

'22

2022 OVERVIEW

# OUTAHEAD

NEW PLATFORMS,  
NEW CATEGORIES AND  
NEW CLASSES OF TECHNOLOGY





# SOME ORGANIZATIONS TRY TO ENVISION THE FUTURE. AEROVIRONMENT IS ALREADY THERE.

For more than 50 years, AeroVironment has been **OUTAHEAD**, developing new platforms, new categories and new classes of technology that set the stage for paradigm shifts decades away.

This commitment to far-reaching innovation is built into AeroVironment's DNA. When the U.S. government needed a new way to counter Russian aggression in Ukraine, AeroVironment was primed with the technology needed. In 1986, we had begun work on the small unmanned aircraft system (SUAS) platform that evolved into the Switchblade<sup>®</sup>, Puma<sup>™</sup> 3 AE and Quantix<sup>™</sup> Recon, all relevant technologies suited for Ukraine's defense.

And when NASA's Jet Propulsion Laboratory needed the expertise to help develop a helicopter capable of flying in the rarefied Martian atmosphere, AeroVironment was the ideal partner. Twenty years before the Ingenuity Mars Helicopter made its maiden voyage in 2021, we sent Helios, our solar-powered unmanned aircraft, to the record-breaking altitude of almost 97,000 feet, gaining the insight needed to fly directly above the Martian surface.





THROUGHOUT OUR HISTORY, ORGANIZATIONS HAVE  
TURNED TO AEROVIRONMENT FOR ONE SIMPLE REASON:  
**WE'VE ALREADY BEEN WHERE THEY WANT TO GO!**



# A NEW APPROACH TO FORCE OVERMATCH

## Our SUAS and Tactical Missile Systems Help Even the Odds in Ukraine

The Russian invasion of Ukraine was an inflection point in modern warfare. Since World War II, the major powers achieved force overmatch by deploying large, highly complex and extremely expensive assets, from fighter jets, to tanks, to aircraft carriers, satellites and submarines.

The aggressive Ukrainian response to the Russian invasion was a game-changer. Equipped with portable, inexpensive smart weapons systems, the smaller, more nimble Ukrainian forces have outmaneuvered and out-fought its much larger adversary on multiple occasions. In the process, the Ukrainians have destroyed thousands of Russian tanks and armored vehicles and hundreds of aircraft.

SUAS and tactical missiles systems (TMS) epitomize this counterintuitive, smaller-is-better approach to force overmatch. In March 2022, the U.S. government sent approximately 700 Switchblade loitering missiles to Ukraine. With its 40 kilometer range and 40-minute flight time, the Switchblade 600 is designed to destroy tanks and other armored vehicles

and neutralize artillery. The smaller Switchblade 300, weighing less than six pounds, is meant for soft targets and is being successfully used for this purpose.

Switchblade was not the only AeroVironment product in the U.S. aid package. The Puma SUAS was also included and can loiter for hours above a battlefield to help soldiers locate and track enemy threats and help direct Switchblades toward their targets.

AeroVironment also went above and beyond, making its own direct contribution to the Ukrainian war effort. After consultation with the Ukrainian Embassy in Washington, D.C. and the Ministry of Defense of Ukraine, the Company donated over 100 Quantix Recon UAS, providing additional force protection and situational awareness for Ukrainian troops. With its unique hybrid vertical takeoff and landing (VTOL) design, Quantix Recon combines the VTOL advantages of a multirotor drone with the range, speed and efficiency of a fixed-wing UAS.



AT AEROVIRONMENT, WE ARE DOING OUR PART  
TO SUPPORT THE PEOPLE OF UKRAINE IN  
THEIR **FIGHT FOR FREEDOM.**





# HUNTING DOWN TARGETS

## Tactical Missile Systems That Are Battle Proven

When the U.S. military required a loitering munition to send to Ukraine, it had an option already available, thanks to the efforts of AeroVironment's engineers a decade ago. When introduced in 2012, the Switchblade loitering missile was immediately recognized as a game-changer. *Time* magazine called it one of the best inventions of the year. And because AeroVironment was so far **OUTAHEAD**, the U.S. had not only the weapons system needed for the Ukrainian defense forces but one that had benefitted from more than a decade of battlefield use and continuous improvement.

AeroVironment's tactical missile systems close the gap between observation and action, giving troops the ability to identify threats and deliver a precision lethal payload with minimal collateral damage, thanks to their patented wave-off feature and recommit capability. These multi-domain systems can be launched from land, sea or air, and their small size and low acoustic, visual and thermal signatures make them difficult to detect, recognize or track, even at close range.

With a set-up time of around two minutes, the Switchblade 300 is ideal for immediate deployment against beyond-line-of-sight (BLOS) targets >12 kilometers. Weighing just 2.5 kilograms, the Switchblade 300 can stay on station for up to 15 minutes and help operators neutralize hostile forces. The U.S. Special Operations Command (USSOCOM) successfully deployed the Switchblade 300 extensively in Iraq and Afghanistan.

AeroVironment's Switchblade 300 Sensor to Shooter (S2S) Kit, introduced this year, combines the superior endurance and intelligence, surveillance and reconnaissance (ISR) capabilities of AeroVironment's SUAS with the precision strike capabilities of the Switchblade. Operators can take advantage of the extended target acquisition timelines provided by the SUAS while reducing the gap from identification to engagement with the help of direct machine-to-machine communications.

The larger Switchblade 600, introduced in 2020, delivers unprecedented reconnaissance, surveillance and target acquisition (RSTA) information and its 40-plus minutes of loitering endurance and anti-armor warhead allow it to engage larger, hardened targets at stand-off distances up to 40 kilometers.



A soldier in camouflage gear and a helmet with goggles is kneeling on the ground next to a military truck. The truck has a large, dark, cylindrical object mounted on its bed. In the background, there are rolling hills and a cloudy sky. A white Switchblade loitering missile is flying in the upper left corner of the frame. The overall scene is in a muted, greyish-blue color palette.

Game-changing Switchblade loitering missile systems now approved for export to 20+ allied nations, including Ukraine.





# A GAME-CHANGING VISION FOR SMALL UAS

## Two Decades Out Ahead of the Competition

In 1986, AeroVironment engineers created Pointer™, a hand-launched, battery-powered, unmanned aircraft with cameras that streamed live video and data back to its operator. No one had ever seen anything like it before. During the late 1990s, we began focusing on its potential for ISR, greatly expanding the situational awareness available to small teams of warfighters. In effect, we envisioned a new way for combat troops to look **OUTAHEAD** without exposing themselves to enemy fire.

In 2003, AeroVironment's Dragon Eye was designated the first SUAS program of record by the U.S. Department of Defense, and AeroVironment followed up by introducing a succession of ground-breaking platforms — Raven® in 2005, Puma™ in 2010, Wasp® in 2012, Quantix™ in 2015 and the Vapor® Helicopter UAS in 2019.

Today, the Raven is the most widely deployed unmanned aircraft system in the world, and our third-generation Puma 3 AE and our category-defying Puma LE, which feature the power of a Group 2 UAS in a Group 1 footprint, have been widely adopted.

Our Foreign Military Sales program, designed to promote interoperability with U.S. allies, secured additional contracts totaling \$43 million, including one for Puma 3 AE, another for Puma 3 AE and Wasp AE and a third for Puma LE.

One reason for the enduring appeal of AeroVironment's SUAS is our commitment to enhancing their capabilities. This year, for instance, we introduced the Mantis™ i45 N for the Puma AE and Puma LE. This multi-sensor, dual-axis, gyro-stabilized imaging system is designed for maximum visibility during low-light or nighttime missions. It features improved long-wave IR thermal cameras, an upgraded 5-megapixel monochrome low-light camera sensor and a high-power 860-nm laser illuminator.



AEROVIRONMENT'S SUAS ARE THE CHOICE  
OF THE U.S. MILITARY AND 50+ ALLIED  
GOVERNMENTS, WITH INTERNATIONAL  
**ORDERS TOTALING OVER \$100 MILLION IN  
BOTH INTERNATIONAL ORDERS AND REVENUE.**





# MOVING UP TO MEDIUM UAS

## Enabling Powerful New Options for UAS Operations


AeroVironment's commitment to future-defining technology is one reason that we have recorded so many firsts, including the first UAS program of record from the U.S. Department of Defense. The AeroVironment JUMP<sup>®</sup> 20 represents another milestone. It is AeroVironment's first VTOL-capable, fixed-wing medium unmanned aircraft system to be deployed extensively in support of U.S. military forces.

The JUMP 20 is the ideal platform for SATCOM integration. It can stay aloft for more than 14 hours, giving it a standard operational range of 185 kilometers, and can accommodate multiple payload configurations with a usable total capacity of up to 13.6 kilograms. Because it does not require specialized launch or recovery equipment, the JUMP 20 can be operational in less than 60 minutes.

Deploying a SATCOM payload is not the only ground-breaking application we introduced for JUMP 20 this year. We fixed a Switchblade 300 loitering missile to its vertical lift boom and fired the Switchblade remotely. In effect, we combined the Switchblade's lethality, reach and precision with the JUMP 20's advanced multisensory ISR services and extended endurance to create a new weapons system.

JUMP 20s armed with Switchblades give small tactical ground units an unprecedented amount of Switchblade 300 time on station, increasing the likelihood of the unit identifying and neutralizing promising targets while minimizing collateral damage. We expect the system, which ultimately may accommodate up to four munitions, to be available within a year.





For USSOCOM, the choice was clear. For SATCOM-enabled operations in remote harsh environments, **THE JUMP 20 WAS THE BEST OPTION FOR ITS MID-ENDURANCE UNMANNED AIRCRAFT SYSTEMS (MEUAS) IV PROGRAM.**



# NAVIGATING DANGEROUS GROUND

## Adding a New Element to Our Multi-Domain Solutions

Our Telerob family of unmanned ground vehicles (UGVs) shares a similar purpose as our small and medium UAS and our tactical missile systems: to keep their operators out of harm's way.


Our UGVs are highly capable substitutes for human beings in a variety of dangerous ground applications, including explosive ordnance disposal (EOD), hazardous materials handling (HAZMAT), chemical, biological, radiological and nuclear (CBRN) threat assessments and special weapons and tactics (SWAT) team operations.

This year, AeroVironment delivered a telemax™ EVO HYBRID system to the U.S. Pentagon Force Protection Agency (PFPA). Designed for use by PFPA EOD and HAZMAT operators, telemax EVO HYBRID features an HD pan-tilt-zoom camera that produces razor-sharp images across four video feeds and a 6-axis precision manipulator with Tool Center Point Control, providing operators precision control even in confined spaces. Its 4-track, auto-leveling drive system allows it to easily negotiate stairs, surmount obstacles and manage gaps up to 20 inches.

The Telerob UGVs are in demand by countries with the largest ordnance disposal burdens. Latvia, for instance, was the scene of prolonged battles during World War I and World War II and during 45 years of Soviet occupation, it housed numerous artillery ranges. The Latvian National Armed Forces (NAF) have responded by becoming a global leader in bomb disposal practices.

Accordingly, it was quite an accolade this year when the NAF turned to AeroVironment for its telemax EVO HYBRID and tEODor™ EVO systems. Purpose-built for EOD, the tEODor EVO features a 6-axis manipulator with telescopic reach, 220-pound lift capacity and a 12-inch gripper with an integrated laser rangefinder, video input and data interface.





LOOKING FORWARD, AEROVIRONMENT IS **OUTAHEAD**, PREPARING FOR THE NEXT PARADIGM SHIFT, INTEGRATING UGVs WITH UAS SUPPORT FOR SUCH APPLICATIONS AS DISABLING IMPROVISED EXPLOSIVE DEVICES IN WAR ZONES. **WE BELIEVE THAT MULTI-DOMAIN SOLUTIONS PROVIDE A CRITICAL EXTRA DIMENSION OF SAFETY AND CONTROL FOR ADDRESSING DANGEROUS SITUATIONS IN HOSTILE TERRITORY.**



# SPACE—THE NEXT FRONTIER

## Supporting Flight in the Most Rarified Atmosphere—on Earth and Mars

Between 1995 and 2003, AeroVironment flew a series of experimental unmanned solar-powered aircraft to ever-greater heights in the upper atmosphere. The lessons learned set the stage for paradigm shifts 20 years later in fields as disparate as space exploration and broadband communications.

