins and the internal organization and operation of our business. The most significant regulations and regulatory authorities affecting our business include the following:

- the Federal Acquisition Regulations and supplemental agency regulations, which comprehensively regulate the formation and administration of, and performance under, U.S. government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of all factual cost and pricing data in connection with contract negotiations;
- the False Claims Act and the False Statements Act, which impose penalties for payments made on the basis of false facts provided to the government and on the basis of false statements made to the government, respectively;
- the Foreign Corrupt Practices Act, which prohibits U.S. companies from providing anything of value to a foreign official to help obtain, retain or direct business, or obtain any unfair advantage;
- the National Telecommunications and Information Administration and the Federal Communications Commission, which regulate the wireless spectrum allocations upon which UAS depend for operation and data transmission in the United States;
- the Federal Aviation Administration, which regulates the use of airspace for all aircraft, including UAS operation in the United States;
- the International Traffic in Arms Regulations, which regulate the export of controlled technical data, defense articles and defense services and restrict from which countries we may purchase materials and services used in the production of certain of our products; and
- laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes or determined to be “controlled unclassified information” and the exportation of certain products and technical data.

Also, we need special security clearances and regulatory approvals to continue working on certain of our projects with the U.S. government. Classified programs generally will require that we comply with various executive orders, federal laws and regulations and customer security requirements that may include restrictions on how we develop, store, protect and share information, and may require our employees and facilities to obtain government security clearances. Our failure to comply with applicable regulations, rules and approvals or misconduct by any of our employees could result in the imposition of fines and penalties, the loss of security clearances, the loss of our government contracts or our suspension or debarment from contracting with the U.S. government generally, any of which could harm our business, financial condition and results of operations. We are also subject to certain regulations of comparable government agencies in other countries, and our failure to comply with these non-U.S. regulations could also harm our business, financial condition or results of operations.

Our business could be adversely affected by a negative audit or investigation by the U.S. government.

U.S. government agencies, primarily the DCAA and the DCMA, routinely audit and investigate government contractors. These agencies review a contractor’s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. These agencies also may review the adequacy of, and a contractor’s

compliance with, its internal control systems and policies, including the contractor's purchasing, quality, accounting, property, estimating, compensation and management information systems.

Like most government contractors, our contracts are audited and reviewed on a continual basis by the DCMA and the DCAA. The indirect costs we incur in performing government contracts have been audited or have been subject to audit on an annual basis. The audit of our 2010 incurred cost claim was settled in April 2016 without payment of any consideration. Our incurred cost claims for fiscal years 2011 through 2014 were accepted as submitted during the fiscal year ended April 30, 2017. Our 2016 and 2017 rates claims were accepted without audit during the fiscal year ended April 30, 2019 without payment of any consideration. At April 30, 2019 we had \$0.1 million reserved for open incurred cost claim audits. In addition, non-audit reviews or investigations by the government may still be conducted on all of our government contracts.

Any costs found to be improperly allocated to a specific cost reimbursement contract will not be reimbursed, while such costs already reimbursed must be refunded. If an audit or investigation of our business were to uncover improper or illegal activities, then we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, suspension of payments, fines and suspension or debarment from doing business with the U.S. government. We could experience serious harm to our reputation if allegations of impropriety or illegal acts were made against us, even if the allegations were inaccurate. In addition, responding to governmental audits or investigations may involve significant expense and divert management attention. If any of the foregoing were to occur, our financial condition and operating results could be materially adversely affected.

Moreover, if any of our administrative processes and business systems are found not to comply with the applicable requirements, we may be subjected to increased government scrutiny or required to obtain additional governmental approvals that could delay or otherwise adversely affect our ability to compete for or perform contracts. In December 2015, DCMA concluded that our purchasing system was not approved. In an April 2016 follow-up review the DCMA approved our purchasing system. The purchasing systems was reviewed and approved again in January 2019. An unfavorable outcome to such an audit or investigation by the DCAA, U.S. Department of Justice or DOJ, or other government agency, could materially adversely affect our competitive position, affect our ability to obtain new government business, and obtain the maximum price for our products and services, and result in a substantial reduction of our revenues.

If we were suspended or debarred from contracting with the federal government generally, or any specific agency, if our reputation or relationship with government agencies were impaired, or if the government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our revenue and operating results could be materially harmed. For example, in February 2010, we were notified by the DOJ that it had initiated a civil investigation into our cost charging practices with respect to government contracts. We resolved these claims with the DOJ in October 2013. Under the settlement agreement, we reimbursed the government for an amount erroneously charged to the government in our fiscal 2006 incurred cost claim submittal.

Some of our contracts with the U.S. government allow it to use inventions developed under the contracts and to disclose technical data to third parties, which could harm our ability to compete.

Some of our contracts allow the U.S. government to use, royalty-free, or have others use, inventions developed under those contracts on behalf of the government. Some of the contracts allow the federal government to disclose technical data without constraining the recipient on how those data are used. The ability of third parties to use patents and technical data for government purposes creates the possibility that the government could attempt to establish alternative suppliers or to negotiate with us to reduce our prices. The potential that the government may release some of the technical data without constraint creates the possibility that third parties may be able to use this data to compete with us, which could have a material adverse effect on our business, results of operations or financial condition.

U.S. government contracts are generally not fully funded at inception and contain certain provisions that may be unfavorable to us, which could prevent us from realizing our contract backlog and materially harm our business and results of operations.

U.S. government contracts typically involve long lead times for design and development, and are subject to significant changes in contract scheduling. Congress generally appropriates funds on a fiscal year basis even though a program may continue for several years. Consequently, programs are often only partially funded initially, and additional funds are committed only as Congress makes further appropriations. The termination or reduction of funding for a government program would result in a loss of anticipated future revenue attributable to that program.

The actual receipt of revenue on awards included in backlog may never occur or may change because a program schedule could change or the program could be canceled, or a contract could be reduced, modified or terminated early.

In addition, U.S. government contracts generally contain provisions permitting termination, in whole or in part, at the government's convenience or for contractor default. Since a substantial majority of our revenue is dependent on the procurement, performance and payment under our U.S. government contracts, the termination of one or more critical government contracts could have a negative impact on our results of operations and financial condition. Termination arising out of our default could result in damage to our reputation, expose us to liability and have a material adverse effect on our ability to re-compete for future contracts and orders. Moreover, several of our contracts with the U.S. government do not contain a limitation of liability provision, creating a risk of responsibility for indirect, incidental damages and consequential damages. These provisions could cause substantial liability for us, especially given the use to which our products may be put.

U.S. government contracts are subject to a competitive bidding process that can consume significant resources without generating any revenue.

U.S. government contracts are frequently awarded only after formal, protracted competitive bidding processes and, in many cases, unsuccessful bidders for U.S. government contracts are provided the opportunity to protest contract awards through various agency, administrative and judicial channels. We derive significant revenue from U.S. government contracts that were awarded through a competitive bidding process. Much of the UAS business that we expect to seek in the foreseeable future likely will be awarded through competitive bidding. Competitive bidding presents a number of risks, including the following:

- the need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and cost overruns;
- the substantial cost and managerial time and effort that must be spent to prepare bids and proposals for contracts that may not be awarded to us;
- the need to estimate accurately the resources and cost structure that will be required to service any contract we are awarded; and
- the expense and delay that may arise if our competitors protest or challenge contract awards made to us pursuant to competitive bidding, and the risk that any such protest or challenge could result in the delay of our contract performance, the distraction of management, the resubmission of bids on modified specifications, or in termination, reduction or modification of the awarded contract.

We may not be provided the opportunity to bid on contracts that are held by other companies and are scheduled to expire if the government extends the existing contract. If we are unable to win particular contracts that are awarded through a competitive bidding process, then we may not be able to operate for a number of years in the market for goods and services that are provided under those contracts. If we are unable to win new contract awards over any extended period consistently, then our business and prospects will be adversely affected.

We are subject to procurement rules and regulations, which increase our performance and compliance costs under our U.S. government contracts.

We must comply with, and are affected by, laws and regulations relating to the formation, administration and performance of U.S. government contracts. These laws and regulations, among other things, require certification and disclosure of all cost and pricing data in connection with contract negotiation, define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. government contracts, and restrict the use and dissemination of classified information and the exportation of certain products and technical data. These requirements, although customary in U.S. government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Although we believe we have procedures in place to comply with these regulations and requirements, the regulations and requirements are complex and change frequently. Our or our agents' failure to comply with these regulations and requirements under certain circumstances could lead to suspension or debarment from U.S. government contracting or subcontracting for a period of time and could have a negative effect on our reputation and ability to receive other U.S. government contract awards in the future.

Risks Related to Our Intellectual Property

If we fail to protect, or incur significant costs in defending or enforcing our intellectual property and other proprietary rights, our business, financial condition and results of operations could be materially harmed.

Our success depends, in large part, on our ability to protect our intellectual property and other proprietary rights. We rely primarily on patents, trademarks, copyrights, trade secrets and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. However, a significant portion of our technology is not patented, and we may be unable or may not seek to obtain patent protection for this technology. In addition, the U.S. government has licenses under certain of our patents and certain other intellectual property that are developed or used in performance of government contracts, and it may use or authorize others to use such patents and intellectual property for government and other purposes. Moreover, existing U.S. legal standards relating to the validity, enforceability and scope of protection of intellectual property rights offer only limited protection, may not provide us with any competitive advantages, and our rights may be challenged by third parties. The laws of countries other than the United States may be even less protective of our intellectual property rights. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property or otherwise gaining access to our technology. Unauthorized third parties may try to copy or reverse engineer our products or portions of our products or otherwise obtain and use our intellectual property. Moreover, many of our employees have access to our trade secrets and other intellectual property. If one or more of these employees leave our employment to work for one of our competitors, then they may disseminate this proprietary information, which may as a result damage our competitive position. If we fail to protect our intellectual property and other proprietary rights, then our business, results of operations or financial condition could be materially harmed. From time to time, we have initiated lawsuits to protect our intellectual property and other proprietary rights. Pursuing these claims is time consuming and expensive and could adversely impact our results of operations.

In addition, affirmatively defending our intellectual property rights and investigating whether any of our products or services violate the rights of others may entail significant expense. Our intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. If we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, then the proceedings could result in significant expense to us and divert the attention and efforts of our management and technical employees, even if we prevail.

We may be sued by third parties for alleged infringement of their proprietary rights, which could be costly, time-consuming and limit our ability to use certain technologies in the future.

We may become subject to claims that our technologies infringe upon the intellectual property or other proprietary rights of third parties. Defending against, or otherwise addressing, any such claims, whether they are with or without merit, could be time-consuming and expensive, and could divert our management's attention away from the

execution of our business plan. Moreover, any settlement or adverse judgment resulting from these claims could require us to pay substantial amounts or obtain a license to continue to use the disputed technology, or otherwise restrict or prohibit our use of the technology. We cannot assure you that we would be able to: obtain from the third party asserting the claim a license on commercially reasonable terms, if at all; develop alternative technology on a timely basis, if at all; or obtain a license to use a suitable alternative technology to permit us to continue offering, and our customers to continue using, our affected product. An adverse determination also could prevent us from offering our products to others. Infringement claims asserted against us may have a material adverse effect on our business, results of operations or financial condition.

Risks Relating to Securities Markets and Investment in Our Stock

The price of our common stock may fluctuate significantly.

The market prices for securities of emerging technology companies have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. The market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including the following:

- U.S. government spending levels, both generally and by our particular customers;
- the volume of operational activity by the U.S. military;
- delays in the payment of our invoices by government payment offices, resulting in potentially reduced earnings during a particular fiscal quarter;
- announcements of new products or technologies, commercial relationships or other events relating to us or our industry or our competitors;
- failure of any of our key products to gain market acceptance;
- variations in our quarterly operating results;
- perceptions of the prospects for the markets in which we compete;
- changes in general economic conditions;
- changes in securities analysts' estimates of our financial performance;
- regulatory developments in the United States and foreign countries;
- fluctuations in stock market prices and trading volumes of similar companies;
- news about the markets in which we compete or regarding our competitors;
- terrorist acts or military action related to international conflicts, wars or otherwise;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders; and
- additions or departures of key personnel.

In addition, the equity markets in general, and NASDAQ in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies.

Further, the market prices of securities of emerging technology companies have been particularly volatile. These broad market and industry factors may affect the market price of our common stock adversely, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation often has been instituted against that company. This type of litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.

Our management, whose interests may not be aligned with yours, is able to exert significant influence over all matters requiring stockholder approval.

As of June 19, 2019, our directors, executive officers and their affiliates collectively beneficially owned 2,642,163 shares, or approximately 11%, of our total outstanding shares of common stock. Accordingly, our directors and executive officers as a group may be able to exert significant influence over matters requiring stockholder approval, including the election of directors. The interests of our directors and executive officers may not be fully aligned with yours. Although there is no agreement among our directors and executive officers with respect to the voting of their shares, this concentration of ownership may delay, defer or even prevent a change in control of our company, and make transactions more difficult or impossible without the support of all or some of our directors and executive officers. These transactions might include proxy contests, tender offers, mergers or other purchases of common stock that could give you the opportunity to realize a premium over the then-prevailing market price for shares of our common stock.

Delaware law and anti-takeover provisions in our organizational documents may discourage our acquisition by a third party, which could make it more difficult to acquire us and limit your ability to sell your shares at a premium.

Our certificate of incorporation and bylaws contain certain provisions that reduce the probability of a change of control or acquisition of our company, even if such a transaction would be beneficial to our stockholders. These provisions include, but are not limited to:

- the ability of our board of directors to issue preferred stock in one or more series of with such rights, obligations and preferences as the board may determine, without further vote or action by our stockholders;
- advanced notice procedures for stockholders to nominate candidates for election to the board of directors and for stockholders to submit proposals for consideration at a meeting of stockholders;
- the absence of cumulative voting rights for our stockholders;
- the classification of our board of directors, which effectively prevents stockholders from electing a majority of the directors at any one annual meeting of stockholders;
- the limitation that directors may be removed only for cause by the affirmative vote of the holders of 66²/₃% of the total voting power of all of our outstanding securities entitled to vote in the election of directors, voting together as a single class; and
- restrictions on the ability of our stockholders to call a special meeting of stockholders.

We are also subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits "business combinations" between a publicly-held Delaware corporation and an "interested stockholder," which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock for a three-year period following the date that such stockholder became an interested stockholder. This statute, as well as the provisions in our organizational documents, could have the effect of delaying, deterring or preventing certain potential acquisitions or a change in control of us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

All of our facilities are leased. Our corporate headquarters are located in Simi Valley, California where we lease approximately 85,000 square feet under an agreement expiring in May 2020. We also lease an additional 105,000 square feet of space in Simi Valley, California, which lease expires in 2022, and approximately 150,000 square feet of space in Moorpark, California, which lease expires in 2023, used to design, engineer, test and manufacture UAS. We also lease other facilities in California, Alabama, Kansas, Massachusetts and Virginia that are used for administration, research and development, logistics and manufacturing. We believe that our facilities are adequate to meet our needs for the foreseeable future.

In January 2019 we exercised our one-time right of early termination to terminate our lease for our facilities in Monrovia, California effective January 15, 2020. All operations and personnel located at the Monrovia facilities will be transferred to our other facilities in Simi Valley, California.

Item 3. Legal Proceedings.

On April 18, 2018, a former employee of AeroVironment, Mark Anderson, filed a lawsuit against us and Wahid Nawabi, our President and Chief Executive Officer, in the Superior Court of the State of California for the County of Los Angeles. Mr. Anderson's claims include whistle blower retaliation, race discrimination and wrongful termination related to the termination of his employment with the Company. Mr. Nawabi was subsequently dismissed as an individual defendant from all claims in the lawsuit. The case is currently proceeding through discovery, including depositions. Mr. Anderson is seeking special damages, general damages, punitive damages, attorneys' fees and other relief the court deems just and proper. We believe the complaint contains legal claims that are without merit and will defend ourselves vigorously.

On February 22, 2019, Webasto Charging Systems, Inc. ("Webasto") filed a lawsuit, which was subsequently amended on April 5, 2019, against us in Delaware Superior Court, arising from the sale of the EES division to Webasto in June 2018. The lawsuit generally alleges several claims against us for breach of contract, indemnity, declaratory judgment, and fraud and misrepresentation, including allegations regarding inaccuracy of certain diligence disclosures, failure to provide certain consents to contract assignments and related to the previously announced recall. Webasto seeks to recover the costs of the recall and other damages totaling over \$100 million in addition to attorneys' fees, costs, and punitive damages. Additionally, Webasto is seeking a declaratory judgment that we did not meet the requirements to receive the additional \$6.5 million of the purchase price which was held back at the closing of the transaction. On May 20, 2019 we filed a motion to dismiss certain claims regarding the recall and claims related to Webasto's post-closing cancellation of an assigned contract. A hearing regarding the motion is scheduled for July 17, 2019. Our initial evaluation is that many of the allegations are meritless and that we lack sufficient information to fully analyze other allegations at this time. We intend to mount a vigorous defense.

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

Item 4. Mine Safety Disclosure.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Common Stock

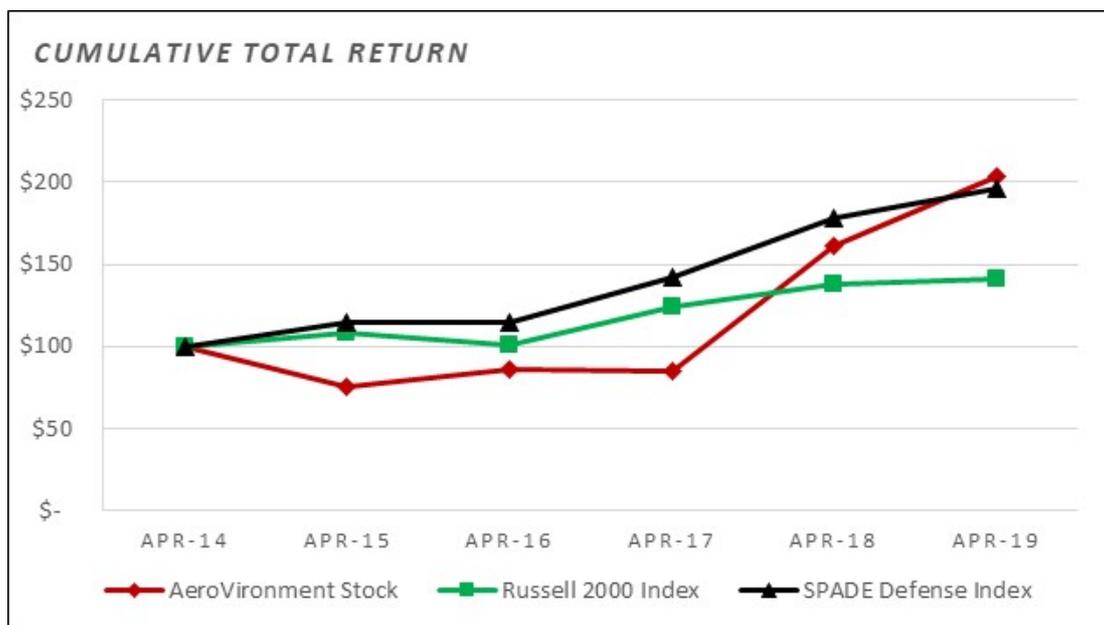
On June 19, 2019, the closing sales price of our common stock as reported on the NASDAQ Global Select Market where it trades under the symbol AVAV was \$61.90 per share. As of June 19, 2019, there were 66 holders of record of our common stock.

Dividends

To date we have retained all earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, capital allocation policy, expected return on invested capital, contractual restrictions and such other factors as our board of directors deems relevant.

Stock Price Performance Graph

The following graph shows a comparison of cumulative returns on our common stock, based on the market price of the common stock, with the cumulative total returns of companies in the Russell 2000 Index and the SPADE Defense Index.



The following table shows the value of \$100 invested on April 30, 2014 in AeroVironment, Inc., the Russell 2000 Index and the SPADE Defense Index.

| | Performance Graph Table (\$) | | | | | |
|---------------------|------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | April 30, 2014 | April 30, 2015 | April 30, 2016 | April 30, 2017 | April 30, 2018 | April 30, 2019 |
| AeroVironment Stock | 100 | 76 | 86 | 85 | 161 | 203 |
| Russell 2000 Index | 100 | 108 | 100 | 124 | 138 | 141 |
| SPADE Defense Index | 100 | 115 | 115 | 142 | 178 | 197 |

The stock price performance shown on the graph above is not necessarily indicative of future price performance. Factual material was obtained from sources believed to be reliable, but we are not responsible for any errors or omissions contained therein. No portions of this graph shall be deemed incorporated by reference into any filing under the Securities Act, or the Exchange Act through any general statement incorporating by reference in its entirety the report in which this graph appears, except to the extent that we specifically incorporate this graph or a portion of it by reference. In addition, this graph shall not be deemed filed under either the Securities Act or the Exchange Act.

Issuer Purchases of Equity Securities

On September 24, 2015, we announced that on September 23, 2015 our Board of Directors authorized a share repurchase program (the “Share Repurchase Program”), pursuant to which we may repurchase up to \$25 million of our common stock from time to time, in amounts and at prices we deem appropriate, subject to market conditions and other considerations. Share repurchases may be executed through open market transactions or negotiated purchases and may be made under a Rule 10b5-1 plan. There is no expiration date for the program. The Share Repurchase Program does not obligate us to acquire any particular amount of common stock and may be suspended at any time by our Board of Directors. We did not repurchase any shares during the fiscal year ended April 30, 2019. As of April 30, 2019, approximately \$21.2 million remained authorized for future repurchases under this program.

Item 6. Selected Consolidated Financial Data.

The following selected financial data should be read in conjunction with our consolidated financial statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto included in Item 8, “Financial Statements and Supplementary

Data” of this Annual Report in order to understand fully factors that may affect the comparability of the financial data presented below.

| | Year Ended April 30, | | | | |
|--|----------------------|------------|------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 | 2016 ⁽¹⁾ | 2015 ⁽¹⁾ |
| (In thousands, except per share data) | | | | | |
| Consolidated Income Statement Data: | | | | | |
| Revenue | \$ 314,274 | \$ 268,424 | \$ 233,105 | \$ 233,738 | \$ 220,951 |
| Net income from continuing operations attributable to AeroVironment | \$ 41,912 | \$ 21,750 | \$ 17,701 | \$ 15,393 | \$ 11,682 |
| Earnings per common share from continuing operations attributable to AeroVironment: | | | | | |
| Basic | \$ 1.77 | \$ 0.93 | \$ 0.77 | \$ 0.67 | \$ 0.51 |
| Diluted | \$ 1.74 | \$ 0.91 | \$ 0.76 | \$ 0.67 | \$ 0.50 |
| Weighted average common shares outstanding (basic): | 23,663 | 23,471 | 23,059 | 22,936 | 22,869 |
| Weighted average common shares outstanding (diluted): | 24,072 | 23,814 | 23,308 | 23,153 | 23,146 |
| Balance Sheet Data | | | | | |
| Total assets | \$ 508,844 | \$ 473,418 | \$ 433,831 | \$ 410,393 | \$ 397,467 |
| Capital lease obligations, current portion | \$ — | \$ 161 | \$ 288 | \$ 390 | \$ — |
| Capital lease obligations, net of current portion | \$ — | \$ — | \$ 161 | \$ 449 | \$ — |
| Other long-term obligations | \$ 1,403 | \$ 2,274 | \$ 2,083 | \$ 2,339 | \$ 1,712 |

(1) Amounts prior to 2017 do not reflect impact of the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606)

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

The following discussion of our financial condition and results of operations should be read in conjunction with our “Selected Consolidated Financial Data” and our consolidated financial statements and notes thereto included herein as Item 8. This discussion contains forward-looking statements. Refer to “Forward-Looking Statements” on page 2 and “Risk Factors” beginning on page 19, for a discussion of the uncertainties, risks and assumptions associated with these statements.

On June 29, 2018, we completed the sale of substantially all of the assets and related liabilities of our former EES Business to Webasto pursuant to the Purchase Agreement between Webasto and us. We determined that the EES Business met the criteria for classification as an asset held for sale at April 30, 2018 and represented a strategic shift in our operations. Therefore, the assets and liabilities and the results of operations of the EES Business are reported in this Annual Report as discontinued operations for all periods presented.

Overview

We design, develop, produce, support and operate a technologically-advanced portfolio of products. We supply unmanned aircraft systems (“UAS”) and related services to organizations within the U.S. Department of Defense (“DoD”) and to international allied governments, and tactical missile systems and related services primarily to organizations within the U.S. Government. We derive the majority of our revenue from these business areas and we

believe that the markets for these solutions have significant growth potential. Additionally, we believe that some of the innovative potential products in our research and development pipeline will emerge as new growth platforms in the future, creating additional market opportunities.

The success we have achieved with our current products and services stems from our investment in research and development and our ability to invent and deliver advanced solutions, utilizing our proprietary technologies, to help our government and commercial customers operate more effectively and efficiently. We develop these highly innovative solutions by working very closely with our key customers and solving their most important challenges related to our areas of expertise. Our core technological capabilities, developed through more than 45 years of innovation, include robotics; sensor design, development, miniaturization and integration; embedded software and firmware; miniature, low power wireless digital communications; lightweight aerostructures; high-altitude systems design, integration and operations; machine vision, machine learning and autonomy; low SWaP (Size, Weight and Power) system design and integration; manned-unmanned teaming, unmanned-unmanned teaming; power electronics and electric propulsion systems; efficient electric power conversion, storage systems and high density energy packaging; controls and systems integration; vertical takeoff and landing flight, fixed wing flight and hybrid aircraft flight; image stabilization and target tracking; advanced flight control systems; fluid dynamics; robotic systems autonomy; human-machine interface development; and integrated mission solutions for austere environments.

Our UAS business focuses primarily on the design, development, production, marketing, support and operation of innovative UAS and tactical missile systems and the delivery of UAS-related services that provide situational awareness, remote sensing, multi-band communications, force protection and other information and mission effects to increase the safety and effectiveness of our customers' operations.

Revenue

We generate our revenue primarily from the sale, support and operation of our small UAS and tactical missile systems. Support for our small UAS customers includes training, spare parts, product repair, product replacement, and the customer-contracted operation of our small UAS by our personnel. We refer to these support activities, in conjunction with customer-funded research and development ("R&D"), as our services operation. We derive most of our small UAS revenue from fixed-price and cost-plus-fee contracts with the U.S. government and allied foreign governments.

Cost of Sales

Cost of sales consists of direct costs and allocated indirect costs. Direct costs include labor, materials, travel, subcontracts and other costs directly related to the execution of a specific contract. Indirect costs include overhead expenses, fringe benefits and other costs that are not directly charged to a specific contract.

Gross Margin

Gross margin is equal to revenue minus cost of sales. We use gross margin as a financial metric to help us understand trends in our direct costs and allocated indirect costs when compared to the revenue we generate.

Selling, General and Administrative

Our selling, general and administrative expenses, or SG&A, include salaries and other expenses related to selling, marketing and proposal activities, and other administrative costs. Some SG&A expenses relate to market and business development activities that support both ongoing business areas as well as new and emerging market areas. These activities can be directly associated with developing requirements for and applications of capabilities created in our R&D activities. SG&A is an important financial metric that we analyze to help us evaluate the contribution of our selling, marketing and proposal activities to revenue generation.

Research and Development Expense

R&D is an integral part of our business model. We normally conduct significant internally funded R&D. Our R&D activities focus specifically on creating capabilities that support our existing product portfolio as well as new solutions.

Other Income and Expenses

Other income and expenses includes a one-time gain from a litigation settlement, income from transition services performed on behalf of the buyer of the discontinued EES business, interest income, interest expense, amortization of capital lease payments, changes in fair value of certain financial investments, and gains resulting from the purchase of a controlling interest in an entity formerly accounted for under the equity method.

Income Tax Expense

Our effective tax rates are lower than the statutory rates primarily due to research and development tax credits. Our effective tax rate for the fiscal year ended April 30, 2018 was also impacted by the Tax Cut and Jobs Act of 2017.

Equity Method Investment Loss, Net of Tax

Equity method investment loss, net of tax, includes equity method gain or loss related to the HAPSMobile Inc. joint venture we formed in December 2017 with Softbank Corp, and our investment in Altöy Savunma Sanayi ve Havacılık Anonim Şirketi ("Altöy") prior to obtaining a controlling interest on February 1, 2017.

Loss from Discontinued Operations, Net of Tax

On June 29, 2018, we completed the sale of substantially all of the assets and related liabilities of our former EES Business to Webasto pursuant to the Purchase Agreement between Webasto and us. We determined that the EES Business met the criteria for classification as an asset held for sale at April 30, 2018 and represented a strategic shift in our operations. Therefore, the assets and liabilities and the results of operations of the EES Business are reported in this Annual Report as discontinued operations for all periods presented.

Net Loss Attributable to Noncontrolling Interests

Net loss attributable to noncontrolling interests includes the 15% interest in the income or losses of our Turkish joint venture, Altöy. We acquired a controlling interest in Altöy on February 1, 2017.

Critical Accounting Policies and Estimates

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

We believe the following critical accounting estimates affect our more significant judgments and estimates used in preparing our consolidated financial statements. Please see Note 1 to our consolidated financial statements, which are

included in Item 8 “Financial Statements and Supplementary Data” of this Annual Report, for our Organization and Significant Accounting Policies. There have been no material changes made to the critical accounting estimates during the periods presented in the consolidated financial statements.

Revenue Recognition

Significant management judgments and estimates must be made and used in connection with the recognition of revenue in any accounting period. Material differences in the amount of revenue in any given period may result if these judgments or estimates prove to be incorrect or if management’s estimates change on the basis of development of the business or market conditions. Management judgments and estimates have been applied consistently and have been reliable historically. We believe that there are two key factors which impact the reliability of management’s estimates. The first of those key factors is that the terms of our contracts are typically less than six months. The short-term nature of such contracts reduces the risk that material changes in accounting estimates will occur on the basis of market conditions or other factors. The second key factor is that we have hundreds of contracts in any given accounting period, which reduces the risk that any one change in an accounting estimate on one or several contracts would have a material impact on our consolidated financial statements.

The substantial majority of our 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 customer specifications. These contracts may be fixed price, cost-reimbursable, or time and materials. We account for all revenue contracts in accordance with ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). 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. For contracts with multiple performance obligations, we allocate 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, we use its best estimate of the standalone selling price of each distinct good or service in the contract using the cost plus reasonable margin approach.

Our performance obligations are satisfied over time or at a point in time. Revenue for TMS product deliveries and Customer-Funded R&D contracts is recognized over time as costs are incurred. Contract services revenue is composed of revenue recognized on contracts for the provision of services, including repairs and maintenance, training, engineering design, development and prototyping activities, and technical support services. Contract services revenue is recognized over time as services are rendered. Typically, revenue is recognized over time using an input measure (e.g., costs incurred to date relative to total estimated costs at completion) to measure progress. Training services are recognized over time using an output method based on days of training completed. For performance obligations satisfied over time, revenue is generally recognized using costs incurred to date relative to total estimated costs at completion to measure progress. Incurred costs represent work performed, which correspond with, and thereby best depict, transfer of control to the customer. Contract costs include labor, materials, subcontractors’ costs, other direct costs, and indirect costs applicable on government and commercial contracts.

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

We review cost performance and estimates to complete at least quarterly and in many cases more frequently. Adjustments to original estimates for a contract’s revenue, estimated costs at completion and estimated profit or loss are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur. The impact of revisions in the estimated costs to complete for all types of contracts are recognized on a cumulative catch-up basis in the period in which the revisions are made. During the fiscal years ended April 30, 2019, 2018 and 2017, changes in accounting estimates on fixed-price contracts recognized using the over time method are presented below. Amounts

representing contract change orders or claims are included in revenue the order or claim meets the criteria of a contract or contract modification in accordance with ASC 606. Incentives or penalties and awards applicable to performance on contracts are considered in estimating revenue and profit rates, and are recorded when there is sufficient information to assess anticipated contract performance.

For the years ended April 30, 2019, 2018 and 2017, favorable and unfavorable cumulative catch-up adjustments included in revenue were as follows (in thousands):

| | Year Ended April 30, | | |
|-------------------------------|----------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| Gross favorable adjustments | \$ 1,190 | \$ 1,643 | \$ 46 |
| Gross unfavorable adjustments | (1,308) | (2,310) | (275) |
| Net adjustments | \$ (118) | \$ (667) | \$ (229) |

For the year ended April 30, 2019, favorable cumulative catch-up adjustments of \$1.2 million were primarily due to final cost adjustments on nine contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$1.3 million were primarily related to higher than expected costs on 14 contracts, which individually were not material.

For the year ended April 30, 2018, favorable cumulative catch-up adjustments of \$1.6 million were primarily due to final cost adjustments on nine contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$2.3 million were primarily related to higher than expected costs on six contracts. During the year ended April 30, 2018, we revised our estimates of the total expected costs to complete a TMS 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 \$1.3 million.

For the year ended April 30, 2017, favorable cumulative catch-up adjustments of \$46,000 were primarily due to final cost adjustments on 12 contracts, which individually were not material. For the same period, unfavorable cumulative catch-up adjustments of \$0.3 million were primarily related to higher than expected costs on five contracts, which individually were not material.

Inventories and Reserve for Excess and Obsolescence

Our policy for valuation of inventory, including the determination of obsolete or excess inventory, requires us to perform a detailed assessment of inventory at each balance sheet date, which includes a review of, among other factors, an estimate of future demand for products within specific time horizons, valuation of existing inventory, as well as product lifecycle and product development plans. Inventory reserves are also provided to cover risks arising from slow-moving items. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated net realizable value based on assumptions about future demand and market conditions. We may be required to record additional inventory write-downs if actual market conditions are less favorable than those projected by our management.

Self-Insured Liability

We are self-insured for employee medical claims, subject to individual and aggregate stop-loss policies. We estimate a liability for claims filed and incurred but not reported based upon recent claims experience and an analysis of the average period of time between the occurrence of a claim and the time it is reported to and paid by us. We perform an annual evaluation of this policy and have determined that for all prior years during which this policy has been in effect there have been cost advantages to this policy, as compared to obtaining commercially available employee medical insurance. However, actual results may differ materially from those estimated and could have a material impact on our consolidated financial statements.

Impairment of Long-Lived Assets

We review the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made.

Intangible Assets – Acquired in Business Combinations

We perform valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocate the purchase price of each acquired business to our respective net tangible and intangible assets. Acquired intangible assets include: customer relationships and trade names. We use valuation techniques to value these intangible assets, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various assumptions and estimates including projected revenue, gross margins, operating costs, growth rates, useful lives and discount rates. Intangible assets are amortized over their estimated useful lives using the straight-line method which approximates the pattern in which the economic benefits are consumed.

Long-Term Incentive Awards

For our outstanding long-term incentive plans as of April 30, 2019, we grant long-term incentive awards and we establish a target payout at the beginning of each performance period. The actual payout at the end of the performance period is calculated based upon our achievement of such targets. Payouts of performance awards are made in shares of restricted stock which become immediately vested upon issuance.

At each reporting period, we reassess the probability of achieving the performance targets. The estimation of whether the performance targets will be achieved requires judgment, and to the extent actual results or updated estimates differ from our current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised.

Income Taxes

We are required to estimate our income taxes, which includes estimating our current income taxes as well as measuring the temporary differences resulting from different treatment of items for tax and accounting purposes. We currently have significant deferred assets, which are subject to periodic recoverability assessments. Realizing our deferred tax assets principally depends on our achieving projected future taxable income. We may change our judgments regarding future profitability due to future market conditions and other factors, which may result in recording a valuation allowance against those deferred tax assets.

We have various foreign subsidiaries to conduct or support our business outside the United States. We do not provide for U.S. income taxes on undistributed earnings for our foreign subsidiaries as management expects the foreign earnings will be indefinitely reinvested in such foreign jurisdictions.

Fiscal Periods

Our fiscal year ends on April 30. 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.

Results of Operations

The following table sets forth certain historical consolidated income statement data expressed in dollars (in thousands) and as a percentage of revenue for the periods indicated. Certain amounts may not sum due to rounding.

| | Fiscal Year Ended April 30, | | | | | |
|---|-----------------------------|-------|------------|-------|------------|-------|
| | 2019 | | 2018 | | 2017 | |
| Revenue | \$ 314,274 | 100 % | \$ 268,424 | 100 % | \$ 233,105 | 100 % |
| Cost of sales | 185,871 | 59 % | 160,739 | 60 % | 136,232 | 58 % |
| Gross margin | 128,403 | 41 % | 107,685 | 40 % | 96,873 | 42 % |
| Selling, general and administrative | 60,343 | 19 % | 50,826 | 19 % | 47,642 | 20 % |
| Research and development | 34,234 | 11 % | 26,433 | 10 % | 28,465 | 12 % |
| Income from continuing operations | 33,826 | 11 % | 30,426 | 11 % | 20,766 | 9 % |
| Interest income, net | 4,672 | 1 % | 2,240 | 1 % | 1,618 | 1 % |
| Other income (expense), net | 11,980 | 4 % | (49) | — % | 172 | 0 % |
| Income from continuing operations before income taxes | 50,478 | 16 % | 32,617 | 12 % | 22,556 | 10 % |
| Income tax expense | 4,641 | 1 % | 9,800 | 4 % | 4,758 | 2 % |
| Equity method investment loss, net of tax | (3,944) | (1)% | (1,283) | — % | (119) | — % |
| Net income from continuing operations | 41,893 | 13 % | 21,534 | 8 % | 17,679 | 8 % |
| Gain on sale of business, net of tax | 8,490 | 3 % | — | — % | — | — % |
| Loss from discontinued operations, net of tax | (2,964) | (1)% | (3,887) | (1)% | (4,601) | (2)% |
| Net income | 47,419 | 15 % | 17,647 | 7 % | 13,078 | 6 % |
| Net loss attributable to noncontrolling interest | 19 | — % | 216 | — % | 22 | — % |
| Net income attributable to AeroVironment | \$ 47,438 | 15 % | \$ 17,863 | 7 % | \$ 13,100 | 6 % |

Fiscal Year Ended April 30, 2019 Compared to Fiscal Year Ended April 30, 2018

Revenue. Revenue for the fiscal year ended April 30, 2019 was \$314.3 million, as compared to \$268.4 million for the fiscal year ended April 30, 2018, representing an increase of \$45.9 million, or 17%. The increase in revenue was due to an increase in service revenue of \$25.5 million and an increase in product deliveries of \$20.4 million. The increase in service revenue was primarily due to an increase in customer-funded R&D work of \$23.9 million predominantly associated with our design and development agreement with HAPSMobile, partially offset by a decrease in tactical missile systems and tactical missile system variant programs, and an increase in sustainment activities in support of tactical missile system product deliveries. The increase in product deliveries was primarily due to an increase in product deliveries of small UAS to international customers and to customers within the U.S. government and an increase in tactical missile systems revenue from customers within the U.S. government.

Cost of Sales. Cost of sales for the fiscal year ended April 30, 2019 was \$185.9 million, as compared to \$160.7 million for the fiscal year ended April 30, 2018, representing an increase of \$25.1 million, or 16%. The increase in cost of sales was a result of an increase in service costs of sales of \$21.0 million and an increase in product cost of sales of \$4.1 million. The increase in service costs of sales was primarily due to the increase in service revenue. The increase in product costs was primarily due to the increase in product deliveries and an increase in inventory reserve charges largely related to our commercial Quantix product. As a percentage of revenue, cost of sales decreased from 60% to 59%, primarily due to a favorable product mix, partially offset by an increase in inventory reserve charges and an unfavorable service mix.

Gross Margin. Gross margin for the fiscal year ended April 30, 2019 was \$128.4 million, as compared to \$107.7 million for the fiscal year ended April 30, 2018, representing an increase of \$20.7 million, or 19%. The increase in gross margin was primarily due to an increase in product margins of \$16.3 million and an increase in service margins

of \$4.4 million. The increase in product margins was primarily due to the increase in product deliveries, partially offset by an increase in inventory reserve charges largely related to our commercial Quantix product. The increase in services margins was primarily due to the increase in customer-funded R&D revenue. As a percentage of revenue, gross margin increased from 40% to 41%, primarily due to a favorable product mix, partially offset by an increase in inventory reserve charges and an unfavorable service mix.

Selling, General and Administrative. SG&A expense for the fiscal year ended April 30, 2019 was \$60.3 million, or 19% of revenue, compared to SG&A expense of \$50.8 million, or 19% of revenue, for the fiscal year ended April 30, 2018. The increase in SG&A expense was primarily due to an impairment charge related to the long-lived assets of our commercial Quantix product, an increase in corporate development expenses primarily related to the sale of our EES business, an increase in costs incurred related to the transition services agreement with Webasto, and an increase in employee-related expenses, partially offset by a decrease in legal expenses, a decrease in amortization expense, and a decrease in bad debt expense.

Research and Development. R&D expense for the fiscal year ended April 30, 2019 was \$34.2 million, or 11% of revenue, compared to R&D expense of \$26.4 million, or 10% of revenue, for the fiscal year ended April 30, 2018. R&D expense increased primarily due to increased development activities for certain strategic initiatives.

Interest Income, net. Interest income, net for the fiscal year ended April 30, 2019 was \$4.7 million, compared to \$2.2 million for the fiscal year ended April 30, 2018. The increase in interest income was primarily due to an increase in the average interest rates earned on our investments portfolio.

Other Income (Expense), net. Other income, net for the fiscal year ended April 30, 2019 was \$12.0 million, as compared to other expense, net of \$49,000 for the fiscal year ended April 30, 2018. The increase in other income, net was primarily due to a litigation settlement and income earned under a transition services agreement with the buyer of our former EES Business.

Income Taxes. Our effective income tax rate was 9.2% for the fiscal year ended April 30, 2019, as compared to 30.0% for the fiscal year ended April 30, 2018. The provision for income taxes for the fiscal year ended 2018 included the impact of the Tax Cut and Jobs Act of 2017, inclusive of a reduction in the blended fiscal year 2018 federal statutory tax rate from 35% to 30.4% and a \$3.3 million one-time expense resulting from the remeasurement of our deferred tax assets and liabilities.

Equity method investment loss, net of tax. Equity method investment loss, net of tax for the fiscal year ended April 30, 2019 was \$3.9 million, as compared to equity method investment loss, net of \$1.3 million for the fiscal year ended April 30, 2018. The increase was due to the equity method loss associated with our investment in the HAPSMobile joint venture formed in December 2017 and our increase to 10% ownership in March 2019 which was diluted to approximately 5% during the first fiscal quarter of fiscal year 2020.

Gain on sale of a business, net of tax. Gain on sale of a business, net of tax for fiscal 2019 was \$8.5 million and resulted from the sale of our EES business.

Loss from discontinued operations, net of tax. Loss from discontinued operations, net of tax for the fiscal year ended April 30, 2019 was a loss of \$3.0 million as compared to a loss from discontinued operations, net of tax of \$3.9 million for the fiscal year ended April 30, 2018. The loss from discontinued operations, net of tax relates to the results of our EES Business.

Fiscal Year Ended April 30, 2018 Compared to Fiscal Year Ended April 30, 2017

Revenue. Revenue for the fiscal year ended April 30, 2018 was \$268.4 million, as compared to \$233.1 million for the fiscal year ended April 30, 2017, representing an increase of \$35.3 million, or 15%. The increase in revenue was due to an increase in product deliveries of \$32.8 million and an increase in service revenue of \$2.5 million. The increase in product deliveries was primarily due to an increase in product deliveries of small UAS to international customers and to customers within the U.S. government and product deliveries of tactical missile systems to customers within the U.S.

government. The increase in service revenue was primarily due to an increase in customer-funded R&D work of \$9.2 million, predominantly associated with our design and development agreement with HAPSMobile, partially offset by a decrease in tactical missile systems and tactical missile system variant programs and a decrease in sustainment activities in support of tactical missile system product deliveries.

Cost of Sales. Cost of sales for the fiscal year ended April 30, 2018 was \$160.7 million, as compared to \$136.2 million for the fiscal year ended April 30, 2017, representing an increase of \$24.5 million, or 18%. The increase in cost of sales was a result of an increase in product cost of sales of \$20.4 million and an increase in service costs of sales of \$4.2 million. The increase in product costs was primarily due to the increase in product deliveries and an increase in inventory reserve charges. The increase in service costs of sales was primarily due to the increase in service revenue and the increase in the proportion of customer-funded R&D revenue to total service revenue. As a percentage of revenue, cost of sales increased from 58% to 60%, primarily due to unfavorable mix in both products and services and an increase in inventory reserve charges.

Gross Margin. Gross margin for the fiscal year ended April 30, 2018 was \$107.7 million, as compared to \$96.9 million for the fiscal year ended April 30, 2017, representing an increase of \$10.8 million, or 11%. The increase in gross margin was primarily due to an increase in product margins of \$12.4 million, partially offset by a decrease in service margins of \$1.6 million. The increase in product margins was primarily due to the increase in product deliveries, partially offset by an increase in inventory reserve charges. The decrease in services margins was primarily due to the increase in the proportion of customer-funded R&D revenue to total service revenue, partially offset by the increase in service revenue. As a percentage of revenue, gross margin decreased from 42% to 40%, primarily due to an unfavorable mix in both products and services and an increase in inventory reserve charges.

Selling, General and Administrative. SG&A expense for the fiscal year ended April 30, 2018 was \$50.8 million, or 19% of revenue, compared to SG&A expense of \$47.6 million, or 20% of revenue, for the fiscal year ended April 30, 2017. The increase in SG&A expense was primarily due to an increase in bonus expense associated with our fiscal 2018 financial results, the recording of impairment charges related to the identifiable intangible assets and goodwill of Altoy during the three months ended October 28, 2017, an increase in bad debt expense and an increase in legal expenses, partially offset by a decrease in sales commission expense as a result of a decrease in the number of international small UAS contracts under which we utilized sales agents.

Research and Development. R&D expense for the fiscal year ended April 30, 2018 was \$26.4 million, or 10% of revenue, compared to R&D expense of \$28.5 million, or 12% of revenue, for the fiscal year ended April 30, 2017. R&D expense decreased primarily due to decreased development activities for certain strategic initiatives.

Interest Income, net. Interest income, net for the fiscal year ended April 30, 2018 was \$2.2 million, compared to \$1.6 million for the fiscal year ended April 30, 2017. The increase in interest income was primarily due to an increase in the average interest rates earned on our investments portfolio.

Other Income (Expense), net. Other expense, net for the fiscal year ended April 30, 2018 was \$49,000, as compared to other income, net of \$0.2 million for the fiscal year ended April 30, 2017.

Income Taxes. Our effective income tax rate was 30.0% for the fiscal year ended April 30, 2018, as compared to 21.1% for the fiscal year ended April 30, 2017. The provision for income taxes for the fiscal year ended 2018 included the impact of the Tax Cut and Jobs Act of 2017, inclusive of a reduction in the blended fiscal year 2018 federal statutory tax rate from 35% to 30.4% and a \$3.3 million one-time expense resulting from the remeasurement of our deferred tax assets and liabilities.

Equity method investment loss, net of tax. Equity method investment loss, net of tax for the fiscal year ended April 30, 2018 was \$1.3 million, as compared to equity method investment loss, net of \$0.1 million for the fiscal year ended April 30, 2017. The increase was due to the equity method loss associated with our investment in the HAPSMobile joint venture formed in December 2017. Equity method investment loss, net of tax for the fiscal year ended April 30, 2017 related to our investment in Altoy prior to obtaining a controlling interest in February 2017.

Loss from discontinued operations, net of tax. Loss from discontinued operations, net of tax for the fiscal year ended April 30, 2018 was a loss of \$3.9 million as compared to a loss from discontinued operations, net of tax of \$4.6 million for the fiscal year ended April 30, 2017. The loss from discontinued operations, net of tax relates to the results of our EES Business.

Liquidity and Capital Resources

We currently have no material cash commitments, except for normal recurring trade payables, accrued expenses and ongoing research and development costs, all of which we anticipate funding through our existing working capital and funds provided by operating activities. The majority of our purchase obligations are pursuant to funded contractual arrangements with our customers. 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 and debt service requirements, if any, during the next twelve months. There can be no assurance, however, that our business will continue to generate cash flow at current levels. If we are unable to generate sufficient cash flow from operations, then we may be required to sell assets, reduce capital expenditures or obtain additional financing. We anticipate that existing sources of liquidity and cash flows from operations will be sufficient to satisfy our cash needs for the foreseeable future.

Our primary liquidity needs are for financing working capital, investing in capital expenditures, supporting product development efforts, introducing new products and enhancing existing products, and marketing acceptance and adoption of our products and services. Our future capital requirements, to a certain extent, are also subject to general conditions in or affecting the defense industry and are subject to general economic, political, financial, competitive, legislative and regulatory factors that are beyond our control. Moreover, to the extent that existing cash, cash equivalents, cash from operations, and cash from short-term borrowing are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. 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.

On May 10, 2019, we purchased 500 million yen (approximately \$4.6 million) of additional shares of HAPSMobile to maintain our 10% ownership interest HAPSMobile which was subsequently diluted to approximately 5%.

On June 10, 2019, we purchased 100% of the issued and outstanding member units of Pulse Aerospace LLC pursuant to the terms of a Unit Purchase Agreement. We paid \$20,650,000 in cash, less closing indebtedness and transaction costs as defined in the Pulse Purchase Agreement, less a \$250,000 retention and less a \$1,250,000 holdback amount. In addition to the consideration paid at closing, the member unit holders of Pulse Aerospace may receive up to a maximum of \$5,000,000 in additional cash consideration if specific research and development milestones are achieved by December 10, 2021. We financed the acquisition entirely from available cash on hand.

Cash Flows

The following table provides our cash flow data from continuing operations for the periods ended:

| | Fiscal Year Ended April 30, | | |
|---|-----------------------------|------------|-------------|
| | 2019 | 2018 | 2017 |
| | (In thousands) | | |
| Net cash provided by (used in) operating activities | \$ 26,946 | \$ 69,832 | \$ (8,253) |
| Net cash provided by (used in) investing activities | \$ 11,546 | \$ (6,397) | \$ (36,516) |
| Net cash (used in) provided by financing activities | \$ (1,184) | \$ 2,020 | \$ 3,470 |

Cash Provided by (Used in) Operating Activities. Net cash provided by operating activities for the fiscal year ended April 30, 2019 decreased by \$42.9 million to \$26.9 million, compared to net cash provided by operating activities of \$69.8 million for the fiscal year ended April 30, 2018. This decrease in net cash provided by operating activities was primarily due to a decrease in the cash provided as a result of changes in operating assets and liabilities of \$70.9 million largely resulting from increases in unbilled retentions and receivables due to year over year timing differences in revenue and related billings and increases in inventory primarily due to year over year timing differences in purchases to support anticipated product deliveries, partially offset by an increase in non-cash expenses of \$7.7 million primarily due to an increase in the equity method loss associated with the our HAPS JV, partially offset by a decrease in amortization of held-to-maturity investments, and an increase in net income from continuing operations of \$20.4 million.

Net cash provided by operating activities for the fiscal year ended April 30, 2018 increased by \$78.1 million to \$69.8 million, compared to net cash used in operating activities of \$8.3 million for the fiscal year ended April 30, 2017. This increase in net cash provided by operating activities was primarily due to an increase in the cash provided as a result of changes in operating assets and liabilities of \$66.6 million largely resulting from decreases in accounts receivable due to year over year timing differences in revenue and related collections and decreases in inventory primarily due to year over year timing differences in purchases to support anticipated product deliveries, an increase in non-cash expenses of \$7.6 million primarily due to the \$3.3 million charge resulting from the remeasurement of our deferred tax assets and liabilities, an increase in stock-based compensation, and the equity method loss associated with the our HAPS JV, and an increase in net income from continuing operations of \$3.9 million.

Cash Provided by (Used in) Investing Activities. Net cash provided by investing activities increased by \$17.9 million to \$11.5 million for the fiscal year ended April 30, 2019, compared to net cash used in investing activities of \$6.4 million for the fiscal year ended April 30, 2018. The increase in net cash provided by investing activities was primarily due to the proceeds from the sale of the EES Business of \$32.0 million, partially offset by higher net purchases of held-to-maturity investments of \$12.2 million. During the fiscal years ended April 30, 2019 and 2018, we used cash to purchase property and equipment totaling \$8.9 million and \$9.6 million, respectively.

Net cash used in investing activities decreased by \$30.1 million to \$6.4 million for the fiscal year ended April 30, 2018, compared to net cash used in investing activities of \$36.5 million for the fiscal year ended April 30, 2017. The decrease in net cash used in investing activities was primarily due to lower net purchases of held to maturity investments of \$33.5 million, partially offset by the investment in our HAPSMobile joint venture. During the fiscal years ended April 30, 2018 and 2017, we used cash to purchase property and equipment totaling \$9.6 million and \$9.0 million, respectively.

Cash (Used in) Provided by Financing Activities. Net cash used by financing activities increased by \$3.2 million to \$1.2 million for the fiscal year ended April 30, 2019, compared to net cash provided by financing activities of \$2.0 million for the fiscal year ended April 30, 2018. The decrease was primarily due to a decrease in the cash provided from the exercise of employee stock options of \$2.6 million.

Net cash provided by financing activities decreased by \$1.5 million to \$2.0 million for the fiscal year ended April 30, 2018, compared to net cash provided by financing activities of \$3.5 million for the fiscal year ended April 30,

2017. The decrease was primarily due to a decrease in the cash provided from the exercise of employee stock options of \$1.2 million.

Contractual Obligations

The following table describes our commitments to settle contractual obligations as of April 30, 2019:

| | Payments Due By Period | | | | |
|-----------------------------|------------------------|---------------------|-----------------|-----------------|----------------------|
| | Total | Less Than 1 Year | 1 to 3 Years | 3 to 5 Years | More Than 5 Years |
| | (In thousands) | | | | |
| Operating lease obligations | \$ 14,055 | \$ 5,298 | \$ 6,250 | \$ 2,507 | \$ — |
| Purchase obligations(1) | 7,239 | 7,239 | — | — | — |
| Total | <u>\$ 21,294</u> | <u>\$ 12,537</u> | <u>\$ 6,250</u> | <u>\$ 2,507</u> | <u>\$ —</u> |

- (1) Consists of all cancelable and non-cancelable purchase orders as of April 30, 2019.
- (2) Not included in the table above is an additional capital contribution of 500,000,000 yen (approximately \$4.6 million) on May 10, 2019 to maintain our 10% ownership interest HAPSMobile which was subsequently diluted to approximately 5%.
- (3) As of April 30, 2019, the Company has no future commitments related to capital lease arrangements as final payments were made during fiscal year 2019.

Off-Balance Sheet Arrangements

As of April 30, 2019 we had no off-balance sheet arrangements as defined in Item 303(a)(4) of the SEC's Regulation S-K.

Inflation

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

Recently Adopted Accounting Standards

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments* (Topic 230). This ASU adds and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. Our adoption of ASU No. 2017-01 effective May 1, 2018 did not have a material impact on our consolidated financial statements.

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

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

In the first quarter of fiscal 2019, we adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the full retrospective method. Topic 606 requires revenue to be recognized when promised goods or services

are transferred to customers in amounts that reflect the consideration to which we expect to be entitled in exchange for those goods or services.

Revenue for small UAS product contracts with both the U.S. government and foreign governments under the new standard will be recognized at the point in time when the transfer of control passes to the customer, which is generally when title and risk of loss transfer. Revenue for Tactical Missile Systems (“TMS”) contracts will now be recognized under the new standard over time as costs are incurred. Under previous U.S. GAAP, revenue was generally recognized when deliveries of the related TMS products were made. The new standard accelerates the timing of when the revenue is recognized; however, it does not change the total amount of revenue recognized on these contracts. The new standard does not affect revenue recognition for our Customer-Funded Research and Development (“R&D”) contracts. We continue to recognize revenue for these contracts over time as costs are incurred. The adoption of Topic 606 resulted in a cumulative adjustment to increase retained earnings by \$500,000 at May 1, 2016 relating to both our continuing and discontinued operations. For our continuing operations, the adoption of Topic 606 resulted in a cumulative adjustment to increase retained earnings by \$564,000 at May 1, 2016.

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

New Accounting Standards

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

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

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

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (Topic 220). This ASU permits, but does not require, us to reclassify the disproportionate income tax effects of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) on items within AOCI to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods therein, with early adoption permitted. We are evaluating the potential impact of this adoption on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). This ASU removes or modifies current disclosures while adding certain new disclosure requirements. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods therein, with early adoption permitted for the removed or modified disclosures. The removed and modified disclosures can be adopted retrospectively, and the added disclosures should be adopted prospectively. We are evaluating the potential impact of this adoption on our consolidated financial statements.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

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

Foreign Currency Exchange Rate Risk

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

Item 8. Financial Statements and Supplementary Data.

AeroVironment, Inc.
Audited Consolidated Financial Statements
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All other schedules are omitted because they are not applicable, not required or the information required is included in the Consolidated Financial Statements, including the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of AeroVironment, Inc. and subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AeroVironment, Inc. and subsidiaries (the Company) as of April 30, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended April 30, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at April 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended April 30, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of April 30, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 25, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for revenue from contracts with customers in fiscal year 2019 due to the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers*.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1999.

Los Angeles, California
June 25, 2019

AEROVIRONMENT, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands except share data)

| | April 30, | |
|--|------------|------------|
| | 2019 | 2018 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 172,708 | \$ 143,517 |
| Short-term investments | 150,487 | 113,649 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,041 at April 30, 2019 and \$1,080 at April 30, 2018 | 31,051 | 56,813 |
| Unbilled receivables and retentions (inclusive of related party unbilled receivables of \$9,028 at April 30, 2019 and \$3,145 at April 30, 2018) | 53,047 | 16,872 |
| Inventories | 54,056 | 37,425 |
| Prepaid expenses and other current assets | 7,418 | 5,103 |
| Income taxes receivable | 821 | — |
| Current assets of discontinued operations | — | 25,668 |
| Total current assets | 469,588 | 399,047 |
| Long-term investments | 9,386 | 40,656 |
| Property and equipment, net | 16,905 | 19,219 |
| Deferred income taxes | 6,685 | 11,494 |
| Other assets | 6,280 | 3,002 |
| Total assets | \$ 508,844 | \$ 473,418 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 15,972 | \$ 21,340 |
| Wages and related accruals | 18,507 | 16,851 |
| Income taxes payable | — | 4,085 |
| Customer advances | 2,962 | 3,564 |
| Other current liabilities | 7,425 | 6,954 |
| Current liabilities of discontinued operations | — | 9,294 |
| Total current liabilities | 44,866 | 62,088 |
| Deferred rent | 1,173 | 1,536 |
| Other non-current liabilities | 150 | 622 |
| Deferred tax liability | 29 | 67 |
| Liability for uncertain tax positions | 51 | 49 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.0001 par value: | | |
| Authorized shares—10,000,000; none issued or outstanding at April 30, 2019 and April 30, 2018 | — | — |
| Common stock, \$0.0001 par value: | | |
| Authorized shares—100,000,000 | | |
| Issued and outstanding shares—23,946,293 shares at April 30, 2019 and 23,908,736 shares at April 30, 2018 | 2 | 2 |
| Additional paid-in capital | 176,216 | 170,139 |
| Accumulated other comprehensive loss | 2 | (21) |
| Retained earnings | 286,351 | 238,913 |
| Total AeroVironment stockholders' equity | 462,571 | 409,033 |
| Noncontrolling interest | 4 | 23 |
| Total equity | 462,575 | 409,056 |
| Total liabilities and stockholders' equity | \$ 508,844 | \$ 473,418 |

See accompanying notes to consolidated financial statements.

AEROVIRONMENT, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands except share and per share data)

| | Year Ended April 30, | | |
|---|----------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| Revenue: | | | |
| Product sales | \$ 212,089 | \$ 191,712 | \$ 158,924 |
| Contract services (inclusive of related party revenue of \$55,407 and \$29,594 for the years ended April 30, 2019 and April 30, 2018, respectively) | 102,185 | 76,712 | 74,181 |
| | <u>314,274</u> | <u>268,424</u> | <u>233,105</u> |
| Cost of sales: | | | |
| Product sales | 113,489 | 109,393 | 89,039 |
| Contract services | 72,382 | 51,346 | 47,193 |
| | <u>185,871</u> | <u>160,739</u> | <u>136,232</u> |
| Gross margin: | | | |
| Product sales | 98,600 | 82,319 | 69,885 |
| Contract services | 29,803 | 25,366 | 26,988 |
| | <u>128,403</u> | <u>107,685</u> | <u>96,873</u> |
| Selling, general and administrative | 60,343 | 50,826 | 47,642 |
| Research and development | 34,234 | 26,433 | 28,465 |
| Income from continuing operations | 33,826 | 30,426 | 20,766 |
| Other income: | | | |
| Interest income, net | 4,672 | 2,240 | 1,618 |
| Other income (expense), net | 11,980 | (49) | 172 |
| Income from continuing operations before income taxes | 50,478 | 32,617 | 22,556 |
| Provision for income taxes | 4,641 | 9,800 | 4,758 |
| Equity method investment loss, net of tax | (3,944) | (1,283) | (119) |
| Net income from continuing operations | 41,893 | 21,534 | 17,679 |
| Discontinued operations: | | | |
| Gain on sale of business, net of tax expense of \$2,444 for the year ended April 30, 2019 | 8,490 | — | — |
| Loss from discontinued operations, net of tax | (2,964) | (3,887) | (4,601) |
| Net income (loss) from discontinued operations | 5,526 | (3,887) | (4,601) |
| Net income | 47,419 | 17,647 | 13,078 |
| Net loss attributable to noncontrolling interest | 19 | 216 | 22 |
| Net income attributable to AeroVironment | <u>\$ 47,438</u> | <u>\$ 17,863</u> | <u>\$ 13,100</u> |
| Net income (loss) per share attributable to AeroVironment—Basic | | | |
| Continuing operations | \$ 1.77 | \$ 0.93 | \$ 0.77 |
| Discontinued operations | 0.23 | (0.17) | (0.20) |
| Net income per share attributable to AeroVironment—Basic | <u>\$ 2.00</u> | <u>\$ 0.76</u> | <u>\$ 0.57</u> |
| Net income (loss) per share attributable to AeroVironment—Diluted | | | |
| Continuing operations | \$ 1.74 | \$ 0.91 | \$ 0.76 |
| Discontinued operations | 0.23 | (0.16) | (0.20) |
| Net income per share attributable to AeroVironment—Diluted | <u>\$ 1.97</u> | <u>\$ 0.75</u> | <u>\$ 0.56</u> |
| Weighted-average shares outstanding: | | | |
| Basic | 23,663,410 | 23,471,241 | 23,059,045 |
| Diluted | 24,071,713 | 23,813,772 | 23,307,738 |

See accompanying notes to consolidated financial statements.

AEROVIRONMENT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

| | Year Ended April 30, | | |
|---|----------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| Net income | \$ 47,419 | \$ 17,647 | \$ 13,078 |
| Other comprehensive income: | | | |
| Change in foreign currency translation adjustments | (34) | 36 | - |
| Unrealized gain on investments, net of deferred tax expense of \$51, \$25, and \$43 for the fiscal years ended 2019, 2018, and 2017, respectively | 57 | 70 | 74 |
| Total comprehensive income | 47,442 | 17,753 | 13,152 |
| Net loss attributable to noncontrolling interest | 19 | 216 | 22 |
| Comprehensive income attributable to AeroVironment | <u>\$ 47,461</u> | <u>\$ 17,969</u> | <u>\$ 13,174</u> |

See accompanying notes to consolidated financial statements.

AEROVIRONMENT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands except share data)

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated | Total AeroVironment Equity | Non- Controlling Interest | Total |
|--|--------------|--------|----------------------------------|----------------------|--------------------------------|----------------------------------|---------------------------------|------------|
| | Shares | Amount | | | Other Comprehensive Loss | | | |
| Balance at April 30, 2016 | 23,359,925 | 2 | 154,274 | 207,185 | (201) | 361,260 | — | 361,260 |
| Adoption of ASU 2016-09 | — | — | — | 265 | — | 265 | — | 265 |
| Adoption of ASU 2014-09 | — | — | — | 500 | — | 500 | — | 500 |
| Net income | — | — | — | 13,100 | — | 13,100 | (22) | 13,078 |
| Unrealized gain on investments | — | — | — | — | 74 | 74 | — | 74 |
| Stock options exercised | 204,130 | — | 3,865 | — | — | 3,865 | — | 3,865 |
| Restricted stock awards | 126,557 | — | — | — | — | — | — | — |
| Restricted stock awards forfeited | (60,017) | — | — | — | — | — | — | — |
| Tax withholding payment related to net share settlement of equity awards | (176) | — | (5) | — | — | (5) | — | (5) |
| Reclassification from share-based liability compensation to equity | — | — | 307 | — | — | 307 | — | 307 |
| Business acquisition | — | — | — | — | — | — | 261 | 261 |
| Stock-based compensation | — | — | 3,709 | — | — | 3,709 | — | 3,709 |
| Balance at April 30, 2017 | 23,630,419 | 2 | 162,150 | 221,050 | (127) | 383,075 | 239 | 383,314 |
| Net income (loss) | — | — | — | 17,863 | — | 17,863 | (216) | 17,647 |
| Unrealized gain on investments | — | — | — | — | 70 | 70 | — | 70 |
| Foreign currency translation | — | — | — | — | 36 | 36 | — | 36 |
| Stock options exercised | 153,211 | — | 2,705 | — | — | 2,705 | — | 2,705 |
| Restricted stock awards | 140,787 | — | — | — | — | — | — | — |
| Restricted stock awards forfeited | (6,834) | — | — | — | — | — | — | — |
| Tax withholding payment related to net share settlement of equity awards | (8,847) | — | (397) | — | — | (397) | — | (397) |
| Reclassification from share-based liability compensation to equity | — | — | 384 | — | — | 384 | — | 384 |
| Stock-based compensation | — | — | 5,297 | — | — | 5,297 | — | 5,297 |
| Balance at April 30, 2018 | 23,908,736 | 2 | 170,139 | 238,913 | (21) | 409,033 | 23 | 409,056 |
| Net income (loss) | — | — | — | 47,438 | — | 47,438 | (19) | 47,419 |
| Unrealized gain on investments | — | — | — | — | 57 | 57 | — | 57 |
| Foreign currency translation | — | — | — | — | (34) | (34) | — | (34) |
| Stock options exercised | 12,725 | — | 71 | — | — | 71 | — | 71 |
| Restricted stock awards | 57,476 | — | — | — | — | — | — | — |
| Restricted stock awards forfeited | (18,023) | — | — | — | — | — | — | — |
| Tax withholding payment related to net share settlement of equity awards | (14,621) | — | (1,094) | — | — | (1,094) | — | (1,094) |
| Stock based compensation | — | — | 7,100 | — | — | 7,100 | — | 7,100 |
| Balance at April 30, 2019 | 23,946,293 | \$ 2 | \$ 176,216 | \$ 286,351 | \$ 2 | \$ 462,571 | \$ 4 | \$ 462,575 |

See accompanying notes to consolidated financial statements.

AEROVIRONMENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Year Ended April 30, | | |
|--|----------------------|------------|-----------|
| | 2019 | 2018 | 2017 |
| Operating activities | | | |
| Net income | \$ 47,419 | \$ 17,647 | \$ 13,078 |
| Gain on sale of business, net of tax | (8,490) | — | — |
| Loss from discontinued operations, net of tax | 2,964 | 3,887 | 4,601 |
| Net income from continuing operations | 41,893 | 21,534 | 17,679 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 7,669 | 5,982 | 5,054 |
| Loss from equity method investment | 3,944 | 1,283 | 119 |
| Impairment of long-lived assets | 4,398 | 255 | 46 |
| Provision for doubtful accounts | (39) | 977 | 48 |
| Impairment of intangible assets and goodwill | — | 1,021 | — |
| Gains on foreign currency transactions | 38 | (87) | 284 |
| Deferred income taxes | 4,792 | 2,853 | 309 |
| Gain on business acquisition | — | — | (584) |
| Stock-based compensation | 6,985 | 4,956 | 3,392 |
| Loss on disposition of property and equipment | 76 | 20 | 44 |
| Amortization of held-to-maturity investments | (1,506) | 1,424 | 2,382 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 25,821 | 11,070 | (19,720) |
| Unbilled receivables and retentions | (36,175) | 2,253 | 615 |
| Inventories | (16,631) | 1,192 | (16,816) |
| Income tax receivable | (821) | — | — |
| Prepaid expenses and other assets | (2,401) | 139 | (1,484) |
| Accounts payable | (7,054) | 5,736 | 545 |
| Other liabilities | (4,043) | 9,224 | (166) |
| Net cash provided by (used in) operating activities of continuing operations | 26,946 | 69,832 | (8,253) |
| Investing activities | | | |
| Acquisition of property and equipment | (8,896) | (9,563) | (9,017) |
| Equity method investments | (7,598) | (3,267) | — |
| Business acquisitions, net of cash acquired | — | — | (430) |
| Proceeds from sale of business | 31,994 | — | — |
| Redemptions of held-to-maturity investments | 260,918 | 227,663 | 121,522 |
| Purchases of held-to-maturity investments | (267,122) | (221,680) | (148,991) |
| Redemptions of available-for-sale investments | 2,250 | 450 | 400 |
| Net cash provided by (used in) investing activities from continuing operations | 11,546 | (6,397) | (36,516) |
| Financing activities | | | |
| Principal payments of capital lease obligations | (161) | (288) | (390) |
| Tax withholding payment related to net settlement of equity awards | (1,094) | (397) | (5) |
| Exercise of stock options | 71 | 2,705 | 3,865 |
| Net cash (used in) provided by financing activities from continuing operations | (1,184) | 2,020 | 3,470 |
| Discontinued operations | | | |
| Operating activities of discontinued operations | (7,686) | (623) | (2,246) |
| Investing activities of discontinued operations | (431) | (1,219) | (838) |
| Financing activities of discontinued operations | — | — | — |
| Net cash used in discontinued operations | (8,117) | (1,842) | (3,084) |
| Net increase (decrease) in cash and cash equivalents | 29,191 | 63,613 | (44,383) |
| Cash and cash equivalents at beginning of period | 143,517 | 79,904 | 124,287 |
| Cash and cash equivalents at end of period | \$ 172,708 | \$ 143,517 | \$ 79,904 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid, net during the period for: | | | |
| Income taxes | \$ 6,780 | \$ 1,813 | \$ 1,804 |
| Non-cash activities | | | |
| Unrealized gain on investments, net of deferred tax expense of \$51, \$25 and \$43, respectively | \$ 57 | \$ 70 | \$ 74 |
| Reclassification from share-based liability compensation to equity | \$ — | \$ 384 | \$ 307 |
| Change in foreign currency translation adjustments | \$ (34) | \$ 36 | \$ — |
| Acquisitions of property and equipment included in accounts payable | \$ 810 | \$ 379 | \$ 724 |

See accompanying notes to consolidated financial statements.

AEROVIRONMENT, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Organization

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

Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AeroVironment, Inc. and its wholly-owned subsidiaries: AeroVironment Rhode Island, LLC, Skytower Inc., AeroVironment, Inc. (Afghanistan), as well as the Company’s Turkish joint venture, Altoy Savunma Sanayi ve Havacilik Anonim Sirketi (“Altoy”) (collectively referred to herein as the “Company”). The Company increased its ownership in Altoy to a controlling interest on February 1, 2017. As a result of the increase in ownership, the consolidated financial statements include the balance sheet and results of operations of Altoy from February 1, 2017 forward. Prior to this date, the Company’s investment in Altoy was accounted for under the equity method. Refer to Note 19 - Business Acquisitions for further details. All intercompany balances and transactions have been eliminated in consolidation.

In July 2016, the Company dissolved Charger Bicycles, LLC, the results of which were not material to the consolidated financial statements. In October 2016, the Company dissolved Skytower, LLC and Regenerative Fuel Cell Systems, LLC, the results of which were not material to the consolidated financial statements. In February 2018, the Company dissolved AeroVironment GmbH, the results of which were not material to the consolidated financial statements. In February 2019, the Company dissolved AeroVironment International PTE. LTD., the results of which were not material to the consolidated financial statements.

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

Investments in Companies Accounted for Using the Equity or Cost Method

Investments in other non-consolidated entities are accounted for using the equity method or cost basis depending upon the level of ownership and/or the Company’s ability to exercise significant influence over the operating and financial policies of the investee. When the equity method is used, investments are recorded at original cost and adjusted periodically to recognize the Company’s proportionate share of the investees’ net income or losses after the date of investment. When net losses from an investment accounted for under the equity method exceed its carrying amount, the investment balance is reduced to zero and additional losses are not provided for as the Company is not obligated to provide additional capital. The Company resumes accounting for the investment under the equity method if the entity subsequently reports net income and the Company’s share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended.

When an investment accounted for using the equity method issues its own shares, the subsequent reduction in the Company’s proportionate interest in the investee is reflected in equity as an adjustment to paid-in-capital. The Company evaluates its investments in companies accounted for by the equity or cost method for impairment when there is evidence or indicators that a decrease in value may be other than temporary.

In December of 2017, the Company and Softbank Corp. (“Softbank”) formed a joint venture, HAPSMobile Inc. (“HAPSMobile”). As the Company has the ability to exercise significant influence over the operating and financial policies of HAPSMobile, the Company’s investment is accounted as an equity method investment. The Company has presented its proportion of HAPSMobile’s net loss in “Equity method investment loss, net of tax” in the consolidated statement of operations. The carrying value of the investment in HAPSMobile was recorded in “Other assets, long-term.” Refer to Note 8 – Equity Method Investments for further details.

Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources and in assessing performance. The Company’s CODM, who is the Chief Executive Officer, makes operating decisions, assesses performance and makes resource allocation decisions, including the focus of research and development (“R&D”), on a consolidated basis for the Company’s continuing operations. Accordingly, the Company operates its business as a single reportable segment.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and 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. Significant estimates made by management include, but are not limited to, valuation of: inventory, available-for-sale securities, deferred tax assets and liabilities, useful lives of property, plant and equipment, medical and dental liabilities, warranty liabilities, long-term incentive plan liabilities and estimates of anticipated contract costs and transaction price utilized in the revenue recognition process. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Equity method losses associated with the Company’s investment in Altoy for the fiscal year ended 2017 have been reclassified from other income (expense), net to equity method investment loss, net of tax on the consolidated statement of operations.

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. The Company’s cash equivalents are comprised of money market funds, certificates of deposit of major financial institutions, and U.S. Treasury bills.

Investments

The Company’s investments are accounted for as held-to-maturity and available-for-sale and reported at amortized cost and fair value, respectively.

Unrealized gains and losses 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. Premium and discount on investments are amortized and accreted using the interest method and charged or credited to investment income.

Management determines the appropriate classification of securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. On a quarterly basis, the Company considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and its intent and ability to hold the investment to maturity. The Company also considers potential adverse conditions related to the financial health of the issuer based on rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in earnings and a new cost basis in the investment is established.

Fair Values of Financial Instruments

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents, municipal bonds, U.S. government securities, U.S. government-guaranteed agency securities, U.S. Government sponsored agency debt securities, highly rated commercial paper, highly rated corporate bonds, and accounts receivable. The Company currently invests the majority of its cash in municipal bonds, U.S. government securities, U.S. government-guaranteed agency securities, U.S. Government sponsored agency debt securities and highly rated corporate bonds. The Company's revenue and accounts receivable are with a limited number of corporations and governmental entities. In the aggregate, 58%, 58% and 65% of the Company's revenue came from agencies of the U.S. government for the years ended April 30, 2019, 2018 and 2017, respectively. These agencies accounted for 26% and 49% of the accounts receivable balances at April 30, 2019 and 2018, respectively. One such agency, the U.S. Army, accounted for 28%, 19% and 20% of the Company's consolidated revenue for the years ended April 30, 2019, 2018 and 2017, respectively. The Company performs ongoing credit evaluations of its commercial customers and maintains an allowance for potential losses.

Accounts Receivable, Unbilled Receivables and Retentions

Accounts receivable represents primarily U.S. government and Foreign government, and to a lesser extent commercial receivables, net of allowances for doubtful accounts. Unbilled receivables represent costs in excess of billings on incomplete contracts and, where applicable, accrued profit related to government long-term contracts on which revenue has been recognized, but for which the customer has not yet been billed. Unbilled receivables are considered contract assets.

Retentions represent amounts withheld by customers until contract completion. At April 30, 2019 and 2018, the retention balances were \$1,102,000 and \$1,411,000, respectively. The Company determines the allowance for doubtful accounts based on historical customer experience and other currently available evidence. When a specific account is deemed uncollectible, the account is written off against the allowance. The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance; such losses have historically been within management's expectations. An account is deemed past due based on contractual terms rather than on how recently payments have been received.

Inventories

Inventories are stated at the lower of cost (using the weighted average costing method) or net realizable value. Inventory write-offs and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence and for market prices lower than cost. The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Based on this evaluation, provisions are made to write inventory down to its net realizable value.

Long-Lived Assets

Property and equipment are carried at cost. Depreciation of property and equipment, including amortization of leasehold improvements, are provided using the straight-line method over the following estimated useful lives:

| | | |
|---------------------------------|--|-------|
| Machinery and equipment | 2 - 7 | years |
| Computer equipment and software | 2 - 5 | years |
| Furniture and fixtures | 3 - 7 | years |
| Leasehold improvements | Lesser of useful life or term of lease | |

The Company finances the purchase of certain IT equipment and perpetual software licenses with capital lease arrangements. The assets and liabilities under capital leases are recorded at the lesser of the present value of aggregate future minimum lease payments, including estimated bargain purchase options, or the fair value of the asset under lease. Assets under capital leases are depreciated using the straight-line method over the lesser of the estimated useful life of the asset or the term of the lease.

Maintenance, repairs and minor renewals are charged directly to expense as incurred. Additions and betterments to property and equipment are capitalized at cost. When the Company disposes of assets, the applicable costs and accumulated depreciation and amortization thereon are removed from the accounts and any resulting gain or loss is included in selling, general and administrative ("SG&A") expense in the period incurred.

The Company reviews the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. During the three months ended April 30, 2019, the Company recorded an impairment loss of \$4,398,000 related to the long-lived assets of its commercial UAS Quantix solution. Refer to Note 7 – Property and equipment, net.

Intangibles Assets — Acquired in Business Combinations

The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocates the purchase price of the acquired business to the respective net tangible and intangible assets. Acquired intangible assets include customer relationships and trade names. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on historical experience of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method which approximates the pattern in which the economic benefits are consumed.

The Company monitors conditions related to these assets to determine whether events and circumstances warrant a revision to the remaining amortization period. The Company tests its intangible assets with finite lives for potential impairment whenever management concludes events or changes in circumstances indicate that the carrying amount may not be recoverable. The original estimate of an asset's useful life and the impact of an event or circumstance on either an asset's useful life or carrying value involve significant judgment.

Product Warranty

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. Product warranty reserves are recorded in other current liabilities.

Accrued Sales Commissions

As of April 30, 2019 and 2018, the Company accrued sales commissions in other current liabilities of \$1,301,000 and \$1,293,000, respectively.

Self-Insurance Liability

The Company is self-insured for employee medical claims, subject to individual and aggregate stop loss policies. The Company estimates a liability for claims filed and incurred but not reported based upon recent claims experience and an analysis of the average period of time between the occurrence of a claim and the time it is reported to and paid by the Company. As of April 30, 2019 and 2018, the Company estimated and recorded a self-insurance liability in wages and related accruals of approximately \$965,000 and \$1,003,000, respectively.

Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and income tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The provision for income taxes reflects the taxes to be paid for the period and the change during the period in the deferred income tax assets and liabilities. The Company records a valuation allowance to reduce the deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. For uncertain tax positions, the Company determines whether it is “more likely than not” that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. For those tax positions where it is “not more likely than not” that a tax benefit will be sustained, no tax benefit is recognized. Where applicable, associated interest and penalties are also recorded.

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

In accordance with U.S. GAAP as determined by ASC 740, Income Taxes, the Company is required to record the effects of tax law changes in the period enacted. The Company remeasured its existing deferred tax assets and liabilities at the rate the Company expects to be in effect when those deferred taxes will be realized and recorded a one-time deferred tax expense of approximately \$3,300,000 during the year ended April 30, 2018.

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

The measurement period under SAB 118 closed during the quarter ended January 31, 2019. AV has finalized its accounting for the impact of the Tax Act during the quarter ended January 31, 2019 and reached conclusions on the previous provisional estimates. AV has concluded that its foreign subsidiaries are in a cumulative earnings and profits deficit and therefore has confirmed that it will not have an income tax payable as a result of the one-time deemed repatriation tax. In relation to the one-time deferred tax remeasurement, AV has concluded that the impact recorded at the date of enactment is appropriate and no changes to the provision estimate of this item.

Customer Advances and Amounts in Excess of Cost Incurred

The Company receives advances, performance-based payments and progress payments from customers that may exceed costs incurred on certain contracts, including contracts with agencies of the U.S. government resulting in contract liabilities. These advances are classified as advances from customers and will be offset against billings.

Revenue Recognition

The Company's revenue is generated pursuant to written contractual arrangements to design, develop, manufacture and/or modify complex products, and to provide related engineering, technical and other services according to the specifications of the customers. These contracts may be firm fixed price ("FFP"), cost plus fixed fee ("CPFF"), or time and materials ("T&M"). The Company considers all such contracts to be within the scope of ASC Topic 606, *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 reasonable margin approach. This approach estimates the Company's expected costs of satisfying the performance obligation and then adds an appropriate margin for that distinct good or service.

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

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

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

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

On April 30, 2019, the Company had approximately \$164,326,000 of remaining performance obligations under contracts with its customers, which the Company also refers to as backlog. The Company currently expects to recognize approximately 92% of the remaining performance obligations as revenue in fiscal 2020, an additional 7% in fiscal 2021, and the balance thereafter.

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

Contract Estimates

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

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

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

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

The impact of adjustments in contract estimates on the Company's operating earnings can be reflected in either operating costs and expenses or revenue. The aggregate impact of adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was not significant for the years ended April 30, 2019, 2018 or 2017. No adjustment on any one contract was material to the Company's consolidated financial statements for the years ended April 30, 2019 or 2017. During the year ended April 30, 2018, the Company revised its estimates of the total expected costs to complete a TMS 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 of approximately \$1,255,000.

Revenue by Category

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

| | Year Ended | | |
|--|-------------------|-------------------|-------------------|
| | April 30, 2019 | April 30, 2018 | April 30, 2017 |
| Revenue by major product line/program | | | |
| Small UAS | \$ 183,157 | \$ 167,534 | \$ 145,760 |
| TMS | 65,087 | 63,406 | 81,182 |
| HAPS | 55,407 | 29,593 | 3 |
| Other | 10,623 | 7,891 | 6,160 |
| Total revenue | <u>\$ 314,274</u> | <u>\$ 268,424</u> | <u>\$ 233,105</u> |

| | Year Ended | | |
|---------------------------------|-------------------|-------------------|-------------------|
| | April 30, 2019 | April 30, 2018 | April 30, 2017 |
| Revenue by contract type | | | |
| FFP | \$ 224,090 | \$ 212,976 | \$ 177,506 |
| CPFF | 89,485 | 55,203 | 54,052 |
| T&M | 699 | 245 | 1,547 |
| Total revenue | <u>\$ 314,274</u> | <u>\$ 268,424</u> | <u>\$ 233,105</u> |

Each of these contract types presents advantages and disadvantages. Typically, the Company assumes more risk with FFP contracts. However, these types of contracts generally offer additional profits when the Company completes the work for less than originally estimated. 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.

| | Year Ended | | |
|-------------------------------------|-------------------|-------------------|-------------------|
| | April 30, 2019 | April 30, 2018 | April 30, 2017 |
| Revenue by customer category | | | |
| U.S. government: | \$ 182,586 | \$ 156,996 | \$ 151,595 |
| Non-U.S. government | 131,688 | 111,428 | 81,510 |
| Total revenue | <u>\$ 314,274</u> | <u>\$ 268,424</u> | <u>\$ 233,105</u> |

| | Year Ended | | |
|---------------------------------------|-------------------|-------------------|-------------------|
| | April 30, 2019 | April 30, 2018 | April 30, 2017 |
| Revenue by geographic location | | | |
| Domestic | \$ 151,124 | \$ 142,158 | \$ 149,698 |
| International | 163,150 | 126,266 | 83,407 |
| Total revenue | <u>\$ 314,274</u> | <u>\$ 268,424</u> | <u>\$ 233,105</u> |

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables, and customer advances and deposits on the consolidated balance sheet. In the Company's services contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals, which is generally monthly, or upon the achievement of contractual milestones. Generally, billing occurs subsequent to

revenue recognition, resulting in contract assets recorded in “Unbilled receivables and retentions” on the consolidated balance sheet. However, the Company sometimes receives advances or deposits from its customers before revenue is recognized, resulting in contract liabilities recorded in “Customer advances” on the consolidated balance sheet. Contract liabilities are not a significant financing component as they are generally utilized to pay for contract costs within a one-year period or are used to ensure the customer meets contractual requirements. These assets and liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. For the Company’s product revenue, the Company generally receives cash payments subsequent to satisfying the performance obligation via delivery of the product, resulting in billed accounts receivable. Changes in the contract asset and liability balances during the years ended April 30, 2019 or 2018 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 years ended April 30, 2019, 2018, and 2017 that was included in contract liability balances at the beginning of each year were \$1,587,000, \$977,000 and \$483,000, respectively.

Stock-Based Compensation

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period of the respective award. No compensation cost is ultimately recognized for awards for which employees do not render the requisite service and are forfeited.

Long-Term Incentive Awards

For long-term incentive awards outstanding as of April 30, 2019, the awards include time-based awards which vest equally over three years and performance-based awards which vest based on the achievement of a target payout established at the beginning of each performance period. The actual payout at the end of the performance period is calculated based upon the Company’s achievement of such targets. Payouts are made in restricted stock units which become immediately vested upon issuance.

At each reporting period, the Company reassesses the probability of achieving the performance targets. The estimation of whether the performance targets will be achieved requires judgment, and, to the extent actual results or updated estimates differ from the Company’s current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised.

Research and Development

Internally funded research and development costs (“IRAD”), sponsored by the Company relate to both U.S. government products and services and those for commercial and foreign customers. IRAD costs for the Company are recoverable and allocable under government contracts in accordance with U.S. government procurement regulations.

Customer-funded research and development costs are incurred pursuant to contracts (revenue arrangements) to perform research and development activities according to customer specifications. These costs are direct contract costs and are expensed to cost of sales when the corresponding revenue is recognized, which is generally as the research and development services are performed. Revenue from customer-funded research and development was approximately \$76,407,000, \$52,489,000 and \$43,329,000 for the years ended April 30, 2019, 2018 and 2017, respectively. The related cost of sales for customer-funded research and development totaled approximately \$54,824,000, \$36,855,000 and \$29,527,000 for the years ended April 30, 2019, 2018 and 2017, respectively.

In January 2017, the Company executed a cost sharing Other Transaction Agreement type contract funded by the US Federal Government to perform certain system design, development and functional testing activities specific to a new prototype UAS on a best-efforts basis. The total estimated costs of the project are approximately \$21,933,000, of which the Company is responsible for funding \$11,225,000. The remaining \$10,708,000 will be reimbursed to the Company as the activities are performed. The term of the agreement is through June 2020. The Company has

determined that the contract meets the criteria of ASC 912-730-05 Contractors – Federal Government and, therefore, all reimbursements are recorded as an offset to research and development expense in the consolidated statements of operations. Reimbursements under the contract were \$5,936,000, \$4,188,000 and \$233,000 for the fiscal years ended April 30, 2019, 2018 and 2017, respectively.

Lease Accounting

The Company accounts for its leases and subsequent amendments as operating leases or capital leases for financial reporting purposes. Certain operating leases contain rent escalation clauses, which are recorded on a straight-line basis over the initial term of the lease with the difference between the rent paid and the straight-line rent recorded as a deferred rent liability. Lease incentives received from landlords are recorded as deferred rent liabilities and are amortized on a straight-line basis over the lease term as a reduction to rent expense. Deferred rent liabilities were approximately \$1,173,000 and \$1,536,000 as of April 30, 2019 and 2018, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses included in SG&A expenses were approximately \$897,000, \$526,000 and \$227,000 for the years ended April 30, 2019, 2018 and 2017, respectively.