Since the first Viking mission in 1975, Mars exploration has relied on increasingly larger, more sophisticated rovers to analyze, sample and image the Martian environment. But their bulky size limits the ground they can safely explore. In 2021, the 4-pound Ingenuity Mars Helicopter changed all that, scouting the terrain **OUTAHEAD** of the Perseverance rover.

Joining forces with NASA's Jet Propulsion Laboratory (JPL), AeroVironment engineers helped design and develop the helicopter's airframe and major subsystems, including its rotor, rotor blades and hub-and-control mechanism hardware. On April 29, 2022, exactly a year after it first arrived on the Martian surface, Ingenuity completed its 28th flight, far exceeding the five originally planned missions.

The field of broadband communications has faced similar obstacles. Currently, the only way to connect the billions of people worldwide who lack even basic wireless communications is via complex communication satellites that require an enormous investment, special ground-based receivers and extended lead times for launch. When it came to developing an entirely new paradigm, AeroVironment was already **OUTAHEAD**, thanks to our pioneering initiatives in solar-powered, high-altitude flight.

In partnership with SoftBank Corp., the Japanese telecommunications firm, AeroVironment is developing a nimbler approach: a network of high-altitude pseudo-satellites (HAPS). This year, AeroVironment and Softbank announced that they had found a way to double the coverage diameter of each Sun glider™ HAPS to 200 kilometers.



The Ingenuity Mars Helicopter team was awarded the prestigious Robert J. Collier Trophy for the first powered, controlled flight of an aircraft on another planet. AeroVironment is now engaged with NASA/JPL on **OPENING THE SKIES OF MARS AND OTHER PLANETS FOR FUTURE SCIENTIFIC DISCOVERY AND EXPLORATION.**





# THE NEXT PARADIGM SHIFT IN MODERN WARFARE

## Multi-domain, Interoperable, Autonomous Systems

Against sophisticated peer and near-peer adversaries, superiority in a single warfare domain, whether air, ground, maritime, space, or cyber, no longer suffices for dominance on the battlefield. To succeed in future conflicts, the U.S. military and allied forces must exert coordinated force across multiple domains. This means systems that can operate autonomously, gather information intelligently from a variety of sources and move solutions to the command best equipped to make the right decision.

Here again, AeroVironment is **OUTAHEAD**, developing solutions that are setting the stage for all-domain, distributed operations. AeroVironment is developing intelligent, multi-domain robotic systems today that will help determine the outcome of conflicts in the future.

AeroVironment's focus on intelligence, interoperability and autonomy across domains can be seen in the Switchblade Sensor to Shooter (S2S) kit introduced this year, which enables instantaneous machine-to-machine transfer of target coordinates from AeroVironment's SUAS to Switchblade 300 loitering missile systems. It is also the driving force behind the ongoing air-ground integration of AeroVironment assets with General Dynamics Land Systems Optionally Manned Fighting Vehicle.

AeroVironment is also bringing together hardware, software and communications technologies to create platforms that support the intelligent decision-making and integrated control that provide the backbone of multi-domain warfare. At a major maritime exercise involving more than 60 partner nations and organizations in the Middle East, our Blue Hotel computer vision and analytics solution was chosen to enable multi-sensory data fusion and automatic target recognition.



THIS YEAR, WE INTRODUCED CRYSLIS™, OUR NEXT-GENERATION GROUND CONTROL SOLUTION. CRYSLIS IMPROVES BATTLEFIELD COMMUNICATIONS AND COLLABORATION BY ENABLING USERS TO EASILY SHARE REAL-TIME INFORMATION AND COORDINATE MISSION-CRITICAL DECISIONS. **WE INAUGURATED THIS FUTURE-DEFINING TECHNOLOGY AT NATO REP(MUS) 21, EUROPE'S LARGEST MARITIME UNMANNED SYSTEM OPERATIONAL EXPERIMENTATION EXERCISE.**





Fiscal year 2022 was a unique and challenging time for AeroVironment, but one that ended with hope and opportunity. Working through persistent headwinds—including supply chain constraints, a global pandemic, tight labor markets and increasing material costs—was a test to our growth, bottom line results and ability to provide consistent performance for investors. However, we are proud of our perseverance and resiliency through such conditions and our ongoing support for the people of Ukraine.

### TO OUR SHAREHOLDERS,

The Company improved its performance throughout the year and ended fiscal 2022 on a positive note—which, combined with increasing global awareness and demand for our products—leaves us well positioned for higher returns going forward.

The fundamental trends shaping our business have evolved from last year, especially considering the war in Ukraine:

- >> Awareness and demand for our highly innovative and relevant portfolio of intelligent robotics system solutions has accelerated due to publicity around the war in Ukraine
- >> The U.S. government has increased support for shipments to international customers, especially for Switchblade tactical missile systems
- >> Machine intelligence and autonomy driven solutions are increasingly vital in supporting the United States and our allied forces operating in contested environments against near-peer adversaries
- >> Global supply chain constraints have persisted much longer than originally projected and continue to impact the ability to meet increasing customer demand

### FISCAL YEAR 2022 – A PERIOD OF TRANSITION

Last year, we achieved our revised financial guidance even while facing continued macroeconomic headwinds and recently we began benefiting from trends that bolster the outlook for 2023 and beyond. We marked a fifth consecutive year of growth, as highlighted below:

- Full year revenue of \$446 million
- Adjusted EBITDA of \$62 million
- GAAP and Non-GAAP earnings per diluted share of \$(0.17) and \$1.25, respectively\*
- Funded backlog of \$211 million

While our year-over-year performance reflected growth from recent acquisitions, underlying results came under pressure due to a greater mix of lower-margin service business, higher material costs, and an increase in depreciation and amortization expense due to our recent acquisitions. In addition, we faced ongoing challenges related to supply chain constraints, a tight labor market and a slowdown in federal contract decision-making—reflecting the lack of a formal budget for roughly the first half of the government fiscal year as the U.S. Department of Defense operated under a Continuing Resolution.

We actively managed working capital during this turbulent time, reduced costs where appropriate and invested in key areas for long-term growth. Given the number of challenges facing the industry in general, we were successful in shepherding the Company through such headwinds while remaining focused on the many opportunities ahead.

### PRODUCTS THAT DEFINE MARKETS

We continue to be defined by our portfolio of intelligent, multi-domain robotic systems for defense, civil and commercial applications—widely known throughout the world and becoming more visible every day. Our tactical missile systems segment, for example, was in the news repeatedly during the first half of calendar year 2022 due to its critical role in helping Ukraine defend itself against Russia's aggression. Ukraine has already received hundreds of Switchblade 300 and 600 tactical missile systems, and the Congressional legislation authorizing \$40 billion in military and humanitarian aid for Ukraine—signed in May 2022—should accelerate additional shipments. In addition, the U.S. recently approved both Switchblade 300 and 600 for sale to over 20 allied nations, improving the security of allies looking for our advanced technology. We're proud of the assistance we've already been able to provide the Ukrainian citizens and we expect strong growth in tactical missile systems going forward.





Wahid Nawabi, Chairman, President and Chief Executive Officer

We continue to invest in our small unmanned aircraft systems (SUAS) segment, AeroVironment's largest product line, and believe in the long-term potential—with new, advanced solutions coming to market over the next few years that meet the evolving needs of our U.S. Department of Defense and international customers. We're also excited by our medium unmanned aircraft systems (MUAS), particularly given recent developments surrounding the U.S. Army's Future Tactical UAS program, or FTUAS. After Increment 1 is complete, the U.S. Army will recommend an approach for Increment 2, which is a much more significant contract in terms of size and scope. As a reminder, the FTUAS program, in aggregate, is expected to be valued at more than \$1 billion over a 10-year period.

We are investing in our unmanned ground vehicle product line and see signs of increasing demand overseas while, at the same time, continuing to work on the next generation high-altitude pseudo-satellite (HAPS) aircraft under the terms of our Master Design & Development Agreement with SoftBank Corp. While we sold our minority stake in HAPSMobile this past June, both companies remain committed to the SunGlider's commercial development.

We are also proud that the Ingenuity Mars Helicopter Team received the 2022 Collier Trophy—considered the most prestigious industry accolade—which speaks to the important work our MacCready Works Advanced Solutions group provides to our customers. We're already engaged with NASA's Jet Propulsion Laboratory on potential future versions of the Mars Helicopter, following on Ingenuity's tremendous success.

## OUR FUTURE

As we begin our fiscal year 2023, the future looks bright. We enter this year with a healthy backlog, which is expected to grow due to strong demand across many of our product lines—particularly tactical missile systems, including our Switchblade loitering munitions, our MUAS product line, driven by

FTUAS and increasing international demand, and our SUAS product line, driven by strong international demand. Our products and services, by and large, enjoy broad bipartisan support in Congress, and we anticipate a number of orders by the end of this calendar year with higher shipments in calendar 2023. An improving mix of hardware sales should also increase gross margins going forward, leading to overall improved bottom line results.

We would like to again thank our employees for their hard work, resiliency, dedication and focus through a challenging year. Their steadfast commitment to AeroVironment and our customers, coupled with our innovative solutions, has made us the best-in-class brand in defense applications—not just in the U.S., but throughout the world. We are proud of their accomplishments and the assistance we've been able to provide to our military, Ukraine and our other allies during a very difficult time.

We are also grateful for our longstanding shareholders who share our passion for AeroVironment's mission and future. We are dedicated to making sure our investors, as well as our employees and customers, benefit from everything we do in the years to come.

Thank you, once again, for your continued interest and support.

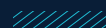
Wahid Nawabi  
Chairman, President and Chief Executive Officer



# FINANCIAL HIGHLIGHTS

## REVENUE & EPS

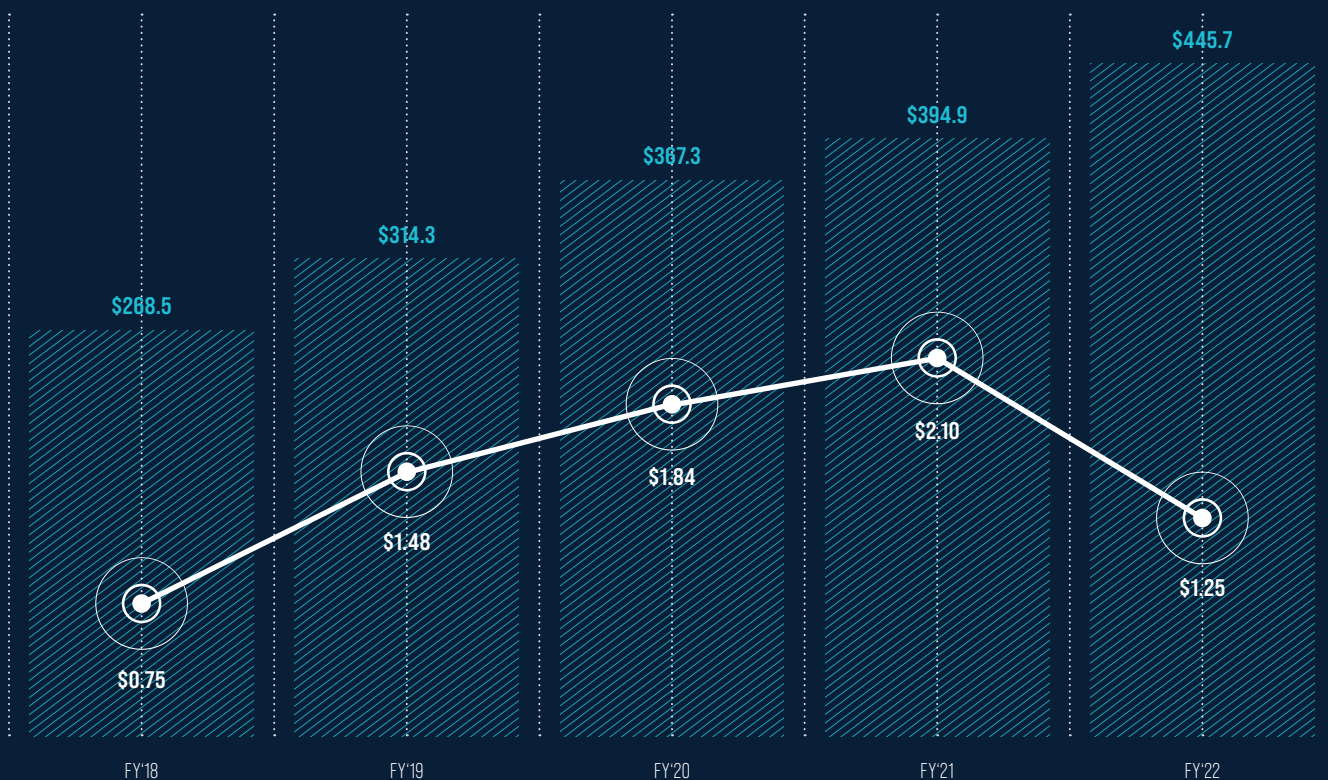
Total Revenue (\$ in millions)