Foreign Currency Transactions

Foreign currency transaction gains and losses are charged or credited to earnings as incurred. For the fiscal years ended April 30, 2019, 2018 and 2017, foreign currency transaction gains and losses that are included in other income (expense) in the accompanying statements of operations were \$(38,000), \$87,000, and \$(284,000), respectively.

Earnings Per Share

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

The reconciliation of diluted to basic shares is as follows:

| | Year Ended April 30, | | |
|--|----------------------|---------------|---------------|
| | 2019 | 2018 | 2017 |
| Continuing operations attributable to AeroVironment | \$ 41,912,000 | \$ 21,750,000 | \$ 17,701,000 |
| Discontinued operations, net of tax | 5,526,000 | (3,887,000) | (4,601,000) |
| Net income attributable to AeroVironment | \$ 47,438,000 | \$ 17,863,000 | \$ 13,100,000 |
| Denominator for basic earnings per share: | | | |
| Weighted average common shares | 23,663,410 | 23,471,241 | 23,059,045 |
| Dilutive effect of employee stock options, restricted stock and restricted stock units | 408,303 | 342,531 | 248,693 |
| Denominator for diluted earnings per share | 24,071,713 | 23,813,772 | 23,307,738 |

During the years ended April 30, 2019, 2018 and 2017, certain options, shares of restricted stock and restricted stock units were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive. The number of options, restricted stock and restricted stock units which met this anti-dilutive criterion was approximately 18,000, 22,000 and 86,000 for the years ended April 30, 2019, 2018 and 2017, respectively.

Recently Adopted Accounting Standards

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments* (Topic 230). This ASU adds and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The Company's adoption of ASU No. 2017-01 effective May 1, 2018 did not have a material impact on its consolidated financial statements.

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

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

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

Revenue for small UAS product contracts with both the U.S. government and foreign governments under the new standard will be recognized at the point in time when the transfer of control passes to the customer, which is generally when title and risk of loss transfer. Revenue for Tactical Missile Systems ("TMS") contracts will now be recognized under the new standard over time as costs are incurred. Under previous U.S. GAAP, revenue was generally recognized when deliveries of the related TMS products were made. The new standard accelerates the timing of when the revenue is recognized; however, it does not change the total amount of revenue recognized on these contracts. The new standard does not affect revenue recognition for the Company's Customer-Funded Research and Development ("R&D") contracts. The Company continues to recognize revenue for these contracts over time as costs are incurred. The adoption of Topic 606 resulted in a cumulative adjustment to increase retained earnings by \$500,000 at May 1, 2016 relating to both the Company's continuing and discontinued operations. For the Company's continuing operations, the adoption of Topic 606 resulted in a cumulative adjustment to increase retained earnings by \$564,000 at May 1, 2016.

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

Recently Issued Accounting Standards

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

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

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

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (Topic 220). This ASU permits, but does not require, the Company to reclassify the disproportionate income tax effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Act") on items within AOCI to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods therein, with early adoption permitted. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). This ASU removes or modifies current disclosures while adding certain new disclosure requirements. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods therein, with early adoption permitted for the removed or modified disclosures. The removed and modified disclosures can be adopted retrospectively, and the added disclosures should be adopted prospectively. The Company is evaluating the potential impact of this adoption on its consolidated financial statements.

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

2. Discontinued Operations

On June 29, 2018, the Company completed the sale of the EES Business to Webasto. In accordance with the terms of the Purchase Agreement, as amended by a Side Letter Agreement executed at the closing, the Company received cash consideration of \$31,994,000 upon closing, which resulted in a gain of \$11,420,000 which has been recorded in “Gain on sale of business, net of tax” in the consolidated statements of operations. During year ended April 30, 2019, the Company recorded a reduction to the gain resulting from a working capital adjustment of \$486,000. In addition, the Company has disputed \$1,085,000 of Webasto’s working capital adjustment claim, which is being submitted to an independent accounting firm for resolution pursuant to the terms of Purchase Agreement. No amounts have been recorded in the consolidated financial statements related to the additional working capital dispute as the Company has assessed the likelihood of a loss to be less than probable.

The Company is entitled to receive additional cash consideration of \$6,500,000 (the “Holdback”) upon tendering consents to assignment of two remaining customer contracts to Webasto. The Holdback was not recorded in the Company’s consolidated financial statements as the amount was not realized or realizable as of April 30, 2019. The Company’s satisfaction of the requirements for the payment of the Holdback is currently in dispute.

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

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

Concurrent with the execution of the Purchase Agreement, the Company entered into a transition services agreement (the “TSA”) to provide certain general and administrative services to Webasto for a defined period. Income from performing services under the TSA was \$2,758,000 and has been recorded in “Other income, net” in the consolidated statements of operations for the year ended April 30, 2019, respectively.

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

| | Year Ended April 30, | | |
|---|----------------------|------------|------------|
| | 2019 | 2018 | 2017 |
| Net sales | \$ 4,256 | \$ 38,411 | \$ 36,201 |
| Cost of sales | 5,097 | 33,384 | 29,983 |
| Gross margin | (841) | 5,027 | 6,218 |
| Selling, general and administrative | 1,515 | 7,825 | 8,895 |
| Research and development | 1,072 | 3,526 | 4,577 |
| Other income, net | 1 | (27) | 7 |
| Loss from discontinued operations before income taxes | (3,427) | (6,351) | (7,247) |
| Benefit for income taxes | (463) | (2,464) | (2,646) |
| Net loss from discontinued operations | \$ (2,964) | \$ (3,887) | \$ (4,601) |
| Gain on sale of business, net of tax expense of \$2,444 for the year ended April 30, 2019 | 8,490 | — | — |
| Net income (loss) from discontinued operations | \$ 5,526 | \$ (3,887) | \$ (4,601) |

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

| | April 30, | |
|--|-----------|-----------|
| | 2019 | 2018 |
| Carrying amount of assets classified as discontinued operations | | |
| Current assets: | | |
| Accounts receivable, net of allowance for doubtful accounts of \$139 at April 30, 2018 | \$ — | \$ 6,889 |
| Inventories, net | — | 15,494 |
| Prepaid expenses and other current assets | — | 185 |
| Property and equipment, net | — | 3,100 |
| Total current assets classified as discontinued operations | — | 25,668 |
| Property and equipment, net | — | — |
| Total non-current assets classified as discontinued operations | — | — |
| Total assets classified as discontinued operations | \$ — | \$ 25,668 |
| Carrying amount of liabilities classified as discontinued operations | | |
| Current liabilities: | | |
| Accounts payable | \$ — | \$ 5,121 |
| Wages and related accruals | — | 1,946 |
| Customer advances | — | 1,028 |
| Other current liabilities | — | 1,199 |
| Total current liabilities | — | 9,294 |
| Total liabilities classified as discontinued operations | \$ — | \$ 9,294 |

3. Investments

Investments consist of the following:

| | April 30, | |
|---|-------------------|-------------------|
| | 2019 | 2018 |
| (In thousands) | | |
| Short-term investments: | | |
| Held-to-maturity securities: | | |
| Municipal securities | \$ 5,332 | \$ 35,344 |
| U.S. government securities | 63,205 | 31,620 |
| Corporate bonds | 81,950 | 46,685 |
| Total held-to-maturity and short-term investments | <u>\$ 150,487</u> | <u>\$ 113,649</u> |
| Long-term investments: | | |
| Held-to-maturity securities: | | |
| Municipal securities | \$ — | \$ 2,046 |
| U.S. government securities | 7,404 | 27,356 |
| Corporate bonds | 1,982 | 9,112 |
| Total held-to-maturity investments | 9,386 | 38,514 |
| Available-for-sale securities: | | |
| Auction rate securities | — | 2,142 |
| Total available-for-sale investments | — | 2,142 |
| Total long-term investments | <u>\$ 9,386</u> | <u>\$ 40,656</u> |

Held-To-Maturity Securities

As of April 30, 2019 and 2018, the balance of held-to-maturity securities consisted of state and local government municipal securities, U.S. government securities, U.S. government agency securities, and corporate bonds. Interest earned from these investments is recorded in interest income.

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

| | April 30, 2019 | | | | April 30, 2018 | | | |
|------------------------------------|-------------------|------------------------------|-------------------------------|-------------------|-------------------|------------------------------|-------------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Municipal securities | \$ 5,332 | \$ 2 | \$ (1) | \$ 5,333 | \$ 37,390 | \$ 9 | \$ (36) | \$ 37,363 |
| U.S. government securities | 70,609 | 78 | (52) | 70,635 | 58,976 | — | (367) | 58,609 |
| Corporate bonds | 83,932 | 20 | (5) | 83,947 | 55,797 | 2 | (71) | 55,728 |
| Total held-to-maturity investments | <u>\$ 159,873</u> | <u>\$ 100</u> | <u>\$ (58)</u> | <u>\$ 159,915</u> | <u>\$ 152,163</u> | <u>\$ 11</u> | <u>\$ (474)</u> | <u>\$ 151,700</u> |

The amortized cost and fair value of the Company's held-to-maturity securities by contractual maturity at April 30, 2019, are as follows:

| | Cost | Fair Value |
|---------------------------------------|-------------------|-------------------|
| Due within one year | \$ 150,487 | \$ 150,498 |
| Due after one year through five years | 9,386 | 9,417 |
| Total | <u>\$ 159,873</u> | <u>\$ 159,915</u> |

Available-For-Sale Securities

Auction Rate Securities

As of April 30, 2018, the balance of available-for-sale auction rate securities consisted of two investment grade auction rate municipal bonds with maturities ranging from 1 to 16 years. These investments have characteristics similar to short term investments, because at predetermined intervals, generally ranging from 30 to 35 days, there is a new auction process at which the interest rates for these securities are reset to current interest rates. At the end of such period, the Company chooses whether to roll over its holdings or redeem the investments for cash. A market maker facilitates the redemption of the securities and the underlying issuers are not required to redeem the investment within 365 days. Interest earned from these investments is recorded in interest income.

During the three months ended July 28, 2018, the remaining investment grade auction rate municipal bonds were redeemed at par value.

The amortized cost, gross unrealized losses, and estimated fair value of the available-for-sale auction rate securities are as follows (in thousands):

| | April 30, | |
|--------------------------------|-------------|-----------------|
| | 2019 | 2018 |
| Auction rate securities | | |
| Amortized cost | \$ - | \$ 2,250 |
| Gross unrealized losses | - | (108) |
| Fair value | <u>\$ -</u> | <u>\$ 2,142</u> |

4. Fair Value Measurements

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

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

The Company did not have any financial assets measured at fair value on a recurring basis at April 30, 2019 as the Company's remaining auction rate securities were redeemed during the three months ended July 28, 2018 at par

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

| Description | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |
|--|---|
| Balance at May 1, 2018 | \$ 2,142 |
| Transfers to Level 3 | — |
| Total gains (realized or unrealized) | |
| Included in earnings | — |
| Included in other comprehensive income | 108 |
| Settlements | (2,250) |
| Balance at April 30, 2019 | <u>\$ —</u> |
| The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at April 30, 2019 | \$ — |

The auction rate securities were valued using a discounted cash flow model. The analysis considered, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the estimated date upon which the security is expected to have a successful auction.

5. Inventories, net

Inventories consist of the following:

| | April 30, | |
|---|------------------|------------------|
| | 2019 | 2018 |
| Raw materials | \$ 16,792 | \$ 12,020 |
| Work in process | 19,162 | 14,780 |
| Finished goods | 25,926 | 14,578 |
| Inventories, gross | 61,880 | 41,378 |
| Reserve for inventory excess and obsolescence | (7,824) | (3,953) |
| Inventories, net | <u>\$ 54,056</u> | <u>\$ 37,425</u> |

6. Intangibles

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

| | April 30, 2019 | April 30, 2018 |
|-------------------------------|-------------------|-------------------|
| | (In thousands) | |
| Licenses | \$ 1,006 | \$ 818 |
| Customer relationships | 733 | 733 |
| Trademarks and tradenames | 28 | 28 |
| Other | 3 | 3 |
| Intangibles, gross | 1,770 | 1,582 |
| Less accumulated amortization | (1,311) | (954) |
| Intangibles, net | \$ 459 | \$ 628 |

The Company tests identifiable intangible assets and goodwill for impairment in the fourth quarter of each fiscal year unless there are interim indicators that suggest that it is more likely than not that either the identifiable intangible assets or goodwill may be impaired. Due to the political situation within Turkey and the increased uncertainty in the relations between the U.S. and Turkey, the Company significantly lowered its cash flow expectations for its Altoy operations. As a result of the decline in the Company's cash flow forecast, the Company performed an interim assessment of impairment of Altoy's long-lived assets, excluding goodwill during the three months ended October 28, 2017. Based on the analysis, the Company determined that the fair value of Altoy had declined below its carrying value, excluding goodwill. As a result, the Company performed an additional analysis to determine the amount of the impairment loss and recorded an impairment loss totaling \$899,000 during the three months ended October 28, 2017, which is included in selling, general and administrative expense on the consolidated statements of operations. The fair value of the Altoy asset group was determined based on a discounted cash flow model reflective of the revised cash flow estimates.

The weighted average amortization period at April 30, 2019 and 2018 was one year and three years, respectively. Amortization expense for the years ended April 30, 2019, 2018 and 2017 was \$357,000, \$296,000 and \$139,000, respectively.

The customer relationships, trademarks and tradenames, and other intangible assets were recognized in conjunction with the Company's acquisition of a controlling interest in its Altoy joint venture on February 1, 2017. Refer to Note 19 - Business Combinations for further details.

Estimated amortization expense for the next five years is as follows:

| | Year ending April 30, (In thousands) |
|------|--|
| 2020 | \$ 360 |
| 2021 | 98 |
| 2022 | 1 |
| 2023 | — |
| 2024 | — |
| | \$ 459 |

7. Property and Equipment, net

Property and equipment, net consist of the following:

| | April 30, | |
|--|------------------|------------------|
| | 2019 | 2018 |
| | (In thousands) | |
| Leasehold improvements | \$ 12,324 | \$ 10,541 |
| Machinery and equipment | 40,432 | 40,377 |
| Furniture and fixtures | 2,145 | 2,094 |
| Computer equipment and software | 35,056 | 31,895 |
| Construction in process | 2,411 | 3,359 |
| Property and equipment, gross | 92,368 | 88,266 |
| Less accumulated depreciation and amortization | (75,463) | (69,047) |
| Property and equipment, net | <u>\$ 16,905</u> | <u>\$ 19,219</u> |

During the three months ended April 30, 2019, the Company determined that the continued less than forecasted sales of its Quantix commercial UAS solution, which launched during the fourth quarter of fiscal year 2018, was an indicator that the long-lived assets of this asset group may not be recoverable. As a result, the company performed an analysis and concluded that the projected undiscounted cash flows were less than the carrying value of the asset group (Step 1). As a result, the Company performed additional analysis to determine the amount of the impairment loss (Step 2) and recorded an impairment loss totaling \$4,398,000 related to the long-lived assets of the commercial UAS Quantix solution, which is included in selling, general and administrative expense on the consolidated statements of operations. The fair value of the asset group was determined based on a discounted cash flow model reflective of the Company's revised cash flow estimates.

Depreciation expense for the years ended April 30, 2019, 2018 and 2017 was \$7,311,000, \$5,676,000 and \$4,939,000, respectively. At April 30, 2019 and 2018, property and equipment includes computer equipment and software under capital leases with a cost basis of \$1,836,000 and \$1,836,000 and accumulated depreciation of \$1,822,000 and \$1,687,000, respectively. Depreciation of computer equipment and software under capital leases was \$135,000 and \$201,000 for the fiscal years ended April 30, 2019 and 2018 respectively.

8. Investments in Companies Accounted for Using the Equity Method

In December of 2017, the Company and Softbank formed a joint venture, HAPSMobile. HAPSMobile is a Japanese corporation that is 10% owned by the Company and 90% owned by SoftBank as of April 30, 2019 and is governed by a Joint Venture Agreement (the "JVA"). The Company purchased a 5% stake in HAPSMobile for 210,000,000 yen (\$1,860,000) effective as of December 27, 2017; 150,000,000 yen (\$1,407,000) on April 17, 2018; and 209,500,000 yen (\$1,926,000) on January 29, 2019 to maintain its 5% ownership stake. On February 9, 2019, the Company elected to purchase 632,800,000 yen (\$5,671,000) of additional shares of HAPSMobile to increase the Company's ownership in the joint venture from 5% to 10%, and on May 10, 2019, the Company purchased 500,000,000 JPY (\$4,569,000) of additional shares of HAPSMobile Inc. to maintain its 10% ownership stake which subsequently was diluted to approximately 5%.

As the Company has the ability to exercise significant influence over the operating and financial policies of HAPSMobile, the Company's investment is accounted as an equity method investment. At April 30, 2019 and 2018, the Company recorded its ownership percentage of the net loss of HAPSMobile, or \$3,944,000 and \$1,283,000, respectively, in "Equity method investment loss, net of tax" in the consolidated statements of income. At April 30, 2019 and 2018, the carrying value of the investment in HAPSMobile was \$5,612,000 and \$2,020,000, respectively, and was recorded in "Other assets, long-term."

In March of 2014, the Company purchased 49% of the outstanding common stock of Altoy, a Turkish corporation founded in February 2014. During the year ended April 30, 2017, the Company recorded 49% of the net loss of Altoy, or \$119,000 in "Equity method investment loss, net of tax" in the consolidated statements of income.

On February 1, 2017, the Company acquired an additional 36% interest in Altoy, increasing the Company's total ownership interest to 85%, for total cash consideration of \$625,000. As a result of the Company obtaining a controlling interest in Altoy, Altoy has been consolidated into the consolidated financial statements of the Company as of the date of the acquisition. Refer to Note 19 - Business Acquisitions.

9. Warranty Reserves

Warranty reserve activity is summarized as follows:

| | April 30, | |
|---|-----------------|-----------------|
| | 2019 | 2018 |
| | (In thousands) | |
| Beginning balance | \$ 2,090 | \$ 1,947 |
| Warranty expense | 211 | 1,884 |
| Changes in estimates related to pre-existing warranties | 491 | — |
| Warranty costs settled | (1,088) | (1,741) |
| Ending balance | <u>\$ 1,704</u> | <u>\$ 2,090</u> |

During the fiscal year ended April 30, 2019, the Company revised its estimates based on the results of additional engineering studies and recorded incremental warranty reserve charges totaling \$491,000 related to the estimated costs to repair a component of certain small UAS that were delivered in prior periods. At April 30, 2019, there were \$251,000 remaining estimated warranty costs related to the repair of the impacted small UAS. As of April 30, 2019, a total of \$240,000 of costs related to this warranty have been incurred.

10. Employee Savings Plan

The Company has an employee 401(k) savings plan covering all eligible employees. The Company expensed approximately \$3,961,000, \$2,953,000 and \$2,603,000 in contributions to the plan for the years ended April 30, 2019, 2018 and 2017, respectively.

11. Severance Charges

During the fiscal year ended April 30, 2017, the Company recorded severance costs totaling \$1,262,000. Of this total, approximately \$850,000 was due to two officers who left the Company during the fiscal year ended April 30, 2017. The remaining severance costs were due to certain strategic headcount reductions consisting entirely of severance payments. Of the total, approximately \$555,000 was recorded to cost of sales and \$707,000 was recorded to SG&A. Of the total, approximately \$127,000 was in accrued wages and related accruals at April 30, 2017. The Company did not have significant severance charges during the fiscal years ended April 30, 2019 or 2018.

12. Stock-Based Compensation

For the years ended April 30, 2019, 2018 and 2017, the Company recorded stock-based compensation expense of approximately \$6,985,000, \$4,956,000 and \$3,392,000, respectively.

On January 14, 2007, the stockholders of the Company approved the 2006 Equity Incentive Plan, or 2006 Plan, effective January 21, 2007, for officers, directors, key employees and consultants. On September 29, 2011, the stockholders of the Company approved an amendment and restatement of the 2006 Plan, or Restated 2006 Plan. Under the Restated 2006 Plan, incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation right awards, performance share awards, performance stock unit awards, dividend equivalents awards, stock payment

awards, deferred stock awards, restricted stock unit awards, other stock-based awards, performance bonus awards or performance-based awards may be granted at the discretion of the compensation committee, which consists of outside directors. A maximum of 4,884,157 shares of stock may be issued pursuant to awards under the Restated 2006 Plan. The maximum number of shares of common stock with respect to one or more awards that may be granted to any one participant during any twelve month period is 2,000,000. A maximum of \$5,000,000 may be paid in cash to any one participant as a performance-based award during any twelve month period. The exercise price for any incentive stock option shall not be less than 100% of the fair market value on the date of grant. Vesting of awards is established at the time of grant.

The Company had an equity incentive plan, or 2002 Plan, for officers, directors and key employees. Under the 2002 Plan, incentive stock options or nonqualified stock options were granted, as determined by the administrator at the time of grant. Stock purchase rights were also granted under the 2002 Plan. Options under the 2002 Plan were granted at their fair market value (as determined by the board of directors). The options became exercisable at various times over a five-year period from the grant date. The 2002 Plan was terminated on the effective date of the 2006 Plan. Awards outstanding under the 2002 Plan remain outstanding and exercisable; no additional awards may be made under the 2002 Plan.

The Company had a 1992 nonqualified stock option plan, or 1992 Plan, for certain officers and key employees. Options under the 1992 Plan were granted at their fair market value (as determined by the board of directors) at the date of grant and became exercisable at various times over a five-year period from the grant date. The 1992 Plan expired in August 2002.

No options were granted during the fiscal years ended April 30, 2019, 2018 and 2017. The fair value of stock options granted previously was estimated at the grant date using the Black-Scholes option pricing model. Assumptions included in the Black-Scholes option pricing model included the expected term of stock options, the expected volatility, the risk free interest rate, and the expected dividend yield. The expected term of stock options represents the weighted average period the Company expects the stock options to remain outstanding, based on the Company's historical exercise and post-vesting cancellation experience and the remaining contractual life of its outstanding options. The expected volatility is based on historical volatility for the Company's stock. The risk free interest rate is based on the implied yield on a U.S. Treasury zero-coupon bond with a remaining term that approximates the expected term of the option. The expected dividend yield of zero reflects that the Company has not paid any cash dividends since inception and does not anticipate paying cash dividends in the foreseeable future.

Information related to the stock option plans at April 30, 2019, 2018 and 2017, and for the years then ended is as follows:

| | Restated 2006 Plan | | 2002 Plan | | 1992 Plan | |
|---------------------------------------|--------------------|---------------------------------|-----------|---------------------------------|-----------|---------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at April 30, 2016 | 678,799 | 24.46 | 13,824 | 11.79 | 68,604 | 0.59 |
| Options granted | — | — | — | — | — | — |
| Options exercised | (167,310) | 22.32 | (9,601) | 11.79 | (25,189) | 0.59 |
| Options canceled | (64,865) | 26.76 | (4,223) | 11.79 | — | — |
| Outstanding at April 30, 2017 | 446,624 | 24.93 | — | — | 43,415 | 0.59 |
| Options granted | — | — | — | — | — | — |
| Options exercised | (107,598) | 23.80 | — | — | (25,113) | 0.59 |
| Options canceled | — | — | — | — | — | — |
| Outstanding at April 30, 2018 | 339,026 | 25.29 | — | — | 18,302 | 0.59 |
| Options granted | — | — | — | — | — | — |
| Options exercised | (2,000) | 32.19 | — | — | (4,000) | 0.59 |
| Options canceled | — | — | — | — | — | — |
| Outstanding at April 30, 2019 | 337,026 | 25.25 | — | — | 14,302 | 0.59 |
| Options exercisable at April 30, 2019 | 297,516 | \$ 24.94 | — | \$ — | 14,302 | \$ 0.59 |

The total intrinsic value of all options exercised during the years ended April 30, 2019, 2018 and 2017 was approximately \$371,000, \$2,407,000, and \$1,747,000, respectively. The intrinsic value of all options outstanding at April 30, 2019 and 2018 was \$15,569,000 and \$10,890,000, respectively. The intrinsic value of all exercisable options at April 30, 2019 and 2018 was \$13,950,000 and \$8,587,000, respectively.

A summary of the status of the Company's non-vested stock options as of April 30, 2019 and the year then ended is as follows:

| Non-vested Options | Options | Weighted Average |
|------------------------------|----------|-----------------------|
| | | Grant Date Fair Value |
| Non-vested at April 30, 2018 | 83,014 | \$ 10.97 |
| Granted | — | — |
| Expired | — | — |
| Canceled | — | — |
| Vested | (43,504) | 11.03 |
| Non-vested at April 30, 2019 | 39,510 | \$ 10.90 |

As of April 30, 2019, there was approximately \$6,214,000 of total unrecognized compensation cost related to non-vested share-based compensation awards granted under the equity plans. That cost is expected to be recognized over an approximately two-year period or a weighted average period of approximately 1.9 years.

No options were granted during the fiscal years ended April 30, 2019, 2018 and 2017. The total fair value of shares vesting during the years ended April 30, 2019, 2018 and 2017 was \$4,756,000, \$3,328,000 and \$2,942,000, respectively.

Proceeds from all option exercises under all stock option plans for the years ended April 30, 2019, 2018 and 2017 were approximately \$67,000, \$2,576,000 and \$3,863,000, respectively. The tax benefit realized from stock-based compensation during the years ended April 30, 2019, 2018 and 2017 was approximately \$0, \$0, and \$0, respectively.

The following tabulation summarizes certain information concerning outstanding and exercisable options at April 30, 2019:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|----------------------|--|---------------------------------|----------------------|---------------------------------|
| | As of April 30, 2019 | Weighted Average Remaining Contractual Life In Years | Weighted Average Exercise Price | As of April 30, 2019 | Weighted Average Exercise Price |
| \$ 0.59 - 19.16 | 68,302 | 3.36 | \$ 14.56 | 68,302 | \$ 14.56 |
| 19.17 - 26.24 | 58,500 | 3.86 | 20.54 | 58,500 | 20.54 |
| 26.25 - 26.99 | 80,000 | 6.15 | 26.70 | 48,000 | 26.70 |
| 27.00 - 27.99 | 50,000 | 4.56 | 27.27 | 50,000 | 27.27 |
| 28.00 - 31.27 | 94,526 | 3.68 | 29.85 | 87,016 | 29.73 |
| \$ 0.59 - 31.27 | 351,328 | 4.34 | \$ 24.24 | 311,818 | \$ 23.82 |

The remaining weighted average contractual life of exercisable options at April 30, 2019 was 4.13 years.

Information related to the Company's restricted stock awards at April 30, 2019 and for the year then ended is as follows:

| | Restated 2006 Plan | |
|----------------------------------|--------------------|--|
| | Shares | Weighted Average Grant Date Fair Value |
| Unvested stock at April 30, 2018 | 341,911 | \$ 31.13 |
| Stock granted | 57,476 | 74.05 |
| Stock vested | (163,839) | 29.03 |
| Stock canceled | (9,389) | 36.19 |
| Unvested stock at April 30, 2019 | 226,159 | \$ 43.35 |

13. Long-Term Incentive Awards

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

were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company's achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully vested shares of common stock. During the fiscal year ended April 30, 2019, the Company recorded \$572,000 of compensation expense related to the Fiscal 2019 LTIP. At April 30, 2019, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2019 LTIP is \$3,033,000.

During the three months ended July 29, 2017, the Company granted awards under the Restated 2006 Plan to key employees ("Fiscal 2018 LTIP"). Awards under the Fiscal 2018 LTIP consist of: (i) time-based restricted stock awards which vest in equal tranches in July 2018, July 2019 and July 2020, and (ii) performance-based restricted stock units ("PRSUs") which vest based on the Company's achievement of revenue and operating income targets for the three-year period ending April 30, 2020. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 200% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company's achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully vested shares of common stock. During the fiscal years ended April 30, 2019 and 2018, the Company recorded \$588,000 and \$269,000 of compensation expense related to the Fiscal 2018 LTIP, respectively. During the fiscal year ended April 30, 2017, the Company did not record compensation expense related to the Fiscal 2018 LTIP. At April 30, 2019, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2018 LTIP is \$2,275,000.

During the three months ended July 29, 2017, the Company also granted awards under the Restated 2006 Plan to key employees ("Fiscal 2017 LTIP"). Awards under the Fiscal 2017 LTIP consist of: (i) time-based restricted stock awards which vest in equal tranches in July 2017, July 2018 and July 2019, and (ii) PRSUs which vest based on the Company's achievement of revenue and operating income targets for the three-year period ending April 30, 2019. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 200% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company's achievement of the established revenue and operating income targets for the performance period. Settlement of the PRSUs will be made in fully-vested shares of common stock. During the fiscal years ended April 30, 2019 and 2018, the Company recorded \$301,000 and \$159,000 of compensation expense related to the Fiscal 2017 LTIP, respectively. During the fiscal year ended April 30, 2017, the Company did not record compensation expense related to the Fiscal 2017 LTIP. During the first quarter of fiscal 2019, the Company expects to issue a total of 14,814 fully-vested shares of common stock to settle the Fiscal 2017 LTIP.

At April 30, 2019 and 2018, the Company recorded cumulative stock-based compensation expense from these long-term incentive awards of \$1,889,000 and \$428,000, respectively. At each reporting period, the Company reassesses the probability of achieving the performance targets. The estimation of whether the performance targets will be achieved requires judgment, and, to the extent actual results or updated estimates differ from the Company's current estimates, the cumulative effect on current and prior periods of those changes will be recorded in the period estimates are revised.

14. Income Taxes

The components of income before income taxes are as follows (in thousands):

| | Year Ended April 30, | | |
|---|-----------------------------|-------------|-------------|
| | 2019 | 2018 | 2017 |
| Domestic | \$ 50,644 | \$ 32,651 | \$ 22,642 |
| Foreign | (166) | (34) | (86) |
| Income from continuing operations before income taxes | 50,478 | 32,617 | 22,556 |
| Equity method investment loss | (3,944) | (1,283) | (119) |
| Total income from continuing operations before income taxes | \$ 46,534 | \$ 31,334 | \$ 22,437 |

The Company expects any foreign earnings to be reinvested in such foreign jurisdictions and, therefore, no deferred tax liabilities for U.S. income taxes on undistributed earnings are recorded. The foreign subsidiaries do not have any undistributed earnings.

A reconciliation of income tax expense computed using the U.S. federal statutory rates to actual income tax expense (benefit) is as follows:

| | Year Ended April 30, | | |
|--|-----------------------------|---------------|---------------|
| | 2019 | 2018 | 2017 |
| U.S. federal statutory income tax rate | 21.0 % | 30.4 % | 34.0 % |
| State and local income taxes, net of federal benefit | (2.2) | (2.2) | (1.7) |
| R&D and other tax credits | (8.1) | (7.0) | (10.8) |
| Valuation allowance | 3.7 | 4.9 | 3.8 |
| Foreign rate differential | — | 0.1 | — |
| Return to provision adjustments | (0.3) | (0.1) | (0.3) |
| Permanent items | 0.8 | (2.7) | (2.3) |
| Foreign derived intangible income | (3.7) | — | — |
| Excess benefit of stock options | (3.1) | (4.4) | (1.0) |
| Tax Act | — | 10.4 | — |
| Other | 1.1 | 0.6 | (0.6) |
| Effective income tax rate | <u>9.2 %</u> | <u>30.0 %</u> | <u>21.1 %</u> |

The components of the provision (benefit) for income taxes are as follows (in thousands):

| | Year Ended April 30, | | |
|---|------------------------|------------------------|------------------------|
| | 2019 | 2018 | 2017 |
| Current: | | | |
| Federal | \$ 1,953 | \$ 6,010 | \$ 4,336 |
| State | 228 | 900 | 243 |
| Foreign | — | — | — |
| | <u>2,181</u> | <u>6,910</u> | <u>4,579</u> |
| Deferred: | | | |
| Federal | 1,945 | 3,272 | (66) |
| State | 551 | (330) | 280 |
| Foreign | (36) | (52) | (35) |
| | <u>2,460</u> | <u>2,890</u> | <u>179</u> |
| Total income tax expense (benefit) | <u>\$ 4,641</u> | <u>\$ 9,800</u> | <u>\$ 4,758</u> |

Significant components of the Company's deferred income tax assets and liabilities are as follows (in thousands):

| | April 30, | |
|--|------------------------|-------------------------|
| | 2019 | 2018 |
| Deferred income tax assets: | | |
| Accrued expenses | \$ 5,206 | \$ 5,771 |
| Allowances, reserves, and other | 2,729 | 2,100 |
| Unrealized loss on securities | — | 25 |
| Net operating loss and credit carry-forwards | 13,208 | 12,361 |
| Intangibles basis | 125 | 94 |
| Total deferred income tax assets | <u>21,268</u> | <u>20,351</u> |
| Deferred income tax liabilities: | | |
| Fixed asset basis | (425) | (682) |
| Revenue recognition | (2,909) | 326 |
| Total deferred income tax liabilities | <u>(3,334)</u> | <u>(356)</u> |
| Valuation allowance | (11,278) | (8,568) |
| Net deferred tax assets | <u>\$ 6,656</u> | <u>\$ 11,427</u> |

At April 30, 2019 and 2018 the Company recorded a valuation allowance of \$11,278,000 and \$8,568,000, respectively, against state R&D credits as the Company is currently generating more tax credits than it will utilize in future years and against the outside basis difference in an equity method investee. The valuation allowance increased by \$2,710,000 and \$3,152,000 for April 30, 2019 and April 30, 2018, respectively.

At April 30, 2019 the Company had state credit carryforwards of \$23,832,000 that do not expire and federal tax credit carryforwards of \$4,727,000 that expire in 2039.

At April 30, 2019, the Company had a state and foreign net operating loss carryforward of approximately \$10,000 and \$205,000, respectively. The state net operating loss carryforwards carry forward indefinitely. \$73,000 of the foreign loss carryforwards expire in fiscal 2020.

At April 30, 2019 and 2018, the Company had approximately \$12,593,000 and \$11,170,000, respectively, of unrecognized tax benefits all of which would impact the Company's effective tax rate if recognized. The Company estimates that \$224,000 of its unrecognized tax benefits will decrease in the next twelve months due to statute of limitation expiration.

The following table summarizes the activity related to the Company's gross unrecognized tax benefits for the years ended April 30, 2019 and 2018 (in thousands):

| | April 30, | |
|--|------------------|------------------|
| | 2019 | 2018 |
| Balance as of May 1 | \$ 11,170 | \$ 9,856 |
| Increases related to prior year tax positions | 216 | 228 |
| Decreases related to prior year tax positions | — | — |
| Increases related to current year tax positions | 1,756 | 1,347 |
| Decreases related to lapsing of statute of limitations | (549) | (261) |
| Balance as of April 30 | <u>\$ 12,593</u> | <u>\$ 11,170</u> |

The Company records interest and penalties on uncertain tax positions to income tax expense. As of April 30, 2019 and 2018, the Company had accrued approximately \$18,000 and \$16,000, respectively, of interest and penalties related to uncertain tax positions. The Company is currently under audit by various state jurisdictions but does not anticipate any material adjustments from these examinations. The tax years 2016 to 2017 remain open to examination by the IRS for federal income taxes. The tax years 2011 to 2017 remain open for major state taxing jurisdictions.

During the fiscal year ended April 30, 2019, the Company recorded a reversal of a \$549,000 reserve, including the related interest, for uncertain tax positions due to the lapse of prior year statute.

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

In accordance with ASC 740, Income Taxes, the Company is required to record the effects of tax law changes in the period enacted. As the Company has an April 30 fiscal year end, its U.S. federal corporate income tax rate was blended in fiscal 2018, resulting in a statutory federal rate of approximately 30.4% (8 months at 35% and 4 months at 21%), and 21% for subsequent fiscal years. The Company remeasured its existing deferred tax assets and liabilities at the rate the Company expected to be in effect when those deferred taxes will be realized and recorded a one-time deferred tax expense of approximately \$3,300,000 during the fiscal year ended April 30, 2018.

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

The measurement period under SAB 118 closed during the year ended April 30, 2019. The Company has finalized its accounting for the impact of the Tax Act during and reached the following conclusions on the previous provisional estimates.

The Company has concluded it will be eligible to claim the FDII deduction and has reflected a rate benefit in the provision for income taxes. The Company expects the IRS will be issuing additional guidance that could ultimately

impact the size of the benefit. In addition, the Company has concluded that its foreign subsidiaries are in a cumulative earnings and profits deficit and, therefore, has confirmed that it will not have an income tax payable as a result of the one-time deemed repatriation tax.

15. Accumulated Other Comprehensive Loss

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

| | Available-for-Sale Securities | Foreign Currency Translation Adjustments | Total Accumulated Other Comprehensive Loss |
|---|----------------------------------|---|---|
| Total accumulated other comprehensive loss balance as of April 30, 2018 | \$ (57) | \$ 36 | \$ (21) |
| Changes in foreign currency translation adjustments, net of \$0 taxes | — | (34) | (34) |
| Unrealized gains, net of \$51 of taxes | 57 | — | 57 |
| Total accumulated other comprehensive loss balance as of April 30, 2019 | \$ — | \$ 2 | \$ 2 |

16. Changes in Accounting Estimates

During the years ended April 30, 2019, 2018 and 2017, the Company revised its estimates at completion of various fixed-price contracts recognized using the over time method, which resulted in cumulative catch up adjustments during the year in which the change in estimate occurred. The change in estimate was a result of the Company changing the total costs required to complete the contracts due to having more accurate cost information as work progressed in subsequent periods on the various contracts. The changes in estimates resulted in cumulative catch-up adjustments to revenue for the years ended April 30, 2019 and 2017 were not material. During the year ended April 30, 2018, the Company revised its estimates of the total expected costs to complete a TMS 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 of approximately \$1,255,000.

17. Related Party Transactions

Pursuant to a consulting agreement, the Company paid a board member approximately \$55,000, \$48,000 and \$80,000 for fiscal years ended April 30, 2019, 2018 and 2017, respectively, for consulting services independent of his board service.

Concurrent with the formation of HAPSMobile, the Company executed a Design and Development Agreement (the “DDA”) with HAPSMobile. Under the DDA and related efforts, the Company will use its best efforts, up to a maximum value of \$133,360,000, to design and build prototype solar powered high altitude aircraft and ground control stations for HAPSMobile and conduct low altitude and high altitude flight tests of the prototype aircraft.

The Company recorded revenue under the DDA and preliminary design agreements between the Company and SoftBank of \$55,407,000 and \$29,594,000 for the fiscal years ended April 30, 2019 and 2018, respectively. At April 30, 2019 and 2018, the Company had unbilled related party receivables from HAPSMobile of \$9,028,000 and \$3,145,000 recorded in “Unbilled receivables and retentions” on the consolidated balance sheet, respectively. As of April 30, 2019, the Company owned a 10% stake in accordance with the JVA which was diluted to approximately 5% during the first fiscal quarter of fiscal year 2020. Refer to Note 8 – Equity Method Investments for further details.

18. Commitments and Contingencies

Commitments

The Company’s operations are conducted in leased facilities. The Company finances the purchase of certain IT equipment and perpetual software licenses under capital lease arrangements. As of April 30, 2019, the Company has no

future commitments related to capital lease arrangements as final payments were made during fiscal year 2019. Following is a summary of non-cancelable operating commitments:

| | April 30, 2019 (In thousands) Operating leases |
|------------|---|
| 2020 | \$ 5,298 |
| 2021 | 3,527 |
| 2022 | 2,723 |
| 2023 | 1,554 |
| 2024 | 953 |
| Thereafter | — |
| | <u>\$ 14,055</u> |

Rental expense under operating leases was approximately \$4,609,000, \$4,011,000 and \$3,849,000 for the years ended April 30, 2019, 2018 and 2017, respectively.

Contingencies

The Company is subject to legal proceedings and claims which arise out of the ordinary course of its business. Although adverse decisions or settlements may occur, the Company, in consultation with legal counsel, believes that the final disposition of such matters will not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

At April 30, 2019 and 2018, the Company had outstanding letters of credit totaling \$7,079,000 and \$6,389,000, respectively.

Contract Cost Audits

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

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

The Company's revenue recognition policy calls for revenue recognized on all cost reimbursable government contracts to be recorded at actual rates unless collectability is not reasonably assured. During the fiscal year ended April 30, 2017, the Company settled rates for its incurred cost claims with the DCAA for fiscal years 2011 through 2014 without payment of any consideration. During the fiscal year ended April 30, 2019, the Company settled rates for its incurred cost claims with the DCAA for fiscal years 2016 and 2017 without payment of any consideration. At April 30, 2019 and 2018, the Company had \$93,000 and \$77,000 reserved for open incurred cost claim audits, respectively.

The Company is also currently undergoing an escheat examination by the state of Delaware. The amount of any potential loss is currently not estimable, and therefore, no reserve has been recorded.

19. Business Acquisitions

On February 1, 2017, the Company completed the acquisition of 36% of the common shares of Altoy for cash consideration of \$625,000, which increased its interest from 49% to 85% and provided the Company with control over Altoy. As a result, Altoy became a consolidated subsidiary of the Company on the date of the acquisition. Altoy aims to market and distribute small UAS in Turkey. The Company previously accounted for its 49% interest in Altoy as an equity method investment. As a result of the acquisition, the Company is expected to expand the sales of its small UAS and related services in Turkey.

The following table summarizes the consideration transferred to acquire Altoy and the amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the noncontrolling interest in Altoy at the acquisition date (in thousands):

| | |
|--|-----------------|
| Customer relationships | \$ 1,600 |
| Goodwill | 122 |
| Trademark and trade names | 60 |
| Deferred tax liability | (332) |
| Other assets and liabilities assumed | 286 |
| Total net identified assets acquired | <u>\$ 1,736</u> |
| Fair value of consideration transferred: | |
| Cash | \$ 625 |
| Fair value of the Company's investment in Altoy prior to the acquisition | 851 |
| Fair value of the noncontrolling interest in Altoy | 260 |
| Total | <u>\$ 1,736</u> |

As a result of the Company obtaining control over Altoy, the Company's previously held 49% interest was remeasured to fair value, resulting in a gain of \$584,000 which has been recognized in "other income (loss), net" on the consolidated statement of income.

The fair value of the noncontrolling interest of \$260,000 and the fair value of the previously held equity interest of \$851,000 in Altoy, immediately prior to the acquisition, were estimated by applying an income approach. These fair value measurements of the noncontrolling interest and the previously held equity interest are based on significant inputs not observable in the market, and thus represent Level 3 measurements.

The goodwill is attributable to the workforce of Altoy and expected future customers in the Turkey market. Goodwill is not tax deductible for tax purposes. All of the goodwill was assigned to the Company's UAS segment.

The Company tests identifiable intangible assets and goodwill for impairment in the fourth quarter of each fiscal year unless there are interim indicators that suggest that it is more likely than not that either the identifiable intangible assets or goodwill may be impaired. Due to the current political situation within Turkey and the increased uncertainty in the relations between the U.S. and Turkey, the Company significantly lowered its cash flow expectations for its Altoy operations. As a result of the decline in the Company's cash flow forecast, the Company performed an interim assessment of impairment of Altoy's long-lived assets, excluding goodwill during the three months ended October 28, 2017. Based on the analysis, the Company determined that the fair value of Altoy had declined below its carrying value, excluding goodwill. As a result, the Company performed additional analysis to determine the amount of the impairment loss and recorded an impairment loss totaling \$899,000 during the three months ended October 28, 2017, which is included in selling, general and administrative expense on the consolidated statements of operations. The fair value of the Altoy asset group was determined based on a discounted cash flow model reflective of the revised cash flow estimates.

Supplemental Pro Forma Information (unaudited)

Altoy contributed revenues of \$0 and a net loss of \$122,000 to the Company for the period from February 1, 2017 to April 30, 2017. The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on May 1, 2015 (in thousands):

| | Fiscal year ended | |
|--|-------------------|------------|
| | April 30, 2017 | 2016 |
| Revenue | \$ 229,287 | \$ 233,941 |
| Net income from continuing operations | \$ 15,808 | \$ 15,595 |
| Net income attributable to AeroVironment | \$ 15,888 | \$ 15,666 |

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

These pro forma amounts have been calculated after applying the Company's accounting policies and adjusting the results of Altoy to reflect the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied from May 1, 2015, with the consequential tax effects.