Revenue (Continuing Operations)



Non-GAAP EPS from Continuing Operations





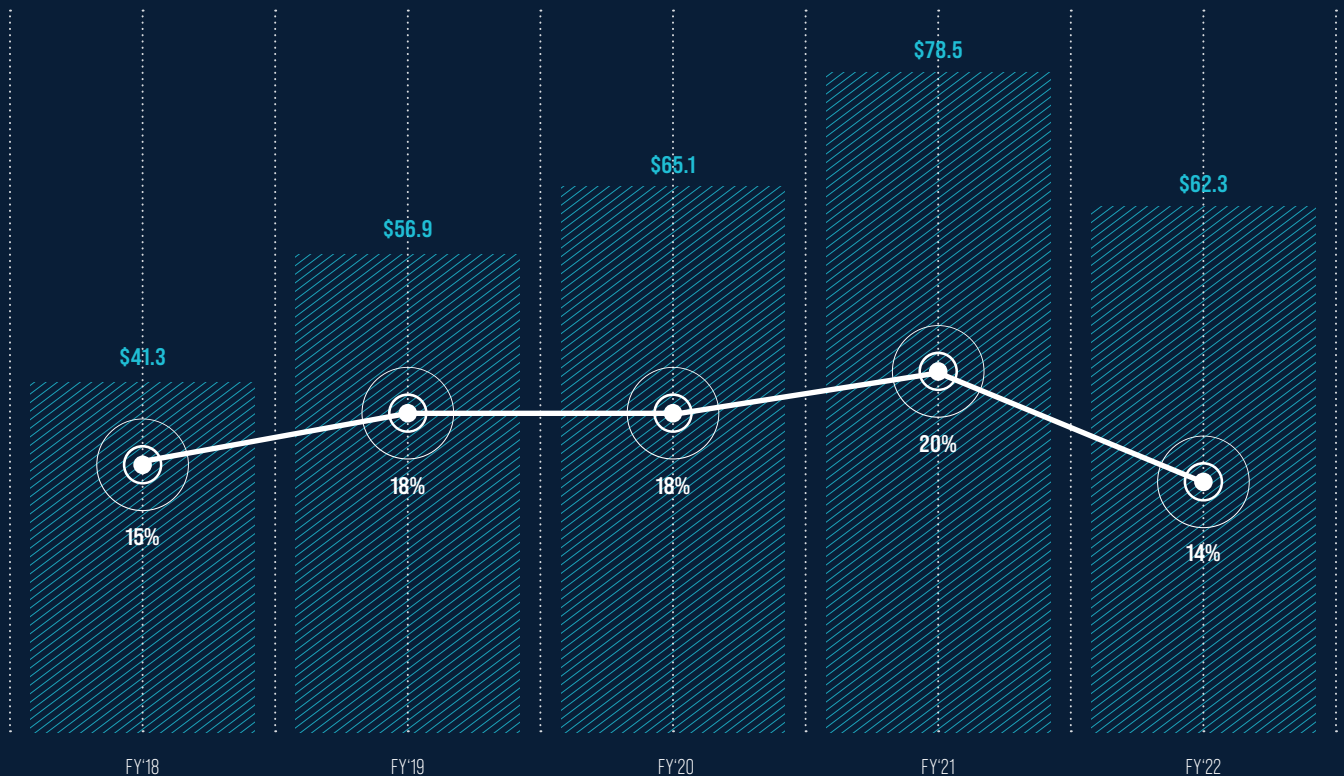
In thousands except share data

	2022	2021	2020
Total Revenue	\$445,732	\$394,912	\$367,296
Net Income (loss) from Continuing Operations Attributable to AeroVironment	(4,188)	23,331	41,339
EPS (loss) from Continuing Operations Attributable to AeroVironment—Diluted	(0.17)	0.96	1.72
Adjusted EPS Attributable to AeroVironment—Diluted	1.25	2.10	1.84
Total Assets	914,200	928,566	584,954
Total Stockholders' Equity	608,210	612,107	509,901
Operating Margin	(2%)	11%	13%

## ADJUSTED EBITDA

Adjusted EBITDA (\$ in millions)

Adjusted EBITDA  
Adjusted EBITDA margin





# IMPACT! CORPORATE SOCIAL RESPONSIBILITY

## CUSTOMERS

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When it comes to serving our customers, AeroVironment is literally **OUTAHEAD**, doing our best to preserve lives. Our Telerob UGVs are designed to keep first-responders safe while they perform the vital work of disposing of unexploded ordnance, handling hazardous materials or assessing chemical, biological, radiological, or nuclear (CBRN) contamination. Our small and medium UAS provide similar safety for warfighters conducting ISR missions. Even our tactical missile systems, with their patented wave-off technology, are designed to protect the lives of innocent civilians.

We also support local organizations in our home communities that provide assistance to members of the military. “For the Troops” is a Simi Valley, California, non-profit that provides care packages to those on deployment. AeroVironment sponsors its Annual Golf Tournament.

## ENVIRONMENT

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From our inception more than 50 years ago, AeroVironment has focused on creating technology powered by alternative forms of energy. In 1977, the Gossamer Condor won the Kremer Prize for the first controlled, human-powered flight and in 1981, the Solar Challenger achieved the records for the longest, farthest and highest solar-powered flight. Today, a majority of our products are either powered by solar energy or by rechargeable electric batteries.

At the same time, we have made a concerted effort to reduce the carbon footprint required to manufacture our solutions. We hold ISO 14001 certification for our environmental management system. This third-party validation provides confirmation that we adhere to the highest standards for identifying, monitoring and controlling our environmental impact in such areas as resource consumption and waste production.

During fiscal year 2022, all of our California facilities included clean power sources in their fuel mix, ranging from 22 to 55 percent renewable energy use depending on location. In addition, we actively recycle our e-waste from obsolete technology, making sure that salvageable materials are reused and hazardous materials are disposed of properly — and we do so in ways that provide added benefits to our community. We donate the revenue we receive from our recycler to the Simi Valley Education Foundation.

AeroVironment’s purpose is to secure lives and advance sustainability through transformative information. Stated another way, we are committed to doing more with less, ensuring that our environmental footprint is as light as possible, while protecting our customers.



**THROUGH ITS “IMPACT! CORPORATE SOCIAL RESPONSIBILITY PROGRAM,” AEROVIRONMENT STRIVES TO HELP MAKE THE WORLD A BETTER PLACE TODAY WHILE SETTING THE STAGE FOR IMPROVING PEOPLE’S LIVES FAR INTO THE FUTURE.**

## COMMUNITY

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For AeroVironment, science, technology, engineering and mathematics (STEM) education is a way to ensure that society continues to benefit from technological advances far into the future. We support schools’ efforts that, beyond simply teaching these subjects, convey the excitement of using them to solve complex problems that have never been solved.

Educational institutions close to our facilities are our most frequent collaborators. One long-term partner is the Simi Valley Education Foundation, which is dedicated to providing supplemental resources to the Simi Valley Unified School District. This year, we helped the district implement its Next Generation Science Standards by funding 18 STEM-related enhancement grants for school projects. These grants supported everything from science activity tubs and reading materials for elementary school students to digital microscopes and materials for hands-on experiments for those in middle school and high school.

Our team members also volunteered and made presentations at other local schools, including the Meadow Arts and Technology Elementary School in nearby Thousand Oaks and the Challenger Elementary and Martin Luther King Jr. Elementary, both near our Huntsville, Alabama, office.

We also looked for opportunities to share our work on robotic systems at after-school activities. AeroVironment team members made a presentation on unmanned aerial vehicles and UGVs to Civil Air Patrol Cadets at the Camarillo Airport while others connected with campers, grades K-8, enrolled in Adventure Awaits programs sponsored by the Simi Valley YMCA. Members of our Mars Ingenuity team used the Terry Earth Copter to make

the principles of flight and propulsion more tangible to these young people. We also support the Rocket Team at Simi Valley’s Grace Brethren School and the Singularity Rocket Project at Cal Poly Pomona.

Equal opportunity is also important to us. An AeroVironment aeronautical engineer talked about her experiences as a woman in a STEM profession to teenage girls attending the Dream It, Be It Conference held by Soroptimist International Simi Valley. Soroptimist is a global volunteer organization that provides women and girls with access to the education and training they need to achieve economic empowerment.

At AeroVironment, we have long known that a diverse workforce and inclusive workplace is a major catalyst for innovation, and we recognize, like many companies, that we must be more deliberate and intentional about our efforts. With guidance from our Diversity and Inclusion Committee, we have formed a LGBTQ+ Employee Resource Group. The LGBTQ+ ERG will serve as a visible and accessible resource for employees who identify as LGBTQ+ and their allies and will provide LGBTQ+ focused networking, educational and social opportunities for the AeroVironment community.

To learn more about our Corporate Social Responsibility initiatives and to view our inaugural report, please [click here](#).



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### WAHID NAWABI

Chairman of the Board,  
AeroVironment, Inc.

### CHARLES T. BURBAGE

Independent Director  
Former Executive Vice President and General Manager,  
Joint Strike Fighter Program, Lockheed Martin Corporation

### CHARLES R. HOLLAND

Independent Director  
General, USAF (Ret),  
Former Commander,  
U.S. Special Operations Command (2000-2003)

### CINDY LEWIS

Independent Director  
Chairperson, President and CEO,  
Airborn Consolidated Holdings, Inc.

### CATHARINE MERIGOLD

Independent Director  
Managing Partner, Vista Ventures

### EDWARD R. MULLER

Lead Independent Director  
Former Vice Chairman, NRG Energy, Inc.

### STEPHEN F. PAGE

Independent Director  
Trustee, Loyola Marymount University  
Former Vice Chairman, United Technologies

## EXECUTIVE MANAGEMENT TEAM

### WAHID NAWABI

Chairman, President and Chief Executive Officer

### KEVIN MCDONNELL

Senior Vice President and Chief Financial Officer

### MELISSA BROWN

Vice President, General Counsel and  
Chief Compliance Officer

### SCOTT NEWBERN

Vice President and Chief Technology Officer

## STOCKHOLDER INFORMATION

### INVESTOR RELATIONS

Jonah Teeter-Balin  
Senior Director, Corporate Development  
and Investor Relations

To obtain free copies of this Overview and 10-K, please  
contact AeroVironment's Investor Relations Department:

### AEROVIRONMENT, INC.

Attn: Investor Relations  
241 18th Street South, Suite 415  
Arlington, VA 22202

Phone: 703.418.2828, ext. 4278

Info: [investor.avinc.com/contact-us](mailto:investor.avinc.com/contact-us)  
IR website: <http://investor.avinc.com>  
[www.avinc.com](http://www.avinc.com)

## TRANSFER AGENT

### AMERICAN STOCK TRANSFER & TRUST COMPANY, LLC

6201 15th Avenue  
Brooklyn, New York 11219

### SHAREHOLDER SERVICES

800.937.5449

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte

## MARKET INFORMATION

The common stock of the Company is traded on The  
NASDAQ Stock Market under the symbol "AVAV."



**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**  
For the fiscal year ended April 30, 2022
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33261

**AEROVIRONMENT, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)  
241 18th Street South, Suite 415  
Arlington, VA  
(Address of Principal Executive Offices)

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

22202  
(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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	AVAV	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

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

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

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

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

Large accelerated filer

Accelerated filer

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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 31, 2021 was approximately \$2,188.8 million.

As of June 22, 2022, the issuer had 24,946,880 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, 2022, are incorporated by reference into Part III of this Form 10-K.

**AEROVIRONMENT, INC.**  
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## PART I

### Forward-Looking Statements

This Annual Report on Form 10-K (“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 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (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 including, but not limited to, “may,” “will,” “should,” “could,” “targets,” “projects,” “predicts,” “contemplates,” “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “forecasts,” “seeks” 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 and allied government funding for defense procurement and research and development programs and the changes in the timing and/or amount of government spending;
- our reliance on certain customers, including the U.S. government, allied foreign governments and SoftBank Corp., for a significant portion of our revenues;
- the extensive regulatory requirements governing our contracts with the U.S. government and international customers and the results of any audit or investigation of our compliance therewith;
- our ability to remain a market innovator, to create new market opportunities and/or to expand into new markets;
- the potential need for changes in our long-term strategy in response to future developments;
- our ability to attract and retain skilled employees;
- unexpected changes in significant operating expenses, including components and raw materials;
- any disruptions or threatened disruptions to our relationships with our distributors, suppliers, customers and employees, including shortages in components for our products;
- changes in the supply, demand and/or prices for our products and services and our ability to perform under existing contracts and obtain new contracts;
- increased competition, including from firms that have substantially greater resources than we have and, in the unmanned aircraft systems segments 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 and compliance requirements;
- the impact of potential security and cyber threats or the risk of unauthorized access to our, our customers’ and/or our suppliers’ information and systems;

- uncertainty in the customer adoption rate of commercial use unmanned aircraft systems;
- changes in the regulatory environment and the consequences to our financial position, business and reputation that could result from failing to comply with such regulatory requirements;
- our ability to continue to successfully integrate acquired companies into our operations, including the ability to timely and sufficiently integrate international operations into our ongoing business and compliance programs;
- our ability to respond and adapt to unexpected legal, regulatory and government budgetary changes, including those resulting from the ongoing COVID-19 pandemic, such as supply chain disruptions, vaccine mandates, the threat of future variants and resulting governmentally-mandated shutdowns, quarantine policies, travel restrictions and social distancing, curtailment of trade, diversion of government resources to non-defense priorities, and other business restrictions affecting our ability to manufacture and sell our products and provide our services;
- failure to develop new products or integrate new technology into current products;
- unfavorable results in legal proceedings;
- our ability to comply with the covenants in our loan documents;
- failure to establish and maintain effective internal control over financial reporting; and
- general economic and business conditions in the United States and elsewhere in the world, including the impact of inflation.

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.**

### **Overview**

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

The success of our current product and service offering stems from our investments in research and development to invent and deliver advanced solutions, utilizing proprietary and commercially available technologies, and in acquiring leading businesses that help our customers achieve their desired outcomes. We develop and acquire these highly innovative solutions by working 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 and robotics systems autonomy; sensor design, development, miniaturization and integration; embedded software and firmware; miniature, low power, secure wireless digital communications and networks; lightweight aerostructures; high-altitude systems design, integration and operations; machine vision, machine



learning and autonomy; land, maritime and air deployment of missile and aircraft systems; design and qualification for robotics in extreme terrestrial and space environments; miniature internal combustion engine propulsion design and integration; missile systems warhead integration; low SWaP (Size, Weight and Power) system design and integration; manned-unmanned teaming and 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; human-machine interface development; and integrated mission solutions for austere or extreme environments.

Our business focuses primarily on the design, development, production, marketing, support and operation of innovative UAS, TMS and UGV 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 delivering innovative, safe and reliable multi-domain solutions that provide customers with valuable capabilities. Delivering these capabilities will enable us to create new markets or market segments, gain share in existing markets and grow as market adoption increases. We believe that by introducing new solutions, or acquiring differentiated solutions developed by others, that provide customers with compelling value, we can grow our business profitably, both in new and existing markets. By providing differentiated solutions we believe we can compete effectively 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, TMS and UGV markets, and by creating or acquiring new solutions and capabilities that enable us to establish leadership positions in new markets. Key components of this strategy include the following:

***Expand the market penetration of existing products and services.*** Our small UAS and medium UAS ("MUAS"), TMS and UGV enjoy leading positions in their respective markets. We intend to increase the penetration of our small UAS and MUAS and UGV 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 TMS within the U.S. military and within the military forces of allied nations. We believe that the broad adoption of our small UAS and MUAS and TMS 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. Similarly, we expect the adoption of our UGV solutions to expand our presence in the U.S. 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 investing in internally-funded research and development projects while expanding our pursuit of customer-funded research and development projects to generate revenue and 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 means by which to further the reach of our innovative solutions through access to new markets, customers and complementary capabilities. We also consider acquisitions as a method to obtain valuable products, capabilities or technologies that can further enable our growth strategy.

***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. Our values of "customer commitment,"

“trust and teamwork,” “innovate and simplify,” and “ownership and results” serve as the foundation of our culture. We believe that our values help to guide the behavior of our team members and serve to maintain a positive work environment that inspires loyalty among our personnel and customers. We also believe that our values facilitate the integration of new team members who join us as a result of acquisitions.

***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, as well as within the context of other investment opportunities, to determine its relative cost, timing and potential for generation of returns, 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 the key objective 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 U.S. DoD, including the U.S. Army, Marine Corps, Special Operations Command, Air Force and Navy, and to allied governments. We sell our TMS and services to organizations within the U.S. DoD and allied military forces. We sell our UGV and services to U.S. and allied government military and public safety agencies as well as to commercial entities. We also develop High Altitude Pseudo-Satellite (“HAPS”) systems in conjunction with SoftBank Corp (“SoftBank”).

During our fiscal year ended April 30, 2022, we generated approximately 21% 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 37% of our sales revenue, and HAPSMobile Inc. (“HAPSMobile”) and SoftBank together accounted for 10% of our sales revenue. Sales revenue to foreign customers other than HAPSMobile and Softbank, inclusive of foreign military sales made through the DoD, commercial and consumer customers accounted for the remaining 32% of sales revenue during our fiscal year ended April 30, 2022.

## **Environmental**

We are subject to various federal, state, local and non-U.S. laws and regulations relating to environmental protection, including the discharge, treatment, storage, disposal and remediation of hazardous substances and wastes. We could also be affected by future laws and regulations relating to climate change, including laws related to greenhouse gas emissions and regulating energy efficiency. These laws and regulations could lead to increased environmental compliance expenditures, increased energy and raw materials costs and new and/or additional investment in designs and technologies. We continually assess our compliance status and management of environmental matters to ensure our operations are in compliance with all applicable environmental laws and regulations. Investigation, remediation and operation and maintenance costs associated with environmental compliance and management of sites are a normal, recurring part of our operations. These costs often are allowable costs under our contracts with the U.S. government. While environmental protection regulations have not had a significant adverse effect on our overall operations, it is reasonably possible that costs incurred to ensure continued environmental compliance in the future could have a material impact on our results of operations, financial condition or cash flows if additional work requirements or more stringent clean-up standards are imposed by regulators, new areas of soil, air and groundwater contamination are discovered and/or expansions of work scope are prompted by the results of investigations.



## **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 and a considerable portion of JPL/NASA's Mars Ingenuity Helicopter, the first aircraft to perform a powered flight on another planet. 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 this process we revisit our customer requirement assumptions to evaluate continued investment and to seek to ensure that our products and services deliver high value.

As of April 30, 2022, we had issued and retained 256 U.S. patents, as well as 63 pending U.S. patent applications; 15 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 markets. 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.

### **Sales and Marketing**

Our marketing strategy is based on establishing leadership positions in new markets that we create through the introduction or acquisition 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, Wasp, Quantix, VAPOR, Arcturus UAV, Crystalsis and Jump 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, inclusive of foreign military sales, accounted for approximately 41%, 39% and 45%, of our revenue for the fiscal years ended April 30, 2022, 2021 and 2020, 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, 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, and payload components 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 Part 1A, "Risk Factors—If critical components or raw materials used to manufacture our products or used in our development programs become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products and in completing our development programs, which could damage our business." for more information.) A majority of our production systems operate in accordance with our AS9100D registered Quality Management System, which focuses 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. We submit 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 the potential for future procurement. In some cases, commercial enterprises may fund our research and development activities, as with our HAPS UAS development program. Providing these services contributes to the development and enhancement of our technical competencies. We carefully manage the volume of customer funded research and development projects based on projects' available resources and expect to expand our team to support growth in this area of our business.



### Seasonality

No material portion of our business is considered to be seasonal. Historically, our revenue in the second half of our fiscal years has exceeded our revenue in the first half of our fiscal years. 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

We are dependent upon the availability of materials and major components and the performance of our suppliers. Historically, we have been successful in obtaining the materials required in our manufacturing processes. We seek to manage materials supply risk through long term non-binding contracts with certain key suppliers that establish pricing, minimize lead times and to some degree mitigate risk. We have recently experienced supply chain challenges including shortages of certain electronic and other components, increased lead times, increased costs for components, and increased shipping, warehousing and inventory costs. We believe all of these raw materials and components are available to meet our needs from various suppliers; however, we expect inflationary and supply chain constraint trends to continue throughout our fiscal year 2023, which could cause delays in production and development programs and negatively impact our operating results. (See Part 1A, “Risk Factors—If critical components or raw materials used to manufacture our products or used in our development programs become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products and in completing our development programs, which could damage our business.” for more information.)

### Product Mix

The table below shows our revenue for the periods indicated by segment:

	Fiscal Year Ended April 30,		
	2022	2021	2020
Small UAS	40 %	60 %	61 %
MUAS	21 %	4 %	— %
TMS	17 %	22 %	17 %
HAPS	10 %	11 %	17 %
Other	12 %	3 %	5 %

### 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,		
	2022	2021	2020
Fixed-price contracts	78 %	78 %	73 %
Cost-reimbursable contracts	21 %	22 %	26 %
Time-and-materials contracts	1 %	— %	1 %

### Human Capital Resources

We acknowledge that our employees are the company’s most valuable asset and the driving force behind our success. For this reason, we aspire to be an employer that is known for cultivating a positive and welcoming work environment – one that fosters growth, provides a safe place to work, supports diversity and embraces inclusion. We believe that this kind of corporate culture results in employees who are happier, more creative, and more productive,

supporting our ongoing innovation. We work to make our employees' experience a priority, and we take tremendous pride in being certified by Great Place to Work Institute, Inc. as a Great Place to Work.

### **Workforce Demographics**

As of April 30, 2022, we had 1,214 full time employees and 9 part time employees, of whom 434 were in research and development and engineering, 53 were in sales and marketing, 521 were in operations and 206 were general and administrative personnel.

### **Talent Acquisition, Retention and Development**

Our ability to attract, develop and retain top talent, particularly those with technical and engineering backgrounds or experience, is critical for us to execute our strategy and grow our businesses. We continuously monitor the hiring, retention and management of our employees. An integral part of our people strategy is early career hiring through college and intern pipelines, particularly in technical fields. We regularly conduct confidential surveys to seek feedback from our employees and use those results to improve our workplace. We attract and reward our employees by providing market competitive compensation and benefits, including incentives and recognition plans that extend to all levels in our organization. We invest in our workforce through education, training and development programs and offer tuition assistance programs for continuing education or industry certifications. Additionally, we regularly conduct succession planning for management to ensure that we continue to cultivate the leadership pipeline of talent needed to execute our strategy.

### **Diversity and Inclusion**

At AeroVironment, creating a culture of diversity and inclusion is something we work on every day. We believe that a diverse workforce and an inclusive workplace is a major catalyst for driving innovation. We have focused our diversity and inclusion initiatives on employee recruitment, including investments in minority-serving institutions and outreach, employee training and development, such as efforts focused on expanding the diverse talent pipeline, and employee engagement, including through participation in employee focus groups on various topics related to diversity and inclusion.