The Company incurred approximately \$74,000 of acquisition-related costs. These expenses are included in selling, general and administrative expense on the Company's consolidated income statement for the fiscal year ended April 30, 2017.

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 acquisitions been consolidated in the tables above as of May 1, 2015.

20. Geographic Information

Sales to non-U.S. customers accounted for 52%, 47% and 36% of revenue for each of the fiscal years ended April 30, 2019, 2018 and 2017, respectively.

21. Impact of Adoption of New Accounting Standards

During the year ended April 30, 2019, the Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The impact to the Company's balance sheet as a result of adopting the standard was as follows (in thousands).

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

The tables below presents the impact of adoption on the Company's statement of operations for the fiscal years ended April 30, 2018 and 2017 (in thousands except share and per share data).

| | Year Ended April 30, 2018 | | |
|--|---------------------------|-------------------------|------------------|
| | As Reported | ASC Topic 606 Impact | As Adjusted |
| Revenue: | | | |
| Product sales | \$ 195,330 | \$ (3,618) | \$ 191,712 |
| Contract services (inclusive of related party revenue of \$29,594 for the year ended April 30, 2018) | 75,722 | 990 | 76,712 |
| | <u>271,052</u> | <u>(2,628)</u> | <u>268,424</u> |
| Cost of sales: | | | |
| Product sales | 111,990 | (2,597) | 109,393 |
| Contract services | 50,174 | 1,172 | 51,346 |
| | <u>162,164</u> | <u>(1,425)</u> | <u>160,739</u> |
| Gross margin: | | | |
| Product sales | 83,340 | (1,021) | 82,319 |
| Contract services | 25,548 | (182) | 25,366 |
| | <u>108,888</u> | <u>(1,203)</u> | <u>107,685</u> |
| Selling, general and administrative | 50,826 | — | 50,826 |
| Research and development | 26,433 | — | 26,433 |
| Loss (income) from continuing operations | 31,629 | (1,203) | 30,426 |
| Other income (expense): | | | |
| Interest income, net | 2,240 | — | 2,240 |
| Other expense, net | (49) | — | (49) |
| Income from continuing operations before income taxes | 33,820 | (1,203) | 32,617 |
| Provision for income taxes | 10,177 | (377) | 9,800 |
| Equity method investment loss, net of tax | (1,283) | — | (1,283) |
| Net (loss) income from continuing operations | 22,360 | (826) | 21,534 |
| Discontinued operations: | | | |
| Gain on sale of business, net of tax | — | — | — |
| Income (loss) from discontinued operations, net of tax | (2,508) | (1,379) | (3,887) |
| Net income (loss) from discontinued operations | (2,508) | (1,379) | (3,887) |
| Net (loss) income | 19,852 | (2,205) | 17,647 |
| Net loss attributable to noncontrolling interest | 216 | — | 216 |
| Net (loss) income attributable to AeroVironment | <u>\$ 20,068</u> | <u>\$ (2,205)</u> | <u>\$ 17,863</u> |
| Net (loss) income per share attributable to AeroVironment—Basic | | | |
| Continuing operations | \$ 0.97 | \$ (0.03) | \$ 0.93 |
| Discontinued operations | (0.11) | (0.06) | (0.17) |
| Net loss per share attributable to AeroVironment—Basic | <u>\$ 0.86</u> | <u>\$ (0.09)</u> | <u>\$ 0.76</u> |
| Net (loss) income per share attributable to AeroVironment—Diluted | | | |
| Continuing operations | \$ 0.95 | \$ (0.03) | \$ 0.91 |
| Discontinued operations | (0.11) | (0.06) | (0.16) |
| Net (loss) per share attributable to AeroVironment—Diluted | <u>\$ 0.84</u> | <u>\$ (0.09)</u> | <u>\$ 0.75</u> |
| Weighted-average shares outstanding: | | | |
| Basic | 23,471,241 | 23,471,241 | 23,471,241 |
| Diluted | 23,813,772 | 23,813,772 | 23,813,772 |

| | Year Ended April 30, 2017 | | |
|--|---------------------------|-------------------------|------------------|
| | As Reported | ASC Topic 606 Impact | As Adjusted |
| Revenue: | | | |
| Product sales | \$ 159,630 | \$ (706) | \$ 158,924 |
| Contract services | 69,310 | 4,871 | 74,181 |
| | <u>228,940</u> | <u>4,165</u> | <u>233,105</u> |
| Cost of sales: | | | |
| Product sales | 88,963 | 76 | 89,039 |
| Contract services | 44,792 | 2,401 | 47,193 |
| | <u>133,755</u> | <u>2,477</u> | <u>136,232</u> |
| Gross margin: | | | |
| Product sales | 70,667 | (782) | 69,885 |
| Contract services | 24,518 | 2,470 | 26,988 |
| | <u>95,185</u> | <u>1,688</u> | <u>96,873</u> |
| Selling, general and administrative | 47,642 | — | 47,642 |
| Research and development | 28,465 | — | 28,465 |
| Loss (income) from continuing operations | 19,078 | 1,688 | 20,766 |
| Other income (expense): | | | |
| Interest income, net | 1,618 | — | 1,618 |
| Other expense, net | 172 | — | 172 |
| Income from continuing operations before income taxes | 20,868 | 1,688 | 22,556 |
| Provision for income taxes | 4,138 | 620 | 4,758 |
| Equity method investment loss, net of tax | (119) | — | (119) |
| Net (loss) income from continuing operations | 16,611 | 1,068 | 17,679 |
| Discontinued operations: | | | |
| Gain on sale of business, net of tax | — | — | — |
| Income (loss) from discontinued operations, net of tax | (4,154) | (447) | (4,601) |
| Net income (loss) from discontinued operations | (4,154) | (447) | (4,601) |
| Net (loss) income | 12,457 | 621 | 13,078 |
| Net loss attributable to noncontrolling interest | 22 | — | 22 |
| Net (loss) income attributable to AeroVironment | <u>\$ 12,479</u> | <u>\$ 621</u> | <u>\$ 13,100</u> |
| Net (loss) income per share attributable to AeroVironment—Basic | | | |
| Continuing operations | \$ 0.72 | \$ 0.05 | \$ 0.77 |
| Discontinued operations | (0.18) | (0.02) | (0.20) |
| Net loss per share attributable to AeroVironment—Basic | <u>\$ 0.54</u> | <u>\$ 0.03</u> | <u>\$ 0.57</u> |
| Net (loss) income per share attributable to AeroVironment—Diluted | | | |
| Continuing operations | \$ 0.72 | \$ 0.05 | \$ 0.76 |
| Discontinued operations | (0.18) | (0.02) | (0.20) |
| Net (loss) per share attributable to AeroVironment—Diluted | <u>\$ 0.54</u> | <u>\$ 0.03</u> | <u>\$ 0.56</u> |
| Weighted-average shares outstanding: | | | |
| Basic | 23,059,045 | 23,059,045 | 23,059,045 |
| Diluted | 23,307,738 | 23,307,738 | 23,307,738 |

The tables below presents the impact of adoption on the Company's statement of comprehensive (loss) income for the fiscal years ended April 30, 2018 and 2017 (in thousands).

| | Year Ended April 30, 2018 | | |
|--|---------------------------|-------------------------|-------------|
| | As Reported | ASC Topic 606 Impact | As Adjusted |
| Net (loss) income | \$ 19,852 | \$ (2,205) | \$ 17,647 |
| Other comprehensive income: | | | |
| Change in foreign currency translation adjustments | 36 | — | 36 |
| Unrealized gain on investments, net of deferred tax expense of \$25 and \$43 for the fiscal years ended 2018 and 2017 | 70 | — | 70 |
| Total comprehensive (loss) income | 19,958 | (2,205) | \$ 17,753 |
| Net loss attributable to noncontrolling interest | 216 | — | 216 |
| Comprehensive (loss) income attributable to AeroVironment | \$ 20,174 | \$ (2,205) | \$ 17,969 |

| | Year Ended April 30, 2017 | | |
|--|---------------------------|-------------------------|-------------|
| | As Reported | ASC Topic 606 Impact | As Adjusted |
| Net (loss) income | \$ 12,457 | \$ 621 | \$ 13,078 |
| Other comprehensive income: | | | |
| Change in foreign currency translation adjustments | — | — | — |
| Unrealized gain on investments, net of deferred tax expense of \$25 and \$43 for the fiscal years ended 2018 and 2017 | 74 | — | 74 |
| Total comprehensive (loss) income | 12,531 | 621 | \$ 13,152 |
| Net loss attributable to noncontrolling interest | 22 | — | 22 |
| Comprehensive (loss) income attributable to AeroVironment | \$ 12,553 | \$ 621 | \$ 13,174 |

The table below presents the impact of adoption on the Company's statement of cash flows for the fiscal years ended April 30, 2018 and 2017 (in thousands).

| | Year Ended April 30, 2018 | | |
|--|---------------------------|-------------------------|-------------|
| | As Reported | ASC Topic 606 Impact | As Adjusted |
| Operating activities | | | |
| Net income (loss) | \$ 19,852 | \$ (2,205) | \$ 17,647 |
| Gain on sale of business, net of tax | — | — | — |
| Loss from discontinued operations, net of tax | 2,508 | 1,379 | 3,887 |
| Net income from continuing operations | 22,360 | (826) | 21,534 |
| Adjustments to reconcile net loss to cash provided by operating activities: | | | |
| Depreciation and amortization | 5,982 | — | 5,982 |
| Loss from equity method investments | 1,283 | — | 1,283 |
| Impairment of long-lived assets | 255 | — | 255 |
| Provision for doubtful accounts | 977 | — | 977 |
| Impairment of intangible assets and goodwill | 1,021 | — | 1,021 |
| Gains on foreign currency transactions | (87) | — | (87) |
| Deferred income taxes | 3,835 | (982) | 2,853 |
| Gain on business acquisition | — | — | — |
| Stock-based compensation | 4,956 | — | 4,956 |
| Loss on disposition of property and equipment | 20 | — | 20 |
| Amortization of held-to-maturity investments | 1,424 | — | 1,424 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 11,211 | (141) | 11,070 |
| Unbilled receivables and retentions | 903 | 1,350 | 2,253 |
| Inventories | 2,268 | (1,076) | 1,192 |
| Income tax receivable | — | — | — |
| Prepaid expenses and other assets | 419 | (280) | 139 |
| Accounts payable | 5,736 | — | 5,736 |
| Other liabilities | 7,873 | 1,351 | 9,224 |
| Net cash provided by (used in) operating activities of continuing operations | 70,436 | (604) | 69,832 |
| Investing activities | | | |
| Acquisition of property and equipment | (9,563) | — | (9,563) |
| Equity method investments | (3,267) | — | (3,267) |
| Business acquisitions, net of tax | — | — | — |
| Proceeds from sale of business | — | — | — |
| Redemptions of held-to-maturity investments | 227,663 | — | 227,663 |
| Purchases of held-to-maturity investments | (221,680) | — | (221,680) |
| Redemptions of available-for-sale investments | 450 | — | 450 |
| Net cash provided by investing activities from continuing operations | (6,397) | — | (6,397) |
| Financing activities | | | |
| Principal payments of capital lease obligations | (288) | — | (288) |
| Tax withholding payment related to net settlement of equity awards | (397) | — | (397) |
| Exercise of stock options | 2,705 | — | 2,705 |
| Net cash provided by financing activities from continuing operations | 2,020 | — | 2,020 |
| Discontinued operations | | | |
| Operating activities of discontinued operations | (1,227) | 604 | (623) |
| Investing activities of discontinued operations | (1,219) | — | (1,219) |
| Financing activities of discontinued operations | — | — | — |
| Net cash (used in) provided by discontinued operations | (2,446) | 604 | (1,842) |
| Net increase in cash and cash equivalents | 63,613 | — | 63,613 |
| Cash and cash equivalents at beginning of period | 79,904 | — | 79,904 |
| Cash and cash equivalents at end of period | \$ 143,517 | \$ — | \$ 143,517 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid, net during the period for: | | | |
| Income taxes | \$ 1,813 | — | \$ 1,813 |
| Non-cash activities | | | |
| Unrealized gain on investments, net of deferred tax expense of \$25 and \$43 | \$ 70 | — | \$ 70 |
| Reclassification from share-based liability compensation to equity | \$ 384 | — | \$ 384 |
| Change in foreign currency translation adjustments | \$ 36 | — | \$ 36 |
| Acquisitions of property and equipment included in accounts payable | \$ 379 | — | \$ 379 |

| | Year Ended April 30, 2017 | | |
|--|---------------------------|-------------------------|-------------|
| | As Reported | ASC Topic 606 Impact | As Adjusted |
| Operating activities | | | |
| Net income (loss) | \$ 12,457 | \$ 621 | \$ 13,078 |
| Gain on sale of business, net of tax | — | — | — |
| Loss from discontinued operations, net of tax | 4,154 | 447 | 4,601 |
| Net income from continuing operations | 16,611 | 1,068 | 17,679 |
| Adjustments to reconcile net loss to cash provided by operating activities: | | | |
| Depreciation and amortization | 5,054 | — | 5,054 |
| Loss from equity method investments | 119 | — | 119 |
| Impairment of long-lived assets | 46 | — | 46 |
| Provision for doubtful accounts | 48 | — | 48 |
| Impairment of intangible assets and goodwill | — | — | — |
| Gains on foreign currency transactions | 284 | — | 284 |
| Deferred income taxes | (52) | 361 | 309 |
| Gain on business acquisition | (584) | — | (584) |
| Stock-based compensation | 3,392 | — | 3,392 |
| Loss on disposition of property and equipment | 44 | — | 44 |
| Amortization of held-to-maturity investments | 2,382 | — | 2,382 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (19,608) | (112) | (19,720) |
| Unbilled receivables and retentions | 4,667 | (4,052) | 615 |
| Inventories | (19,225) | 2,409 | (16,816) |
| Income tax receivable | — | — | — |
| Prepaid expenses and other assets | (1,484) | — | (1,484) |
| Accounts payable | 545 | — | 545 |
| Other liabilities | (233) | 67 | (166) |
| Net cash provided by (used in) operating activities of continuing operations | (7,994) | (259) | (8,253) |
| Investing activities | | | |
| Acquisition of property and equipment | (9,017) | — | (9,017) |
| Equity method investments | — | — | — |
| Business acquisitions, net of tax | (430) | — | (430) |
| Proceeds from sale of business | — | — | — |
| Redemptions of held-to-maturity investments | 121,522 | — | 121,522 |
| Purchases of held-to-maturity investments | (148,991) | — | (148,991) |
| Redemptions of available-for-sale investments | 400 | — | 400 |
| Net cash provided by investing activities from continuing operations | (36,516) | — | (36,516) |
| Financing activities | | | |
| Principal payments of capital lease obligations | (390) | — | (390) |
| Tax withholding payment related to net settlement of equity awards | (5) | — | (5) |
| Exercise of stock options | 3,865 | — | 3,865 |
| Net cash provided by financing activities from continuing operations | 3,470 | — | 3,470 |
| Discontinued operations | | | |
| Operating activities of discontinued operations | (2,505) | 259 | (2,246) |
| Investing activities of discontinued operations | (838) | — | (838) |
| Financing activities of discontinued operations | — | — | — |
| Net cash (used in) provided by discontinued operations | (3,343) | 259 | (3,084) |
| Net increase in cash and cash equivalents | (44,383) | — | (44,383) |
| Cash and cash equivalents at beginning of period | 124,287 | — | 124,287 |
| Cash and cash equivalents at end of period | \$ 79,904 | \$ — | \$ 79,904 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid, net during the period for: | | | |
| Income taxes | \$ 1,804 | — | \$ 1,804 |
| Non-cash activities | | | |
| Unrealized gain on investments, net of deferred tax expense of \$25 and \$43 | \$ 74 | — | \$ 74 |
| Reclassification from share-based liability compensation to equity | \$ 307 | — | \$ 307 |
| Change in foreign currency translation adjustments | \$ — | — | \$ — |
| Acquisitions of property and equipment included in accounts payable | \$ 724 | — | \$ 724 |

22. Subsequent Events

On June 10, 2019, the Company purchased 100% of the issued and outstanding member units of Pulse Aerospace, LLC (“Pulse”) pursuant to the terms of a Unit Purchase Agreement (the “Pulse Purchase Agreement”). The Company’s acquisition of Pulse’s Vertical Takeoff and Landing (VTOL) product family strengthens AeroVironment’s leading family of fixed-wing small unmanned aircraft systems and increases the mission capabilities of AeroVironment’s family of systems.

Pursuant to the Pulse Purchase Agreement, at closing, the Company paid \$20,650,000 in cash, less closing indebtedness and transaction costs as defined in the Pulse Purchase Agreement, less a \$250,000 retention to cover any post-closing indemnification claims, and less a \$1,250,000 holdback amount, with the retention and holdback to be released to the member unit holders of Pulse Aerospace, less any amounts paid or reserved, 18 months after the closing of the transactions in accordance with the terms of the Pulse Purchase Agreement. The closing cash consideration included the payoff of the outstanding indebtedness of Pulse Aerospace as of the closing date. In addition to the consideration paid at closing, the Sellers may receive up to a maximum of \$5,000,000 in additional cash consideration, which amount has been placed into escrow, if specific research and development milestones are achieved by December 10, 2021. The Company financed the acquisition entirely from available cash on hand.

Due to the timing of the acquisition, the purchase accounting for the business combination is incomplete at the time of this filing. As a result, the Company is unable to provide the amounts recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed, pre-acquisition contingencies and goodwill. In addition, the Company is unable to provide pro forma revenues and earnings of the combined entity. All required disclosures will be included in the Company’s Quarterly Report on Form 10-Q for the quarter ended July 27, 2019.

23. Quarterly Results of Operations (Unaudited)

The following tables present selected unaudited consolidated financial data for each of the eight quarters in the two-year period ended April 30, 2019. In the Company’s opinion, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the financial information for the period presented. The Company’s fiscal year ends on April 30. Due to the fixed year end date of April 30, the first and fourth quarters each consist of approximately 13 weeks. The second and third quarters each consist of exactly 13 weeks. The first three quarters end on a Saturday.

| | Three Months Ended | | | |
|--|--------------------|---------------------|---------------------|-------------------|
| | July 28, 2018 | October 27, 2018 | January 26, 2019 | April 30, 2019 |
| (In thousands except per share data) | | | | |
| Year ended April 30, 2019 | | | | |
| Revenue | \$ 78,043 | \$ 72,979 | \$ 75,322 | \$ 87,930 |
| Gross margin | \$ 32,589 | \$ 28,399 | \$ 30,392 | \$ 37,023 |
| Net income attributable to AeroVironment from continuing operations | \$ 20,337 (1) | \$ 7,047 | \$ 8,431 | \$ 6,097 (2) |
| Net income per share attributable to AeroVironment from continuing operations—basic(5) | \$ 0.86 (1) | \$ 0.30 | \$ 0.35 | \$ 0.26 |
| Net income per share attributable to AeroVironment from continuing operations—diluted(5) | \$ 0.85 (1) | \$ 0.29 | \$ 0.35 | \$ 0.26 |

| | Three Months Ended | | | |
|---|--------------------|---------------------|---------------------|-------------------|
| | July 30, 2017 | October 29, 2017 | January 28, 2018 | April 30, 2018 |
| (In thousands except per share data) | | | | |
| Year ended April 30, 2018 | | | | |
| Revenue | \$ 34,361 | \$ 65,801 | \$ 54,633 | \$ 113,629 |
| Gross margin | \$ 8,698 | \$ 30,143 | \$ 18,250 | \$ 50,594 |
| Net (loss) income attributable to AeroVironment from continuing operations | \$ (4,371) | \$ 7,756 (3) | \$ (647) (4) | \$ 19,012 |
| Net (loss) income per share attributable to AeroVironment from continuing operations—basic(5) | \$ (0.19) | \$ 0.33 | \$ (0.02) | \$ 0.80 |
| Net (loss) income per share attributable to AeroVironment from continuing operations—diluted(5) | \$ (0.19) | \$ 0.32 | \$ (0.02) | \$ 0.79 |

- (1) Includes a one-time gain from a litigation settlement of \$0.26 per basic and diluted share from continuing operations attributable to AeroVironment recorded to “Other income (expense), net” in the consolidated statement of operations.
- (2) Includes an impairment loss of \$4.4 million related to the long-lived assets of the Company’s commercial UAS Quantix solution, recorded to selling, general and administrative expense in the consolidated statement of operations.
- (3) Includes an impairment loss of \$1.0 million related to the Company’s intangible assets and goodwill acquired in the acquisition of a controlling interest in the Company’s Turkish Joint Venture, Altoy, recorded to selling, general and administrative expense in the consolidated statement of operations.
- (4) Includes a one-time expense of \$3.1 million resulting from the remeasurement of deferred tax assets and liabilities related to the Tax Cut and Jobs Act.
- (5) Earnings per share is computed independently for each of the quarters presented. The sum of the quarterly earnings per share may not equal the total earnings per share computed for the year due to rounding.

SUPPLEMENTARY DATA
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Period | Additions | | Deductions | Balance at End of Period |
|---|--------------------------------------|-------------------------------------|---------------------------------|-------------|--------------------------------|
| | | Charged to Costs and Expenses | Charged to Other Accounts | | |
| (In thousands) | | | | | |
| Allowance for doubtful accounts for the year ended April 30: | | | | | |
| 2017 | \$ 56 | \$ 56 | \$ — | \$ (8) | \$ 104 |
| 2018 | \$ 104 | \$ 976 | \$ — | \$ — | \$ 1,080 |
| 2019 | \$ 1,080 | \$ 198 | \$ — | \$ (237) | \$ 1,041 |
| Warranty reserve for the year ended April 30: | | | | | |
| 2017 | \$ 3,094 | \$ 1,838 | \$ — | \$ (2,985) | \$ 1,947 |
| 2018 | \$ 1,947 | \$ 1,884 | \$ — | \$ (1,741) | \$ 2,090 |
| 2019 | \$ 2,090 | \$ 702 | \$ — | \$ (1,088) | \$ 1,704 |
| Reserve for inventory excess and obsolescence for the year ended April 30: | | | | | |
| 2017 | \$ 2,542 | \$ 1,115 | \$ — | \$ (901) | \$ 2,756 |
| 2018 | \$ 2,756 | \$ 2,758 | \$ — | \$ (1,561) | \$ 3,953 |
| 2019 | \$ 3,953 | \$ 5,054 | \$ — | \$ (1,183) | \$ 7,824 |
| Reserve for self-insured medical claims for the year ended April 30: | | | | | |
| 2017 | \$ 979 | \$ 7,037 | \$ — | \$ (6,883) | \$ 1,133 |
| 2018 | \$ 1,133 | \$ 9,100 | \$ — | \$ (9,230) | \$ 1,003 |
| 2019 | \$ 1,003 | \$ 10,808 | \$ — | \$ (10,867) | \$ 944 |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can only provide 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 have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and were operating at a reasonable level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive and financial officers, we assessed our internal control over financial reporting as of April 30, 2019, based on criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of April 30, 2019 based on the specified criteria.

The effectiveness of our internal control over financial reporting as of April 30, 2019 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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 Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended April 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of AeroVironment, Inc. and subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited AeroVironment, Inc. and subsidiaries' internal control over financial reporting as of April 30, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AeroVironment, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of April 30, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of April 30, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended April 30, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated June 25, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Los Angeles, California
June 25, 2019

PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

Certain information required by Item 401 and Item 405 of Regulation S-K will be included in the definitive proxy statement for our 2019 Annual Meeting of Stockholders, which will be filed no later than 120 days after April 30, 2019, and that information is incorporated by reference herein.

Codes of Ethics

We have adopted a Code of Business Conduct and Ethics, or Code of Conduct. The Code of Conduct is posted on our website, <http://investor.avinc.com>. We intend to disclose on our website any amendments to, or waivers of, the Code of Conduct covering our Chief Executive Officer, Chief Financial Officer and/or Controller promptly following the date of such amendments or waivers. A copy of the Code of Conduct may be obtained upon request, without charge, by contacting our Secretary at (805) 520-8350 or by writing to us at AeroVironment, Inc., Attn: Secretary, 900 Innovators Way, Simi Valley, California 93065. The information contained on or connected to our website is not incorporated by reference into this Annual Report and should not be considered part of this or any reported filed with the SEC.

No family relationships exist among any of our executive officers or directors.

There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

The information required by Item 407(d)(4) and (5) of Regulation S-K will be included in the definitive proxy statement for our 2019 Annual Meeting of Stockholders, and that information is incorporated by reference herein.

Item 11. Executive Compensation.

The information required by Item 402 and Item 407(e)(4) and (5) of Regulation S-K will be included in the definitive proxy statement for our 2019 Annual Meeting of Stockholders, and that information is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 201(d) and Item 403 of Regulation S-K will be included in the definitive proxy statement for our 2019 Annual Meeting of Stockholders, and that information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 404 and Item 407(a) of Regulation S-K will be included in the definitive proxy statement for our 2019 Annual Meeting of Stockholders, and that information is incorporated by reference herein.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 of Form 10-K will be included in the definitive proxy statement for our 2019 Annual Meeting of Stockholders, and that information is incorporated by reference herein.

PART IV**Item 15. Exhibits, Financial Statement Schedules.**

(a) The following are filed as part of this Annual Report:

1. Financial Statements

The following consolidated financial statements are included in Item 8:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets at April 30, 2019 and 2018
- Consolidated Statements of Income for the Years Ended April 30, 2019, 2018 and 2017
- Consolidated Statements of Comprehensive Income for the Years Ended April 30, 2019, 2018 and 2017
- Consolidated Statements of Stockholders' Equity for the Years Ended April 30, 2019, 2018 and 2017
- Consolidated Statements of Cash Flows for the Years Ended April 30, 2019, 2018 and 2017
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

The following Schedule is included in Item 8:

- Schedule II—Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the Notes thereto.

3. Exhibits

See Item 15(b) of this report below.

(b) Exhibits

| Exhibit Number | Exhibit |
|---------------------------|--|
| 3.1(1) | Amended and Restated Certificate of Incorporation of AeroVironment, Inc. |
| 3.3 (2) | Third Amended and Restated Bylaws of AeroVironment, Inc. |
| 4.1(3) | Form of AeroVironment, Inc.'s Common Stock Certificate |
| 10.1#(4) | Form of Director and Executive Officer Indemnification Agreement |
| 10.2#(3) | AeroVironment, Inc. Nonqualified Stock Option Plan |
| 10.3#(3) | Form of Nonqualified Stock Option Agreement pursuant to the AeroVironment, Inc. Nonqualified Stock Option Plan |
| 10.4#(3) | AeroVironment, Inc. Directors' Nonqualified Stock Option Plan |
| 10.5#(3) | Form of Directors' Nonqualified Stock Option Agreement pursuant to the AeroVironment, Inc. Directors' Nonqualified Stock Option Plan |
| 10.6#(3) | AeroVironment, Inc. 2002 Equity Incentive Plan |
| 10.7#(3) | Form of AeroVironment, Inc. 2002 Equity Incentive Plan Stock Option Agreement |

| Exhibit Number | Exhibit |
|-------------------|--|
| 10.8#(3) | AeroVironment, Inc. 2006 Equity Incentive Plan |
| 10.9#(5) | AeroVironment, Inc. 2006 Equity Incentive Plan, as amended and restated effective September 29, 2011 |
| 10.10#(6) | AeroVironment, Inc. 2006 Equity Incentive Plan, as amended and restated effective September 30, 2016 |
| 10.11#(3) | Form of Stock Option Agreement pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan |
| 10.12#(3) | Form of Performance Based Bonus Award pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan |
| 10.13#(7) | Form of Long-Term Compensation Award Grant Notice and Long-Term Compensation Award Agreement pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan |
| 10.14# | Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (Severance Plan Participants), pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan |
| 10.15# | Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (Non-Severance Plan Participants), pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan |
| 10.16# | Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (Non-Management Directors), pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan |
| 10.17# | Form of Performance Restricted Stock Unit Award Grant Notice and Performance Restricted Stock Unit Award Agreement pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan |
| 10.18(8) | Standard Industrial/Commercial Single-Tenant Lease, dated February 12, 2007, between AeroVironment, Inc. and OMP Industrial Moreland, LLC, for the property located at 85 Moreland Road, Simi Valley, California, including the addendum thereto |
| 10.19(6) | First Amendment to Lease Agreement dated October 10, 2011 and Second Amendment to Lease Agreement dated June 2, 2017 by and between AeroVironment, Inc. and Simi Valley-NCR, LLC for the property located at 85 Moreland Road, Simi Valley, California |
| 10.20(9) | Standard Industrial/Commercial Single-Tenant Lease, dated March 3, 2008, between AeroVironment, Inc. and Hillside Associates III, LLC, for the property located at 900 Enchanted Way, Simi Valley, California, including the addendum thereto |
| 10.21(9) | Standard Industrial/Commercial Single-Tenant Lease, dated April 21, 2008, between AeroVironment, Inc. and Hillside Associates II, LLC, for the property located at 994 Flower Glen Street, Simi Valley, California, including the addendum thereto |
| 10.22(10) | First Amendment to Lease Agreement (900 Enchanted Way, Simi Valley, CA 93065) dated as of December 1, 2013, by and between the Company and Hillside III LLC, and related agreements |
| 10.23(10) | First Amendment to Lease Agreement (994 Flower Glen Street, Simi Valley, CA 93065) dated as of December 1, 2013, by and between the Company and Hillside II LLC, and related agreements |
| 10.24(10) | Lease Agreement (996 Flower Glen Street, Simi Valley, CA 93065) dated as of December 1, 2013, by and between the Company and Hillside II LLC, and related agreements |
| 10.25(11) | Standard Multi-Tenant Office Lease — Gross, dated September 24, 2015, between AeroVironment, Inc. and Monrovia Technology Campus LLC for property at 800 Royal Oaks Dr. Monrovia, California, including addendums thereto |
| 10.26(21) | Lease dated March 28, 2018 between AeroVironment, Inc. and Princeton Avenue Holdings, LLC for property located at 14501 Princeton Avenue, Moorpark, California, including addendums thereto |
| 10.27#(3) | Retiree Medical Plan |
| 10.28†(12) | Award Contract, dated March 1, 2011, between AeroVironment, Inc. and United States Army Contracting Command |
| 10.29†(13) | Contract modification P00015 dated September 5, 2013 under the base contract with the US Army Contracting Command—Redstone Arsenal (Missile) dated August 30, 2012 |
| 10.30†(14) | Contract modification P00074 dated September 27, 2016 under the base contract with the US Army Contracting Command — Redstone Arsenal (Missile) dated August 30, 2012 |
| 10.31(15) | Form of Director Letter Agreement by and between AeroVironment, Inc. and each non-employee director |
| 10.32(4) | Consulting Agreement by and between AeroVironment, Inc. and Charles R. Holland executed as of March 7, 2016 |
| 10.33(4) | Task Order #FY16-001 to Consulting Agreement by and between AeroVironment, Inc. and Charles R. Holland executed as of March 7, 2016 |

| Exhibit Number | Exhibit |
|----------------|---|
| 10.34 | Amendment No. 1 dated November 28, 2016, Amendment No. 2 dated June 7, 2017, Amendment No. 3 dated April 23, 2018, and Amendment No.4 dated April 30, 2019 to Standard Consulting Agreement and corresponding Task Orders by and between AeroVironment, Inc. and Charles R. Holland |
| 10.35†(16) | Joint Venture Agreement by and between AeroVironment, Inc. and SoftBank Corp. dated as of December 1, 2017 |
| 10.36†(16) | Design and Development Agreement by and between AeroVironment, Inc. and HAPSMobile, Inc. dated as of December 27, 2017 |
| 10.37†(16) | Intellectual Property License Agreement by and among AeroVironment, Inc., SoftBank Corp. and HAPSMobile, Inc. dated as of December 27, 2017. |
| 10.38‡ | Amendment No.1 to the Design and Development Agreement by and between AeroVironment, Inc. and HAPSMobile, Inc. dated as of March 30, 2018. |
| 10.39‡ | Amendment No.2 to the Design and Development Agreement by and between AeroVironment, Inc. and HAPSMobile, Inc. dated as of June 25, 2018. |
| 10.40‡ | Amendment No.3 to the Design and Development Agreement by and between AeroVironment, Inc. and HAPSMobile, Inc. dated as of August 28, 2018. |
| 10.41‡ | Amendment No.4 to the Design and Development Agreement by and between AeroVironment, Inc. and HAPSMobile, Inc. dated as of December 5, 2018. |
| 10.42‡ | Amendment No.5 to the Design and Development Agreement by and between AeroVironment, Inc. and HAPSMobile, Inc. dated as of March 19, 2019. |
| 10.43‡ | Amendment No.6 to the Design and Development Agreement by and between AeroVironment, Inc. and HAPSMobile, Inc. dated as of March 29, 2019. |
| 10.44‡ | Amendment No.7 to the Design and Development Agreement by and between AeroVironment, Inc. and HAPSMobile, Inc. dated as of April 24, 2019. |
| 10.45 | Amendment No. 1 to the Joint Venture Agreement by and between AeroVironment, Inc. and Softbank Corp. dated as of November 29, 2018. |
| 10.46 | Amendment No. 2 to the Joint Venture Agreement by and between AeroVironment, Inc. and Softbank Corp. dated as of February 8, 2019. |
| 10.47(17) | Asset Purchase Agreement by and between Webasto Charging Systems, Inc. and AeroVironment, Inc. dated as of June 1, 2018. |
| 10.48(18) | Side Letter Agreement by and between Webasto Charging Systems, Inc. and AeroVironment, Inc. dated as of June 29, 2018. |
| 10.49(19) | First Amendment to Lease dated October 26, 2018 between AeroVironment, Inc. and Princeton Avenue Holdings, LLC for property located at 14501 Princeton Avenue, Moorpark, California |
| 10.50#(20) | AeroVironment, Inc. Executive Severance Plan and Summary Description, effective January 1, 2019 |
| 21.1 | Subsidiaries of AeroVironment, Inc. |
| 23.1 | Consent of Ernst & Young LLP, independent registered public accounting firm |
| 24.1 | Power of Attorney (incorporated by reference to the signature page of this Annual Report) |
| 31.1 | Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 |
| 31.2 | Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document |

(1) Incorporated by reference herein to the exhibits to the Company’s Quarterly Report on Form 10-Q filed March 9, 2007 (File No. 001-33261).

- (2) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed July 1, 2015 (File No. 001-33261).
- (3) Incorporated by reference herein to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-137658).
- (4) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10 K filed on June 29, 2016 (File No. 001 33261).
- (5) Incorporated by reference to the exhibits to the Company's Form 8-K filed on October 5, 2011 (File No. 001-33261).
- (6) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed June 28, 2017 (File No. 001-33261).
- (7) Incorporated by reference herein to the exhibits to the Company's Current Report on Form 8-K filed July 28, 2010 (File No. 001-33261).
- (8) Incorporated by reference herein to the exhibits on the Company's Annual Report on Form 10-K filed June 29, 2007 (File No. 001-33261).
- (9) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed June 26, 2008 (File No. 001-33261).
- (10) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed March 5, 2014 (File No. 001-33261).
- (11) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed December 9, 2015 (File No. 001-33261).
- (12) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed on June 21, 2011 (File No. 001-33261).
- (13) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed November 27, 2013 (File No. 001-33261).
- (14) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10 Q filed December 7, 2016 (File No. 001 33261).
- (15) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed March 9, 2016 (File No. 001-33261).
- (16) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed March 7, 2018 (File No. 001-33261).
- (17) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed September 6, 2018 (File No. 001-33261).

The representations and warranties contained in the Asset Purchase Agreement were made for the purposes of allocating contractual risk between the parties and not as a means of establishing facts and are qualified by information in disclosure schedules that the parties exchanged in connection with the signing of the Asset Purchase Agreement. Moreover, the representations and warranties were made only as of the date of execution of the Asset Purchase Agreement and information concerning the subject matter of the representations and warranties may change after the date of the Asset Purchase Agreement. Only parties to the Asset Purchase

Agreement have a right to enforce the agreement. Accordingly, security holders should not rely on the representations and warranties in the Asset Purchase Agreement.

All schedules (or similar attachments) have been omitted from this filing pursuant to Item 601 of Regulation S-K. The Company will furnish copies of any schedules to the Securities and Exchange Commission upon request.

- (18) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed September 6, 2018 (File No. 001-33261).
 - (19) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed November 30, 2018 (File No. 001-33261).
 - (20) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed March 7, 2018 (File No. 001-33261).
 - (21) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed on June 27, 2018 (File No. 001-33261)
- † Confidential treatment has been granted for portions of this exhibit.
- ‡ Pursuant to Item 601(b)(2) of Regulation S-K, certain immaterial provisions of the agreement that would likely cause competitive harm to the Company if publicly disclosed have been redacted or omitted.
- # Indicates management contract or compensatory plan.
- (c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

AEROVIRONMENT, INC.

Date: June 25, 2019

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose signature appears below hereby constitutes and appoints Wahid Nawabi and Teresa Covington, each of them acting individually, as his attorney-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming our signatures as they may be signed by our said attorney-in-fact and any and all amendments to this Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Name</u> | <u>Title</u> | <u>Date</u> |
|---|--|---------------|
| <u>/s/ Wahid Nawabi</u> Wahid Nawabi | President, Chief Executive Officer and Director (Principal Executive Officer) | June 25, 2019 |
| <u>/s/ Teresa P. Covington</u> Teresa P. Covington | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | June 25, 2019 |
| <u>/s/ Timothy E. Conver</u> Timothy E. Conver | Chairman | June 25, 2019 |
| <u>/s/ Edward R. Muller</u> Edward R. Muller | Director | June 25, 2019 |
| <u>/s/ Arnold L. Fishman</u> Arnold L. Fishman | Director | June 25, 2019 |
| <u>/s/ Stephen F. Page</u> Stephen F. Page | Director | June 25, 2019 |
| <u>/s/ Charles R. Holland</u> Charles R. Holland | Director | June 25, 2019 |
| <u>/s/ Catharine Merigold</u> Catharine Merigold | Director | June 25, 2019 |
| <u>/s/ Charles Thomas Burbage</u> Charles Thomas Burbage | Director | June 25, 2019 |

FORM OF RSA – SEVERANCE PLAN PARTICIPANTS

AEROVIRONMENT, INC.

2006 EQUITY INCENTIVE PLAN,

RESTRICTED STOCK AWARD GRANT NOTICE AND
RESTRICTED STOCK AWARD AGREEMENT

AeroVironment, Inc., a Delaware corporation (the “*Company*”), pursuant to its Amended and Restated 2006 Equity Incentive Plan (as amended and restated to date, the “*Plan*”), hereby grants to the individual listed below (“*Participant*”), the right to the number of shares of the Company’s Stock set forth below (the “*Shares*”). This Restricted Stock award is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Award Agreement attached hereto as Exhibit A (the “*Restricted Stock Agreement*”) and the Plan, which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Restricted Stock Agreement.

Participant:**Grant Date:****Vesting Commencement Date:****Total Number of Shares of
Restricted Stock:****Vesting Schedule:**

Subject to the accelerated vesting provided in Section 4.13 of the Restricted Stock Agreement, restrictions shall lapse with respect to 1/3 of the Shares on each annual anniversary of the Vesting Commencement Date so that all of the Shares shall be vested and unrestricted on the third annual anniversary of the Vesting Commencement Date.

ELECTRONIC ACCEPTANCE OF AWARD:

By electronically accepting this Restricted Stock Agreement by clicking on the *Accept* button box on the *Grant Agreement* page, Participant agrees to be bound by the terms and conditions of the Plan, the Restricted Stock Agreement and this Grant Notice. Participant has reviewed the Restricted Stock Agreement, the Plan and this Grant Notice in their entirety, each of which are posted on <https://solium.com/>, and has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Restricted Stock Agreement and the Plan. Participant further acknowledges that he or she has been provided with a copy of the prospectus for the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, this Grant Notice or the Restricted Stock Agreement.

EXHIBIT A

TO RESTRICTED STOCK AWARD GRANT NOTICE

RESTRICTED STOCK AWARD AGREEMENT

Pursuant to the Restricted Stock Award Grant Notice (“**Grant Notice**”) to which this Restricted Stock Award Agreement (this “**Agreement**”) is attached, AeroVironment, Inc., a Delaware corporation (the “**Company**”), has granted to Participant the right to purchase the number of shares of Restricted Stock under the Company’s 2006 Equity Incentive Plan, amended and restated as of September 30, 2016 (the “**Plan**”) indicated in the Grant Notice.

ARTICLE I

GENERAL

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

1.2 Incorporation of Terms of Plan. The Shares are subject to the terms and conditions of the Plan which are incorporated herein by reference.

ARTICLE II

GRANT OF RESTRICTED STOCK

2.1 Grant of Restricted Stock. Effective as of the Grant Date set forth in the Grant Notice (the “**Grant Date**”), upon the terms and conditions set forth in the Plan and this Agreement, the Company irrevocably grants to Participant the number of shares of Stock set forth in the Grant Notice (the “**Shares**”), in consideration of Participant’s employment with or service to the Company or any Subsidiary thereof on or before the Grant Date, for which the Committee has determined Participant has not been fully compensated, and the Committee has determined that the benefit received by the Company as a result of such employment or service has a value that exceeds the aggregate par value of the Shares, which Shares, when issued in accordance with the terms hereof, shall be fully paid and nonassessable.

2.2 Issuance of Shares. On the Grant Date, the Company shall issue the Shares to Participant and shall (a) cause a stock certificate or certificates representing the Shares to be registered in the name of Participant, or (b) cause such Shares to be issued in uncertificated form, with such Shares recorded in the name of Holder in the books and records of the Company’s transfer agent, with appropriate notations regarding the restrictions imposed pursuant to this Agreement. If a stock certificate is issued, it shall be delivered to and held in custody by the Company pursuant to Section 3.6 below and shall bear the restrictive legends required by Section 4.4 below. If the Shares are held in book entry form, then such entry will reflect that the Shares are subject to the restrictions of this Agreement.

2.3 Conditions to Issuance of Stock Certificates. The Shares, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares prior to fulfillment of all of the following conditions:

- (a) The admission of such Shares to listing on all stock exchanges on which such Stock is then listed; and

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(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(d) The receipt by the Company of full payment for such shares, including payment of all amounts which, under federal, state, local or foreign tax law, the Company (or other employer corporation) is required to withhold upon issuance of such Shares; and

(e) The lapse of such reasonable period of time following the Grant Date as the Committee may from time to time establish for reasons of administrative convenience.

2.4 Rights as Stockholder. Except as otherwise provided herein, upon issuance of the Shares by the Company, Participant shall have all the rights of a stockholder with respect to the Shares, subject to the restrictions herein, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares; *provided, however,* that any and all cash dividends paid on such Shares and any and all shares of Stock, capital stock or other securities received by or distributed to Participant with respect to the Shares as a result of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company shall also be subject to the Forfeiture Restriction (as defined in Section 3.1 below) and the restrictions on transfer in Section 3.4 below until such restrictions on the underlying Shares lapse or are removed pursuant to this Agreement and shall be held by the Company pursuant to Section 3.6 pending the removal of such restrictions.

2.5 Consideration to the Company. In consideration of the issuance of the Shares by the Company, Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in the Plan or this Agreement shall confer upon Participant any right to (a) continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge Participant, if Participant is an Employee, or (b) continue to provide services to the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company or its Subsidiaries, which are hereby expressly reserved, to terminate the services of Participant, if Participant is a consultant, at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written or electronic agreement between the Company, a Subsidiary and Participant, or (c) continue to serve as a member of the Board or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge Participant in accordance with the Company's Bylaws.