### **Employee Safety and Health**

Our safety and health program seeks to optimize our operations through targeted safety, health and wellness opportunities designed to ensure safe work conditions, create a healthy work environment, promote workforce resiliency and enhance business value. We monitor employee health and safety measures, including monthly and yearly targets for employee injury and illness incidents, incidents that result in work days lost, and the number of work days lost due to workplace injuries and illness. We also provide our employees with health and wellness benefits.

We took and continue to take various measures to protect our workforce in response to the ongoing COVID-19 pandemic. We implemented and continue to maintain extensive safety protocols to support our employees working onsite, such as enhanced cleaning of common areas. Additionally, in mid-March 2020, a significant portion of our workforce began teleworking in accordance with the implementation of government orders and guidance affecting our facilities. We have implemented a COVID-19 reporting mechanism for illness or exposure and positive COVID-19 tests. As part of that reporting process, we have a robust contact tracing program to identify employees who were in close contact with the ill employee in the workplace. In addition, we implemented a COVID-19 vaccination requirement for our employees, allowing for exceptions as required under applicable law and regulations, and continue to monitor potential vaccine mandates. We provide several channels for all employees to speak up, ask for guidance, and report concerns related ethics or safety concerns, including identifying areas for improvement. We address employee concerns and take appropriate actions that uphold our AeroVironment values. We have also implemented a flexible work location policy to allow employees who can meet our customer commitments while working remotely to continue to work remotely. We continue to ensure that employees working remotely have the technology, office equipment and other services needed to enable them to work effectively.



## **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, 2022 and 2021, our backlog was approximately \$210.8 million and \$211.8 million, respectively. We expect that approximately 93% of our backlog will be recognized as revenue during our fiscal year ending April 30, 2023.

In addition to our funded backlog, we also had unfunded backlog of \$358.1 million and \$143.2 million as of April 30, 2022 and 2021, respectively. Unfunded backlog does not meet the definition of a performance obligation under ASC Topic 606. We define unfunded backlog as the total remaining potential order amounts under cost reimbursable and fixed price contracts with (i) multiple one-year options and indefinite delivery, indefinite quantity (“IDIQ”) contracts, or (ii) incremental funding. Unfunded backlog does not obligate the customer to purchase goods or services. There can be no assurance that unfunded backlog will result in any orders in any particular period, if at all. Management believes that unfunded backlog does not provide a reliable measure of future estimated revenue under our contracts. Unfunded backlog does not include the remaining potential value associated with a U.S. Army IDIQ-type contract for small UAS because values for each of the other domains within the contract have not been disclosed by the customer, and we cannot be certain that we will secure all task orders issued against the contract. Additionally, unfunded backlog on the SOCOM MEUAS contract reflects only those sites which have been awarded to Arcturus UAV, Inc. (“Arcturus”) and does not include the remaining potential value associated with the entire SOCOM MEUAV III/IV contract.

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

## **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 241 18<sup>th</sup> Street South, Suite 415 Arlington, Virginia 22202. 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 (“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](http://www.sec.gov) that contains our reports, proxy statements and other information regarding us.

## **Our Business**

Our business addresses the increasing value of intelligent, multi-domain robotic systems providing distributed, network-centric intelligence, surveillance and reconnaissance (“ISR”), communications, remote sensing, effects delivery and remote materials handling with innovative UAS, TMS and UGV solutions. With respect to the defense applications for these technologies, nearly 20 years of counterinsurgency operations in regions where U.S. and allied forces benefit from air and technical superiority have driven the demand for a variety of unmanned systems in the air and on the ground. The recent shift of U.S. and allied defense planning toward countering peer and near-peer adversaries requires a portfolio of capabilities that can operate effectively in areas where the battlespace, including the air, radio frequency

spectrum and Global Positioning Satellite (“GPS”) signals, may be contested, driving the need for more intelligent robotic systems capable of autonomous operation.

## **Industry Background**

### **Small UAS and MUAS**

The defense market for small UAS and MUAS 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 and MUAS now represent accepted and enduring capabilities for military forces around the world. 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 medium systems such as our Puma LE, T-20 and JUMP 20, Boeing’s ScanEagle and Integrator and Textron’s Shadow, to small systems, such as our Raven, Wasp AE, Puma AE, and VAPOR, 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 and MUAS can provide real-time observation and communication capabilities to commanders and directly 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 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, portable delivery system provides warfighters with a valuable and more cost-effective alternative to existing munition and missile systems.

### **Unmanned Ground Vehicles**

In situations where improvised explosive devices, caustic chemicals, nuclear, radiological or biological hazards or violent individuals represent significant danger to humans, UGVs can help responders remove, contain or neutralize these hazards without putting people in harm’s way. We believe that as enabling technologies continue to advance, UGVs will become more autonomous, more capable and more effective in dealing with hazardous threats, expanding the market potential for this set of applications to include non-defense applications such as facility security, infrastructure inspection, delivery of goods and many others.

### **High-Altitude Pseudo-Satellite (“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 existing 4G and LTE networks. These higher frequencies are not capable of traveling long 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 because they operate more than 20,000 miles from the surface of the earth, the bandwidth they can provide is limited, 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 is only beginning to be deployed in meaningful quantities and may not be capable of providing the uninterrupted service and quality required by commercial mobile carriers. All satellites require special ground based receiving hardware that may further limit their telecommunication applications. 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 but may be suitable for other applications. UAS that are capable of operating in an affordable manner for extended periods of time over an area of interest while communicating directly with available handheld mobile devices without gaps in availability and carrying a communications or observation payload could help to satisfy this need.

### **Advanced Artificial Intelligence and Autonomy**

Robotic systems designed to operate in complex environments, such as contested battlespaces or urban locations, will require advanced artificial intelligence capabilities to enable non-GPS navigation and higher levels of autonomy. For defense applications, this could require other navigation methods to ensure location accuracy and incorporating computer vision capabilities to respond to changes on the ground or in the air. Such higher levels of autonomy will become increasingly more valuable in enabling the effective use of robotic systems.

### **Our Solutions**

We supply our UAS, TMS and UGV products and services to multiple customers within and outside of the United States, as well as supply our TMS products and services to defense related organizations within the U.S. government and allied nations.

### **Small UAS Products**

Our small UAS, including Raven, Wasp AE, Puma AE, Puma LE, and VAPOR 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. 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 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 Crysalis common ground control system. Our VAPOR helicopter UAS currently employs a distinct portable ground control system.

We designed our small UAS to be transportable by a single person, assembled in 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, for example, around the next corner, to the next intersection or past a ridgeline in real-time.

This information facilitates faster, safer movement through urban, rural, riverine 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 altitudes of 300 to 500 feet above ground level, as a 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 VAPOR helicopter systems are designed to provide more accurate and timely information to individuals or organizations for more informed decision-making. Better and more timely information can translate into more efficient activities that facilitate more efficient use of resources such as maintenance operations.

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. 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.

Certain systems within our small UAS portfolio include multiple aircraft, our common and interoperable hand-held Crysalis ground control system and an array of spare parts and accessories. Other systems, namely, Puma LE, and VAPOR, consist of a single air vehicle, as well as a ground control system, spare parts and accessories. Our current small UAS portfolio for defense applications consists of the following aircraft:

Small UAS Product	Wingspan / Rotor Diameter		Launch and Recovery	Standard Sensors	Range Flight Time	
	(ft.)	(lbs.)			(mi.)(1)	(min.)(1)
<b>Puma LE</b>	15.0	23.5	Hand or bungee launch and autonomous skid landing (ground or water) Hand, bungee, or mechanical launch and vertical autonomous landing	Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared	12	330
<b>Puma AE</b>	9.2	15	capable (ground or water)	Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared	12	150
<b>Raven</b>	4.5	4.5	Hand launch and vertical autonomous landing capable	Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared	6	60 - 90
<b>Wasp AE</b>	3.3	2.8	Hand launch and vertical autonomous landing capable (ground or water)	Mechanical pan, tilt, zoom and digital zoom electro-optical and infrared	3	50
<b>VAPOR 55</b>	7.5	55.0	Vertical take-off and landing	Ability to integrate multiple third party payloads	5	60
<b>Quantix Recon</b>	3.2	5.0	Vertical take-off and landing	Dual 18 megapixel high-resolution RGB and multispectral	12	45

- (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 and allows the operator of each system 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 fixed wing air vehicles, providing a common user experience. 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 gimbaled sensor payloads provides small UAS operators with enhanced observation and target tracking functionality. Our DDL is integrated into Puma LE, 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 are optimized for the low-power, low-latency, and streaming bandwidth efficiency required for UAS. 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.

**MUAS Products**

Providing similar capabilities to our small UAS, our field-deployable MUAS, including T-20 and JUMP 20, deliver extended endurance and expanded payload capacity to support a broader set of missions that benefit from aerial surveillance and the use of specialized payloads. The internal combustion-powered T-20 and JUMP 20 offer significantly greater endurance and payload capacity than our small UAS, with larger airframes that can also accommodate a wider variety of payloads. The JUMP 20 launches and lands vertically as a result of its vertical take-off and landing (“VTOL”) rotors, minimizing the amount of space required for its operation. The T-20 launches from a catapult, lands on a short runway and provides more than 24 hours of endurance.

T-20 and JUMP 20 operate from their own portable common ground control system.

Medium UAS Product	Wingspan / Rotor Diameter (ft.)	Useable Payload Capacity (lbs.)	Weight (lbs.)	Launch and Recovery	Standard Sensors	Range (mi.)(1)	Flight Time (min.)(1)
T-20	18.8	50	225 (includes fuel and payload)	Catapult launch, skid landing	Multiple EO, IR and other payloads available based on mission requirements	115	1,440+
JUMP 20	18.8	30	215 (includes fuel and payload)	VTOL	Multiple EO, IR and other payloads available based on mission requirements	115	840+

**Tactical Missile Systems Products**

Our TMS 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 300, the first of our TMS 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, patented wave-off, loiter and re-engagement capabilities, Switchblade 300 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 300 can be called off in the final moments prior to a strike should the situation require, potentially eliminating damage to non-combatants. Switchblade 600 is a larger version of Switchblade 300 that can fly for a longer period of time and over a longer distance while carrying a larger, more powerful, anti-armor warhead. Blackwing, a variant of Switchblade 300, launches from a submerged submarine and carries extra batteries instead of a warhead, providing longer flight time for extended maritime reconnaissance operations.

Tactical Missile System Product	Differentiators	Weight (lbs.)	Launch and Recovery	Standard Sensors	Range (mi.)(1)	Flight Time (min.)(1)
Switchblade 300	Patented wave-off and recommit Direct fire weapon with 10km range	5.5 (includes munition, payload, launcher and transport bag)	Single or multi-pack tube launch, single use loitering munition	Dual front and side look EO cameras and IR nose camera with stabilized electronic pan-tilt-zoom	6	15
Switchblade 600	Patented wave-off and recommit; anti-armor warhead Direct fire weapon with 40km range	68 (includes launcher, munition)	Single or multi-pack tube launch, single use loitering munition	2-axis, 4-sensor gimbal (Dual EO and IR) integrated sensor suite	24	40+
Blackwing	Deployed from submerged submarine	4.0	Underwater-to-surface delivery canister; launch tube, single use EO/IR sensor suite		Not disclosed	Not disclosed

**ISR Services**

We currently operate our MUAS, such as JUMP 20, in overseas locations to support U.S. military operations under ISR services contracts. Under these services contracts we deliver the information our MUAS produce to our customers, who use that information to support their missions. These contracts specify a location and number of hours per month of services to perform. This contractor-owned, contractor-operated (“COCO”) arrangement represents a new

business model for the company as a result of the acquisition of Arcturus and provides access to alternative customer funding sources, while also providing a way for customers who may not wish to own and operate their UAS to benefit from their differentiated capabilities. This COCO business model may expand to include other AeroVironment solutions in the future.