ARTICLE III

RESTRICTIONS ON SHARES

3.1 Forfeiture Restriction. Subject to the provisions of Sections 3.2 and 4.13 below, if Participant has a Termination of Service (as defined below), all of the Unreleased Shares (as defined below) shall thereupon be forfeited immediately and without any further action of the Company (the "**Forfeiture Restriction**"). Upon the occurrence of such a forfeiture, the Company shall become the legal and beneficial owner of the Unreleased Shares and all rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Unreleased Shares

being forfeited by Participant. In the event any of the Shares are forfeited pursuant to this Section 3.1, any dividends or other distributions paid on such Shares and held by the Company shall be retained by the Company. Participant hereby authorizes and directs the Secretary of the Company, or such other person designated by the Committee, to transfer the Unreleased Shares which have been forfeited pursuant to this Section 3.1 from Participant to the Company.

3.2 Release of Shares from Forfeiture Restriction. Subject to Section 3.1 above, the Shares shall be released from the Forfeiture Restriction as indicated in the Grant Notice. Any of the Shares released from the Forfeiture Restriction shall thereupon be released from the restrictions on transfer under Section 3.4. In the event any of the Shares are released from the Forfeiture Restriction, any dividends or other distributions paid on such Shares and held by the Company pursuant to Section 2.4 shall be promptly paid by the Company to Participant. As soon as administratively practicable following the release of any Shares from the Forfeiture Restriction, the Company shall, as applicable, either deliver to Participant the certificate or certificates representing such Shares in the Company's possession belonging to Participant, or, if the Shares are held in uncertificated form, then the Company shall remove the notations on any such Shares. Participant (or the beneficiary or personal representative of Participant in the event of Participant's death or incapacity, as the case may be) shall deliver to the Company any representations or other documents or assurances as the Company or its representatives deem necessary or advisable in connection with any such delivery.

3.3 Unreleased Shares. Any of the Shares which, from time to time, have not yet been released from the Forfeiture Restriction are referred to herein as "**Unreleased Shares.**"

3.4 Restrictions on Transfer.

(a) Subject to forfeiture to the Company pursuant to Section 3.1 and Section 3.4(b), no Unreleased Shares or any dividends or other distributions thereon or any interest or right therein or part thereof, shall be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to sale or other disposition by Participant or his or her successors in interest by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect.

(b) Notwithstanding any other provision in this Agreement, with the consent of the Committee, the Unreleased Shares may be transferred to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family or to such other persons or entities as may be expressly approved by the Committee (each a "**Permitted Transferee**"), pursuant to such conditions and procedures as the Committee may require. Any permitted transfer will be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's Termination of Service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

3.5 Definition of Termination of Service. For purposes of this Agreement, "**Termination of Service**" means the time when the service relationship (whether as an Employee, member of the Board or a consultant) between Participant and the Company or any Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death or Disability; but excluding (a) a termination where there is a simultaneous reemployment or continuing

employment or consultancy of Participant by the Company or any Subsidiary or a “parent corporation” of the Company (within the meaning of Section 424 of the Code), (b) at the discretion of the Committee, a termination which results in a temporary severance of the employee-employer relationship, and (c) a termination which is followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with a former Employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Service for the purposes of this Agreement, and all questions of whether a particular leave of absence for a Participant who is an Employee of the Company or any of its Subsidiaries constitutes a Termination of Service. Notwithstanding any other provision of the Plan or this Agreement, the Company or any Subsidiary has an absolute and unrestricted right to terminate Participant’s employment and/or consultancy at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written or electronic agreement between the Company or a Subsidiary and Participant.

3.6 Escrow. The Secretary of the Company, or such other escrow holder as the Committee may appoint, may retain physical custody of the certificates, if any, representing the Shares (and any dividends or other distributions paid on such Shares) until all of the restrictions imposed pursuant to this Agreement lapse or shall have been removed. In such event, Participant shall not retain physical custody of any certificates representing Unreleased Shares (as defined above) issued to Participant (or any dividends or other distributions paid on such Shares). Participant, by acceptance of this Award, shall be deemed to appoint, and does so appoint, the Company and each of its authorized representatives as Participant’s attorney(s)-in-fact to effect any transfer of forfeited Unreleased Shares (and any dividends or other distributions paid on such Shares) to the Company as may be required pursuant to the Plan or this Agreement, and to execute such representations or other documents or assurances as the Company or such representatives deem necessary or advisable in connection with any such transfer. The Company, or its designee, shall not be liable for any act it may do or omit to do with respect to holding the Shares in escrow and while acting in good faith and in the exercise of its judgment.

ARTICLE IV

OTHER PROVISIONS

4.1 Adjustment for Stock Split. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company, the Committee shall make appropriate and equitable adjustments in the Unreleased Shares subject to the Forfeiture Restriction and the number of Shares, consistent with any adjustment under Section 11.1 of the Plan. The provisions of this Agreement shall apply, to the full extent set forth herein with respect to the Shares, to any and all shares of capital stock or other securities or other property or cash which may be issued in respect of, in exchange for, or in substitution of the Shares, and shall be appropriately adjusted for any stock dividends, splits, reverse splits, combinations, recapitalizations and the like occurring after the date hereof.

4.2 Taxes.

(a) Participant has reviewed with Participant’s own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Participant understands that Participant (and not the Company) shall be responsible for Participant’s tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement. Participant understands that Participant will recognize ordinary income for federal income tax purposes under Section 83 of the Code as and when the Forfeiture Restriction lapses. Participant understands that Participant may elect to be taxed for federal income tax

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purposes at the time the Shares are purchased by Participant rather than as and when the Forfeiture Restriction lapses by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days from the date of purchase.

PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO TIMELY FILE THE ELECTION UNDER SECTION 83(b), AND THE COMPANY AND ITS REPRESENTATIVES SHALL HAVE NO OBLIGATION OR AUTHORITY TO MAKE THIS FILING ON PARTICIPANT'S BEHALF.

(b) Notwithstanding anything to the contrary in this Agreement, the Company shall be entitled to require payment (which payment may be made in cash, by deduction from other compensation payable to Participant or in any form of consideration permitted by the Plan) of any sums required by federal, state or local tax law to be withheld with respect to the issuance, lapsing of restrictions on or sale of the Shares. The Company shall not be obligated to deliver any new certificate representing vested Shares to Participant or Participant's beneficiary or legal representative unless and until Participant or Participant's beneficiary or legal representative, as applicable, shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of Participant resulting from the issuance, lapsing of restrictions on or sale of the Shares.

4.3 Administration. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Participant, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Shares. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement.

4.4 Restrictive Legends and Stop-Transfer Orders.

(a) Any share certificate(s) evidencing the Shares issued hereunder shall be endorsed with the following legend and any other legends that may be required by state or federal securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FORFEITURE UNDER, AND MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH, THE TERMS AND CONDITIONS OF A RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(b) Participant agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) The Company shall not be required: (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares shall have been so transferred.

4.5 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the address given beneath the

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signature of an authorized officer of the Company on the Grant Notice, and any notice to be given to Participant shall be addressed to Participant at the address given beneath Participant's signature on the Grant Notice. By a notice given pursuant to this Section 4.5, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

4.6 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

4.7 Construction. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware without regard to conflicts of laws thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

4.8 Conformity to Securities Laws. Participant acknowledges that the Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

4.9 Amendments. This Agreement may not be modified, amended or terminated except by an instrument signed or electronically accepted by Participant and by a duly authorized representative of the Company.

4.10 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

4.11 Entire Agreement. The Plan, the Grant Notice and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

4.12 Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

4.13 Change in Control.

(a) In the event Participant has a Qualifying Termination (as defined below) prior to the occurrence of a Change in Control (as defined below), the Unreleased Shares shall cease vesting but shall remain outstanding for a period equal to three (3) months after the date of the Termination of Service (such period, the "**Post Termination Period**"). If a Change in Control occurs within such Post Termination Period, the Unreleased Shares will vest and be released from any forfeiture or repurchase restrictions effective as of the date of such Change in Control. If a Change in Control does not occur within the Post Termination Period, the Unreleased Shares shall be cancelled and forfeited by Participant.

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(b) In the event Participant has a Qualifying Termination (as defined below) within eighteen (18) months following a Change in Control, then all of the Unreleased Shares will vest and be released from any forfeiture or repurchase restrictions effective as of the effective date of Participant's Full Release, as described below. In the event of Participant's Qualifying Termination under the circumstances described in this Section 4.13(b), the Unreleased Shares shall remain outstanding for a period of thirty (30) days after Participant's Termination of Service in order to provide time for the Full Release (as defined below) to be executed and become effective.

(c) In order to be eligible for the accelerated vesting described in this Section 4.13, Participant must provide the Company with a Full Release (as defined in the Severance Plan (as defined below)) in a form satisfactory to the Company and similar to the agreement set forth in Exhibit B to the Severance Plan (with such changes as may be reasonably required to such form to help ensure its enforceability in light of any changes in applicable law) pursuant to which Participant fully and completely releases the Company and its affiliates and other related parties from all claims that Participant may have against the Company (other than any claims that may arise or have arisen under this Agreement or this Award or that cannot be released under applicable law). The Full Release must become effective in accordance with its terms prior to the date that is thirty (30) days following the date of Participant's Termination of Service (including the expiration of any revocation period thereunder without Participant's revocation of the Full Release). In the event the Full Release does not become effective in accordance with its terms prior to the date that is thirty (30) days following the date of Participant's Termination of Service (including the expiration of any revocation period thereunder without Participant's revocation of the Full Release), the Unreleased Shares shall be cancelled and forfeited by Participant.

(d) Defined terms used in this Section 4.13 without definition, including Change in Control, Full Release and Qualifying Termination, shall have the meanings given to such terms in that certain AeroVironment, Inc. Executive Severance Plan effective January 1, 2019, as amended from time to time

FORM OF RSA – NON-SEVERANCE PLAN PARTICIPANTS

AEROVIRONMENT, INC.

2006 EQUITY INCENTIVE PLAN,

RESTRICTED STOCK AWARD GRANT NOTICE AND
RESTRICTED STOCK AWARD AGREEMENT

AeroVironment, Inc., a Delaware corporation (the “*Company*”), pursuant to its Amended and Restated 2006 Equity Incentive Plan (as amended and restated to date, the “*Plan*”), hereby grants to the individual listed below (“*Participant*”), the right to the number of shares of the Company’s Stock set forth below (the “*Shares*”). This Restricted Stock award is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Award Agreement attached hereto as Exhibit A (the “*Restricted Stock Agreement*”) and the Plan, which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Restricted Stock Agreement.

Participant:

Grant Date:

Vesting Commencement Date:

**Total Number of Shares of
Restricted Stock:**

Vesting Schedule:

Subject to the accelerated vesting provided in Section 4.13 of the Restricted Stock Agreement, restrictions shall lapse with respect to 1/3 of the Shares on each annual anniversary of the Vesting Commencement Date so that all of the Shares shall be vested and unrestricted on the third annual anniversary of the Vesting Commencement Date.

ELECTRONIC ACCEPTANCE OF AWARD:

By electronically accepting this Restricted Stock Agreement by clicking on the *Accept* button box on the *Grant Agreement* page, Participant agrees to be bound by the terms and conditions of the Plan, the Restricted Stock Agreement and this Grant Notice. Participant has reviewed the Restricted Stock Agreement, the Plan and this Grant Notice in their entirety, each of which are posted on <https://solium.com/>, and has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Restricted Stock Agreement and the Plan. Participant further acknowledges that he or she has been provided with a copy of the prospectus for the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, this Grant Notice or the Restricted Stock Agreement.

EXHIBIT A

TO RESTRICTED STOCK AWARD GRANT NOTICE

RESTRICTED STOCK AWARD AGREEMENT

Pursuant to the Restricted Stock Award Grant Notice (“**Grant Notice**”) to which this Restricted Stock Award Agreement (this “**Agreement**”) is attached, AeroVironment, Inc., a Delaware corporation (the “**Company**”), has granted to Participant the right to purchase the number of shares of Restricted Stock under the Company’s 2006 Equity Incentive Plan, amended and restated as of September 30, 2016 (the “**Plan**”) indicated in the Grant Notice.

ARTICLE I

GENERAL

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

1.2 Incorporation of Terms of Plan. The Shares are subject to the terms and conditions of the Plan which are incorporated herein by reference.

ARTICLE II

GRANT OF RESTRICTED STOCK

2.1 Grant of Restricted Stock. Effective as of the Grant Date set forth in the Grant Notice (the “**Grant Date**”), upon the terms and conditions set forth in the Plan and this Agreement, the Company irrevocably grants to Participant the number of shares of Stock set forth in the Grant Notice (the “**Shares**”), in consideration of Participant’s employment with or service to the Company or any Subsidiary thereof on or before the Grant Date, for which the Committee has determined Participant has not been fully compensated, and the Committee has determined that the benefit received by the Company as a result of such employment or service has a value that exceeds the aggregate par value of the Shares, which Shares, when issued in accordance with the terms hereof, shall be fully paid and nonassessable.

2.2 Issuance of Shares. On the Grant Date, the Company shall issue the Shares to Participant and shall (a) cause a stock certificate or certificates representing the Shares to be registered in the name of Participant, or (b) cause such Shares to be issued in uncertificated form, with such Shares recorded in the name of Holder in the books and records of the Company’s transfer agent, with appropriate notations regarding the restrictions imposed pursuant to this Agreement. If a stock certificate is issued, it shall be delivered to and held in custody by the Company pursuant to Section 3.6 below and shall bear the restrictive legends required by Section 4.4 below. If the Shares are held in book entry form, then such entry will reflect that the Shares are subject to the restrictions of this Agreement.

2.3 Conditions to Issuance of Stock Certificates. The Shares, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares prior to fulfillment of all of the following conditions:

(a) The admission of such Shares to listing on all stock exchanges on which such Stock is then listed; and

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(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(d) The receipt by the Company of full payment for such shares, including payment of all amounts which, under federal, state, local or foreign tax law, the Company (or other employer corporation) is required to withhold upon issuance of such Shares; and

(e) The lapse of such reasonable period of time following the Grant Date as the Committee may from time to time establish for reasons of administrative convenience.

2.4 Rights as Stockholder. Except as otherwise provided herein, upon issuance of the Shares by the Company, Participant shall have all the rights of a stockholder with respect to the Shares, subject to the restrictions herein, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares; *provided, however*, that any and all cash dividends paid on such Shares and any and all shares of Stock, capital stock or other securities received by or distributed to Participant with respect to the Shares as a result of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company shall also be subject to the Forfeiture Restriction (as defined in Section 3.1 below) and the restrictions on transfer in Section 3.4 below until such restrictions on the underlying Shares lapse or are removed pursuant to this Agreement and shall be held by the Company pursuant to Section 3.6 pending the removal of such restrictions.

2.5 Consideration to the Company. In consideration of the issuance of the Shares by the Company, Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in the Plan or this Agreement shall confer upon Participant any right to (a) continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge Participant, if Participant is an Employee, or (b) continue to provide services to the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company or its Subsidiaries, which are hereby expressly reserved, to terminate the services of Participant, if Participant is a consultant, at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written or electronic agreement between the Company, a Subsidiary and Participant, or (c) continue to serve as a member of the Board or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge Participant in accordance with the Company's Bylaws.

ARTICLE III

RESTRICTIONS ON SHARES

3.1 Forfeiture Restriction. Subject to the provisions of Sections 3.2 and 4.13 below, if Participant has a Termination of Service (as defined below), all of the Unreleased Shares (as defined below) shall thereupon be forfeited immediately and without any further action of the Company (the "**Forfeiture Restriction**"). Upon the occurrence of such a forfeiture, the Company shall become the legal and beneficial owner of the Unreleased Shares and all rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Unreleased Shares

being forfeited by Participant. In the event any of the Shares are forfeited pursuant to this Section 3.1, any dividends or other distributions paid on such Shares and held by the Company shall be retained by the Company. Participant hereby authorizes and directs the Secretary of the Company, or such other person designated by the Committee, to transfer the Unreleased Shares which have been forfeited pursuant to this Section 3.1 from Participant to the Company.

3.2 Release of Shares from Forfeiture Restriction. Subject to Section 3.1 above, the Shares shall be released from the Forfeiture Restriction as indicated in the Grant Notice. Any of the Shares released from the Forfeiture Restriction shall thereupon be released from the restrictions on transfer under Section 3.4. In the event any of the Shares are released from the Forfeiture Restriction, any dividends or other distributions paid on such Shares and held by the Company pursuant to Section 2.4 shall be promptly paid by the Company to Participant. As soon as administratively practicable following the release of any Shares from the Forfeiture Restriction, the Company shall, as applicable, either deliver to Participant the certificate or certificates representing such Shares in the Company's possession belonging to Participant, or, if the Shares are held in uncertificated form, then the Company shall remove the notations on any such Shares. Participant (or the beneficiary or personal representative of Participant in the event of Participant's death or incapacity, as the case may be) shall deliver to the Company any representations or other documents or assurances as the Company or its representatives deem necessary or advisable in connection with any such delivery.

3.3 Unreleased Shares. Any of the Shares which, from time to time, have not yet been released from the Forfeiture Restriction are referred to herein as "**Unreleased Shares.**"

3.4 Restrictions on Transfer.

(a) Subject to forfeiture to the Company pursuant to Section 3.1 and Section 3.4(b), no Unreleased Shares or any dividends or other distributions thereon or any interest or right therein or part thereof, shall be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to sale or other disposition by Participant or his or her successors in interest by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect.

(b) Notwithstanding any other provision in this Agreement, with the consent of the Committee, the Unreleased Shares may be transferred to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family or to such other persons or entities as may be expressly approved by the Committee (each a "**Permitted Transferee**"), pursuant to such conditions and procedures as the Committee may require. Any permitted transfer will be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's Termination of Service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

3.5 Definition of Termination of Service. For purposes of this Agreement, "**Termination of Service**" means the time when the service relationship (whether as an Employee, member of the Board or a consultant) between Participant and the Company or any Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death or Disability; but excluding (a) a termination where there is a simultaneous reemployment or continuing

employment or consultancy of Participant by the Company or any Subsidiary or a “parent corporation” of the Company (within the meaning of Section 424 of the Code), (b) at the discretion of the Committee, a termination which results in a temporary severance of the employee-employer relationship, and (c) a termination which is followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with a former Employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Service for the purposes of this Agreement, and all questions of whether a particular leave of absence for a Participant who is an Employee of the Company or any of its Subsidiaries constitutes a Termination of Service. Notwithstanding any other provision of the Plan or this Agreement, the Company or any Subsidiary has an absolute and unrestricted right to terminate Participant’s employment and/or consultancy at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written or electronic agreement between the Company or a Subsidiary and Participant.

3.6 Escrow. The Secretary of the Company, or such other escrow holder as the Committee may appoint, may retain physical custody of the certificates, if any, representing the Shares (and any dividends or other distributions paid on such Shares) until all of the restrictions imposed pursuant to this Agreement lapse or shall have been removed. In such event, Participant shall not retain physical custody of any certificates representing Unreleased Shares (as defined above) issued to Participant (or any dividends or other distributions paid on such Shares). Participant, by acceptance of this Award, shall be deemed to appoint, and does so appoint, the Company and each of its authorized representatives as Participant’s attorney(s)-in-fact to effect any transfer of forfeited Unreleased Shares (and any dividends or other distributions paid on such Shares) to the Company as may be required pursuant to the Plan or this Agreement, and to execute such representations or other documents or assurances as the Company or such representatives deem necessary or advisable in connection with any such transfer. The Company, or its designee, shall not be liable for any act it may do or omit to do with respect to holding the Shares in escrow and while acting in good faith and in the exercise of its judgment.

ARTICLE IV

OTHER PROVISIONS

4.1 Adjustment for Stock Split. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company, the Committee shall make appropriate and equitable adjustments in the Unreleased Shares subject to the Forfeiture Restriction and the number of Shares, consistent with any adjustment under Section 11.1 of the Plan. The provisions of this Agreement shall apply, to the full extent set forth herein with respect to the Shares, to any and all shares of capital stock or other securities or other property or cash which may be issued in respect of, in exchange for, or in substitution of the Shares, and shall be appropriately adjusted for any stock dividends, splits, reverse splits, combinations, recapitalizations and the like occurring after the date hereof.

4.2 Taxes.

(a) Participant has reviewed with Participant’s own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Participant understands that Participant (and not the Company) shall be responsible for Participant’s tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement. Participant understands that Participant will recognize ordinary income for federal income tax purposes under Section 83 of the Code as and when the Forfeiture Restriction lapses. Participant understands that Participant may elect to be taxed for federal income tax

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purposes at the time the Shares are purchased by Participant rather than as and when the Forfeiture Restriction lapses by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days from the date of purchase.

PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO TIMELY FILE THE ELECTION UNDER SECTION 83(b), AND THE COMPANY AND ITS REPRESENTATIVES SHALL HAVE NO OBLIGATION OR AUTHORITY TO MAKE THIS FILING ON PARTICIPANT'S BEHALF.

(b) Notwithstanding anything to the contrary in this Agreement, the Company shall be entitled to require payment (which payment may be made in cash, by deduction from other compensation payable to Participant or in any form of consideration permitted by the Plan) of any sums required by federal, state or local tax law to be withheld with respect to the issuance, lapsing of restrictions on or sale of the Shares. The Company shall not be obligated to deliver any new certificate representing vested Shares to Participant or Participant's beneficiary or legal representative unless and until Participant or Participant's beneficiary or legal representative, as applicable, shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of Participant resulting from the issuance, lapsing of restrictions on or sale of the Shares.

4.3 Administration. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Participant, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Shares. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement.

4.4 Restrictive Legends and Stop-Transfer Orders.

(a) Any share certificate(s) evidencing the Shares issued hereunder shall be endorsed with the following legend and any other legends that may be required by state or federal securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FORFEITURE UNDER, AND MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH, THE TERMS AND CONDITIONS OF A RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(b) Participant agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) The Company shall not be required: (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares shall have been so transferred.

4.5 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the address given beneath the

signature of an authorized officer of the Company on the Grant Notice, and any notice to be given to Participant shall be addressed to Participant at the address given beneath Participant's signature on the Grant Notice. By a notice given pursuant to this Section 4.5, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

4.6 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

4.7 Construction. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware without regard to conflicts of laws thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

4.8 Conformity to Securities Laws. Participant acknowledges that the Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

4.9 Amendments. This Agreement may not be modified, amended or terminated except by an instrument signed or electronically accepted by Participant and by a duly authorized representative of the Company.

4.10 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

4.11 Entire Agreement. The Plan, the Grant Notice and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

4.12 Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

4.13 Change in Control.

(a) In the event that Participant has a Qualifying Termination(as defined below) within eighteen (18) months following a Change in Control (as defined below), then all of the Unreleased Shares will vest and be released from any forfeiture or repurchase restrictions effective as of the effective date of Participant's "Full Release," as described below. In order to be eligible for the accelerated vesting described in this Section 4.13(a), Participant must provide the Company with a full release in a form satisfactory to the Company pursuant to which Participant fully and completely releases the Company and its affiliates and other related parties from all claims that Participant may have against the Company (other than any

claims that may arise or have arisen under this Agreement or this Award or that cannot be released under applicable law) (the “**Full Release**”). The Full Release must become effective in accordance with its terms prior to the date that is thirty (30) days following the date of Participant's Termination of Service (including the expiration of any revocation period thereunder without Participant's revocation of the Full Release).. In the event of Participant's Qualifying Termination under the circumstances described in this Section 4.13(a), the Unreleased Shares shall remain outstanding for a period of thirty (30) days after Participant's Termination of Service in order to provide time for the Full Release to be executed and become effective. In the event the Full Release does not become effective in accordance with its terms prior to the date that is thirty (30) days following the date of Participant's Termination of Service (including the expiration of any revocation period thereunder without Participant's revocation of the Full Release), the Unreleased Shares shall be cancelled and forfeited by Participant.

(b) The following terms shall have the meanings given below when used in this Section 4.13:

“**Beneficial Owner**” has the meaning as used in Rule 13d-3 promulgated under the Exchange Act. The terms “Beneficially Owned” and “Beneficial Ownership” each have a correlative meaning.

“**Cause**” will be defined as that term is defined in Participant's offer letter or other applicable employment agreement. If there is no such definition, “**Cause**” means, as determined by the Company in its sole discretion: (a) being convicted for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability), (b) willfully engaging in illegal conduct or gross misconduct that would (i) adversely affect the business or the reputation of the Company or any of its affiliates with their respective current or prospective customers, suppliers, lenders, or other third parties with whom such entity does or might do business or (ii) expose the Company or any of its affiliates to a risk of civil or criminal legal damages, liabilities, or penalties; however, no act or failure to act on Participant's part will be considered “willful” unless done or omitted to be done by Participant not in good faith and without reasonable belief that Participant's action or omission was in the best interest of the Company; or (c) failing to perform Participant's duties in a reasonably satisfactory manner after the receipt of a notice from the Company detailing such failure if the failure is incapable of cure, and if the failure is capable of cure, upon the failure to cure such failure within thirty (30) days of such notice or upon its recurrence.

“**Change in Control**” of the Company means, and will be deemed to have occurred upon, any of the following events:

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

(b) Individuals who at the beginning of any two-year period constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two-year period and whose election, or whose nomination for election by the Company's stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members shall be considered as though such individual were a member of the Incumbent Board, but

excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “**Business Combination**”), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners’ ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination will not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, thirty percent (30%) or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned thirty percent (30%) or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the board of directors of the entity resulting from such Business Combination were members of the Board at the time of the execution of the initial agreement or the action of the Board, providing for such Business Combination; or

(d) Approval by the Company’s stockholders of a complete liquidation or dissolution of the Company.

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

“**Disability**” will be defined as that term is defined in Participant's offer letter or other applicable employment agreement. If there is no such definition, “Disability” means an incapacity that has resulted in Participant's qualification to receive long-term disability benefits under the Company’s long term disability plan or, if Participant is not covered by the Company’s long term disability plan, incapacity that results in a determination by the Social Security Administration that Participant is entitled to a Social Security disability benefit.

“**Good Reason**” will be defined as that term is defined in Participant's offer letter or other applicable employment agreement. If there is no such definition, “**Good Reason**” means the occurrence of any of the following events without Participant's written consent: (a)(i) (i) any material adverse change in Participant's authority, duties, or responsibilities (including reporting responsibilities) from Participant's authority,

duties, and responsibilities as in effect at any time within three months preceding the date of the Change in Control or at any time thereafter, or (ii) if Participant is an executive officer of the Company a significant portion of whose responsibilities relate to the Company's status as a public company, Participant's failure to continue to serve as an executive officer of a public company, in each case except in connection with the termination of Participant's employment for Disability, for Cause, as a result of Participant's death, or by Participant other than for Good Reason; (b) the imposition of a requirement that Participant be based at any place outside a 60-mile radius from Participant's principal place of employment immediately prior to the Change in Control except for reasonably required travel on Company business that is not materially greater in frequency or duration than prior to the Change in Control; or (d) any material breach by the Company of any provision of this Agreement or any employment agreement with Participant. In order to terminate for Good Reason, Participant must (a) reasonably determine in good faith that a Good Reason condition has occurred; (b) notify the Company in writing of the occurrence of the condition within ninety (90) days; (c) cooperate in good faith with the Company's efforts, for a period of not less than thirty (30) days following such notice, to remedy the condition (after which time the condition still exists); and (d) terminate employment within sixty (60) days after that remedy period.

"Person" has the meaning as defined in Section 3(a)(9) of the Exchange Act, and used in Section 13(d) or 14(d) of the Exchange Act, and will include any "group" as such term is used in such sections.

"Subsidiary" means any corporation with respect to which another specified corporation has the power under ordinary circumstances to vote or direct the voting of sufficient securities to elect a majority of the directors.

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AEROVIRONMENT, INC.

2006 EQUITY INCENTIVE PLAN,

RESTRICTED STOCK AWARD GRANT NOTICE AND
RESTRICTED STOCK AWARD AGREEMENT

AeroVironment, Inc., a Delaware corporation (the “*Company*”), pursuant to its Amended and Restated 2006 Equity Incentive Plan (as amended and restated to date, the “*Plan*”), hereby grants to the individual listed below (“*Participant*”), the right to the number of shares of the Company’s Stock set forth below (the “*Shares*”). This Restricted Stock award is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Award Agreement attached hereto as Exhibit A (the “*Restricted Stock Agreement*”) and the Plan, which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Restricted Stock Agreement.

Participant:**Grant Date:****Vesting Commencement Date:****Total Number of Shares of
Restricted Stock:****Vesting Schedule:**

Subject to the accelerated vesting provided in Section 4.13 of the Restricted Stock Agreement, restrictions shall lapse with respect to 1/3 of the Shares on each annual anniversary of the Vesting Commencement Date so that all of the Shares shall be vested and unrestricted on the third annual anniversary of the Vesting Commencement Date.

ELECTRONIC ACCEPTANCE OF AWARD:

By electronically accepting this Restricted Stock Agreement by clicking on the *Accept* button box on the *Grant Agreement* page, Participant agrees to be bound by the terms and conditions of the Plan, the Restricted Stock Agreement and this Grant Notice. Participant has reviewed the Restricted Stock Agreement, the Plan and this Grant Notice in their entirety, each of which are posted on <https://solium.com/>, and has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Restricted Stock Agreement and the Plan. Participant further acknowledges that he or she has been provided with a copy of the prospectus for the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, this Grant Notice or the Restricted Stock Agreement.

EXHIBIT A

TO RESTRICTED STOCK AWARD GRANT NOTICE

RESTRICTED STOCK AWARD AGREEMENT

Pursuant to the Restricted Stock Award Grant Notice (“**Grant Notice**”) to which this Restricted Stock Award Agreement (this “**Agreement**”) is attached, AeroVironment, Inc., a Delaware corporation (the “**Company**”), has granted to Participant the right to purchase the number of shares of Restricted Stock under the Company’s 2006 Equity Incentive Plan, amended and restated as of September 30, 2016 (the “**Plan**”) indicated in the Grant Notice.

ARTICLE I

GENERAL

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

1.2 Incorporation of Terms of Plan. The Shares are subject to the terms and conditions of the Plan which are incorporated herein by reference.

ARTICLE II

GRANT OF RESTRICTED STOCK

2.1 Grant of Restricted Stock. Effective as of the Grant Date set forth in the Grant Notice (the “**Grant Date**”), upon the terms and conditions set forth in the Plan and this Agreement, the Company irrevocably grants to Participant the number of shares of Stock set forth in the Grant Notice (the “**Shares**”), in consideration of Participant’s employment with or service to the Company or any Subsidiary thereof on or before the Grant Date, for which the Committee has determined Participant has not been fully compensated, and the Committee has determined that the benefit received by the Company as a result of such employment or service has a value that exceeds the aggregate par value of the Shares, which Shares, when issued in accordance with the terms hereof, shall be fully paid and nonassessable.

2.2 Issuance of Shares. On the Grant Date, the Company shall issue the Shares to Participant and shall (a) cause a stock certificate or certificates representing the Shares to be registered in the name of Participant, or (b) cause such Shares to be issued in uncertificated form, with such Shares recorded in the name of Holder in the books and records of the Company’s transfer agent, with appropriate notations regarding the restrictions imposed pursuant to this Agreement. If a stock certificate is issued, it shall be delivered to and held in custody by the Company pursuant to Section 3.6 below and shall bear the restrictive legends required by Section 4.4 below. If the Shares are held in book entry form, then such entry will reflect that the Shares are subject to the restrictions of this Agreement.

2.3 Conditions to Issuance of Stock Certificates. The Shares, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares prior to fulfillment of all of the following conditions:

(a) The admission of such Shares to listing on all stock exchanges on which such Stock is then listed; and

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(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(d) The receipt by the Company of full payment for such shares, including payment of all amounts which, under federal, state, local or foreign tax law, the Company (or other employer corporation) is required to withhold upon issuance of such Shares; and

(e) The lapse of such reasonable period of time following the Grant Date as the Committee may from time to time establish for reasons of administrative convenience.

2.4 Rights as Stockholder. Except as otherwise provided herein, upon issuance of the Shares by the Company, Participant shall have all the rights of a stockholder with respect to the Shares, subject to the restrictions herein, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares; *provided, however*, that any and all cash dividends paid on such Shares and any and all shares of Stock, capital stock or other securities received by or distributed to Participant with respect to the Shares as a result of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company shall also be subject to the Forfeiture Restriction (as defined in Section 3.1 below) and the restrictions on transfer in Section 3.4 below until such restrictions on the underlying Shares lapse or are removed pursuant to this Agreement and shall be held by the Company pursuant to Section 3.6 pending the removal of such restrictions.

2.5 Consideration to the Company. In consideration of the issuance of the Shares by the Company, Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in the Plan or this Agreement shall confer upon Participant any right to (a) continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge Participant, if Participant is an Employee, or (b) continue to provide services to the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company or its Subsidiaries, which are hereby expressly reserved, to terminate the services of Participant, if Participant is a consultant, at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written or electronic agreement between the Company, a Subsidiary and Participant, or (c) continue to serve as a member of the Board or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge Participant in accordance with the Company's Bylaws.

ARTICLE III

RESTRICTIONS ON SHARES

3.1 Forfeiture Restriction. Subject to the provisions of Sections 3.2 and 4.13 below, if Participant has a Termination of Service (as defined below), all of the Unreleased Shares (as defined below) shall thereupon be forfeited immediately and without any further action of the Company (the "**Forfeiture Restriction**"). Upon the occurrence of such a forfeiture, the Company shall become the legal and beneficial owner of the Unreleased Shares and all rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Unreleased Shares

being forfeited by Participant. In the event any of the Shares are forfeited pursuant to this Section 3.1, any dividends or other distributions paid on such Shares and held by the Company shall be retained by the Company. Participant hereby authorizes and directs the Secretary of the Company, or such other person designated by the Committee, to transfer the Unreleased Shares which have been forfeited pursuant to this Section 3.1 from Participant to the Company.

3.2 Release of Shares from Forfeiture Restriction. Subject to Section 3.1 above, the Shares shall be released from the Forfeiture Restriction as indicated in the Grant Notice. Any of the Shares released from the Forfeiture Restriction shall thereupon be released from the restrictions on transfer under Section 3.4. In the event any of the Shares are released from the Forfeiture Restriction, any dividends or other distributions paid on such Shares and held by the Company pursuant to Section 2.4 shall be promptly paid by the Company to Participant. As soon as administratively practicable following the release of any Shares from the Forfeiture Restriction, the Company shall, as applicable, either deliver to Participant the certificate or certificates representing such Shares in the Company's possession belonging to Participant, or, if the Shares are held in uncertificated form, then the Company shall remove the notations on any such Shares. Participant (or the beneficiary or personal representative of Participant in the event of Participant's death or incapacity, as the case may be) shall deliver to the Company any representations or other documents or assurances as the Company or its representatives deem necessary or advisable in connection with any such delivery.

3.3 Unreleased Shares. Any of the Shares which, from time to time, have not yet been released from the Forfeiture Restriction are referred to herein as "**Unreleased Shares.**"

3.4 Restrictions on Transfer.

(a) Subject to forfeiture to the Company pursuant to Section 3.1 and Section 3.4(b), no Unreleased Shares or any dividends or other distributions thereon or any interest or right therein or part thereof, shall be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to sale or other disposition by Participant or his or her successors in interest by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect.

(b) Notwithstanding any other provision in this Agreement, with the consent of the Committee, the Unreleased Shares may be transferred to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family or to such other persons or entities as may be expressly approved by the Committee (each a "**Permitted Transferee**"), pursuant to such conditions and procedures as the Committee may require. Any permitted transfer will be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's Termination of Service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

3.5 Definition of Termination of Service. For purposes of this Agreement, "**Termination of Service**" means the time when the service relationship (whether as an Employee, member of the Board or a consultant) between Participant and the Company or any Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death or Disability; but excluding (a) a termination where there is a simultaneous reemployment or continuing

employment or consultancy of Participant by the Company or any Subsidiary or a “parent corporation” of the Company (within the meaning of Section 424 of the Code), (b) at the discretion of the Committee, a termination which results in a temporary severance of the employee-employer relationship, and (c) a termination which is followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with a former Employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Service for the purposes of this Agreement, and all questions of whether a particular leave of absence for a Participant who is an Employee of the Company or any of its Subsidiaries constitutes a Termination of Service. Notwithstanding any other provision of the Plan or this Agreement, the Company or any Subsidiary has an absolute and unrestricted right to terminate Participant’s employment and/or consultancy at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written or electronic agreement between the Company or a Subsidiary and Participant.

3.6 Escrow. The Secretary of the Company, or such other escrow holder as the Committee may appoint, may retain physical custody of the certificates, if any, representing the Shares (and any dividends or other distributions paid on such Shares) until all of the restrictions imposed pursuant to this Agreement lapse or shall have been removed. In such event, Participant shall not retain physical custody of any certificates representing Unreleased Shares (as defined above) issued to Participant (or any dividends or other distributions paid on such Shares). Participant, by acceptance of this Award, shall be deemed to appoint, and does so appoint, the Company and each of its authorized representatives as Participant’s attorney(s)-in-fact to effect any transfer of forfeited Unreleased Shares (and any dividends or other distributions paid on such Shares) to the Company as may be required pursuant to the Plan or this Agreement, and to execute such representations or other documents or assurances as the Company or such representatives deem necessary or advisable in connection with any such transfer. The Company, or its designee, shall not be liable for any act it may do or omit to do with respect to holding the Shares in escrow and while acting in good faith and in the exercise of its judgment.

ARTICLE IV

OTHER PROVISIONS

4.1 Adjustment for Stock Split. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company, the Committee shall make appropriate and equitable adjustments in the Unreleased Shares subject to the Forfeiture Restriction and the number of Shares, consistent with any adjustment under Section 11.1 of the Plan. The provisions of this Agreement shall apply, to the full extent set forth herein with respect to the Shares, to any and all shares of capital stock or other securities or other property or cash which may be issued in respect of, in exchange for, or in substitution of the Shares, and shall be appropriately adjusted for any stock dividends, splits, reverse splits, combinations, recapitalizations and the like occurring after the date hereof.

4.2 Taxes.

(a) Participant has reviewed with Participant’s own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Participant understands that Participant (and not the Company) shall be responsible for Participant’s tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement. Participant understands that Participant will recognize ordinary income for federal income tax purposes under Section 83 of the Code as and when the Forfeiture Restriction lapses. Participant understands that Participant may elect to be taxed for federal income tax

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purposes at the time the Shares are purchased by Participant rather than as and when the Forfeiture Restriction lapses by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days from the date of purchase.

PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO TIMELY FILE THE ELECTION UNDER SECTION 83(b), AND THE COMPANY AND ITS REPRESENTATIVES SHALL HAVE NO OBLIGATION OR AUTHORITY TO MAKE THIS FILING ON PARTICIPANT'S BEHALF.

(b) Notwithstanding anything to the contrary in this Agreement, the Company shall be entitled to require payment (which payment may be made in cash, by deduction from other compensation payable to Participant or in any form of consideration permitted by the Plan) of any sums required by federal, state or local tax law to be withheld with respect to the issuance, lapsing of restrictions on or sale of the Shares. The Company shall not be obligated to deliver any new certificate representing vested Shares to Participant or Participant's beneficiary or legal representative unless and until Participant or Participant's beneficiary or legal representative, as applicable, shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of Participant resulting from the issuance, lapsing of restrictions on or sale of the Shares.

4.3 Administration. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Participant, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Shares. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement.

4.4 Restrictive Legends and Stop-Transfer Orders.

(a) Any share certificate(s) evidencing the Shares issued hereunder shall be endorsed with the following legend and any other legends that may be required by state or federal securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FORFEITURE UNDER, AND MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH, THE TERMS AND CONDITIONS OF A RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(b) Participant agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) The Company shall not be required: (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares shall have been so transferred.

4.5 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the address given beneath the

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signature of an authorized officer of the Company on the Grant Notice, and any notice to be given to Participant shall be addressed to Participant at the address given beneath Participant's signature on the Grant Notice. By a notice given pursuant to this Section 4.5, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

4.6 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

4.7 Construction. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware without regard to conflicts of laws thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

4.8 Conformity to Securities Laws. Participant acknowledges that the Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

4.9 Amendments. This Agreement may not be modified, amended or terminated except by an instrument signed or electronically accepted by Participant and by a duly authorized representative of the Company.

4.10 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

4.11 Entire Agreement. The Plan, the Grant Notice and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

4.12 Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

4.13 Change in Control.

(a) Upon a Change in Control (as defined below), all of the Unreleased Shares will vest and be released from any forfeiture or repurchase restrictions effective as of the date of the Change in Control.

(b) The following terms shall have the meanings given below when used in this Section 4.13.

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“**Change in Control**” of the Company means, and will be deemed to have occurred upon, any of the following events:

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

(b) Individuals who at the beginning of any two-year period constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director of the Company during such two-year period and whose election, or whose nomination for election by the Company’s stockholders, to the Board was either (i) approved by a vote of at least a majority of the directors then comprising the Incumbent Board or (ii) recommended by a nominating committee comprised entirely of directors who are then Incumbent Board members shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(c) Consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “**Business Combination**”), in each case unless following such Business Combination, (i) all or substantially all of the Persons who were the Beneficial Owners, respectively, of the outstanding shares and outstanding voting securities immediately prior to such Business Combination own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, as the case may be, of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities (provided, however, that for purposes of this clause (i) any shares of common stock or voting securities of such resulting entity received by such Beneficial Owners in such Business Combination other than as the result of such Beneficial Owners’ ownership of outstanding shares or outstanding voting securities immediately prior to such Business Combination will not be considered to be owned by such Beneficial Owners for the purposes of calculating their percentage of ownership of the outstanding common stock and voting power of the resulting entity); (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from the Business Combination) beneficially owns, directly or indirectly, thirty percent (30%) or more of the combined voting power of the then outstanding voting securities of such entity resulting from the Business Combination unless such Person owned thirty percent (30%) or more of the outstanding shares or outstanding voting securities immediately prior to the Business Combination; and (iii) at least a majority of the members of the board of directors of the entity resulting from such Business Combination were members of the Board at the time of the execution of the initial agreement or the action of the Board, providing for such Business Combination; or

(d) Approval by the Company’s stockholders of a complete liquidation or dissolution of the Company.

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

“Beneficial Owner” has the meaning as used in Rule 13d-3 promulgated under the Exchange Act. The terms “Beneficially Owned” and “Beneficial Ownership” each have a correlative meaning.

“Person” has the meaning as defined in Section 3(a)(9) of the Exchange Act and used in Section 13(d) or 14(d) of the Exchange Act and will include any “group” as such term is used in such sections.

“Subsidiary” means any corporation with respect to which another specified corporation has the power under ordinary circumstances to vote or direct the voting of sufficient securities to elect a majority of the directors.

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AEROVIRONMENT, INC.

2006 EQUITY INCENTIVE PLAN

PERFORMANCE RESTRICTED STOCK UNIT AWARD GRANT NOTICE AND
PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

AeroVironment, Inc., a Delaware corporation (the "**Company**"), pursuant to its Amended and Restated 2006 Equity Incentive Plan (as amended and restated to date, the "**Plan**"), hereby grants to the individual listed below ("**Participant**"), an award of performance-based restricted stock units ("**Restricted Stock Units**" or "**RSUs**") with respect to the number of shares of the Company's Stock listed below (the "**Shares**"). This award for Restricted Stock Units (this "**RSU Award**") is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Unit Award Agreement attached hereto as Exhibit A (the "**Restricted Stock Unit Agreement**") and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Restricted Stock Unit Agreement.

Participant: _____
Grant Date: _____
Target Number of RSUs: _____
Maximum Number of RSUs: _____

Distribution Schedule: Subject to the terms of the Restricted Stock Unit Agreement, the RSUs shall be distributable in accordance with Section 2.1(c) of the Restricted Stock Unit Agreement.

Vesting Schedule: Subject to the terms of the Restricted Stock Unit Agreement, the RSU Award shall vest in accordance with the provisions of Exhibit B to this Grant Notice.

By accepting this Grant Notice and Restricted Stock Unit Agreement and signing below, Participant agrees to be bound by the terms and conditions of the Plan, the Restricted Stock Unit Agreement and this Grant Notice. Participant has reviewed the Restricted Stock Unit Agreement, the Plan and this Grant Notice in their entirety, each of which have been provided to Participant, and has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Restricted Stock Unit Agreement and the Plan. Participant further acknowledges that he or she has been provided with a copy of the prospectus for the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, this Grant Notice or the Restricted Stock Unit Agreement.