### Unmanned Ground Vehicle Products

Our UGV support a variety of missions and applications, ranging from explosive ordnance disposal to hazardous materials handling and law enforcement operations. All of our UGVs feature secure communications, multi-axis manipulators and automatic tool exchange, which eliminates the need for the UGV to return to its operator to switch the tool attached to its manipulator arm. We also offer fully equipped service vehicles for the transport, service and operation of our UGV solutions. All of our UGVs feature the intuitive and operationally simplified Robo Command Ground control stations with multi-touch screen, pre-programmed motion sequences and ergonomically designed hand controllers for precision control of the robot, manipulator and accessories.

Select Unmanned Ground Vehicle Product	Weight (lbs.)	Lifting Capacity (lbs.)	Accessory Sensors	Drive Mechanism	Mission Duration (hrs.)
tEODor EVO	844	220	HD pan/tilt/zoom cameras; four video feeds; various EOD, CBRN and tactical sensors	Dual-track independent high-torque motors	4
telexmax EVO PLUS	249	176	HD pan/tilt/zoom cameras; four video feeds; various EOD, CBRN and tactical sensors	4-track running gear with individually adjustable flippers	12
telexmax EVO HYBRID	176	82	HD pan/tilt/zoom cameras; four video feeds; various EOD, CBRN and tactical sensors	4-track running gear with individually adjustable flippers and optional wheels	10
telexmax EVO PRO	169	44	HD pan/tilt/zoom cameras; four video feeds; various EOD, CBRN and tactical sensors	4-track running gear with individually adjustable flippers and optional wheels	10

### MacCready Works Advanced Solutions

We created MacCready Works Advanced Solutions, named for our founder, Dr. Paul B. MacCready, Jr., to ensure that creativity and long-term thinking remain at the core of our culture. With a focus on the future, this group of select, visionary scientists and engineers partners with our diverse customer base to explore innovative breakthrough solutions to difficult challenges. Primarily focused on customer funded research and development in the areas of robotics, sensors, software analytics and connectivity, this segment seeks to identify new products, services and businesses for the company. While the revenue generated from these customer funded projects sustain this segment, there is potential that new businesses incubated here could significantly contribute to the growth of the company.

### Support Services

In support of our products, 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 support our customers whenever and wherever needed. Our facilities in Simi Valley, CA also serve as primary depots for small UAS and Puma LE repairs and spare parts, while we support our MUAS from our Petaluma, CA facilities and our UGV solutions from our Erie, PA and Stuttgart, Germany facilities.

We provide comprehensive training services to support all of our small UAS and TMS 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 the majority of 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 technological capabilities:

- robotics and robotics systems autonomy technologies;
- sensor design, development, miniaturization and integration;
- embedded software and firmware, analytics processing, database systems, web, desktop and mobile applications and standards-based interfaces;
- miniature, low power, secure wireless digital communications and networks;
- 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;
- land, maritime and air deployment of missile and aircraft systems;
- design and qualification for robotics in extreme terrestrial and space environments;
- missile systems warhead integration;
- low SWaP (Size, Weight and Power) system design and integration;
- manned-unmanned teaming and 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;

- human-machine interface development; and
- integrated mission solutions for austere environments.

Two of our UAS and TMS development initiatives are described below:

***Tactical Missile System Variants.*** We pioneered our first rapidly deployable, high-precision TMS, named Switchblade, for use by defense ground forces. Switchblade 300 is now deployed by the U.S. military to provide force protection to its troops overseas in combat operations. During numerous demonstrations over the course of several years, multiple potential customers requested modifications to Switchblade 300 to accommodate their specific mission requirements. We performed a number of successful demonstrations and are now developing several variants of Switchblade 300 for new customers and applications, including deployment from sea and air vehicles. Blackwing, a submarine-launched reconnaissance system, represents one of the variants that has now generated meaningful procurement demand. Another variant, Switchblade 600, is a larger version that delivers longer endurance, greater range, a larger payload and more significant mission effects. We believe these new variants have the potential to expand our TMS opportunities significantly.

***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, HAPSMobile, Inc (“HAPSMobile”), with SoftBank to create a global broadband and telecommunications company to demonstrate and deploy HAPS UAS around the world. In October 2020, we completed a fifth successful test flight of the HAPS UAS, which included a broadband mobile communication demonstration on consumer smart phones from the stratosphere. As part of a restructuring of the HAPS development program in May 2021, we and SoftBank entered into a Master Design and Development Agreement (“MDDA”) to continue the development of HAPS UAS and agreed to cooperate with each other to explore restructuring and financing options for HAPSMobile. In furtherance of this restructuring, we sold our 7% share of HAPSMobile to SoftBank, which already owned a majority 93% share of the joint venture, on March 18, 2022. Despite the sale of shares in HAPSMobile, the HAPS UAV development relationship continues with SoftBank now directly funding the development and demonstration of solar-powered HAPS UAS. During the term of the MDDA, AeroVironment possesses exclusive rights from SoftBank for future design and manufacturing work for the Solar HAPS UAS and future variants thereof, subject to meeting contractual performance criteria.

### ***Sales and Marketing***

Our Product Line Management organization translates customer and market requirements into multi-year product roadmaps that guide our development, engineering and manufacturing plans. We organize our U.S. business development team members by target market and customer, and we locate team members in close proximity to the customers they support when 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.

### ***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 products at rates higher than our historical volumes, support initial low rate production for new UAS development programs and TMS 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 (“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 ISO 9001:2015 + AS9100D certified manufacturing facilities are designed to accommodate demand of up to 1,000 aircraft per month. ISO 9001:2015 + AS9100D refers to a set of voluntary standards for quality management systems. The 9001:2015 standards are established by the ISO to govern quality management systems used worldwide. We are regularly audited and certified to be compliant 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 defense market for 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., Teledyne Technologies, Inc., L3 Technologies, Inc., and Lockheed Martin Corporation. We do not view large UAS such as Northrop Grumman Corporation's Global Hawk or General Atomics, Inc.'s Predator and its derivatives 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 and commercially focused drone manufacturers is emerging as their capabilities increase and their prices remain low relative to existing defense solutions, which is resulting in some level of military consideration even if such drones do not meet traditional military performance or security specifications. Such potential competitors include Skydio, Inc. and Shield AI.

The U.S. defense market for MUAS has been addressed primarily by The Boeing Company's ScanEagle and Textron Inc.'s Shadow UAS. Our current principal MUAS competitors include those competing with us for the U.S. Army's Future Tactical UAS (FTUAS) program: Martin UAV and Northrop Grumman's V-Bat, Textron's Aerosonde and L3Harris' FVR-90. International MUAS competitors include Elbit Systems Ltd. and Israeli Aircraft Industries. We do not view large UAS such as Northrop Grumman Corporation's Global Hawk or General Atomics, Inc.'s Predator and its derivatives as direct competitors to our MUAS because they perform different missions, require a larger logistical footprint and cost considerably more to procure and operate. However, we cannot be certain that these platforms will not become direct competitors in the future as we expand the capabilities of our MUAS products to, potentially, impinge upon the lower end of the large UAS market segment.

The market for TMS is in an early stage of development, but it is evolving rapidly. Competitors in this market include Textron Inc., Raytheon Technologies, Lockheed Martin Corporation, Anduril Industries and UVision Air Ltd.

The market for UGV spans the global defense, first responder, security and logistics market segments. The UGV opportunity in the U.S. DoD has grown with recent U.S. Army procurement awards and a pending U.S. Air Force program. Competitors in the U.S. UGV market include L3Harris Technologies, Inc., Teledyne Technologies, Inc., QinetiQ North America, Inc., Peraton/Remotec, ICOR and Boston Dynamics. Initial adoption of UGVs for law enforcement and other government agencies is also progressing in the U.S. and globally, as well as applications in hazardous materials handling.

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 have pursued this market opportunity with proposed very long duration UAS, including The Boeing Company, Airbus, Lockheed Martin Corporation and Northrop Grumman Corporation. 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. A number of telecommunications, aerospace and technology companies, including the company and its former joint venture partner HAPSMobile launched the HAPS Alliance to promote the benefits of HAPS to the global population. 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 Northrop Grumman Corporation. Companies pursuing Low Earth Orbit (“LEO”), micro or cubesat satellite constellations for global communication and remote sensing include Amazon, Planet, 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 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, TMS and UGV products and services include product performance; safety; 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 (“DCMA”) and the Defense Contract Audit Agency (“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 Federal Aviation Administration (“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.

In December 2019, the FAA proposed rules requiring the remote identification of UAS. Remote identification, which provides for a UAS in flight to provide identification that can be received by other parties, is designed to enhance safety and security by allowing the FAA and other agencies to identify a UAS that appears to be flying unsafely or in an area in which flight is not permitted. The public comment period for the proposed rules expired on March 2, 2020. On April 21, 2021, the final rule for remote identification of UAS went into effect. On the same day, the final rule for operation of small UAS over people also went into effect. This rule permits routine operations of small unmanned aircraft over people, moving vehicles, and at night under certain conditions. The final rule also makes changes to the recurrent testing framework and expands the list of persons who may request the presentation of a remote pilot certificate. Additionally, in February 2020, the FAA issued a public request for comment on its proposed policy for the creation of a new type certification of certain UAS as a special class of aircraft under FAA regulations. Currently the Part 107 Rules (as defined below) allow for the operation of small UAS without the need for FAA airworthiness certification as long as the UAS meets certain specified criteria and certain flight rules are followed; larger UAS and operations of small UAS outside the scope of the Part 107 Rules (as defined below) require a waiver from the FAA. The FAA's proposed policy proposes a new special class of UAS for which airworthiness certification can be obtained, however, the proposed policy only applies to the procedures for the type certification of the new class of UAS, not the criteria that will be needed for the UAS or the flight operations to be followed to operate. Further rulemaking by the FAA is anticipated regarding the particular criteria for the airworthiness certification standards under the new special class proposed by the new policy. The comment period for the FAA's proposed policy expired on March 4, 2020.

While it is currently anticipated that the enactment of remote identification, operation of small UAS over people, and a new airworthiness certification process for a newly created special class of UAS will help formalize the process for manufacturing and obtaining airworthiness certification for UAS within the newly created class and accelerate the development of commercial UAS in the U.S., it is uncertain whether the FAA's actions, if any, will have such effects. It is also unclear when, if at all, the FAA will create a new class of UAS and what the final rules regarding the certification of such UAS will look like. We cannot be certain as to how our business will be affected by the FAA's proposals until the final rules for such matters are issued by the FAA.

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.

#### ***U.S. Government Contracting Process***

We sell the significant majority of our small UAS, MUAS and TMS products and services under contracts with the U.S. government. Certain important aspects of our U.S. government contracts are described below.

#### ***Bidding Process***

Most of our current U.S. 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 U.S. 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 U.S. 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.

#### ***U.S. Government Contract Categories***

There are three primary types of government contracts in our industry, 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 or delivery 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.

### ***International Contracting Process***

We supply our UAS, TMS, and UGV products and services to international allied governments.. Certain important aspects of our international contracts are described below. Each international customer has its own laws, regulations, bureaucracy and forms of procurement agreements that present challenges in our international contracting process.

#### ***Bidding Process***

Our international contracts generally result from a competitive bidding process, and to a lesser extent, sole source awards for urgent requirements or sustainment and typically begin with the receipt of a request for proposal, information or quotation from an international government procurement agency. Numerous of our technical and administrative personnel are involved in responding to such request.

Competitive bid contracts are awarded after a formal bid and proposal competition among providers. Interested contractors prepare a bid and proposal in response to a procurement agency's request for proposal or request for information, which proposals are then reviewed by the applicable procurement agency based on the established evaluation criteria for the proposal. Following award, competitive bid contracts may be challenged by unsuccessful bidders. International competitive bidding processes are highly competitive and sometimes we face disadvantages in the bidding and evaluation process in comparison to local, domestic bidders that may receive priority or more favorable evaluations than non-domestic suppliers due to stated requirements in the local regulations that promote domestic procurements.