PARTICIPANT:

NAME:

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EXHIBIT A

TO PERFORMANCE RESTRICTED STOCK UNIT AWARD GRANT NOTICE

PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Performance Restricted Stock Unit Award Grant Notice (the “*Grant Notice*”) to which this Performance Restricted Stock Unit Award Agreement (this “*Agreement*”) is attached, the Company has granted to Participant the right to receive the number of RSUs set forth in the Grant Notice, subject to all of the terms and conditions set forth in this Agreement, the Grant Notice and the Plan.

ARTICLE I.

GENERAL

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

1.2 Incorporation of Terms of Plan. The RSU Award is subject to the terms and conditions of the Plan which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE II.

AWARD OF RESTRICTED STOCK UNITS

2.1 Award of Restricted Stock Units.

(a) Award. In consideration of Participant’s continued employment with the Company or any Subsidiary thereof and for other good and valuable consideration, the Company hereby grants to Participant the right to receive the number of RSUs set forth in the Grant Notice, subject to all of the terms and conditions set forth in this Agreement, the Grant Notice and the Plan. Prior to actual issuance of any Shares, the RSUs and the RSU Award represent an unsecured obligation of the Company, payable only from the general assets of the Company.

(b) Vesting. The RSUs subject to the RSU Award shall vest in accordance with the Vesting Schedule set forth on Exhibit B to the Grant Notice. Unless and until the RSUs have vested in accordance with the vesting schedule set forth in the Grant Notice, Participant will have no right to any distribution with respect to such RSUs. Except as provided in Exhibit B to the Grant Notice, in the event of Participant’s Termination of Service prior to the vesting of all of the RSUs, any unvested RSUs will terminate automatically without any further action by the Company and be forfeited without further notice and at no cost to the Company.

(c) Distribution.

(i) Shares of Stock shall be distributed to Participant (or in the event of Participant’s death, to his or her estate) with respect to such Participant’s vested RSUs (A) in the event the vesting event specified in the Vesting Schedule is the occurrence of a Change in Control, on the date of (or immediately prior to) the date of such Change in Control, (B) in the event the vesting event specified in the Vesting Schedule is the date of Participant's Qualifying Termination within eighteen (18) months following a Change in Control (with such terms as defined in the Vesting Schedule), within thirty

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(30) days following such termination date, and (C) in the event the vesting event specified in the Vesting Schedule is the Certification Date occurring as a result of the Measurement Date occurring on April 30, 2022, on or following the Certification Date but no later than July 15, 2022, subject to the terms and provisions of the Plan and this Agreement.

(ii) Unless otherwise determined by the Committee, all distributions shall be made by the Company in the form of whole shares of Stock. In lieu of any fractional Share, the Company shall make a cash payment to Participant equal to the Fair Market Value of such fractional Share on the date the RSUs are settled pursuant to this Section 2.1.

(iii) Except as described in this Section 2.1(c), neither the time nor form of distribution of Stock with respect to the RSUs may be changed, except as may be permitted by the Committee in accordance with the Plan and Section 409A of the Code and the Treasury Regulations thereunder.

(d) Generally. Shares issued under the RSU Award shall be issued to Participant or Participant's beneficiaries, as the case may be, at the sole discretion of the Committee, in either (i) uncertificated form, with the Shares recorded in the name of Participant in the books and records of the Company's transfer agent with appropriate notations regarding the restrictions on transfer imposed pursuant to this Agreement; or (ii) certificate form.

2.2 Tax Withholding. Notwithstanding any other provision of this Agreement:

(a) The Company and its Subsidiaries have the authority to deduct or withhold, or require Participant to remit to the Company or the applicable Subsidiary, an amount sufficient to satisfy applicable federal, state, local and foreign taxes (including Participant's social security, Medicare and any other employment tax obligation) required by law to be withheld with respect to any taxable event arising from the receipt of the Shares upon settlement of the RSUs. Participant may satisfy the tax withholding obligation in one or more of the forms specified below, subject to section 10.2 of the Plan:

(i) by cash or check made payable to the Company or the Subsidiary with respect to which the tax withholding obligation arises;

(ii) by the deduction of such amount from other compensation payable to Participant;

(iii) with the consent of the Committee, by requesting that the Company withhold a net number of vested Shares otherwise issuable pursuant to the RSUs having a then current Fair Market Value not exceeding the amount necessary to satisfy the withholding obligation of the Company and its Subsidiaries based on the minimum applicable statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes;

(iv) with the consent of the Committee, by tendering vested shares of Stock having a then current Fair Market Value not exceeding the amount necessary to satisfy the withholding obligation of the Company and its Subsidiaries based on the minimum applicable statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes;

(v) with the consent of the Committee, through the delivery of a notice that Participant has placed a market sell order with a broker acceptable to the Company with respect to the Shares issuable pursuant to the RSUs then vesting, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company or the Subsidiary with respect to which

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the withholding obligation arises in satisfaction of such withholding taxes; provided that payment of such proceeds is then made to the Company or the applicable Subsidiary at such time as may be required by the Committee, but in any event not later than the settlement of such sale; or

(vi) in any combination of the foregoing.

(b) Unless Participant elects to provide timely payment of all sums required pursuant to Section 2.2(a), the Company and its Subsidiaries shall have the right, but not the obligation, to treat such failure as an election by Participant to satisfy all or any portion of Participant's required payment obligation pursuant to Section 2.2(a)(ii) or Section 2.2(a)(iii) above, or any combination of the foregoing as the Company or its Subsidiaries may determine to be appropriate. If Participant is subject to Section 16 of the Exchange Act at the time the tax withholding obligation arises, the prior approval of the Committee shall be required for any election by the Company to satisfy all or any portion of Participant's required payment obligation pursuant to Section 2.2(a)(iii) above pursuant to this Section 2.2(b).

(c) The Company shall not be obligated to deliver any certificate representing Shares issuable with respect to the RSUs to Participant or his legal representative unless and until Participant or his legal representative shall have paid or otherwise satisfied in full the amount of all federal, state, local and foreign taxes applicable with respect to the taxable income of Participant resulting from the grant of the RSUs, the distribution of the Shares issuable with respect thereto, or any other taxable event related to the RSUs.

2.3 Conditions to Issuance of Shares. The Company shall not be required to issue or deliver any Shares issuable upon the vesting of the RSUs prior to the fulfillment of all of the conditions set forth in Section 10.7 of the Plan and the receipt by the Company of full payment of any applicable withholding tax in any manner permitted under Section 2.2 above.

2.4 Forfeiture and Claw-back Provisions. Participant acknowledges that this RSU Award is subject to the provisions of Section 10.9 of the Plan.

ARTICLE III.

OTHER PROVISIONS

3.1 RSU Award and Interests Not Transferable. This RSU Award and the rights and privileges conferred hereby, including the RSUs awarded hereunder, shall not be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect.

3.2 Rights as Stockholder. Neither Participant nor any person claiming under or through Participant shall have any of the rights or privileges of a stockholder of the Company in respect of any Shares issuable hereunder unless and until certificates representing such Shares (which may be in uncertificated form) will have been issued and recorded on the books and records of the Company or its transfer agents or registrars, and delivered to Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, Participant shall have all the rights of a stockholder of the Company, including with respect to the right to vote the Shares and the right to receive any cash or share dividends or other distributions paid to or made with respect to the Shares.

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3.3 Adjustments. The Participant acknowledges that the RSU Award, including the vesting of the RSU Award and the number of Shares subject to the RSU Award, is subject to adjustment upon the occurrence of certain events as provided in Article 11 of the Plan.

3.4 Not a Contract of Employment or other Service Relationship. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue to serve as an Employee or other service provider of the Company or any of its affiliates. Participant understands and agrees that this RSU Award does not alter the at-will nature of his or her employment relationship with the Company and is not a promise of continued employment for the vesting period of the RSU Award or any portion of it.

3.5 Administration. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Participant, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Shares.

3.6 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal executive offices, and any notice to be given to Participant shall be addressed to Participant at the most recent address in the Company's personnel records. By a notice given pursuant to this Section 3.6, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

3.7 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.8 Construction. This Agreement shall be administered, interpreted and enforced under the laws of the State of California without regard to conflicts of laws thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

3.9 Conformity to Securities Laws. Participant acknowledges that the Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

3.10 Amendments. Except as provided in the Plan, this Agreement may not be modified, amended or terminated except by an instrument in writing, signed by Participant and by a duly authorized representative of the Company.

3.11 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

FORM OF PERFORMANCE RSU AWARD

3.12 Entire Agreement. The Plan, the Grant Notice and this Agreement (including all Exhibits hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

3.13 Section 409A.

(a) Notwithstanding any other provision of the Plan, this Agreement or the Grant Notice, the Plan, this Agreement and the Grant Notice shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, "**Section 409A**"). The Committee may, in its discretion, adopt such amendments to the Plan, this Agreement or the Grant Notice or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Committee determines are necessary or appropriate to comply with the requirements of Section 409A.

(b) This Agreement is not intended to provide for any deferral of compensation subject to Section 409A of the Code, and, accordingly, the Shares issuable pursuant to the RSUs hereunder shall be distributed to Participant no later than the later of: (i) the fifteenth (15th) day of the third month following Participant's first taxable year in which such RSUs are no longer subject to a substantial risk of forfeiture, and (ii) the fifteenth (15th) day of the third month following the first taxable year of the Company in which such RSUs are no longer subject to substantial risk of forfeiture, as determined in accordance with Section 409A and any Treasury Regulations and other guidance issued thereunder.

(c) For purposes of Section 409A of the Code (including, without limitation, for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii)), each payment that Participant may be eligible to receive under this Agreement shall be treated as a separate and distinct payment.

3.14 Tax Representations. Participant has reviewed with Participant's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Participant understands that Participant (and not the Company) shall be responsible for Participant's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

3.15 Electronic Delivery and Acceptance. The Company may, in its sole discretion, deliver any documents related to the Grant Notice, this Agreement, the Plan or the RSUs by electronic means or request the Participant's consent to participate in the Plan or accept the RSUs by electronic means. The Participant hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or a third party vendor designated by the Company.

3.16 Confidentiality. Except with the approval of the Committee, Participant shall not disclose to any person, and shall preserve the confidentiality of, the performance vesting terms set forth in this Agreement. The foregoing restrictions on disclosure shall not apply to disclosures required by law or disclosures to the Participant's professional advisors.

3.17 Broker-Assisted Sales.

FORM OF PERFORMANCE RSU AWARD

(a) In the event of any broker-assisted sale of Shares in connection with the payment of withholding taxes as provided in Section 2.2(a)(iii) or Section 2.2(a)(v) or Section 2.2(b): (i) any Shares to be sold through a broker-assisted sale will be sold on the day the tax withholding obligation arises, or as soon thereafter as practicable; (ii) such Shares may be sold as part of a block trade with other participants in the Plan in which all participants receive an average price; (iii) the Participant will be responsible for all broker's fees and other costs of sale, and the Participant agrees to indemnify and hold the Company and its Subsidiaries harmless from any losses, costs, damages, or expenses relating to any such sale; (iv) to the extent the proceeds of such sale exceed the applicable tax withholding obligation, the Company agrees to pay such excess in cash to the Participant as soon as reasonably practicable; (v) the Participant acknowledges that the Company or its designee is under no obligation to arrange for such sale at any particular price, and that the proceeds of any such sale may not be sufficient to satisfy the applicable tax withholding obligation; and (vi) in the event the proceeds of such sale are insufficient to satisfy the applicable tax withholding obligation, the Participant agrees to pay immediately upon demand to the Company or its Subsidiaries with respect to which the withholding obligation arises, an amount sufficient to satisfy any remaining portion of the Company's or the applicable Subsidiary's withholding obligation.

(b) In the event any tax withholding obligation arising in connection with the RSUs will be satisfied under Section 2.2(a)(iii) or Section 2.2(b) above, then, unless the Participant is subject to Section 16 of the Exchange Act at the time the tax withholding obligation arises (in which case the prior approval of the Committee shall be required for any election by the Company pursuant to this Section 3.17(b)), the Company may elect to instruct any brokerage firm determined acceptable to the Company for such purpose to sell on Participant's behalf a whole number of Shares from those Shares that are issuable upon settlement of the RSUs as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the tax withholding obligation and to remit the proceeds of such sale to the Company or the Subsidiary with respect to which the withholding obligation arises. Participant's acceptance of the RSU Award constitutes the Participant's instruction and authorization to the Company and such brokerage firm to complete the transactions described in this Section 3.17(b), including the transactions described in the previous sentence, as applicable.

**AMENDMENT NO. 01 TO
STANDARD CONSULTING AGREEMENT**

AeroVironment, Inc., ("AV" or "Party") and General Charles R. Holland, USAF, Retired ("Consultant" or "Party"), collectively referred to as the "Parties," previously entered into a Standard Consulting Agreement with an Effective Date of January 01, 2016 ("Agreement"), which provides for the Consultant to render certain specified Services to AV during the Term of the Agreement. The Parties have agreed to amend the Agreement as follows:

1. First paragraph of the Agreement is modified to update AV's corporate address and also update Consultant's address. The amended first paragraph reads as follows: "THIS AGREEMENT is executed and made effective as of January 01, 2016 (the "Effective Date") between AeroVironment, Inc., a Delaware corporation, and its subsidiaries, with offices at 800 Royal Oaks Drive, Suite 210, Monrovia, CA 91016-6347 (hereinafter referred to as "AV" or Party) and General Charles R. Holland, USAF, Retired, with offices at _____, Phone: _____, E-mail: _____, **mailto:** _____ (hereinafter referred to as "consultant" or "Party"). AV and the Consultant will be collectively referred to as "the Parties."
2. Section 2, "Term," of the Agreement is modified to extend the Term of the Agreement to June 30, 2017. The amended Section 2 reads as follows: "Services will be performed between the Effective Date and June 30, 2017 ("Expiration Date"). This Agreement may be extended for additional periods by mutual written agreement between the Parties prior to the Expiration Date of the initial term or any extension thereof. If the Parties do not execute such a written agreement, this Agreement will expire and automatically terminate as of the Expiration Date."
3. Section 19, "Notice," of the Agreement is modified to update AV's corporate address and also update Consultant's address. The amended Section 19 reads as follows: "Any notice between the parties hereto required or permitted to be given under this Agreement shall be sufficient if in writing and sent by registered or certified mail, postage prepaid, or other express delivery service, to the respective addresses set forth below or at such other address as either of the parties may from time to time designate in accordance with the provisions of this Section 19.

AeroVironment: John Burkholder
Senior Counsel
800 Royal Oaks Drive, Suite 210
Monrovia, CA 91016-6347

Telephone: +626-357-9983 ext 4588
Facsimile: +626-359-1894
E-Mail: burkholder@avinc.com

Consultant: General Charles R. Holland, USAF Retired

AEROVIRONMENT PROPRIETARY INFORMATION

All other terms of the Agreement and any other terms of previous Amendments to the Agreement remain in full force and effect. If there is a conflict between the terms of this Amendment and those of the Agreement or any previous Amendment, the terms of this current Amendment shall control.

IN WITNESS WHEREOF, the Parties have executed this Amendment effective as of January 01, 2017

AEROVIRONMENT, INC.

Signature: /s/ Wahid Nawabi

Printed Name: Wahid Nawabi

Title: President and CEO

Date: 11/23/2016

CONSULTANT:

General Charles R. Holland, USAF, Retired

Signature: /s/ Charles R. Holland

Printed Name: Charles R. Holland

Title: Consultant

Date: 11/24/16

AEROVIRONMENT PROPRIETARY INFORMATION

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STANDARD CONSULTING AGREEMENT
Effective Date: January 1, 2016

Consultant: General Charles R. Holland, USAF, Retired

TASK ORDER # FY17-001

Project No. 9000.6435.0100.000

A. Effort and/or Services to be provided by Consultant:

Consultant will provide marketing support for unmanned air vehicle systems. This includes:

1. Scheduling meetings with key executives from the U.S. Department of Defense.
2. On-going consulting services on AV capture activities.
3. Facilitate and provide assistance scheduling meetings with key participants at various industry conferences.
4. Provide industry advice on ad-hoc basis as requested by the AV Task Manager.

In performance of the work under this Task Order and Consultant Agreement, the Consultant is not permitted to disclose any export-controlled data or furnish any defense services to non-US persons, unless authorized in advance by the US Department of State or Department of Commerce. The Consultant is not permitted to access any US or other government classified information in the course of performance of work under this Task Order and Consulting Agreement, unless the following actions have occurred: (1) AV Security Officer has approved such access in advance; (2) the Parties have executed the "Consultant Certificate Regarding Access to and Handling of Classified Information" (Attachment E to the Consulting Agreement); and (3) the Consultant has completed all necessary training.

B. Unless otherwise designated in writing by AV with notice to Consultant, the AV Task Manager is: Wahid Nawabi

C. Target Performance Period: January 1, 2017 through June 30, 2017

D. Rates:

Authorized Days: As required and authorized by AV Task Manager

Rate: \$4,000.00 per day

Monthly Retainer: \$4,000.00

Total Not To Exceed Cost: \$24,000.00 (excluding expenses)

E. Expenses:

Maximum authorized expenses: AV will reimburse Consultant for any AV related business travel expenses (transportation, lodging, meals, etc.) during "Target Performance Period" defined under Section C above, provided all travel expenses are pre-approved in writing by the AV Task Manager.

Travel and/or miscellaneous expenses shall be reimbursed in accordance with current AV standard travel procedures; receipts shall accompany invoices of \$25 or more. No labor or expense costs above those amounts shown here are to be incurred without the prior written approval of the AV Task Manager.

AEROVIRONMENT PROPRIETARY INFORMATION

Page 1

F. SUBMITTING INVOICES: This practice will support efficient processing and payment.

- 1. INVOICES:** Reference shall be made to the correct Task Order No. and Project No. and/or Charge No. and include the name of the AV Task Manager on all invoices.
- 2. PROGRESS STATEMENT:** To stay in compliance with the Federal Acquisition Regulation (FAR), Part 31, each invoice should also be accompanied by a progress statement.
- 3. INVOICES SHALL BE SENT TO:** Accounts Payable Group, AeroVironment, Inc., via e-mail to acp@avinc.com, and also reference the correct Task Order Number and your organization's name in the subject line of the email, with courtesy copy to AV Task Manager, or by mail to P.O. Box 5031, Monrovia, CA 91107.

| | |
|--------------------------------------|--|
| AeroVironment, Inc. | General Charles R. Holland, USAF, Retired |
| <u>/s/ Wahid Nawabi</u> Signature | <u>/s/ Charles R. Holland</u> Signature |
| <u>Wahid Nawabi</u> Name (Print) | <u>Charles R. Holland</u> Name (Print) |
| <u>President and CEO</u> Title | <u>Consultant</u> Title |
| <u>11/23/2016</u> Date | <u>11/24/16</u> Date |

AEROVIRONMENT PROPRIETARY INFORMATION

**AMENDMENT NO. 02 TO
STANDARD CONSULTING AGREEMENT**

AeroVironment, Inc. ("**AV or Party**") and General Charles R. Holland, USAF, Retired ("**Consultant or Party**"), collectively the "**Parties**," previously entered into a Standard Consulting Agreement with an Effective Date of January 1, 2016 ("Agreement"), which provides for the Consultant to render certain specified services to AV during the Term of the Agreement. The Parties have agreed to amend the Agreement as follows:

1. Section 2, "Term," of the Agreement is modified to extend the Term of the Agreement to April 30, 2018. **The amended Section 2 reads as follows:** "Services will be performed between the Effective Date and April 30, 2018 ("**Expiration Date**"). This Agreement may be extended for additional periods by mutual written agreement between the Parties prior to the Expiration Date of the initial term or any extension thereof. If the Parties do not execute such a written agreement, this Agreement will expire and automatically terminate as of the Expiration Date."

All other terms of the Agreement and any other terms of previous Amendments to the Agreement remain in full force and effect. If there is a conflict between the terms of this Amendment and those of the Agreement or any previous Amendment, the terms of this current Amendment shall control.

IN WITNESS WHEREOF, the Parties have executed this Amendment effective as of July 1, 2017

AEROVIRONMENT, INC.

Signature: /s/ Wahid Nawabi

Printed Name: Wahid Nawabi

Title: President and CEO

Date: 6/7/2017

CONSULTANT:

General Charles R. Holland, USAF, Retired

Signature: /s/ Charles R. Holland

Printed Name: Charles R. Holland

Title: Consultant

Date: 6/7/17

AEROVIRONMENT PROPRIETARY INFORMATION

Page 1

STANDARD CONSULTING AGREEMENT
Effective Date: January 1, 2016

Consultant: General Charles R. Holland, USAF, Retired

TASK ORDER # FY18-001

Project No. 0100.COR

A. Effort and/or Services to be provided by Consultant:

Consultant will provide marketing support for unmanned air vehicle systems. This includes:

1. Scheduling meetings with key executives from the U.S. Department of Defense.
2. On-going consulting services on AV capture activities.
3. Facilitate and provide assistance scheduling meetings with key participants at various industry conferences.
4. Provide industry advice on ad-hoc basis as requested by the AV Task Manager.

In performance of the work under this Task Order and Consultant Agreement, the Consultant is not permitted to disclose any export-controlled data or furnish any defense services to non-US persons, unless authorized in advance by the US Department of State or Department of Commerce. The Consultant is not permitted to access any US or other government classified information in the course of performance of work under this Task Order and Consulting Agreement, unless the following actions have occurred: (1) AV Security Officer has approved such access in advance; (2) the Parties have executed the "Consultant Certificate Regarding Access to and Handling of Classified Information" (Attachment E to the Consulting Agreement); and (3) the Consultant has completed all necessary training.

B. Unless otherwise designated in writing by AV with notice to Consultant, the AV Task Manager is: Wahid Nawabi

C. Target Performance Period: July 1, 2017 through April 30, 2018

D. Rates:

Authorized Days: As required and authorized by AV Task Manager

Rate: \$4,000.00 per day

Monthly Retainer: \$4,000.00

Total Not To Exceed Cost: \$24,000.00 (excluding expenses)

E. Expenses:

Maximum authorized expenses: AV will reimburse Consultant for any AV related business travel expenses (transportation, lodging, meals, etc.) during "Target Performance Period" defined under Section C above, provided all travel expenses are pre-approved in writing by the AV Task Manager.

Travel and/or miscellaneous expenses shall be reimbursed in accordance with current AV standard travel procedures; receipts shall accompany invoices of \$25 or more. No labor or expense costs above those amounts shown here are to be incurred without the prior written approval of the AV Task Manager.

AEROVIRONMENT PROPRIETARY INFORMATION

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F. SUBMITTING INVOICES: This practice will support efficient processing and payment.

1. **INVOICES:** Reference shall be made to the correct Task Order No. and Project No. and/or Charge No. and include the name of the AV Task Manager on all invoices.
2. **PROGRESS STATEMENT:** To stay in compliance with the Federal Acquisition Regulation (FAR), Part 31, each invoice should also be accompanied by a progress statement.
3. **INVOICES SHALL BE SENT TO:** Accounts Payable Group, AeroVironment, Inc., via e-mail to acp@avinc.com, and also reference the correct Task Order Number and your organization's name in the subject line of the email, with courtesy copy to AV Task Manager, or by mail to P.O. Box 5031, Monrovia, CA 91107.

| | |
|--|--|
| AeroVironment, Inc. <u>/s/ Wahid Nawabi</u> Signature <u>President and CEO</u> Title <u>6/6/2017</u> Date | General Charles R. Holland, USAF, Retired <u>/s/ Charles R. Holland</u> Signature <u>6/5/17</u> Date |
|--|--|

AEROVIRONMENT PROPRIETARY INFORMATION

**AMENDMENT NO. 03 TO
STANDARD CONSULTING AGREEMENT**

Aerovironment, Inc. ("**AV or Party**") and General Charles R. Holland, USAF, Retired ("**Consultant or Party**"), collectively the "**Parties**," previously entered into a Standard Consulting Agreement with an Effective Date of January 1, 2016 ("**Agreement**"), which provides for the Consultant to render certain specified services to AV during the Term of the Agreement. The Parties have agreed to amend the Agreement as follows:

1. Section 2, "Term," of the Agreement is modified to extend the Term of the Agreement to April 30, 2019. **The amended Section 2 reads as follows:** "Services will be performed between the Effective Date and April 30, 2019 ("**Expiration Date**"). This Agreement may be extended for additional periods by mutual written agreement between the Parties prior to the Expiration Date of the initial term or any extension thereof. If the Parties do not execute such a written agreement, this Agreement will expire and automatically terminate as of the Expiration Date."

All other terms of the Agreement and any other terms of previous Amendments to the Agreement remain in full force and effect. If there is a conflict between the terms of this Amendment and those of the Agreement or any previous Amendment, the terms of this current Amendment shall control.

IN WITNESS WHEREOF, the Parties have executed this Amendment effective as of May 1, 2018.

AEROVIRONMENT, INC.

Signature: /s/ Wahid Nawabi

Printed Name: Wahid Nawabi

Title: President and CEO

Date: 4/23/2018

**CONSULTANT:
General Charles R. Holland, USAF, Retired**

Signature: /s/ Charles R. Holland

Printed Name: Charles R. Holland

Date: 4/23/2018

AEROVIRONMENT PROPRIETARY INFORMATION

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STANDARD CONSULTING AGREEMENT
Effective Date: January 1, 2016

Consultant: General Charles R. Holland

TASK ORDER # FY19-001

Project No.0100 COR

A. Effort and/or Services to be provided by Consultant:

Consultant will assist with the following services:

Consultant will provide marketing support for unmanned air vehicle systems. This includes:

1. Scheduling meetings with key executives from the U.S. Department of Defense.
2. On-going consulting services on AV capture activities.
3. Facilitate and provide assistance scheduling meetings with key participants at various industry conferences.
4. Provide industry advice on ad-hoc basis as requested by the AV Task Manager.

In performance of the work under this Task Order and Consultant Agreement, the Consultant is not permitted to disclose any export-controlled data or furnish any defense services to non-US persons, unless authorized in advance by the US Department of State or Department of Commerce. The Consultant is not permitted to access any US or other government classified information in the course of performance of work under this Task Order and Consulting Agreement, unless the following actions have occurred: (1) AV Security Officer has approved such access in advance; (2) the Parties have executed the "Consultant Certificate Regarding Access to and Handling of Classified Information" (Attachment E to the Consulting Agreement); and (3) and the Consultant has completed all necessary training.

B. Unless otherwise designated in writing by AV with notice to Consultant, the AV Task Manager is: Wahid Nawabi

C. Target Performance Period: May 1, 2018 through April 30, 2019

AEROVIRONMENT PROPRIETARY INFORMATION

Page 1

F. Rates:

Authorized Days: As required and authorized by AV Task Manager

Monthly Retainer: \$4,000.00

Total Not To Exceed Cost: \$48,000.00 (plus any expenses incurred as approved by Task Manager)

E. Expenses:

Maximum authorized expenses: None

AV will reimburse Consultant for any AV related business travel expenses (transportation, lodging, meals, etc.) during "Target Performance Period" defined under Section C above, provided all travel expenses are pre-approved in writing by the AV Task Manager.

Travel and/or miscellaneous expenses shall be reimbursed in accordance with current AV standard travel procedures; receipts shall accompany invoices of \$25 or more.

No labor or expense costs above those amounts shown here are to be incurred without the prior written approval of the AV Task Manager.

F. SUBMITTING INVOICES: This practice will support efficient processing and payment.

1. **INVOICES:** Reference shall be made to the correct Task Order No. and Project No. and/or Charge No. and include the name of the AV Task Manager on all invoices.
2. **PROGRESS STATEMENT:** To stay in compliance with the Federal Acquisition Regulation (FAR), Part 31, each invoice should also be accompanied by a progress statement.
3. **INVOICES SHALL BE SENT TO:** Accounts Payable Group, AeroVironment, Inc., via e-mail to acp@avinc.com, and also reference the correct Task Order Number and your organization's name in the subject line of the email, with courtesy copy to AV Task Manager, or by mail to P.O. Box 5031, Monrovia, CA 91107.

AEROVIRONMENT, INC.

Charles R. Holland, USAF Retired

/s/ Wahid Nawabi

 Signature

Wahid Nawabi

 Name (Print)

President and CEO

 Title

4/23/2018

 Date

/s/ Charles R. Holland

 Signature

Charles R. Holland

 Name (Print)

4/23/2018

 Date



**AMENDMENT NO. 04 TO
STANDARD CONSULTING AGREEMENT**

Aerovironment, Inc. ("**AV or Party**") and General Charles R. Holland, USAF, Retired ("**Consultant or Party**"), collectively the "**Parties**," previously entered into a Standard Consulting Agreement with an Effective Date of January 1, 2016 ("**Agreement**"), which provides for the Consultant to render certain specified services to AV during the Term of the Agreement. The Parties have agreed to amend the Agreement as follows:

1. Section 2, "Term," of the Agreement is modified to extend the Term of the Agreement to April 30, 2020. **The amended Section 2 reads as follows:** "Services will be performed between the Effective Date and April 30, 2020 ("**Expiration Date**"). This Agreement may be extended for additional periods by mutual written agreement between the Parties prior to the Expiration Date of the initial term or any extension thereof. If the Parties do not execute such a written agreement, this Agreement will expire and automatically terminate as of the Expiration Date."

All other terms of the Agreement and any other terms of previous Amendments to the Agreement remain in full force and effect. If there is a conflict between the terms of this Amendment and those of the Agreement or any previous Amendment, the terms of this current Amendment shall control.

IN WITNESS WHEREOF, the Parties have executed this Amendment effective as of May 1, 2019.

AEROVIRONMENT, INC.

Signature: /s/ Wahid Nawabi

Printed Name: Wahid Nawabi

Title: President and CEO

Date: 4/30/2019

**CONSULTANT:
GENERAL CHARLES R. HOLLAND, USAF, RETIRED**

Signature: /s/ Charles R. Holland

Printed Name: Charles R. Holland

Date: 4/30/2019

AEROVIRONMENT PROPRIETARY INFORMATION

STANDARD CONSULTING AGREEMENT
Effective Date: January 1, 2016

Consultant: Charles R. Holland

TASK ORDER # FY20-001

Project and/or Charge No.0100 COR

D. Effort and/or Services to be provided by Consultant:

Consultant will assist with the following services:

Consultant will provide marketing support for unmanned air vehicle systems. This includes:

1. Scheduling meetings with key executives from the U.S. Department of Defense.
2. On-going consulting services on AV capture activities.
3. Facilitate and provide assistance scheduling meetings with key participants at various industry conferences.
4. Provide industry advice on ad-hoc basis as requested by the AV Task Manager.

In performance of the work under this Task Order and Consultant Agreement, the Consultant is not permitted to disclose any export-controlled data or furnish any defense services to non-US persons, unless authorized in advance by the US Department of State or Department of Commerce. The Consultant is not permitted to access any US or other government classified information in the course of performance of work under this Task Order and Consulting Agreement, unless the following actions have occurred: (1) AV Security Officer has approved such access in advance; (2) the Parties have executed the "Consultant Certificate Regarding Access to and Handling of Classified Information" (Attachment E to the Consulting Agreement); and (3) and the Consultant has completed all necessary training.

E. Unless otherwise designated in writing by AV with notice to Consultant, the AV Task Manager is: Wahid Nawabi

F. Target Performance Period: May 1, 2019 through December 1, 2019

AEROVIRONMENT PROPRIETARY INFORMATION

Page 1

G. Rates:

Authorized Days: As required and authorized by AV Task Manager

Monthly Retainer: \$4,000.00

Total Not To Exceed Cost: \$48,000.00 (plus any expenses incurred as approved by Task Manager)

H. Expenses:

Maximum authorized expenses: None

AV will reimburse Consultant for any AV related business travel expenses (transportation, lodging, meals, etc.) during "Target Performance Period" defined under Section C above, provided all travel expenses are pre-approved in writing by the AV Task Manager.

Travel and/or miscellaneous expenses shall be reimbursed in accordance with current AV standard travel procedures; receipts shall accompany invoices of \$25 or more.

No labor or expense costs above those amounts shown here are to be incurred without the prior written approval of the AV Task Manager.

I. SUBMITTING INVOICES: This practice will support efficient processing and payment.

1. **INVOICES:** Reference shall be made to the correct Task Order No. and Project No. and/or Charge No. and include the name of the AV Task Manager on all invoices.
2. **PROGRESS STATEMENT:** To stay in compliance with the Federal Acquisition Regulation (FAR), Part 31, each invoice should also be accompanied by a progress statement.
3. **INVOICES SHALL BE SENT TO:** Accounts Payable Group, AeroVironment, Inc., via e-mail to acp@avinc.com, and also reference the correct Task Order Number and your organization's name in the subject line of the email, with courtesy copy to AV Task Manager, or by mail to P.O. Box 5031, Monrovia, CA 91107.

AeroVironment, Inc.

Charles R. Holland, USAF Retired

/s/ Wahid Nawabi
Signature

/s/ Charles R. Holland
Signature

Wahid Nawabi
Name (Print)

Charles R. Holland
Name (Print)

President and CEO
Title

4/30/2019
Date

4/30/2019
Date



CERTAIN IMMATERIAL PROVISIONS OF THIS DOCUMENT THAT WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED (INDICATED BY AN ASTERISK [**]) HAVE BEEN OMITTED PURSUANT TO ITEM 601(b)(2) OF REGULATION S-K. A COPY OF THE UNREDACTED DOCUMENT WILL BE FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION UPON REQUEST.

**AMENDMENT NO.1 TO
THE DESIGN AND DEVELOPMENT AGREEMENT (STEP 2)**

This Amendment No.1 to the Design and Development Agreement (Step2) (“**Amendment**”) is entered into as of the date of last signature below (“**Amendment Effective Date**”) by and between HAPS Mobile Inc. (“**HAPSMobile**”) and AeroVironment, Inc. (“**AV**”) to amend the Design and Development Agreement (Step2) (the “**DDA**”) made as of December 27, 2017 between HAPSMobile and AV..

Background

The Parties wished to raise certain technical specification changes to Attachment A and D to the DDA, and related changes Attachment F to the DDA (“**Changes**”) following the Change Control procedures set forth in Article 2.4 of and Attachment G to the DDA and such Change Control procedures were successfully completed on February 15, 2018. Therefore, to formalize and reflect the Changes, the Parties hereby agree with the amendments to the DDA as follows:

Amendment

- Section 1.1 “Aircraft Deliverables” (subsection of Section 1. ”Hardware Deliverables”) of Attachment A (DELIVERABLES) to the DDA is hereby deleted in its entirety and replaced with the following clause:

1.1 Aircraft Deliverables

| Deliverables Name | Deliverable Description | Relevant WBS | Milestone No. | Estimated Completion Date |
|-------------------------------|--------------------------------|---------------------|----------------------|----------------------------------|
| Hawk30 Prototype [**] [**] | [**] | [**] | [**] | [**] |
| Hawk30 Prototype [**] [**] | [**] | [**] | [**] | [**] |

The [**] Implementation plan is as follows:

Hawk30 Prototype [**] will have [**] of [**] device set manufactured by [**]

Hawk30 Prototype [**] will have [**] of [**] device set manufactured by [**] and [**] device set manufactured by [**].

[**]
*1. [**].

- Sections [**] and [**] [**] (Subsection of [**] – Section [**]. [**] – [**]) of Attachment [**] ([**]) to the DDA is hereby deleted in its entirety and replaced with the following clause:

[**].

[**] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

[***].

[***].

[***].

[***].

3. Section 1. "Payment for Work Step2" (Subsection of "PRICING & PAYMENT SCHEDULE") of Attachment F (INVOICE AND INCURRED COSTS DOCUMENTATION) to the DDA is hereby deleted in its entirety and replaced with the following clause:

1. Payment for Work Step2

The total amount of Design and Development Fees payable for Step 2 is Not-to-Exceed USD \$75,789,302 based on Best Efforts (the "Initial Contract Value"). The Initial Contract Value may be modified by the Parties as a result of Change Control or by any other amendment to the Agreement (the current contract value at any time under this Agreement shall be the "Contract Value"). The Parties agree to account for payment of USD \$5,988,678 already made by SoftBank to AV as payment for the consideration of Step 2 Bridge Contract as partial payment for commencing Step 2. HAPSMobile shall pay to AV the remaining balance of USD \$69,800,624 in accordance with Exhibit A to this Attachment F Project Funds Status Report through a combined Milestone & Monthly Invoice approach as detailed further in this Attachment F. Each Milestone payment shall be payable after completion of the applicable Milestone according to Completion criteria on Attachment H. HAPSMobile agrees to issue (3) three separate Orders to AV for authorization of Work. The Orders shall be issued as follows: initial Order [***]; second Order [***]; and the third Order [***]. Each Order will be issued pursuant to the terms and conditions of this Agreement including the attachments thereto. Work performed under the Orders will be in support of the entire Statement of Work, up to the value funded on the Order.

4. All other terms and conditions not specifically modified or amended herein remain in full force and effect as provided for in the DDA. Hereby the Parties expressly confirm that no change applies to the Project Milestone set forth in ATTACHMENT I despite of the Changes. Capitalized terms, unless otherwise defined herein, shall have the meaning set forth in the DDA. This Amendment may only be modified or amended by a written document executed by the parties hereto.

IN WITNESS WHEREOF the Parties hereto have signed and executed this Amendment on the date(s) below.

SIGNED for and on behalf of
HAPSMobile Inc.

SIGNED for and on behalf of
AeroVironment, Inc.

By: ..s/ Junichi Miyakawa.....
Name: Junichi Miyakawa
Title: Preisident and CEO
Date:

By: ./s/ Jon Self.....
Name: Jon Self
Title: VP HAPS Programs
Date:

***] Information has been omitted pursuant to Item 601(b)(2).

CERTAIN IMMATERIAL PROVISIONS OF THIS DOCUMENT THAT WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED (INDICATED BY AN ASTERISK [***) HAVE BEEN OMITTED PURSUANT TO ITEM 601(b)(2) OF REGULATION S-K. A COPY OF THE UNREDACTED DOCUMENT WILL BE FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION UPON REQUEST.

**AMENDMENT NO.2 TO
THE DESIGN AND DEVELOPMENT AGREEMENT (STEP 2)**

This Amendment No.2 to the Design and Development Agreement (Step2) (“**Amendment**”) is entered into as of the date of last signature below (“**Amendment Effective Date**”) by and between HAPS Mobile Inc. (“**HAPSMobile**”) and AeroVironment, Inc. (“**AV**”) to amend the Design and Development Agreement (Step2) (the “**DDA**”) made as of December 27, 2017, and amended by Amendment No.1 as of March 30, 2018, between HAPSMobile and AV..

Background

The Parties wished to raise a change of schedule for [***) on Attachment H to the DDA (the “**Change**”) following the Change Control procedures set forth in Article 2.4 and 3.4 of, and Attachment G to the DDA and agreed to classify the Change as Class II Change and no cost impacting Control. Therefore, to formalize and reflect the Changes, the Parties hereby agree with the amendments to the DDA as follows:

Amendment

1. Table entry line number 2 and 3 (not counting the header line) of Section 2. ”Document Deliverables” of Attachment A (DELIVERABLES) to the DDA is hereby amended as follows:

| | | | | |
|------------------------------|--|---------|-------|-------|
| Update Component Engineering | Technical Data Package | 2.2 | [***) | [***) |
| Fab & Test First Wing Panel | Technical Data Package. Recorded measurement data aerodynamic test data. | 2.2.3.1 | [***) | [***) |

2. Section 2 [***) Mile Stone Date of Attachment H (PROJECT MILESTONE) to the DDA is hereby amended as follows:

| | | |
|-------|-------|-------|
| [***) | [***) | [***) |
|-------|-------|-------|

3. All other terms and conditions not specifically modified or amended herein remain in full force and effect as provided for in the DDA and the amendment No.1 to DDA. Hereby the Parties expressly confirm that no change applies to the Incurred Cost forth in ATTACHMENT F despite of the Change. Capitalized terms, unless otherwise defined herein, shall have the meaning set forth in the DDA or the amendment No.1. This Amendment may only be modified or amended by a written document executed by the parties hereto.

[***) Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

IN WITNESS WHEREOF the Parties hereto have signed and executed this Amendment on the date(s) below.

SIGNED for and on behalf of
HAPSMobile Inc.

SIGNED for and on behalf of
AeroVironment, Inc.

By: /s/ Yoshihito Shimazaki

By:/s/ Jon B Self

Name: Yoshihito Shimazaki

Name: Jon B Self

Title: Board of Director

Title:VP HAPS Programs

Date:Jun 26, 2018

Date:7/3/2018

CERTAIN IMMATERIAL PROVISIONS OF THIS DOCUMENT THAT WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED (INDICATED BY AN ASTERISK [**]) HAVE BEEN OMITTED PURSUANT TO ITEM 601(b)(2) OF REGULATION S-K. A COPY OF THE UNREDACTED DOCUMENT WILL BE FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION UPON REQUEST.

**AMENDMENT NO. 3 TO
THE DESIGN AND DEVELOPMENT AGREEMENT (STEP 2)**

This Amendment No. 3 to the Design and Development Agreement (Step2) (“**Amendment No.3**”) is entered into as of the date of last signature below by and between HAPS Mobile Inc. (“**HAPSMobile**”) and AeroVironment, Inc. (“**AV**”) to amend the Design and Development Agreement (Step2) made as of December 27, 2017 (as amended by the Amendment No. 1 as of March 30, 2018 and the Amendment No. 2 as of June 25, 2018 between HAPSMobile and AV) (the “**DDA**”).

Background

The Parties wished to raise certain technical specification changes to Attachment A to the DDA (the “**Change**”) following the Change Control procedures set forth in Article 2.4 of, Attachment G to, and Article 3.4 of the DDA and agreed to classify the Change as Class I Change. The Parties agreed and acknowledged that the Change will have no cost/schedule impact. Therefore, to formalize and reflect the Changes, the Parties hereby agree with the amendments to the DDA as follows:

Amendment

- Section 1.1 “Aircraft Deliverables” (subsection of Section 1. “Hardware Deliverables”) of Attachment A (DELIVERABLES) to the DDA is hereby deleted in its entirety and replaced with the following clause:

1.1 Aircraft Deliverables

| Deliverables Name | Deliverable Description | Relevant WBS | Milestone No. | Estimated Completion Date |
|--------------------------|--------------------------------|---------------------|----------------------|----------------------------------|
| Hawk30 Prototype [**] | [**] | [**] | [**] | [**] |
| Hawk30 Prototype [**] | [**] | [**] | [**] | [**] |

The current [**] implementation plan is as follows:

Hawk30 Prototype [**] will have [**] of [**] module manufactured by [**] with removal of [**]. [**] will have the appropriate [**] installed for a [**] so that [**] module manufactured by [**].

Hawk30 Prototype [**] will have [**] of [**] module manufactured by [**] with removal of [**]. [**] will then have the [**] modules ([**]) installed [**]. The remaining [**] modules [**].

[**]

*1. [**].

- Table entry line number 5 (without counting the header line) of Section 2. “Document Deliverables” of Attachment A (DELIVERABLES) to the DDA is hereby amended as follows:

[**] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

| | | | | |
|-------------------------|--|---------|------|------|
| Integrated Test Reports | Acceptance test reports for aircraft & Ground Control Station. | 2.3.2.2 | ***] | ***] |
|-------------------------|--|---------|------|------|

3. All other terms and conditions not specifically modified or amended herein remain in full force and effect as provided for in the DDA. Hereby the Parties expressly confirm that no change applies to the Project Milestone set forth in ATTACHMENT I despite of the Changes. Capitalized terms, unless otherwise defined herein, shall have the meaning set forth in the DDA. This Amendment No.3 may only be modified or amended by a written document executed by the parties hereto.

IN WITNESS WHEREOF the Parties hereto have signed and executed this Amendment No.3 on the date(s) below.

SIGNED for and on behalf of
HAPSMobile Inc.

SIGNED for and on behalf of
AeroVironment, Inc.

By: ../s/ Yoshihito Shimazaki.....
Name: Yoshihito Shimazaki
Title: Board of Director, Senior Vice President
Date: 2018/08/28

By: ../s/ Jon B Self.....
Name: Jon B Self
Title: VP HAPS Programs
Date: 2018/09/05

CERTAIN IMMATERIAL PROVISIONS OF THIS DOCUMENT THAT WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED (INDICATED BY AN ASTERISK [***) HAVE BEEN OMITTED PURSUANT TO ITEM 601(b)(2) OF REGULATION S-K. A COPY OF THE UNREDACTED DOCUMENT WILL BE FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION UPON REQUEST.

**AMENDMENT NO.4 TO
THE DESIGN AND DEVELOPMENT AGREEMENT (STEP 2)**

This Amendment No.4 to the Design and Development Agreement (Step2) (“**Amendment**”) is entered into as of the date of last signature below by and between HAPS Mobile Inc. and AeroVironment, Inc. to amend the Design and Development Agreement (Step2) made as of December 27, 2017 (as amended by the Amendment No.1 as of March 30, 2018, the Amendment No.2 as of June 25, 2018, and the Amendment No.3 as of August 28, 2018 between HAPSMobile and AV) (the “**DDA**”).

Background

The Parties wished to raise a change of schedule related to [***) in Attachment A and H to the DDA (the “**Change**”) following the Change Control procedures set forth in Article 2.4 and 3.4 of, and Attachment G to the DDA, agreed to classify the Change as Class I Change and that there will be no cost related to the Change. Therefore, to formalize and reflect the Changes, the Parties hereby agree with the amendments to the DDA as follows:

Amendment

1. Table entry line number 5 (not counting the header line) of Section 2 of Attachment A (DELIVERABLES) to the DDA (“Integrated Test Reports”) is hereby amended as follows:

| | | | | |
|-------------------------|--|---------|-------|-------|
| Integrated Test Reports | Acceptance test reports for aircraft & Ground Control Station. | 2.3.2.2 | [***) | [***) |
|-------------------------|--|---------|-------|-------|

2. “Date” of Section 4 [***) of Attachment H (PROJECT MILESTONE) to the DDA is hereby amended as follows:

| | | |
|-------|-------|-------|
| [***) | [***) | [***) |
|-------|-------|-------|

3. All other terms and conditions not specifically modified or amended herein remain in full force and effect as provided for in the DDA. Hereby the Parties expressly confirm that no change applies to the Incurred Cost set forth in ATTACHMENT F despite of the Change. Capitalized terms, unless otherwise defined herein, shall have the meaning set forth in the DDA. This Amendment may only be modified or amended by a written document executed by the parties hereto.

[***) Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

IN WITNESS WHEREOF the Parties hereto have signed and executed this Amendment on the date(s) below.

SIGNED for and on behalf of
HAPSMobile Inc.

SIGNED for and on behalf of
AeroVironment, Inc.

By: ../s/ Yoshihito Shimazaki.....
Name: Yoshihito Shimazaki
Title: Board of Director, Senior Vice President
Date:11/30/2018

By: ../s/ Jon B Self.....
Name: Jon B Self
Title:VP HAPS Programs
Date:12/5/18

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

CERTAIN IMMATERIAL PROVISIONS OF THIS DOCUMENT THAT WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED (INDICATED BY AN ASTERISK [***) HAVE BEEN OMITTED PURSUANT TO ITEM 601(b)(2) OF REGULATION S-K. A COPY OF THE UNREDACTED DOCUMENT WILL BE FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION UPON REQUEST.

**AMENDMENT NO.5 TO
THE DESIGN AND DEVELOPMENT AGREEMENT (STEP 2)**

This Amendment No.5 to the Design and Development Agreement (Step2) (“**Amendment**”) is entered into as of the date of last signature below by and between HAPS Mobile Inc. (“**HAPSMobile**”) and AeroVironment, Inc. (“**AV**”) to amend the Design and Development Agreement (Step2) made as of December 27, 2017 (as amended by the Amendment No.1 as of March 30, 2018, the Amendment No.2 as of June 25, 2018, the Amendment No.3 as of August 28, 2018, and the Amendment No.4 as of December 5, 2018 between HAPSMobile and AV) (the “**DDA**”).

Background

The Parties agree to amend the total Fees of Design and Development for Step 2 due to the occurrence of several change of design and development work for [***) and related functionality as set forth herein (the “**Change**”), and to upgrade the Project management process and methodology as set forth herein (the “**Program Management Improvement**”) in accordance with the modification process of the Agreement set forth in Section 1.5 “Excess Incurred Costs,” of Attachment F to the DDA, and Article 13, “Amendments,” of the body of DDA.

Therefore, to formalize and reflect both the Changes and Program Management Improvement, the Parties hereby agree with the amendments to the DDA as follows:

Amendment

1. Article 1.31 (Subarticle of “1. DEFINITION”) of the body of DDA (definition of the term “**Quarterly Status Report**”) is hereby deleted in its entirety and replaced with the following clause:
 - 1.31 “**Monthly (was Quarterly) Status Report**” means the report to be provided by AV to HAPSMobile on a monthly basis during the term of the Agreement in accordance with Article 3.3 below.
2. Article 3.3 and 3.6 (Subarticles of “3. DELIVERABLES & MILESTONES”) of the body of DDA are hereby deleted in its entirety and each replaced with the following clauses:
 - 3.3 Notification of Delays. During the term of the Agreement, AV shall provide to HAPSMobile a Monthly (was Quarterly) Status Report per Attachment F, Exhibit B on its performance under the Statement of Work and completion of the Deliverables and Milestones on a monthly basis. If AV has reason to believe that it will not be able to complete a Deliverable or Milestone on or before its applicable Estimated Completion Date, or that it will not be able to complete the Agreement in commercially reasonable manner within the funded cost amount as defined in Section 1. “Payment for Work Step 2” of Attachment F (and amended herein) quoted as “the remaining balance”, it shall notify HAPSMobile in the Monthly (was Quarterly) Status Report of:
 - (a) The cause of the delay or cost increase;
 - (b) The expected period of delay or the total amount of cost overrun;
 - (c) The steps proposed to be taken by AV to minimise the delay or the cost overrun impact; and
 - (d) The impact of the delay or cost overrun as related to any projected increase of expected Incurred Costs.
 - 3.6 AV will provide all necessary records to reasonably demonstrate the stock location of the Materials and logistic or manufacturing status of the Materials on a quarterly basis. AV will

[***) Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

track and report on the inventory status of Material and assemblies of the Materials on a monthly (was quarterly) basis.

3. Article 7.4 (Subarticles of “7. PRICE AND PAYMENT”) of the body of DDA is hereby deleted in its entirety and replaced with the following clauses:

7.4 AV will provide updates on the potential for cost increases or decreases for the completion of the Scope of Agreement in the Monthly (was Quarterly) Status Report as identified in Attachment F.

4. The following bullet point is hereby newly inserted after the 7th bullet point of “**Approach**” Section of Section 1.1.1 “Project Management & Technical Leadership” (Subsection of “1. PROGRAM MANAGEMENT & SYSTEMS ENGINEERING PRICING”) of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA:

□ [***];

- (i) [***]
- (ii) [***]
- (iii) [***]
- (iv) [***]

□ [***];

- Ø [***]
- Ø [***]
- Ø [***]

Reporting Process diagram

[***]

5. “**Task Output**” section of Section 1.1.1 “[***] ([***])” of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA is hereby deleted in its entirety and replaced with the following clause:

Task Output:

- [***]
- [***]

6. Section 1. “**Payment for Work Step2**” (Subsection of “PRICING & PAYMENT SCHEDULE”) of Attachment F (INVOICE AND INCURRED COSTS DOCUMENTATION) to the DDA (as amended by the Amendment No.1) is hereby deleted in its entirety and replaced with the following clause:

1. Payment for Work Step2

The total amount of Design and Development Fees payable for Step 2 is Not-to-Exceed USD \$93,015,608 based on Best Efforts (the “Initial Contract Value”). The Initial Contract Value may be modified by the Parties as a result of Change Control or by any other amendment to the Agreement (the current contract value at any time under this Agreement shall be the “Contract Value”). The Parties agree to account for payment of USD \$5,988,678 already made by SoftBank to AV as payment for the consideration of Step 2 Bridge Contract as partial payment for commencing Step 2. HAPSMobile shall pay to AV the remaining balance of USD \$87,026,930, consists from \$69,800,624 as Initial Contract Value and incremental amount by Amendment No.1, and \$17,226,306 as incremental funding subject to EAC adjustment activity done on [***], in accordance with Exhibit A to this Attachment F Project Funds Status Report accompanied by a combined Milestone & Monthly Invoice approach as detailed further in this

Attachment F. Each Milestone payment shall be payable after completion of the applicable Milestone according to Completion criteria on Attachment H.

HAPSMobile agrees to issue four (4) separate Orders to AV for authorization of Work. The Orders shall be issued as follows: initial Order [***]; second Order [***]; the third Order [***]; and the fourth Order [***]. Each Order will be issued pursuant to the terms and conditions of this Agreement including the attachments thereto. Work performed under the Orders will be in support of the entire Statement of Work, up to the value funded on the Order.

7. Section 1.1 “**Milestone Target Budget Value & Forecast Revisions**” (Subsection of “PRICING & PAYMENT SCHEDULE”) of Attachment F (INVOICE AND INCURRED COSTS DOCUMENTATION) to the DDA (as amended by the Amendment No.1) is hereby deleted in its entirety and replaced with the following clause:

1.1 Milestone Target Budget Values & Forecast Revisions

Exhibit A (Project Funds Status Report) to this Attachment F assigns Initial Target Budget values for each of the 8 Milestones identified in Attachment H.

AV will provide updates and revisions to the Initial Target Budget values for each Milestone and revised and updated forecasts for such Milestones to HAPSMobile on a monthly basis. Milestone values are subject to Change Control based on updated forecasts of program resource requirements to complete the Work required under this Agreement, including the SOW(Attachment C). Milestone values will be based on the AV labor projected spend plan forecasted for each AV fiscal month.

8. Section 1.5 “**Excess Incurred Costs**” (Subsection of “PRICING & PAYMENT SCHEDULE”) of Attachment F (INVOICE AND INCURRED COSTS DOCUMENTATION) to the DDA (as amended by the Amendment No.1) is hereby deleted in its entirety and replaced with the following clause:

1.5 Excess Incurred Costs

In the event that AV identifies a projected increase in Incurred Costs by AV for the performance of its obligations under the Agreement as identified in the Monthly (was Quarterly) Status Report, in excess of the initial total amount of the Order as identified in Article 2.3, HAPSMobile may,

(1) agree to authorize AV to incur the excess costs and provide a modification to increase the Contract Value, provided however that both Parties shall follow the Change Control set forth in Article 2.4 of the Agreement or Amendment of Agreement set forth in Article 13. Should HAPSMobile authorize additional spending, all of AV’s Incurred Costs must be paid to AV with the applicable [***]% fee;

(2) agree in accordance with the Change Control or Amendment of Agreement to reduce the Scope of Agreement so that AV’s performance of the Scope of Agreement will be projected to fall within the amount of the then current Contract Value; or

(3) Terminate the Agreement for convenience as contemplated by Article 12.3 of the Agreement and pay AV all Termination Liability as defined in paragraph 1.7 of this attachment.

9. Section 1.6 “**Unutilized Consideration**” (Subsection of “PRICING & PAYMENT SCHEDULE”) of Attachment F (INVOICE AND INCURRED COSTS DOCUMENTATION) to the DDA (as amended by the Amendment No.1) is hereby deleted in its entirety and replaced with the following clause:

1.6 Unutilized Consideration

In the event of a projected cost underrun as identified in a Monthly (was Quarterly) Status Report, any amounts from the Order which remain after completion of the Scope of Agreement may be reimbursed or, if authorized by HAPSMobile separately and specifically, utilized for AV’s risk reduction or additional scope to be defined through written mutual agreement subject to the terms

of this Agreement. To avoid confusion, the total amount as identified in paragraph 1 of this Attachment and any portion thereof, to the extent that it is utilized, must be utilized only for matters or items within the Scope of Agreement and any additional scope as agreed. Incurred Costs shall be inclusive of any applicable consumption, value added tax or any other applicable sales/use tax. For the avoidance of doubt, the Incurred Costs shall be exclusive of any and all import duties.

10. Table entry line number 2 “**Exhibit B – Quarterly Status Report (Example)**” after Section 3.1 “Change Control & Agreement Amendments Payment Schedule”, and corresponding Exhibit front page header are both hereby amended as “**Exhibit B – Monthly Status Report (Example)**”.
11. “Exhibit A to Attachment F – Project Funds Status Report” of Attachment F (INVOICE AND INCURRED COSTS DOCUMENTATION) to the DDA (as amended by the Amendment No.1) is hereby deleted in its entirety and replaced with the following clause:

1. Estimate at Completion on Dec.10,2017

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: Dec 10th, 2017

Target Milestone Values (Baseline Values)

| Phase | |
|----------------------------------|--|
| Milestone | |
| Step 2 | |
| Milestone - 1 AV Labor | |
| | |
| Milestone - 2 AV Labor | |
| Milestone - 3 AV Labor | |
| Milestone - 4 AV Labor | |
| Milestone - 5 AV Labor | |
| Milestone - 6 AV Labor | |
| | |
| Milestone - 7 AV Labor | |
| | |
| Milestone - 8 AV Labor | |
| | |
| Monthly Invoice (Mat, SubK, ODC) | |
| | |
| Total | |
| Total Cumulative | |

Assumptions:

Values to be billed based on actual costs

Values to be adjusted to reflect latest revised spend plan on a Quarterly Basis

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: Dec 10th, 2017

Target Milestone Values (Baseline Values)

| Phase | |
|----------------------------------|--|
| Milestone | |
| Step 2 | |
| Milestone - 1 AV Labor | |
| | |
| Milestone - 2 AV Labor | |
| Milestone - 3 AV Labor | |
| Milestone - 4 AV Labor | |
| Milestone - 5 AV Labor | |
| Milestone - 6 AV Labor | |
| | |
| Milestone - 7 AV Labor | |
| | |
| Milestone - 8 AV Labor | |
| | |
| Monthly Invoice (Mat, SubK, ODC) | |
| | |
| Total | |
| Total Cumulative | |

Assumptions:

Values to be billed based on actual costs

Values to be adjusted to reflect latest revised spend plan on a Quarterly Basis

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: Dec 10th, 2017

Target Milestone Values (Baseline Values)

| Phase | |
|----------------------------------|--|
| Milestone | |
| Step 2 | |
| Milestone - 1 AV Labor | |
| | |
| Milestone - 2 AV Labor | |
| Milestone - 3 AV Labor | |
| Milestone - 4 AV Labor | |
| Milestone - 5 AV Labor | |
| Milestone - 6 AV Labor | |
| | |
| Milestone - 7 AV Labor | |
| | |
| Milestone - 8 AV Labor | |
| | |
| Monthly Invoice (Mat, SubK, ODC) | |
| | |
| Total | |
| Total Cumulative | |

Assumptions:

Values to be billed based on actual costs

Values to be adjusted to reflect latest revised spend plan on a Quarterly Basis

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

■ = [***]



Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: January 16, 2019

Target Milestone Values (Baseline Values)

| Phase | |
|---|--|
| Milestones | |
| Step 2 | |
| Milestone - 1 AV Labor | |
| Milestone - 2 AV Labor | |
| Milestone - 3 AV Labor | |
| Milestone - 4 AV Labor | |
| Milestone - 5 AV Labor | |
| Milestone - 6 AV Labor | |
| Milestone - 7 AV Labor | |
| Milestone - 8 AV Labor | |
| 9 - Remaining Labor for 01/26/20 - 2/4/20 | |
| Monthly Invoice (Mat, SubK, CDC) | |
| Total | |
| Total Cumulative | |

Assumptions:

Milestone 1 in [REDACTED] & Milestone 2 in [REDACTED] invoices will be adjusted to account for advanced payment of [REDACTED].
 Values to be billed based on actual costs + 1% fee.
 Values to be adjusted to reflect latest revised spend plan on a Monthly Basis.

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: January 18, 2019

Target Milestone Values (Baseline Values)

| Phase | |
|---|--|
| Milestones | |
| Step 2 | |
| Milestone - 1 AV Labor | |
| Milestone - 2 AV Labor | |
| Milestone - 3 AV Labor | |
| Milestone - 4 AV Labor | |
| Milestone - 5 AV Labor | |
| Milestone - 6 AV Labor | |
| Milestone - 7 AV Labor | |
| Milestone - 8 AV Labor | |
| 9 - Remaining Labor for 01/26/20 - 2/4/20 | |
| Monthly Invoice (Mat, SubK, CDC) | |
| Total | |
| Total Cumulative | |

Assumptions:

Milestone 1 in [REDACTED] & Milestone 2 in [REDACTED] invoices will be adjusted to account for advanced payment of [REDACTED].
 Values to be billed based on actual costs + 1% fee.
 Values to be adjusted to reflect latest revised spend plan on a Monthly Basis.

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: January 16, 2019

Target Milestone Values (Baseline Values)

| Phase | |
|---|--|
| Milestones | |
| Step 2 | |
| Milestone - 1 AV Labor | |
| Milestone - 2 AV Labor | |
| Milestone - 3 AV Labor | |
| Milestone - 4 AV Labor | |
| Milestone - 5 AV Labor | |
| Milestone - 6 AV Labor | |
| Milestone - 7 AV Labor | |
| Milestone - 8 AV Labor | |
| 9 - Remaining Labor for 01/26/20 - 2/4/20 | |
| Monthly Invoice (Mat, SubK, CDC) | |
| Total | |
| Total Cumulative | |

Assumptions:

Milestone 1 in [REDACTED] & Milestone 2 in [REDACTED] invoices will be adjusted to account for advanced payment of [REDACTED].
 Values to be billed based on actual costs + 1% fee.
 Values to be adjusted to reflect latest revised spend plan on a Monthly Basis.

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

[REDACTED] = [***]

IN WITNESS WHEREOF the Parties hereto have signed and executed this Amendment on the date(s) below.

SIGNED for and on behalf of
HAPSMobile Inc.

SIGNED for and on behalf of
AeroVironment, Inc.

By: /s/ Akihiko Asami

By: /s/ Trace Stevenson

Name: Akihiko Asami, on behalf of Junichi Miyakawa

Name: Trace Severson

Title: President and CEO

Title: Deputy General Manager and Vice President Emerging
Business

Date: March 1, 2019

Date: March 19, 2019

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

CERTAIN IMMATERIAL PROVISIONS[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K OF THIS DOCUMENT THAT WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED (INDICATED BY AN ASTERISK [***]) HAVE BEEN OMITTED PURSUANT TO ITEM 601(b)(2) OF REGULATION S-K. A COPY OF THE UNREDACTED DOCUMENT WILL BE FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION UPON REQUEST.

**AMENDMENT NO.6 TO
THE DESIGN AND DEVELOPMENT AGREEMENT (STEP 2)**

This Amendment No.6 to the Design and Development Agreement (Step2) (“**Amendment**”) is entered into as of the date of last signature below by and between HAPS Mobile Inc. and AeroVironment, Inc. to amend the Design and Development Agreement (Step2) made as of December 27, 2017 (as amended by the Amendment No.1 as of March 30, 2018, the Amendment No.2 as of June 25, 2018, the Amendment No.3 as of August 28, 2018, the Amendment No.4 as of December 5, 2018, and the Amendment No.5 as of March 1, 2019 between HAPSMobile and AV) (the “**DDA**”).

Background

The Parties wished to raise a change of schedule related to [***] in Attachment A and H to the DDA (the “**Change**”) following the Change Control procedures set forth in Article 2.4 and 3.4 of, and Attachment G to the DDA, agreed to classify the Change as Class I Change and that there will be no cost related to the Change. Therefore, to formalize and reflect the Changes, the Parties hereby agree with the amendments to the DDA as follows:

Amendment

- Table entry line number 5 (not counting the header line) of Section 2 of Attachment A (DELIVERABLES) to the DDA (“Integrated Test Reports”) is hereby amended as follows:

| | | | | |
|-------------------------|--|---------|-------|-------|
| Integrated Test Reports | Acceptance test reports for aircraft & Ground Control Station. | 2.3.2.2 | [***] | [***] |
|-------------------------|--|---------|-------|-------|

- “Date” of Section 4 [***] of Attachment H (PROJECT MILESTONE) to the DDA is hereby deleted in its entirety and replaced with the following clause:

| | | |
|---|---|-------|
| 1 | [***] | [***] |
| | [***] Milestone Objective: [***] | |
| | [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] [***] <input type="checkbox"/> [***] | |
| 5 | [***] | [***] |
| | [***] Milestone Objective: [***] | |
| | Completion Criteria <input type="checkbox"/> [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] | |

- All other terms and conditions not specifically modified or amended herein remain in full force and effect as provided for in the DDA. Hereby the Parties expressly confirm that no change applies to the Incurred Cost set forth in ATTACHMENT F despite of the Change. Capitalized terms, unless

CERTAIN IMMATERIAL PROVISIONS OF THIS DOCUMENT THAT WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED (INDICATED BY AN ASTERISK [***) HAVE BEEN OMITTED PURSUANT TO ITEM 601(b)(2) OF REGULATION S-K. A COPY OF THE UNREDACTED DOCUMENT WILL BE FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION UPON REQUEST.

otherwise defined herein, shall have the meaning set forth in the DDA. This Amendment may only be modified or amended by a written document executed by the parties hereto.

IN WITNESS WHEREOF the Parties hereto have signed and executed this Amendment on the date(s) below.

SIGNED for and on behalf of
HAPSMobile Inc.

SIGNED for and on behalf of
AeroVironment, Inc.

By: /s/ Junichi Miyakawa
Name: Junichi Miyakawa
Title: Board of Director, Senior Vice President
Date: 3/29/2019

By: /s/ Wahid Nawabi
Name: Wahid Nawabi
Title: CEO

CERTAIN IMMATERIAL PROVISIONS OF THIS DOCUMENT THAT WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED (INDICATED BY AN ASTERISK [**]) HAVE BEEN OMITTED PURSUANT TO ITEM 601(b)(2) OF REGULATION S-K. A COPY OF THE UNREDACTED DOCUMENT WILL BE FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION UPON REQUEST.

**AMENDMENT NO.7 TO
THE DESIGN AND DEVELOPMENT AGREEMENT (STEP 2)**

This Amendment No.7 to the Design and Development Agreement (Step2) (“**Amendment**”) is entered into as of the date of last signature below by and between HAPSMobile Inc. (“**HAPSMobile**”) and AeroVironment, Inc. (“**AV**”) to amend the Design and Development Agreement (Step2) originally executed as of December 27, 2017 (as amended by Amendment No.1 as of March 30, 2018, Amendment No.2 as of June 25, 2018, Amendment No.3 as of August 28, 2018, Amendment No.4 as of December 5, 2018, Amendment No.5 as of March 19, 2019, and Amendment No.6 as of March 29, 2019, between HAPSMobile and AV) (the “**DDA**”).

Background

The Parties hereby agree to amend the total fees of Design and Development for Step 2 due to the material changes of the project schedule and the Statement of Work as set forth herein (the “**Change**”).

Therefore, to formalize and reflect both the Changes and Program Management Improvement, the Parties hereby agree with the amendments to the DDA as follows:

Amendments

1. The following new defined term is hereby inserted after subarticle 1.38 “**Work Product**” of Section “**1. DEFINITIONS**” in the DDA body:

1.39 “**Project**” means collectively all Work to carry out the detailed design and development work for the Solar HAPS which comprises DDA Step 2 of the business relationship between AV and HAPSMobile.

2. Section 1.1.1 (Subsection of “1.1 [**]”) of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA (as amended by the Amendment No.5) is hereby deleted in its entirety and replaced with the following clauses:

1.1.1 [**]

Objective: [**].

Approach: [**]:

- [**]
- [**]
- [**]
- [**]
- [**]
- [**]
- [**]

[**] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

- [***];
 - (i) [***]
 - (ii) [***]
 - (iii) [***]
 - (iv) [***]
- [***]:
 - Ø [***]
 - Ø [***]
 - Ø [***]

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

Reporting Process diagram



Exit Criteria: [***]

Task Output:

- [***]
- [***]

REMARK: [***].

3. The following Section 1.1.6 is hereby newly inserted after Section 1.1.5 “[***]” (Subsection of “1.1 [***]”) of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA:

1.1.6 [***]

Objective: [***].

Approach: [***].

Exit Criteria: [***].

Task Output:

- [***]

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

█ = [***]

4. The following Section 1.2.6 is hereby newly inserted after Section 1.2.5 “[***]” (Subsection of “1.2 [***]”) of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA:

1.2.6 [***]

Objective: [***].

Approach: [***]:

- [***]
- [***]
- [***]
- [***]
- [***]

Exit Criteria: [***].

Task Output:

- [***]

5. Section 2.2.1 (Subsection of “[***]”) of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA is hereby deleted in its entirety and replaced with the following clauses:

2.2.1 [***]

Objective: [***].

Approach: AeroVironment shall perform the following tasks as a part of this element:

- [***]
- [***]
- [***]
- [***]
- [***]
- [***]
- [***]:

- [***]
- [***]

Exit Criteria: [***].

Task Output:

- [***].
- [***]
- [***]

6. Section 2.2.5 (Subsection of “2.2 [***]”) of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA is hereby deleted in its entirety and replaced with the following clauses:

2.2.5 [***]

Objective: [***].

Approach: [***]:

- [***]
- [***]
- [***]
- [***]
- [***]

Exit Criteria: [***].

Task Output:

- [***]
- [***]
- [***]

7. The following Section 2.2.8 is hereby newly inserted after Section 2.2.7 “[***]” (Subsection of “2.2 [***]”) of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA:

2.2.8 [***]

Objective: [***].

Approach: [***]:

- [***]
- [***]
- [***]

Exit Criteria: [***].

Task Output:

- [***]
- [***]

8. Section 3.1 of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA is hereby deleted in its entirety and replaced with the following clauses:

3.1 [***]

Objective: [***].

Approach: [***].

[***]

- [***]
- [***]

- [***]
- [***]
- [***]
- [***]
- [***]

Exit Criteria: [***].

Task Output:

- [***]
- [***]
- [***]
- [***]
- [***]

9. Section 3.2 of Attachment C (AeroVironment Statement of Work (SOW) for Hawk30 Prototype Program) to the DDA is hereby deleted in its entirety and replaced with the following clauses:

3.2 [***]

Objective: [***].

Approach: [***].

- [***]
- [***]
- [***]
- [***]
- [***]
- [***]
- [***]
- [***]
- [***]
- [***]

Exit Criteria: [***].

Task Output:

- [***]
- [***]
- [***]
- [***]
- [***]

10. Attachment A (DELIVERABLES) to the DDA is hereby deleted in its entirety and replaced with the attached new attachment herein, AttachmentA, entitled (DELIVELABLES).

11. Attachment E (FLIGHT TEST) to the DDA is hereby deleted in its entirety and replaced with the attached new attachment herein, Attachment E, entitled (FLIGHT TEST).

12. Attachment H (PROJECT MILESTONE) to the DDA (as amended by the Amendments No.2, and 4) is hereby deleted in its entirety and replaced with the attached new attachment herein, Attachment H, entitled (PROJECT MILESTONE).

13. Attachment I (PROJECT MANAGEMENT) to the DDA is hereby deleted in its entirety and replaced with the attached new attachment herein, Attachment I, entitled (PROJECT MANAGEMENT).

14. Attachment F (INVOICE AND INCURRED COSTS DOCUMENTATION) to the DDA (as amended by the Amendments No.1 and 5) is hereby deleted in its entirety and replaced with the attached new attachment herein, Attachment F, entitled (INVOICE AND INCURRED COSTS DOCUMENTATION).

15. All other terms and conditions not specifically modified or amended herein remain in full force and effect as provided for in the DDA and its Attachments, including Amendments 1 through 6. Capitalized terms, unless otherwise defined herein, shall have the meaning set forth in the DDA. This Amendment may only be modified or amended by a written document executed by the parties hereto.

IN WITNESS WHEREOF the Parties hereto have signed and executed this Amendment on the date(s) below.

SIGNED for and on behalf of
HAPSMobile Inc.

SIGNED for and on behalf of
AeroVironment, Inc.

By: /s/ Junichi Miyakawa
Name: Junichi Miyakawa
Title: Board of Director, Senior Vice President
Date: 4/17/2019

By: /s/ Trace Stevenson
Name: Trace Stevenson
Title: Vice President and Deputy General
Date: 4/24/2019

ATTACHMENT A

DELIVERABLES

(This Attachment A is revised in its entirety by the Amendment No. 7 to the DDA)

1. Hardware Deliverables

1.1 Aircraft Deliverables

| Deliverables Name | Deliverable Description | Relevant WBS | Milestone No. | Estimated Completion Date |
|------------------------|-------------------------|--------------|---------------|---------------------------|
| Hawk30 Prototype [***] | [***] | 2.3.2.3 | [***] | [***] |
| Hawk30 Prototype [***] | [***] | 2.3.2.6 | [***] | [***] |

*1. [***].

*2. [***].

1.2 Ground Control System

| Deliverables Name | Deliverable Description | Relevant WBS | Milestone No. | Estimated Completion Date |
|---|--|--------------|---------------|---------------------------|
| Ground Control Stations and Misc. Equipment | Ground Control Station [***] of the Hawk30 Prototype [***] | 2.2.6 | [***] | [***] |
| Hawk30 Prototype Operating Manuals | Technical Data Package | 1.2.4.1 | [***] | [***] |
| Hawk30 Prototype Training Manuals | Technical Data Package | 1.2.4.2 | [***] | [***] |

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

1.3 Motor Development

| Deliverables Name | Deliverable Description | Relevant WBS | Milestone No. | Estimated Completion Date |
|-------------------|---------------------------------|--------------|---------------|---------------------------|
| [***] | [***] Project Data Memo | 2.2.1 | [***] | [***] |
| [***] | [***] | 2.2.1 | [***] | [***] |
| [***] | Technical data package of [***] | 2.2.1 | [***] | [***] |
| [***] | [***] | 2.2.1 | [***] | [***] |

* [***].

** [***].

2. Document Deliverables

| Deliverables Name | Deliverable Description | Relevant WBS | Milestone No. | Estimated Completion Date |
|--|--|--------------|---------------|---------------------------|
| CDR & Component Engineering Technical Data Package | Technical Data Package. RFPs, RFIs, and RFQs. | 2.2 | [***] | [***] |
| Update Component Engineering | Technical Data Package | 2.2 | [***] | [***] |
| Fab & Test First Wing Panel | Technical Data Package. Recorded measurement data aerodynamic test data. | 2.2.3.1 | [***] | [***] |
| Functional Test Reports | Acceptance test reports for components and assemblies | 2.3 | [***] | [***] |
| Initial Integrated Test Reports ([***]) | Initial Acceptance test reports for aircraft & Ground Control Station | 2.3.2.3 | [***] | [***] |
| Integrated Test Reports ([***]) | Acceptance test reports for aircraft & Ground Control Station | 2.3.2.3 | [***] | [***] |
| Integrated Test Reports ([***]) | Acceptance test reports for aircraft | 2.3.2.6 | [***] | [***] |

| | | | | |
|--|--|---------|-------|---|
| [***] | [***] of the Hawk30 Solar Aircraft System | 1.1.5 | [***] | [***] |
| Low Altitude Flight Test Report | Descriptive test report, Ships logs, maintenance report. Recorded flight data | 3.1 | [***] | [***] |
| High Altitude Flight Test Report | Descriptive test report, Ships logs, maintenance report. Recorded flight data. | 3.2 | [***] | [***] |
| [***] | [***]. [***]. | 3.2 | [***] | [***] |
| Long Duration Flight Test Report | Descriptive test report, Ships logs, maintenance report. Recorded flight data (All command and telemetry stream data between the ground control station as Raw Data). | 3.2 | [***] | [***] |
| Final Engineering Technical Data Package | Technical Data Package. Hawk30 Solar Aircraft System controlling specifications and requirements. | Various | [***] | [***] |
| Logistics Instruction Document Package | Logistics Instruction Manuals for Assembly/Disassembly, Packaging, Transporting, etc. for management purpose. | Various | All | Corresponding Milestone Completion Date |

As used in this Attachment A, and as limited by Section 4.8 in the IPLA, “Technical Data Package” means:

1. [***]
2. [***]
3. System specifications
4. System description documents
5. System performance data
6. [***]
7. [***].

“Technical Data Package” transfer could be in various forms, for example:

1. Agile database export in PDX file which will include PDF files for assembly drawings, DOC for procedures and test plans, and EXE files for executable code.
2. Specifications, descriptions, Program Data Memos, test data in a ZIP file which can include a combination of DOC, XLS, and other data formats.

Exhibit A

Source Code to be Provided by AV to HAPSMobile

1. Software and Firmware Tabular View



*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.
= ***

FLIGHT TEST

(This Attachment E is revised in its entirety by the Amendment No. 7 to the DDA)

AV will perform a flight test plan which will optimize data collection efficiency during the Flight Tests. A build-up approach to the flight test campaign will be conducted which efficiently demonstrates aircraft handling and performance at low altitude prior to transitioning to high altitude. Ref. PDM AV 55266-1019.

Data will be collected to verify that the final aircraft configuration meets the requirements defined for FAA basis of certification as detailed in PDM AV55266-1020-FAA Standards Development and Coordination. The details of the flight test program pertain to the prototype version of the Hawk30 Prototype with the goal of demonstrating [***] flight endurance.

Prior to the beginning of the initial Flight Test, the AV team will accomplish exhaustive build-up testing in venues such as environmental qualification laboratories, the HAP System Integration Laboratory, and HAP flight deck and flight test control room simulation environments.

The Ground Test and Flight Test Plan listed in PDM AV 55266-1019 list the following test elements to be successfully completed for the Hawk30 Prototype flight test program.

- Ground test campaign:
 - Aircraft functional tests with motor runs
 - Ground handling
 - Airfield operations
- Low altitude flight test campaign (with Flight Test Instrumentation System)
 - Baseline location is primarily an airfield in [***] and [***]
 - This phase consists of notionally [***] on [***] and [***]
 - Flight Test events are planned to be executed at the rate of [***]
 - Test objectives include:
 - Basic controllability and maneuverability data
 - Subsystem performance (power, thermal, efficiency, etc.)
 - Flight data for correlation of analysis and design tools
 - [***]
 - [***]
 - [***]
 - [***]
 - [***]
 - [***]
 - [***]
 - [***]
- High altitude and endurance test campaign (with Flight Test Instrumentation System)
 - [***]
 - [***]
 - [***]
 - [***]
 - [***]
 - Test objectives:
 - § [***]
 - § [***]
 - § [***]

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

AV will coordinate with HAPSMobile and provide a test flight schedule for Payload test. HAPSMobile will have full responsibility to operate its Payload during the Payload test.

AV will conduct airport survey, selection and perform all maintenance on the Hawk30 Prototype Aircraft system during the Flight Test program.

The following Table E-1 sets forth the key achievement requirement per each Flight Test campaign, and in case inconsistency occurring with other condition defined anywhere in the Agreement including Attachments, then the content defined in Table E-1 shall prevail.

Table E-1 Flight Test campaign key achievement requirement

| Flight Test Campaign Type | Low Altitude Flight Test | High Altitude Flight Test | [***] | Long Duration Flight Demonstration |
|----------------------------------|---------------------------------|----------------------------------|----------------|---|
| [***] | [***] | [***] | [***] | [***] |
| [***] | | [***] | [***] | [***] |
| [***] | [***] | [***] | [***] | [***] |
| [***] | [***] | [***] | [***] | [***] |
| [***] | [***] | [***] [***] | [***] [***] | [***] [***] |

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

| | | |
|---|--|------|
| | <p>***]</p> <p>Milestone Objective: ***]</p> | |
| | <p>Completion Criteria</p> <p><input type="checkbox"/> ***]</p> <p><input type="checkbox"/> ***]</p> <p>Organize Flight Readiness Review.</p> <p><input type="checkbox"/> ***]</p> | |
| 5 | ***] | ***] |
| | <p>***]</p> <p>Milestone Objective: ***]</p> | |
| | <p>Completion Criteria</p> <p><input type="checkbox"/> ***]</p> <p><input type="checkbox"/> ***]</p> <p><input type="checkbox"/> ***]</p> <p>***]</p> <p><input type="checkbox"/> ***]</p> <p><input type="checkbox"/> ***]</p> <p><input type="checkbox"/> ***].</p> | |
| 6 | ***] | ***] |
| | <p>***]</p> <p>Milestone Objective: ***]</p> | |
| | <p>Completion Criteria</p> <p>***]</p> <p><input type="checkbox"/> ***]</p> | |
| 7 | ***] | ***] |
| | <p>***]</p> <p>Milestone Objective: ***]</p> | |
| | <p>Completion Criteria</p> <p>***], to include:</p> <p><input type="checkbox"/> ***]</p> | |
| 8 | ***] | ***] |
| | <p>***]</p> <p>Milestone Objective: ***]</p> | |



| | | | |
|-----------|--|--|-------|
| | | Completion Criteria [***], to include: <input type="checkbox"/> [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] | |
| 9 | [***] | | [***] |
| | [***] Milestone Objective: [***] | | |
| | | Completion Criteria [***], for: <input type="checkbox"/> [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] <input type="checkbox"/> [***] | |
| 10 | [***] | | [***] |
| | [***] Milestone Objective: [***] | | |
| | | Completion Criteria [***] <input type="checkbox"/> [***] | |

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

PROJECT MANAGEMENT

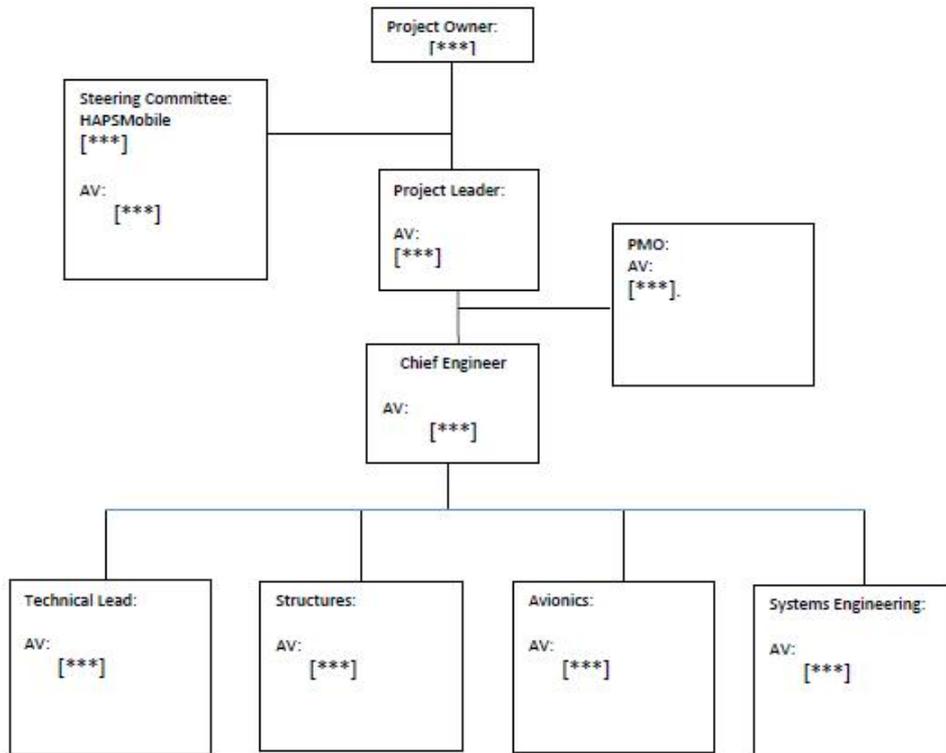
(This Attachment I is revised in its entirety by the Amendment No. 7 to the DDA)

For the all Work AV shall have overall responsibility for the design, development, manufacturing, assemble, integration, testing, and implementation of the Aircrafts, in such capacity, will provide to HAPSMobile Project Management work and resource in accordance with the terms herein defined.

1. Project Roles & Responsibilities

1.1 Project Organization. Figure I-1 below illustrates the basic organizational structure and high-level roles that will be used in the project. Detailed project roles & responsibilities are described in "ATTACHMENT C SOW".

Figure I-1



[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

A List of Project key persons for AV (Key Persons List) is as follows.

| |
|-------|
| AV |
| [***] |
| [***] |
| [***] |
| [***] |
| [***] |
| [***] |
| [***] |
| [***] |
| [***] |

1.2 Project Methodology. AV’s methodology for large scale complex projects will be used to ensure that all elements of the project are appropriately considered and aligned. The major components of the design approach are:

Development, design, build and test the Hawk30 Prototype Solar Stratospheric Aircraft System testing cellular connectivity @ 20km altitude station keeping and 6-month endurance through Flight Test and engineering analysis.

2. Project Governance

2.1 Project Management. Project Management organizes and delivers the support and supervision to deliver an integrated design capability.

It includes:

- (1) Establishing work plans, resources and disciplines to get the project activities initiated and progressed to work towards achieving on-time delivery.
- (2) Directing, coordinating and monitoring the activities of the entire project to assist in achieving desired project outcomes.
- (3) Managing the integration of the various components of the project so that they support the overall business architecture. The detailed scope of these activities is defined in “ATTACHMENT C SOW”.

2.2 Project Management Office (PMO)

PMO will execute the project management approach. In PMO, project management operations will be handled by both HAPSMobile and AV. Project management of external projects and external systems is beyond the scope of work for PMO. PMO will coordinate design activities with other external systems and/or projects.

2.3 Project/Organization Definition.

AV defines the project organization and schedule, and HAPSMobile reviews them at the beginning of the project. Mutually agreed changes can be made.

2.4 Define Project Management Processes and Training.

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

- (a) AV defines the project management processes and HAPSMobile reviews them. Mutually agreed changes can be made.
- (b) AV will provide highly skilled PMO and Project Management personnel. Additional training with HAPSMobile support will be initiated as required. An official training session for each project management area will be scheduled for the project members. The PMO office will be responsible for arranging any follow-up session for absent/new people. HAPSMobile and AV will be responsible for follow-up activities for their own members.

2.5 Human Resource Management.

- (a) AV and HAPSMobile create and maintain their own resource plans respectively.
- (b) AV and HAPSMobile should provide enough people, based on respective resource plans, in order to complete project deliverables in line with the schedule.
- (c) Resource shortage and/or personnel problems will be mutually resolved according to the Agreement.

2.6 Progress Management

- (a) AV defines the progress management processes and HAPSMobile reviews them. Mutually agreed changes on the format of such progress reports can be made.
- (b) A PMO member participates in the PMO meeting once a month or as needed and the Project operational meeting once a week or as needed. HAPSMobile and AV will provide and input accurate data in a timely manner.
- (c) AV and HAPSMobile will undertake the following activities in cooperation:
 - i. Collection of progress information
 - ii. Preparing progress materials
 - iii. Participating in progress meeting

2.7 Scope Management/Change Control Process

One of the key activities for Project Management will closely manage the scope so that delivery commitments and schedule milestones can be met. All scope changes will be handled through the Change Procedures described in the Agreement. The scope of events that fall under a Change request and the detailed Change request process to be used in the project must be in accordance with the Change Procedures described in the Agreement.

2.8 Issue Management Processes

- (a) Issue management will follow a defined process with appropriate issues escalated to PMO.
- (b) PMO or operational meeting issues which are HAPSMobile's responsibility should be resolved by the designated due dates. If HAPSMobile in-charge person cannot resolve the issue, it should be escalated to a higher level in a timely manner so as not to jeopardize the overall project schedule, quality and cost.
- (c) AV and HAPSMobile will undertake the following activities in cooperation:
 - i. Collection of issues
 - ii. Making issue management materials

2.9 Risk Management Processes

- (a) Risk management will follow a defined process with appropriate risks escalated to PMO.

- (b) PMO or operational meeting risks, which are HAPSMobile's responsibility, should be mitigated by the due dates. If HAPSMobile in-charge person cannot mitigate the risks, it should be escalated to a higher level in a timely manner so as not to impact the overall project schedule, quality and cost.
- (c) AV and HAPSMobile will undertake the following activities in cooperation:
 - i. Collection of risks
 - ii. Prepare risk management materials
 - iii. Planning the approach for risk mitigation
 - iv. Leading meetings/taking minutes

2.10 Business Management Processes

- (a) Coordinate that each area/office develops the standards according to the project plan, and undertakes designs, developments, and reviews in accordance with the standards.
- (b) Appropriate area/office develops standards and each office undertakes compliance activities in accordance with the business management standards.