Sole source awards are direct engagements with the procuring agency. Contractors receive requests for proposal or quotation and respond to such request. If accepted by the customer, the resulting contract is for a defined quantity of goods or services for a specific time period. Generally sole source awards are utilized by our existing customers to sustain or augment their fleets of our products, commonly through multi-year support agreements. These agreements allow for customer logistics organizations to tailor procurement and support efforts to the needs of the end users.

### ***Funding***

International customers have individualized funding processes that are generally allocated during the applicable country's fiscal year. Funding may be broadly allocated to a governmental agency or military branch responsible for procurement, targeted for a specific purpose like unmanned systems, or earmarked to a specific requirement for our products. Funding allocations are typically confidential, making it challenging for us to forecast demand for our products or whether funding is available. Additionally, funding may be reallocated when higher needs arise, such as what occurred in many countries during the COVID-19 pandemic when such countries shifted defense funding to measures to address the pandemic. Forecasted requirements are then delayed until the next fiscal year or cancelled.

Competitive bidding opportunities for our products and services typically have budgets and timelines which require significant investment from the customer. Initial procurement or replacement programs for our products and services may not be considered necessities for some international customers, which makes such procurements susceptible to a reduction in available funding or a complete reallocation of funds to other government programs or initiatives. When funds are reduced, it is common for the reduced funds to be utilized to support the sustainment of the customer's existing fleet of UAS, rather than for new procurements.

Many of our international customers have established fleets of our UAS, which generally allows them to seek and obtain budget for yearly incremental allocations of funding. These allocations are contracted through existing multi-year support agreements which provide the customer flexibility to procure products and services when funding is available.

### ***Contract Types and Provisions***

Our typical international customer contracts taken the form of fixed price contracts and time and materials contracts. Most of our international contracts are fixed-price contracts as their finite nature is desired by customers. Time-and-materials contracts are more common for our service work with a defined limit on funding and period of performance.

With a wide range of international customers, it is common for our customer contracts to contain customer advantageous provisions which are governed by applicable local laws and regulations that may differ from industry standard provisions and contracting norms in the United States. The contractual provisions may, among other things, result in more difficulties enforcing such agreements and collecting receivables and provide us with fewer remedies in a contractual dispute and lesser protections for our intellectual property. We assess the unique risks for each contract on a contract-by-contract basis. We use and require banking guarantees and/or advance payments to minimize risk.

### **Item 1A. Risk Factors.**

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this report and in our other public filings before investing in our common stock. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.

#### **Risk Factor Summary**

The following is a summary of the risks and uncertainties that could cause our business, financial condition or operating results to be harmed. We encourage you to carefully review the full risk factors contained in this report in their entirety for additional information regarding these risks and uncertainties.

#### *Risks Related to Our Business and Industry*

- We rely heavily on sales to certain customers, including the U.S. government, particularly to agencies of the DoD, and SoftBank related to our design and development of HAPS UAS.
- A decline in the U.S. and other government budgets, changes in spending or budgetary priorities, or delays in contract awards may significantly and adversely affect our future revenue.
- Military transformation and changes in overseas operational levels may affect future procurement priorities and existing programs, which could limit demand for our UAS.

- If the UAS, UGV, TMS, and commercial UAS markets do not experience significant growth, if we cannot expand our customer base or if our products and services do not achieve broad acceptance, then we may not be able to achieve our anticipated level of growth.
- Our international business poses potentially greater risks than our domestic business.
- 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.
- 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.
- If critical components or raw materials used to manufacture our products or used in our development programs become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products and in completing our development programs, which could damage our business.
- 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 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 face significant risks in the management of our inventory, and failure to effectively manage our inventory levels may result in supply imbalances that could harm our business.
- 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 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.
- Shortfalls in available external research and development funding could adversely affect us.
- Unauthorized access to our, our customers' and/or our suppliers' information and systems could negatively impact our business.
- Our work for the U.S. government and international governments may expose us to security risks.
- Acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.
- We face various risks related to the COVID-19 novel coronavirus pandemic and similar public health crises, which may adversely impact our business.

*Risks Related to Our U.S. Government Contracts*

- We are presently classified as a small business defense contractor and the loss of our small business status may adversely affect our ability to compete for small business set-aside US 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.
- Our business could be adversely affected by a negative audit or investigation by the U.S. government.
- 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.
- 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 are subject to a competitive bidding process that can consume significant resources without generating any revenue.
- We are subject to procurement rules and regulations, which increase our performance and compliance costs under our U.S. government contracts.



#### *Risks Related to Legal and Regulatory Requirements*

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.

#### *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.
- 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.

#### *Risks Related to Securities Markets and Investment in Our Stock*

- Our management, whose interests may not be aligned with yours, is able to exert significant influence over all matters requiring stockholder approval.
- Failure to establish and maintain effective internal control over financial reporting could adversely affect our financial results.
- 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.

#### **Risks Related to Our Business and Industry**

***We rely heavily on sales to certain customers, including the U.S. government, particularly to agencies of the DoD, and SoftBank related to our design and development of HAPS UAS.***

Historically, we have derived a significant portion of our total sales and our small UAS and TMS sales from the U.S. government and its agencies. Additionally, more recently, we have derived a significant portion of our revenue from contracts with HAPSMobile and SoftBank related to our design and development of HAPS UAS. Sales to the U.S. government, either as a prime contractor or subcontractor and inclusive of foreign military sales, represented approximately 66% of our revenue for the fiscal year ended April 30, 2022. The DoD, our principal U.S. government customer, accounted for approximately 55% of our revenue for the fiscal year ended April 30, 2022. 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 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.

In fiscal year 2022, HAPSMobile accounted for 1% of our total revenue and SoftBank accounted for 9% of our total revenue. In May 2021, we and HAPSMobile mutually agreed to terminate our Design and Development Agreement and we entered into a Master Design and Development Agreement with SoftBank to continue design and development work on HAPS UAS. The Master Design and Development Agreement allows SoftBank to terminate the contract at its convenience for any reason. The termination of this contract or the loss of revenues from programs with HAPSMobile and/or SoftBank related to the design and development of HAPS UAS, could cause our revenue to decline and materially adversely affect our results of operations.

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

Because we generate a significant portion of our total sales, including sales of our small UAS, MUAS and TMS products and services, from the U.S. government and its agencies, our results of operations could be adversely affected by government spending caps or changes in government budgetary priorities, as well as by delays in the government budget process, program starts, or the award of contracts or orders under existing contracts. As a result, our business may be impacted due to shifts in the political environment and changes in the government and agency leadership positions under the new U.S. administration. We cannot assure you that current levels of congressional funding for our products and services will continue and that our business will not decline. 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.

Additionally, there is a possibility that political decisions made by the current U.S. administration, such as changes in prior military commitments, including the withdrawal from Afghanistan or in response to the conflict between Russia and Ukraine, or an impasse on policy issues, could impact future spending and program authorizations, which may not increase or may decrease or shift to programs in areas in which we do not provide products or services or are less likely to be awarded contracts. Such changes in spending authorizations and budgetary priorities may occur as a result of shifts in spending priorities from defense-related and other programs due to, among other factors, competing demands for federal funds and the number and intensity of military conflicts.

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

With the inception of the global war on terror, operational activity in the US-CENTCOM combatant command area of operations led to broad deployment and increased demand for UAS and TMS products, training and spares. Since such time, there have been periods during which the tempo of DoD counterinsurgency operations receded, reducing demand for certain of our small UAS and TMS products, training and spares from prior levels. We cannot predict whether and when a reduction in overseas operational levels will occur, how future procurement priorities related to defense transformation will be impacted, including by future events such as the conflict between Russia and Ukraine, or how changes in the threat environment will impact opportunities and competition for our UAS and TMS products and our ISR services, in terms of existing, additional or replacement programs. If defense transformation or overseas operations slow down or cease in key operational areas, then our business, financial condition and results of operations could be impacted negatively.

The operations tempo in the U.S. DoD both of training and deployments, both domestically and overseas, has reduced as a result of the COVID-19 pandemic. This has negatively affected demand for spares, repairs, and replacement product ordinarily required for the operation and maintenance of our UAS products. We cannot predict whether this reduction in demand will continue and to the extent it may cause an adverse impact on our results of operations.

***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 and services 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 and services;
- 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., Teledyne Technologies, Inc., L3 Technologies, Inc. and Lockheed Martin Corporation. Our principal MUAS competitors include those competing with us for the U.S. Army's Future Tactical UAS (FTUAS) program, including Martin UAV and Northrop Grumman's *V-Bat*, Textron, Inc.'s *Aerosonde* and L3 Harris Technologies' *FVR-90*, Elbit Systems Ltd. and Israeli Aircraft Industries. International MUAS competitors include Elbit Systems Ltd. and Israeli Aircraft Industries. We do not view large UAS such as Northrop Grumman Corporation's *Global Hawk* or General Atomics, Inc.'s *Predator* and its derivatives 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. We do not view large UAS such as Northrop Grumman Corporation's *Global Hawk* or General Atomics, Inc.'s *Predator* and its derivatives as direct competitors to our MUAS because they perform different missions, require a larger logistical footprint and cost considerably more to procure and operate. However, we cannot be certain that these platforms will not become direct competitors to our small UAS and MUAS in the future. Potential competition from consumer-focused drone manufacturers is emerging as their capabilities increase and their prices remain low relative to existing defense solutions, which is resulting in some level of military consideration even if such drones do not meet traditional military performance or security specifications. Our TMS business faces competition from Textron Inc., Raytheon Technologies, Lockheed Martin Corporation, Anduril Industries and UVision Air Ltd. We also face emerging competition from consumer and commercially focused drone manufacturers, such as Skydio, Inc. and Shield AI, as their product capabilities increase and their product prices remain low relative to existing defense solutions, which has resulted in some level of military consideration and procurement even though their UAS products do not meet traditional military performance or security specifications. Our competitors in the U.S. defense market for UGVs include L3 Harris Technologies, Inc., Teledyne Technologies, Inc., QinetiQ North America, Inc., Peraton/Remotec, ICOR and Boston Dynamics.

The market for commercial UAS products and services is in an early stage of development, but is evolving rapidly. Competition for our commercial UAS products and services includes consumer drone manufacturers such as Dà-Jiāng Innovation, who seek to enhance their systems' capabilities over time, and other small UAS manufacturers, including Lockheed Martin Corporation, PrecisionHawk, Sentera and SlantRange.

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, such as The Boeing Company, Lockheed Martin Corporation, General Dynamics Corporation, EADS N.V., Ball Corporation and Northrop Grumman Corporation, and LEO micro or cubesat satellite constellations, including include Amazon, Planet, OneWeb, SpaceX and The Boeing Company.

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 and MUAS.

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. Foreign competitors may also be able to offer more cost competitive solutions for our UAS and UGV products and services. The market for small UAS, MUAS and UGV products 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, UGV, TMS, and commercial UAS markets do not experience significant growth, if we cannot expand our customer base or if our products and services 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 and services. Demand for our products and services may not increase, or may decrease, either generally or in specific markets, for particular types of products and services 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, UGV and TMS. Although we have expanded our UAS customer base to include foreign governments and domestic non-military agencies, and made our first approved export of our tactical missile systems to a foreign customer, we cannot assure you that our continued efforts to further increase our sales to international customers will be successful. The expansion of the UAS, UGV, TMS, and commercial UAS markets in general, and the market for our products and services 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 TMS products and services outside the United States due to U.S. government regulations;
- obtaining timely regulatory approvals, including, with respect to any of our unmanned systems, access to airspace and wireless spectrum; and
- marketing efforts and publicity regarding these types of systems and services.

Even if UAS, UGV, TMS, and commercial UAS gain wide market acceptance, our products and services may not adequately address market requirements and may not continue to gain market acceptance. If these types of systems generally, or our products and services 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 41% 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, 2022 compared to 39% for the fiscal year ended April 30, 2021. We expect to continue to derive a significant portion of our revenue from international sales, including direct sales to allied nations, and initiated international operations with the acquisition of

Telerob Gesellschaft für Fernhantierungstechnik mbH, a German company (“Telerob”) in May 2021. 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 and services or repatriate profits to the United States;
- the complexity and necessity of using foreign representatives and consultants, and delays in and difficulty of validating foreign representatives and brokers;
- 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 complexities of managing a workforce under foreign labor and employment law and related organizational requirements;
- 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, contracts and tax 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, destabilization of performance, 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 operations and 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 fines, 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.