2.11 Communication Management

- (a) Communication management will follow a defined process, and each office member should participate and operate meetings in line with the meeting purpose.
- (b) Steering Committee will be held on a monthly basis.
- (c) The following communication management tasks will be undertaken:
 - (1) Steering Committee
 - i. Preparing materials
 - ii. Preparing and Arranging
 - iii. Facilitating
 - iv. Taking Minutes
 - (2) Create and maintain a stakeholder list in cooperation

2.12 Vendor Management.

Vendor management will occur as described in the Agreement.

2.13 Deliverables Management

- (a) PMO is responsible, at the appropriate points in the project, to track and report that all defined Deliverables are developed and reviewed.
- (b) The Deliverables are defined in Attachment A.
- (c) Acceptance of Deliverables will follow the acceptance process defined in Attachment B.

2.14 Support Activities

- (a) HAPSMobile internal activities having no direct relation to the project will not be supported.
- (b) AV translators, interpreters and secretaries will work only for AV under the instruction of AV.

INVOICE AND INCURRED COSTS DOCUMENTATION

(This Attachment F is revised in its entirety by the Amendment No. 7 to the DDA)

PRICING AND PAYMENT SCHEDULE**1. Payment for Work Step2****1.1 Total Contract Value**

The total amount of Design and Development Fees payable for Step 2 is Not-to-Exceed USD \$131,691,051 based on Best Efforts. The Contract Value may be modified by the Parties as a result of Change Control or by any other amendment to the Agreement (the current contract value at any time under this Agreement shall be the "Contract Value"). The Parties agree to account for payment of USD \$5,988,678 already made by SoftBank to AV as payment for the consideration of Step 2 Bridge Contract as partial payment for commencing Step 2. The Parties shall pay to AV the remaining balance of USD \$125,702,373, consists from USD \$69,800,624 as Initial Contract Value, and incremental amount by Amendment No.1, USD \$17,226,306 as additional cost by Amendment No.5, and further additional funding of USD \$38,675,443 subject to EAC adjustment activity done on [***], in accordance with Exhibit A to this Attachment F Project Funds Status Report accompanied by a combined Milestone & Monthly Invoice approach as detailed further in this Attachment F. Each Milestone payment shall be payable after completion of the applicable Milestone according to Completion criteria on Attachment H.

1.2 Contract Value Growing Transition

The Initial Contract Value may be modified by the Parties as a result of Change Control or by any other amendment to the Agreement (the current contract value at any time under this Agreement shall be the "Contract Value"). Each Party recognizes the total Project Cost has grown as follows;

- a. SoftBank and AV concluded Step 2 Bridge Contract for preliminary development activity for Step2, and payment of USD \$5,988,678 was made to AV by SoftBank;
- b. SoftBank, HM, and AV agree to account for payment of USD \$5,988,678 already made by SoftBank to AV as defined as above as partial payment ("Taken-Over Value") for commencing Step 2. HAPSMobile;
- c. Initial contract value for DDA was USD \$65,011,481 ("Initial Value"), and USD \$71,000,159 in case including Taken-Over Value;
- d. USD \$4,789,143 was added to Initial value by the execution of the Amendment No.1 and total value was modified to USD \$69,800,624 ("Amendment 1 Value"), and USD \$75,789,302 in case including Taken-Over Value;
- e. USD \$17,226,306 was added to Amendment 1 Value by the execution of the Amendment No.5 and total value was modified to USD \$87,026,930, and USD \$93,015.608 in case including Taken-Over Value;
- f. USD \$38,675,443 as further incremental funding subject to EAC adjustment activity done on [***] and caused by the [***]Project Milestones extension as defined in detail in Section V herein, SoW and

technical requirement changes as defined in detail in Section Z herein; and the the contract value reaches USD \$125,702,373, in case including Taken-Over Value then USD \$ 131,691,051.

1.3 Work Order Issuance Schedule

HAPSMobile agrees to issue five (5) scheduled separate Orders and may issue three (3) optional separate Orders (“Optional Orders”)to AV for authorization of Work. The Orders shall be issued as follows:

- a. initial Order [***];
- b. second Order [***];
- c. the third Order [***];
- d. the fourth Order [***];
- e. the fifth Order [***]; and
- f. three more optional Orders will be defined further more in detail in 5.1 herein. Each Order will be issued pursuant to the terms and conditions of this Agreement including the attachments thereto. Work performed under the Orders will be in support of the entire Statement of Work, up to the value funded on the Order.

1.4 Milestone Target Budget Values & Forecast Revisions

Exhibit A (Project Funds Status Report) to this Attachment F assigns Initial Target Budget values for [***] Milestones identified in Attachment H.

AV will provide updates and revisions to the Initial Target Budget values for each Milestone and revised and updated forecasts for such Milestones to HAPSMobile on a monthly basis. Milestone values are subject to Change Control based on updated forecasts of program resource requirements to complete the Work required under this Agreement, including the SOW(Attachment C). Milestone values will be based on the AV labor projected spend plan forecasted for each AV fiscal month.

1.5 Milestone Invoicing & Payment

Upon AV’s written notification to HAPSMobile of AV’s completion of a Milestone, AV will provide an invoice for all AV labor Incurred Costs and [***]% fee. Invoices will include all program labor expenses incurred by AV up through the date of the Milestone acceptance, less any labor already paid for in prior Milestone invoices. Milestones completed before the [***] of the calendar month will be based on actuals from the prior AV fiscal month end. Milestones completed after the [***] of the calendar month will be invoiced upon completion of that fiscal month. [***].

[***].

1.6 Non-Milestone Invoicing & Payment (Monthly Invoices)

Program expenses for material, subcontract and other direct costs will be invoiced by AV to HAPSMobile on a monthly basis based on actual Incurred Cost and [***]% fee. Invoices to be submitted within 4 Business Days after each calendar month end. HAPSMobile agrees to pay each such invoice within the same calendar month. Invoices for material related Cost will be provided with applicable level of detailed description for HAPSMobile’s book keeping purpose.

1.7 Currency

All payments under this Agreement shall be made in United States dollars.

1.8 Excess Incurred Costs

- a. In the event that AV identifies a projected increase in Incurred Costs by AV for the performance of its obligations under the Agreement as identified in the Monthly Status Report, in excess of the Not-to-Exceed Value of the Order as identified in Article 2.3 then the Parties agree the excess of the amount and continue to proceed the Project subject to the process set forth in the Section 4 of this ATTACHMENT F, HAPSMobile may,
- (1) agree to authorize AV to incur the excess costs and provide a modification to increase the Contract Value, provided however that both Parties shall follow the Change Control set forth in Article 2.4 of the Agreement or Amendment of Agreement set forth in Article 13. Should HAPSMobile authorize additional spending, all of AV's Incurred Costs must be paid to AV with the applicable [***]% fee;
 - (2) agree in accordance with the Change Control or Amendment of Agreement to reduce the Scope of Agreement so that AV's performance of the Scope of Agreement will be projected to fall within the amount of the then current Contract Value; or
 - (3) Terminate the Agreement for convenience as contemplated by Article 12.3 of the Agreement and pay AV all Termination Liability as defined in paragraph 1.7 of this attachment.

1.9 Unutilized Consideration

In the event of a projected cost underrun as identified in a Monthly Status Report, any amounts from the Order which remain after completion of the Scope of Agreement may be reimbursed or, if authorized by HAPSMobile separately and specifically, utilized for AV's risk reduction or additional scope to be defined through written mutual agreement subject to the terms of this Agreement. To avoid confusion, the total amount as identified in paragraph 1 of this Attachment and any portion thereof, to the extent that it is utilized, must be utilized only for matters or items within the Scope of Agreement and any additional scope as agreed. Incurred Costs shall be inclusive of any applicable consumption, value added tax or any other applicable sales/use tax. For the avoidance of doubt, the Incurred Costs shall be exclusive of any and all import duties.

1.10 Termination Liability

AV's Termination Liability (defined as: all of AV's Step 2 Incurred Costs incurred prior to the date of the ramp down period specified in Article 12.5 of the Agreement plus the applicable [***]% fee, less all payments received by AV from HAPSMobile under this Agreement, plus all material, subcontract, other direct costs including open commitments and other wind down costs outstanding as of the start of the ramp down period, plus 60 days of AV labor costs incurred during the ramp down period) will be billed to HAPSMobile 30 days after the end of ramp down period and Termination Liability shall not exceed then current Contract Value but AV labor cost may be compensated exceeding then current Contract Value based upon actual Work performed. Schedule delays may occur and be resolved subject to Article 3.2 of the Agreement.

2. Fee Assumptions

2.1 Exclusion

1. Range Fees for the High Altitude and Endurance Flight Tests shall be borne by, and be the sole responsibility of, HAPSMobile. AV and HAPSMobile will mutually consult to set up an appropriate

implementation plan for High Altitude and Endurance Flight Tests minimizing such Range Fees in accordance with Attachment C and D.

2. Payload Integration is based on the [***] payload only, any changes to Payload Supplier and/or integration will be subject change control process.
3. Labor, shipping and other costs are not included, however is inclusive of labor for obtaining the clearance and permission under EAR or related export regulations for delivery of [***], [***] and GCS at other than the [***] flight test location. Any changes to the final delivery location will be subject to change control process.

2.2 [***] Process

The Parties agree to set the assumption of development process for [***] as provided below:

- [***]
- [***]:
 1. [***]
 - 1.1 [***]
 - 1.2 [***]
 2. [***].

3. Change Control & Agreement Amendments Payment Schedule

HAPSMobile agrees to pay to AV all additional Incurred Costs resulting from any fee adjustments for the Work pursuant to any Change Control per Attachment G or any other amendments to the Agreement, but in any case subject to the terms set forth in Section 1.9 in this ATTACHMENT F. After being provided with a request or providing a Change Control Proposal as provided on Attachment G or any other amendment to the Agreement. AV will provide HAPSMobile with a Change Assessment (as contemplated by Attachment G) or a similar assessment or other proposed amendments to the Agreement with estimated additional or reduced Incurred Costs plus the applicable fee for the applicable Change Control Proposal or other proposed Agreement amendment along with the costs estimation documentation. In the event of a projected increase in Incurred Costs by AV in performance of the Agreement pursuant to Change Control Proposal or other proposed Agreement amendment would result in a total Contract Value that exceeds the then-current Contract Value, HAPSMobile will agree to authorize AV to incur the excess costs (thus increasing the Contract Value) or the Parties will agree in the Change Control (or pursuant to any other Agreement amendment) to reduce the Scope of Agreement so that AV's performance of the Scope of Agreement will fall within the then-current Contract Value. Any increase in Contract Value that exceeds causes the value of this Agreement to exceed the Initial Contract Value shall require approval by HAPSMobile's board of directors.

The tables below provide the basis for calculating the additional Fees applicable for Change Controls and other Agreement amendments as a result of a Change or other Agreement amendment that may be required from time to time in accordance with relevant clauses of the Agreement.

| Cost Element | Description |
|----------------------------------|--------------------|
| Labor | [***] |
| Labor Total Cost w/[***]% Fee | [***] |
| Material Total Cost w/[***]% Fee | [***] |

| | |
|--|-------|
| Subcontract Total Cost w/[***]% Fee | [***] |
| Other Direct Costs (ODC) Total Cost w/[***]% Fee | [***] |

4. Fifth Work Order and Optional Order

4.1 Order Schedule

The Fifth Work Order and the following Optional Order will be organized as follows;

| Name | Covered SoW | Covered Milestone | WO value (USD) | WO due date |
|----------------------|-------------|-------------------|----------------|-------------|
| The fifth Work Order | [***] | [***] | [***] | [***] |
| Optional Order #1 | [***] | [***] | [***] | [***] |
| Optional Order #2 | [***] | [***] | [***] | [***] |

*remark

| Definition | Meaning | Decision Due Date |
|------------|---------|-------------------|
| [***] | [***] | [***] |
| [***] | [***] | [***] |

HM shall issue the fifth Work Order as defined above, and HM may issue the Optional Order by fully HM’s option considering [***] but until WO due date defined as the above.

4.2 Effect of No Issuance of Optional Order

In case HM does not issue the Optional Order before or on the due date, AV may suspend the entrance of the equivalent Milestone and covered Works until AV receives the Optional Order. In the event of Optional Work Orders are not exercised, AV will transfer all assets to HAPSMobile.

Exhibit A – Project Funds Status Report

Exhibit B – Monthly Status Report (Example)

Exhibit C – Milestone Invoice (Example)

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

Exhibit A to Attachment F – Project Funds Status Report

1. Estimate at Completion on Dec.10,2017

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: Dec 10th, 2017

Target Milestone Values (Baseline Values)

| Phase | Step 2 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestone | | | | | | | | | |
| Step 2 | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | |
| Monthly Invoice (Mat, SubK, ODC) | | | | | | | | | |
| Total | | | | | | | | | |
| Total Cumulative | | | | | | | | | |

Assumptions:

Values to be billed based on actual costs

Values to be adjusted to reflect latest revised spend plan on a Quarterly Basis

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: Dec 10th, 2017

Target Milestone Values (Baseline Values)

| Phase | Step 2 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestone | | | | | | | | | | | |
| Step 2 | | | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | | | |
| Monthly Invoice (Mat, SubK, ODC) | | | | | | | | | | | |
| Total | | | | | | | | | | | |
| Total Cumulative | | | | | | | | | | | |

Assumptions:

Values to be billed based on actual costs

Values to be adjusted to reflect latest revised spend plan on a Quarterly Basis

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: Dec 10th, 2017

Target Milestone Values (Baseline Values)

| Phase | Step 2 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestone | | | | | | | | |
| Step 2 | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | |
| Monthly Invoice (Mat, SubK, ODC) | | | | | | | | |
| Total | | | | | | | | |
| Total Cumulative | | | | | | | | |

Assumptions:

Values to be billed based on actual costs

Values to be adjusted to reflect latest revised spend plan on a Quarterly Basis

Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

[***] = [***]

2. Estimate at Completion on Dec.10,2018

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: January 10, 2019

Target Milestone Values (Baseline Values)

| Phase | Step 2 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestone | | | | | | | | |
| Step 2 | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | |
| 9 - Remaining Labor for 01/26/20 - 2/4/20 | | | | | | | | |
| Monthly Invoice (Mat, SubK, ODC) | | | | | | | | |
| Total | | | | | | | | |
| Total Cumulative | | | | | | | | |

Assumptions:

Milestone 1 in [redacted] & Milestone 2 in [redacted] invoices will be adjusted to account for advanced payment of \$ [redacted]

Values to be billed based on actual costs + [redacted] fee.

Values to be adjusted to reflect latest revised spend plan on a Monthly Basis

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: January 10, 2019

Target Milestone Values (Baseline Values)

| Phase | Step 2 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestone | | | | | | | | | | | |
| Step 2 | | | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | | | |
| 9 - Remaining Labor for 01/26/20 - 2/4/20 | | | | | | | | | | | |
| Monthly Invoice (Mat, SubK, ODC) | | | | | | | | | | | |
| Total | | | | | | | | | | | |
| Total Cumulative | | | | | | | | | | | |

Assumptions:

Milestone 1 in [redacted] & Milestone 2 in [redacted] invoices will be adjusted to account for advanced payment of \$0,000,000 in [redacted]

Values to be billed based on actual costs + [redacted] fee.

Values to be adjusted to reflect latest revised spend plan on a Monthly Basis

*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

[redacted] = [redacted]



Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: January 30, 2019

Target Milestone Values (Baseline Values)

| Phase | Milestone | Step 1 | Step 2 | Step 3 | Step 4 | Step 5 | Step 6 | Step 7 |
|----------------------------------|--|--------|--------|--------|--------|--------|--------|--------|
| Step 2 | Milestone - 1 AV Labor | | | | | | | |
| | Milestone - 2 AV Labor | | | | | | | |
| | Milestone - 3 AV Labor | | | | | | | |
| | Milestone - 4 AV Labor | | | | | | | |
| | Milestone - 5 AV Labor | | | | | | | |
| | Milestone - 6 AV Labor | | | | | | | |
| | Milestone - 7 AV Labor | | | | | | | |
| | Milestone - 8 AV Labor | | | | | | | |
| | 9 - Remaining Labor for 6/1/20/20 - 2/4/20 | | | | | | | |
| Monthly Invoice (Mat. SatM, DDC) | | | | | | | | |
| Total | | | | | | | | |
| Total Cumulative | | | | | | | | |

Assumptions:

Milestone 1 in [redacted] & Milestone 2 in [redacted] invoices will be adjusted to account for advanced payment of \$ [redacted]
 Values to be billed based on actual costs + [redacted] fee.
 Values to be adjusted to reflect latest revised spend plan on a Monthly Basis.

*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

[redacted] = [redacted]



3. Estimate at Completion on March 4, 2019

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: March 4, 2019

Target Milestone Values (Baseline Values)

| Phase | Bridge | Bridge | Bridge | Step 1 | Step 2 | Step 3 | Step 4 | Step 5 | Step 6 | Step 7 | Step 8 | Step 9 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestones | | | | | | | | | | | | |
| Step 2 | | | | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | | | | |
| Milestone - 9 AV Labor | | | | | | | | | | | | |
| Milestone - 10 AV Labor | | | | | | | | | | | | |
| 11 - Remaining Labor for | | | | | | | | | | | | |
| Monthly Invoice (Mat, Sub, ODC) | | | | | | | | | | | | |
| Total | | | | | | | | | | | | |
| Total Cumulative | | | | | | | | | | | | |

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: March 4, 2019

Target Milestone Values (Baseline Values)

| Phase | Step 2 | Step 3 | Step 4 | Step 5 | Step 6 | Step 7 | Step 8 | Step 9 | Step 10 | Step 11 | Step 12 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| Milestones | | | | | | | | | | | |
| Step 2 | | | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | | | |
| Milestone - 9 AV Labor | | | | | | | | | | | |
| Milestone - 10 AV Labor | | | | | | | | | | | |
| 11 - Remaining Labor for | | | | | | | | | | | |
| Monthly Invoice (Mat, Sub, ODC) | | | | | | | | | | | |
| Total | | | | | | | | | | | |
| Total Cumulative | | | | | | | | | | | |

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: March 4, 2019

Target Milestone Values (Baseline Values)

| Phase | Step 2 | Step 3 | Step 4 | Step 5 | Step 6 | Step 7 | Step 8 | Step 9 | Step 10 | Step 11 | Step 12 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| Milestones | | | | | | | | | | | |
| Step 2 | | | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | | | |
| Milestone - 9 AV Labor | | | | | | | | | | | |
| Milestone - 10 AV Labor | | | | | | | | | | | |
| 11 - Remaining Labor for | | | | | | | | | | | |
| Monthly Invoice (Mat, Sub, ODC) | | | | | | | | | | | |
| Total | | | | | | | | | | | |
| Total Cumulative | | | | | | | | | | | |

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: March 4, 2019

Target Milestone Values (Baseline Values)

| Phase | Step 2 | Step 3 | Step 4 |
|---------------------------------|--------|--------|--------|
| Milestones | | | |
| Step 2 | | | |
| Milestone - 5 AV Labor | | | |
| Milestone - 6 AV Labor | | | |
| Milestone - 7 AV Labor | | | |
| Milestone - 8 AV Labor | | | |
| Milestone - 9 AV Labor | | | |
| Milestone - 10 AV Labor | | | |
| Milestone - 11 AV Labor | | | |
| Milestone - 12 AV Labor | | | |
| Milestone - 13 AV Labor | | | |
| Milestone - 14 AV Labor | | | |
| Milestone - 15 AV Labor | | | |
| Milestone - 16 AV Labor | | | |
| Milestone - 17 AV Labor | | | |
| Milestone - 18 AV Labor | | | |
| Milestone - 19 AV Labor | | | |
| Milestone - 20 AV Labor | | | |
| 11 - Remaining Labor for | | | |
| Monthly Invoice (Mat, Sub, ODC) | | | |
| Total | | | |
| Total Cumulative | | | |

*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.



AeroVironment Inc.

980 Enchanted Way

Simi Valley, California 93065 – U.S.A.

Telephone 1(805) 581-2187 – FAX 1(805) 584-6922

Approvals:

| | |
|--|---|
| <hr/> <p style="text-align: center;"><Enter Name here> Originator</p> | <hr/> <p style="text-align: center;">Date</p> |
| <hr/> <p style="text-align: center;"><Enter Name here> Project Manager</p> | <hr/> <p style="text-align: center;">Date</p> |
| <hr/> <p style="text-align: center;"><Enter Name here> Program Manager</p> | <hr/> <p style="text-align: center;">Date</p> |

*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

Revision History

| REV | EDIT DATE | AUTHOR | DESCRIPTION |
|-----|------------|--------|-------------|
| A | MM/DD/YYYY | | |
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*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

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*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

Introduction

<<HIGH LEVEL PROGRAM OVERVIEW>>

<<STOPLIGHT CHART>>

Project Title: Step 2 HALO
 Customer: JV
 PjM / PM / Business Area: CIS

Date: XX/XX/XXXX
 Charge Code: 5XXXX

Customer logo

Program/Project Description: <<Enter Program Description>>

| Key Performance Indicators [KPI's] | Month (1) | Month (2) | Month (3) | Month (4) | Month (5) | Month (6) | Comments |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
| Technical Performance | | | | | | | |
| Quality | | | | | | | |
| Schedule | | | | | | | |
| Cost | | | | | | | |
| Supply Chain | | | | | | | |

| | | | | | |
|---|----------|---|-------------------------------------|---|--|
| G | On track | Y | Off track, mitigation plan in place | R | Off track, no mitigation plan, help needed |
|---|----------|---|-------------------------------------|---|--|

Technical Accomplishments

What efforts were started this period?

<<Description of work started and performed during the reporting month>>

- Task 5
- Task 6
- Task 7
- Task ...X

What efforts were completed this period?

<<Description of work completed and performed during the reporting month>>

- Task 1
- Task 2
- Task 3
- Task 4

Key Subcontract Status:

Subcontractor A:

Subcontractor B:

Subcontractor C:

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

█ = [***]



Schedule Update

Integrated Master Schedule Update <<EXAMPLE>>



Milestone Status Update

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.
[***] = [***]

*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

Spend Plan

Spend Plan Update

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: March 4, 2023
Target Milestone Values (Baseline Values)

| Phase | Bridge | Bridge | Bridge | Step 2 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestones | | | | | | | | | | | | |
| Step 2 | | | | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | | | | |
| Milestone - 9 AV Labor | | | | | | | | | | | | |
| Milestone - 10 AV Labor | | | | | | | | | | | | |
| 11 - Remaining Labor for | | | | | | | | | | | | |
| Monthly Invoice (Mat, SubK, ODC) | | | | | | | | | | | | |
| Total | | | | | | | | | | | | |
| Total Cumulative | | | | | | | | | | | | |

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: March 4, 2023
Target Milestone Values (Baseline Values)

| Phase | Step 2 | Step 1 | Step 2 | Step 1 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestones | | | | | | | | | | | | |
| Step 2 | | | | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | | | | |
| Milestone - 9 AV Labor | | | | | | | | | | | | |
| Milestone - 10 AV Labor | | | | | | | | | | | | |
| 11 - Remaining Labor for | | | | | | | | | | | | |
| Monthly Invoice (Mat, SubK, ODC) | | | | | | | | | | | | |
| Total | | | | | | | | | | | | |
| Total Cumulative | | | | | | | | | | | | |

Exhibit A to Attachment F: Project Funds Status Report (Milestones)

Date Prepared: March 4, 2023
Target Milestone Values (Baseline Values)

| Phase | Step 2 | Step 2 | Step 2 | Step 1 | Step 2 | Step 1 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milestones | | | | | | | | | | | | |
| Step 2 | | | | | | | | | | | | |
| Milestone - 1 AV Labor | | | | | | | | | | | | |
| Milestone - 2 AV Labor | | | | | | | | | | | | |
| Milestone - 3 AV Labor | | | | | | | | | | | | |
| Milestone - 4 AV Labor | | | | | | | | | | | | |
| Milestone - 5 AV Labor | | | | | | | | | | | | |
| Milestone - 6 AV Labor | | | | | | | | | | | | |
| Milestone - 7 AV Labor | | | | | | | | | | | | |
| Milestone - 8 AV Labor | | | | | | | | | | | | |
| Milestone - 9 AV Labor | | | | | | | | | | | | |
| Milestone - 10 AV Labor | | | | | | | | | | | | |
| 11 - Remaining Labor for | | | | | | | | | | | | |
| Monthly Invoice (Mat, SubK, ODC) | | | | | | | | | | | | |
| Total | | | | | | | | | | | | |
| Total Cumulative | | | | | | | | | | | | |

*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

██████████ = [***]



Exhibit A to Attachment F: Project Funds Status Report (Milestones)

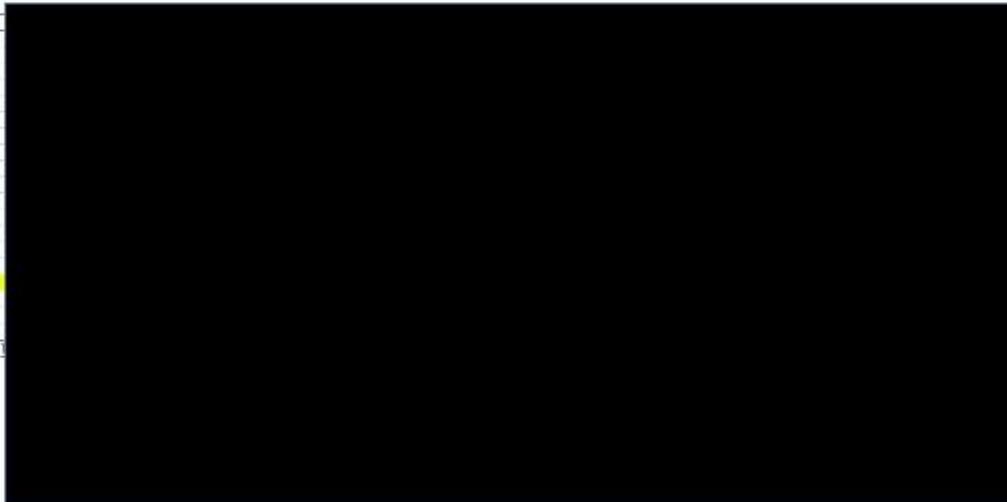
Date Prepared: March 4, 2019

Target Milestone Values (Baseline Values)

| Phase | Step 2 | Step 2 | Step 2 |
|---|--------|--------|--------|
| Milestone | | | |
| Step 2 | | | |
| Milestone - 1 AV Labor | | | |
| Milestone - 2 AV Labor | | | |
| Milestone - 3 AV Labor | | | |
| Milestone - 4 AV Labor | | | |
| Milestone - 5 AV Labor | | | |
| Milestone - 6 AV Labor | | | |
| Milestone - 7 AV Labor | | | |
| Milestone - 8 AV Labor | | | |
| Milestone - 9 AV Labor | | | |
| Milestone - 10 AV Labor | | | |
| 11 - Remaining Labor for Monthly Invoice (Mat, SubK, ODC) | | | |
| Total | | | |
| Total Cumulative | | | |

Cost Performance Report
[Cost Performance Update](#)

Cost Performance



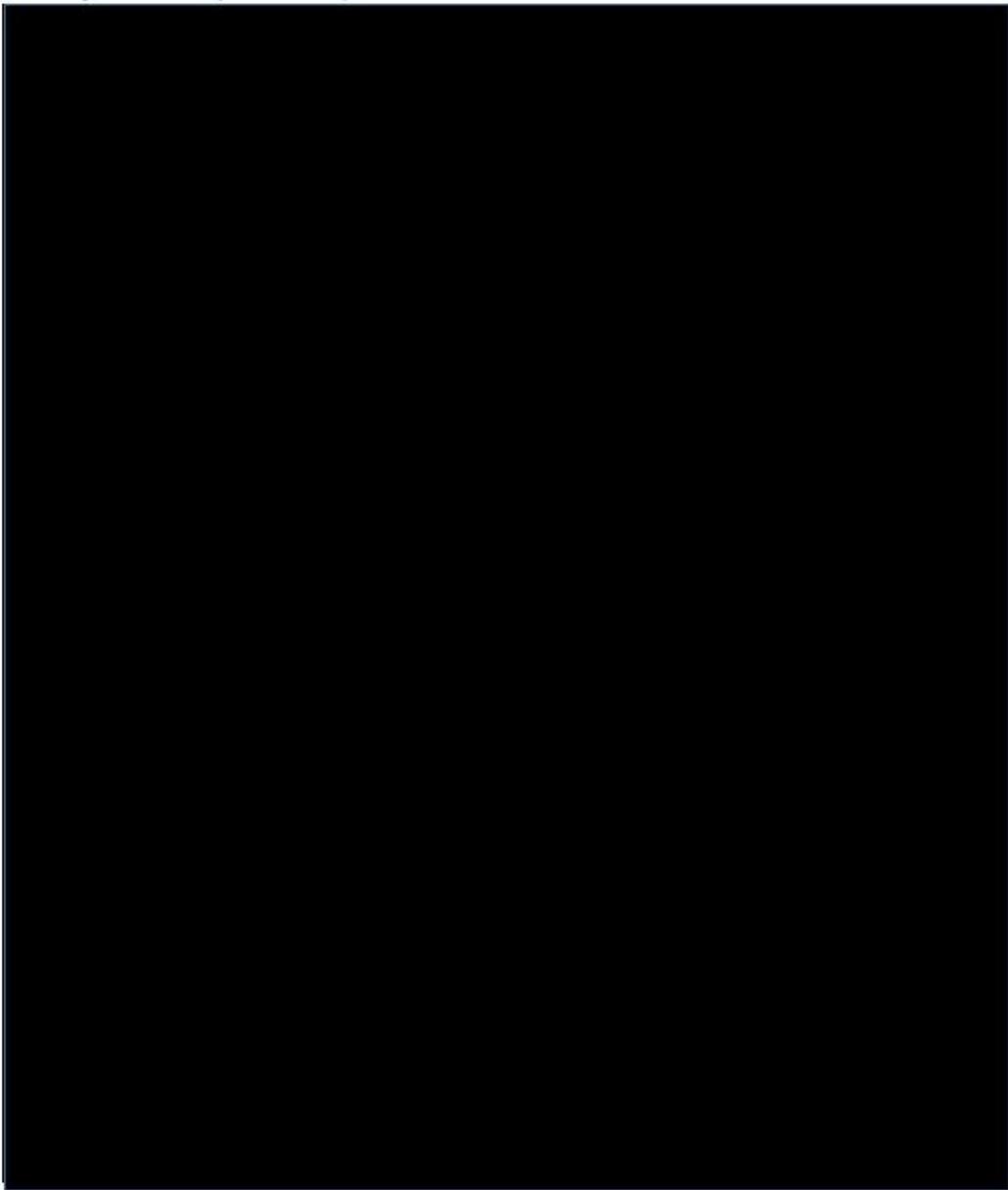
Schedule Performance Report
<<Schedule Performance Report>>

Critical Path Analysis

[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.
[REDACTED] = [***]

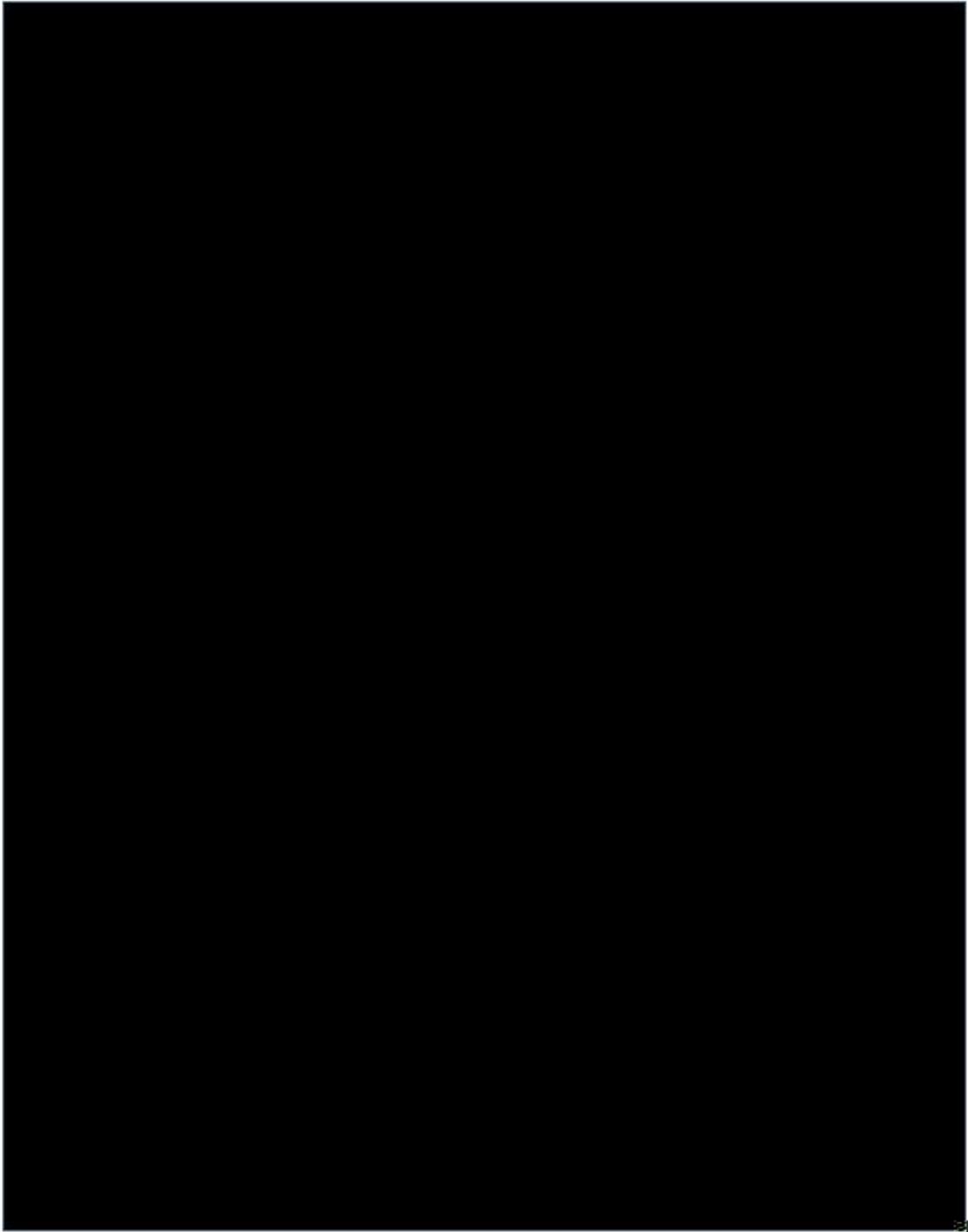
- ☐ Schedule Performance Index (if applicable)
- ☐ Near term upcoming milestones (30 – 60 days)
 - Milestone 1 =
 - Milestone 2 =
 - Milestone X =

Monthly Invoice – (Non-Labor)



[***] Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.
[REDACTED] = [***]





*** Information has been omitted pursuant to Item 601(b)(2) of Regulation S-K.

█ = ***



AMENDMENT AGREEMENT

This Amendment Agreement (this “Amendment”) is made and entered into as of November 29, 2018 by and between SoftBank Corp., a company incorporated under the laws of Japan and having its principal place of business at 1-9-1 Higashi-shimbashi, Minato-ku, Tokyo, Japan (“SoftBank”) and AeroVironment, Inc., a company incorporated under the laws of the State of Delaware and having its principal place of business at 800 Royal Oaks Drive, Suite 210, Monrovia, CA 91016, U.S.A. (“AV”). SoftBank and AV are hereinafter referred to collectively as the “Parties” and individually as a “Party”.

All Capitalized terms not otherwise defined herein shall have the same meaning as assigned to them in the Original Agreement (as such term is defined below).

RECITALS

WHEREAS:

- (A) SoftBank and AV entered into a Joint Venture Agreement dated as of December 1, 2017 (the “Original Agreement”) under which they agreed to establish a joint venture company named HAPSMobile Inc.; and
- (B) SoftBank and AV now desire to amend a portion of the Original Agreement as set forth in this Amendment.

NOW THEREFORE, the Parties hereby agree to amend and supplement the terms of the Original Agreement as follows:

1. Amendment to Section 4(a)(i).

Section 4.4(a)(i) of the Original Agreement is deleted in its entirety and replaced as follows:

(i) Composition of the Board of Directors. The board of directors of the Company (the “Board”) shall consist of six (6) Directors, of which four (4) shall be nominated by SoftBank (collectively, the “SoftBank Directors”) and two (2) shall be nominated by AV (the “AV Directors”). The updated SoftBank Directors shall be Mr. Junichi Miyakawa, Mr. Ryuji Wakikawa, Mr. Yoshihito Shimazaki and Mr. Akihiko Asami. AV Directors shall be Mr. Wahid Nawabi and Mr. Kirk Flittie. Each Shareholder agrees that, if at any time it is then entitled to vote for the election, removal or re-election of directors to the Board, it shall vote all of its Shares that are entitled to vote or execute proxies or written consents, as the case may be, and take all other necessary actions (including causing the Company to call a special meeting of the Shareholders) in order to ensure that the composition of the Board is as set forth in this Section 4.4(a)(i) (i.e. that the Board shall consist of four (4) SoftBank nominated Directors and two (2) AV nominated Directors).

2. Effective Date. Notwithstanding the signing date, this Amendment shall be in full effect from November 29, 2018.

3. Other.

3.1 SoftBank and AV each agrees to cause the Company to, and to vote its respective shares in order to, fully implement this Amendment, including without limitation any necessary amendment to the articles of incorporation of the Company.

3.2 Except as expressly modified by this Amendment, the Original Agreement shall remain in full force and effect.

[Signature page follows.]

IN WITNESS WHEREOF, the Parties have executed this Amendment by their respective duly authorized representatives . This Amendment may be executed in counterparts, including by facsimile or any other electronic transmission.

SoftBank Corp..

AeroVironment, Inc.

By:

By:

 /s/Junichi Miyakawa

 /s/ Wahid Nawabi

Print Name: Junichi Miyakawa
Title: Executive Vice President, Director & CTO

Print Name: Wahid Nawabi
Title: President and CEO

Date: Nov. 29, 2018

Date: Nov. 29, 2018

SECOND AMENDMENT AGREEMENT

This Second Amendment Agreement (this “**Amendment**”) is made and entered into with effect as of February 8, 2019 by and between SoftBank Corp., a company incorporated under the laws of Japan and having its principal place of business at 1-9-1 Higashi-shimbashi, Minato-ku, Tokyo, Japan (“**SoftBank**”) and AeroVironment, Inc., a company incorporated under the laws of the State of Delaware and having its principal place of business at 800 Royal Oaks Drive, Suite 210, Monrovia, CA 91016, U.S.A. (“**AV**”). SoftBank and AV are hereinafter referred to collectively as the “**Parties**” and individually as a “**Party**”.

All Capitalized terms not otherwise defined herein shall have the same meaning as assigned to them in the Original Agreement (as such term is defined below).

RECITALS

WHEREAS:

- (A) SoftBank and AV entered into a Joint Venture Agreement dated December 1, 2017 (the “**Original Agreement**”) under which they agreed to establish a joint venture company named HAPSMobile Inc.; and
- (B) SoftBank and AV amended the Original Agreement by entering into an Amendment Agreement dated November 29, 2018; and
- (C) SoftBank and AV now desire to amend portions of the Original Agreement as set forth in this Amendment.

NOW THEREFORE, the Parties hereby agree to amend and supplement the terms of the Original Agreement as follows:

1. Additional Capital Contribution by AV.

Sections 2.6 and 2.7 of the Original Agreement are hereby deleted in their entirety and replaced as follows:

2.6 Initial Capital Contributions by the Parties and Follow-Up Contribution by AV.

(a) The Parties shall make initial cash capital contributions to establish the Company. SoftBank’s initial contribution shall be 3,990,000,000 JPY in cash in exchange for ninety-five percent (95%) of the issued common stock of the Company and AV’s initial contribution shall be 210,000,000 JPY in cash in exchange for five percent (5%) of the issued common stock of the Company. Following the initial capital contributions, the Parties shall make cash capital contributions in accordance with the Capital Plan attached hereto as Exhibit D. Any costs in making the capital contribution shall be incurred by the respective Parties.

(b) By no later than March 7, 2019, AV shall make a follow-up cash capital contribution to the Company of 632,800,000 JPY in cash in exchange for five percent (5%) of the issued common stock of the Company, which shall be in addition to the five percent (5%) issued to AV under paragraph (a) above.

2.7 Share Capital.

(a) Shareholdings. The Company shall initially be authorized to issue shares of capital stock consisting of 336,000 shares of common stock (the “**Shares**”). All of the capital of the Company will be composed of voting common shares of a single class. Upon completion of the capital contributions described in Sections 2.6(a) and(b) above, each Shareholder’s percentage of total share capital of the Company will be as follows. For the avoidance of doubt, such percentage and the total number of authorized shares of the Company may change from time to time as the result of Transfers or new issuances of Shares by the Company pursuant to the terms of this Agreement and applicable Laws.

| Shareholders | Number of Shares | Percentage of Share Capital |
|--------------|------------------|-----------------------------|
| SoftBank | 216,410 | 90% |
| AV | 24,046 | 10% |

2. **Deletion of Section 5.3(f).** Section 5.3(f) of the Original Agreement is hereby deleted in its entirety and replaced as follows:

(f) [Reserved]

3. **Other.**

5.1 SoftBank and AV each agrees to cause the Company to, and to vote its respective shares in order to, fully implement this Amendment, including without limitation any necessary amendment to the articles of incorporation of the Company.

5.2 Except as expressly modified by this Amendment, the Original Agreement shall remain in full force and effect.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have executed this Amendment by their respective duly authorized representatives. This Amendment may be executed in counterparts, including by facsimile or any other electronic transmission.

SoftBank Corp.

AeroVironment, Inc.

By: /s/ Junichi Miyakawa

By: /s/ Wahid Nawabi

Name: Junichi Miyakawa
Title: Representative Director & CTO

Name: Wahid Nawabi
Title: President and CEO

Date: Feb. 20, 2019

Date: Feb. 20, 2019

Subsidiaries of AeroVironment, Inc.

| Name | Jurisdiction of Organization |
|---|-------------------------------------|
| SkyTower, Inc. | Delaware |
| Altay Savunma Sanayi ve Havacilik Anonim Sirketi* | Turkey |
| AeroVironment, Inc. | Afghanistan |
| HAPSMobile, Inc.** | Japan |
| Pulse Aerospace LLC | Delaware |

* AeroVironment, Inc. has an 85% ownership interest

** AeroVironment, Inc. has a 5% ownership interest

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333 140237) pertaining to the AeroVironment, Inc. Nonqualified Stock Option Plan, the AeroVironment, Inc. 2002 Equity Incentive Plan, and the AeroVironment, Inc. 2006 Equity Incentive Plan, as amended and restated, and Registration Statement (Form S-8 No. 333-178349) pertaining to the AeroVironment, Inc. 2006 Equity Incentive Plan, as amended and restated, of our reports dated June 25, 2019, with respect to the consolidated financial statements and schedule of AeroVironment, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting of AeroVironment, Inc. and subsidiaries, included in this Annual Report (Form 10-K) for the year ended April 30, 2019.

/s/ Ernst & Young LLP

Los Angeles, California
June 25, 2019

**Certification of CEO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Wahid Nawabi, certify that:

1. I have reviewed this annual report on Form 10-K 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 annual 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(s) 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 15(d)-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(s) 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 function):
 - 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: June 25, 2019

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

**Certification of CFO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Teresa P. Covington, certify that:

1. I have reviewed this annual report on Form 10-K 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 annual 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(s) 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 15(d)-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(s) 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 function):
 - 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: June 25, 2019

/s/ Teresa P. Covington

Teresa P. Covington
Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of AeroVironment, Inc. (the "Company") hereby certifies, to each such officer's knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended April 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 25, 2019

/s/ WAHID NAWABI

Wahid Nawabi
Chief Executive Officer and President

Date: June 25, 2019

/s/ TERESA P. COVINGTON

Teresa P. Covington
Senior Vice President and Chief Financial Officer