***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 product lines being pursued, shifting from primarily a U.S. government focused business to a business that includes substantial international product sales, added commercial services, accelerated development on HAPS UAS and engaged in numerous acquisitions further expanding our operations domestically and abroad. Further, in conjunction with the acquisition of Arcturus in February 2021, we entered into certain credit facilities that include affirmative and negative covenants and place some restrictions on how we operate our business. These efforts 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 and service 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.***

The U.S. military represents our largest source of revenue. We have, however, expanded our product sales into new market segments, including those served by our unmanned ground vehicle product line and by our relationship with SoftBank to develop HAPS UAS for global communication and remote sensing applications. Our efforts to expand our product and service 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 and services 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, including but not limited to addressing counter UAS technologies, 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 \$54.7 million, or 12% of our revenue, in our fiscal year ended April 30, 2022 on internal research and development activities. We believe that there are significant investment opportunities in a number of business areas. Because we account for internal 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.

***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 products 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 products could result in injury, death or property damage and significantly damage our reputation and support for our products in general. We anticipate this risk will grow as our products begin to be used in U.S. domestic airspace and urban areas.

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 or used in our development programs become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products and in completing our development programs, which could damage our business.***

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. We obtain certain of our hardware components, various subsystems and systems from a limited group of suppliers, some of which are sole source suppliers. Although we hold long term non-binding contracts with certain key suppliers that establish pricing, minimize lead times and to some degree mitigate risk, we do not have long-term agreements with all suppliers that obligate them to continue to sell components, products required to build our systems or products to us. Our reliance on suppliers without long term non-binding contracts involves significant risks and uncertainties, including whether our suppliers will provide an adequate supply of required components or products of sufficient quality, will increase prices for the components or products and will perform their obligations on a timely basis.

In addition, certain raw materials and components used in the manufacture of our products and in our development programs 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 has been and currently still is experiencing increased demand and a global shortage of semiconductors, creating substantial uncertainty regarding our suppliers' ongoing timely delivery of these components to us. In the fiscal year ended April 30, 2022, we experienced delays in receiving of certain electronic and other components for our product lines resulting from shortages, which caused delays in production and development programs and negatively affected our revenue and results

for the period and could negatively impact our revenue and results in future periods. We expect shortages in certain critical components to continue throughout at least the remainder of our fiscal year 2023. Should such shortages of components continue or additional shortages occur, and 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 be impaired in our ability to execute development programs on schedule or deliver products on a timely or cost-effective basis to our customers. Shortages in components for our products and delays in obtaining components for our products could cause customers to terminate their contracts with us, delay orders from us or cause us to delay accepting orders, negatively impact our ability to win new programs and/or contracts, negatively impact and disrupt our development programs, increase our costs and seriously harm our business, results of operations and financial condition. Moreover, if any of our suppliers become capacity constrained, 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. Even if we identify alternate suppliers, we may experience significant delays in manufacturing and shipping our products to customers and incur additional development, manufacturing and other costs to establish such alternative sources, are required to redesign our products and to complete additional quality control procedures. In addition, credit constraints of key suppliers could result in accelerated payment of accounts payable by us, impacting our cash flow. We have experienced increased costs for components, as well as increased shipping, warehousing and inventory costs. We cannot predict the extent to which these costs will continue and/or continue to increase or if we will be able to obtain replacement components within the time frames that we require at an affordable cost, if at all. Additionally, shortages of components may result in increased inventory of unfinished products and significant quantities of other unused components remaining in inventory, which could expose us to increased risks of obsolescence and losses which may not be fully covered by insurance.

***Earnings and cash flows can be impacted by changes in tax laws.***

As a U.S.-based multinational business, we are subject to income tax in the U.S. and numerous jurisdictions outside the U.S. The relevant tax rules and regulations are complex, often changing and, in some cases, are interdependent. If these or other tax rules and regulations should change, the company's earnings and cash flows could be impacted. In particular, the changes proposed by the current U.S. administration, including increasing the U.S. corporate income tax rate from 21% to 28%, doubling the rate of tax on certain earnings of non-U.S. subsidiaries and the imposition of a 15% minimum tax on worldwide book income, could materially affect the company's financial results if enacted. The company's worldwide provision for income taxes is determined, in part, through the use of significant estimates and judgments. Numerous transactions arise in the ordinary course of business where the ultimate tax determination is uncertain. The company undergoes tax examinations by tax authorities on a regular basis. While the company believes its estimates of its tax obligations are reasonable, the final outcome after the conclusion of any tax examinations and any litigation could be materially different from what has been reflected in the company's historical financial statements.

***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 78% of our revenue for the fiscal year ended April 30, 2022. 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, including key employees of business recently acquired, 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. We have had some departures in fiscal year 2022 from our senior management team, which has resulted in remaining members bearing additional responsibilities as we seek to recruit additional leadership talent. The loss of any of our continuing 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. The current tight labor market has adversely impacted our ability to recruit qualified personnel, including engineers. Increased restrictions on the import of foreign labor may also increase demand for engineering personnel and adversely impact our ability to hire and retain qualified personnel. 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. We have experienced shortages of skilled employees that has negatively affected our progress on development programs and our results of operations. We cannot predict the extent to which these shortages will continue or the extent to which they could negatively impact our development programs and results of operations in future periods.

In September 2021, in furtherance of an executive order issued by President Biden, the U.S. Safer Federal Workforce Task Force issued guidance that generally requires that employees of U.S. government contractors receive COVID-19 vaccinations, unless an employee requests and receives a medical or religious accommodation. The mandate is subject to various legal proceedings. While the loss of certain employees due to this vaccine mandate, as well our own vaccine requirements for our employees, has not had a significant impact on our operations to date, our ability to recruit skilled employees in the future may be negatively impacted by vaccine mandates.

***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 UAS, TMS and UGV 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. During the fiscal year ended April 30, 2022, global supply chain issues resulted in delays in procuring components for our products and experienced significant increases in the costs to procure certain components. The extent to which we will have reliable access to supplies that we require or be able to purchase such materials or components at cost effective prices is uncertain. We expect that the global supply chain issues will adversely affect our ability to procure certain components through at least our fiscal year 2023. 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 supply imbalances that could harm our business.***

We maintain a variety of parts and components in inventory to allow us to customize our UAS and UGV 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, including in response to procurement issues caused by shortages in the supply chain for such 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. Additionally, our failure to manage inventory effectively, including in response to the effects of shortages of our components, could expose us to increased losses.

Additionally, shortages of components may result in increased inventory of unfinished products and significant quantities of other unused components remaining in inventory, which could expose us to increased risks of obsolescence and losses which may not be covered by insurance.

***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.

***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 and services that we sell in the period;
- fluctuations in customer demand for some of our products or services;
- unanticipated costs incurred in the introduction of new products and services;
- fluctuations in the adoption of our products and services 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 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.

***Unauthorized access to our, our customers' and/or our suppliers' information and systems could negatively impact our business.***

We face various security threats, including cyber security attacks on our information technology infrastructure, which may include attempts to gain access to our proprietary, financial, banking or classified information, disrupt use of our systems or otherwise compromise the integrity of our operations. 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 physical or cyber access or system disruptions, including 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 our reputation with customers, suppliers and stockholders, and the reputation of our products and services. The occurrence of some of these risks may be increased due to the increase in remote working by our employees, suppliers, contractors and other third parties. 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 constantly evolving nature and complexity of cyber-attacks. If we or our partners are subject to data security breaches, whether cyber or due to a failure in physical security protocols, we may have a loss in existing sales and new business opportunities, increased costs arising from remediation of the breach and the restoration or implementation of additional security measures, be subject to regulatory investigations and litigation, including fines and penalties, and face increased insurance or audit requirements in our third party contracts, any 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.

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

As a government contractor, given the enhanced sensitivity of the information we have access to and the nature of our products and services, we are at increased risk of being targeted for cyber and other security attacks, including threats to the physical security of our facilities and employees. In addition, we work in international locations where there are high security risks, which could result in harm to our employees, contractors, and remote assets, and substantial protection or recovery costs. Some of our services are performed in or adjacent to high risk locations 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, our remote assets and our information. As such international locations and the risks associated with them change rapidly, such precautions may be insufficient to avoid such risks including possible possession of our remote assets and related access to our intellectual property by unintended third parties and the possible loss of our personnel in these locations, which could harm our business and operating results.

***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, 2022. 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. 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. Our investments are classified as available-for-sale and recorded at fair value each reporting period. Unrealized gains and losses are excluded from earnings and reported as a separate component of stockholders' equity, net of deferred income taxes.

***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, costlier 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 Deferral 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. If certain key suppliers were to become capacity constrained or insolvent as a result of a market downturn or disruption, then we may have to find new suppliers, which can result in significant delays in manufacturing and shipping our products to customers and additional costs. See above risk factor “If critical components or raw materials used to manufacture our products or used in our development programs become scarce or unavailable, then we may incur delays in manufacturing and delivery of our products and in completing our development programs, which could damage our business” for more detail on risks related to our supply chain.

*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. In February 2021 we completed the acquisition of Arcturus and Intelligent Systems Group business segment (“ISG”), and in May 2021 we acquired Telerob. We intend to consider additional acquisitions that could add to our customer base, technological capabilities or system offerings. Acquisitions 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 each target company and realizing the anticipated synergies of the combined businesses;
- difficulties in supporting and transitioning customers, if any, of each 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 the complexities of managing a workforce under foreign labor and employment law and related organizational requirements;
- 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;
- expanded regulatory compliance complexity and risk, including compliance with regulations of foreign jurisdictions; and
- inability to generate sufficient revenue to offset acquisition costs.

Acquisitions also frequently result in the recording of goodwill and other intangible assets that 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, such as the stock issued as consideration for the purchase of Arcturus, then our existing stockholders may be diluted, which could lower the market price of our common stock. If we finance acquisitions through debt, such as the credit facilities we entered into in connection with the consummation of our acquisition of Arcturus, then such future debt financing may contain covenants or other provisions that limit our operational or financial flexibility and represent default risk if we are unable to maintain certain financial performance metrics while the debt remains outstanding.



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.

***Borrowings under our credit facilities could adversely affect our financial condition and restrict our operating flexibility.***

On February 19, 2021, in connection with the consummation of the Arcturus acquisition, we entered into a credit agreement with certain lenders, letter of credit issuers, and others (as amended February 4, 2022, the “Credit Agreement”), which, together with its associated Security and Pledge Agreement, sets forth the terms and conditions of a five-year \$100 million revolving credit facility, which includes a \$10 million sublimit for the issuance of standby and commercial letters of credit (the “Revolving Facility”), and a five-year amortized \$200 million term A loan (the “Term Loan Facility”, and together with the Revolving Facility, the “Credit Facilities”). Upon execution of the Credit Agreement, we drew down \$200.0 million, the full principal amount of the Term Loan Facility, to partially finance the acquisition of Arcturus.

The Term Loan Facility as amended has a five-year term expiring in February 2026 and bears interest, at our option, either at a secured overnight financing rate (“SOFR”) or a base rate plus a fixed applicable margin dependent on our consolidated leverage ratio under the terms of the agreement. We are required to pay 5.0% of the outstanding obligations under the Term Loan Facility in each of the first four loan years, with the remaining 80.0% payable in the fifth loan year, consisting of three quarterly payments of 1.25% each, with the remaining outstanding principal amount of the Term Loan Facility due and payable on the maturity date. The Revolving Facility has a term of 5 years. As of April 30, 2022 we have only letters of credit issued pursuant to the Revolving Facility, totaling \$4.2 million.

In support of our obligations under the Credit Facilities, we have granted security interests in substantially all of our personal property and that of our domestic subsidiaries, including a pledge of the equity interests in our subsidiaries (limited to 65% of outstanding equity interests in the case of our foreign subsidiaries), subject to customary exclusions and exceptions. In addition, our domestic subsidiaries, including Arcturus, are required to be guarantors of the Credit Facilities.

In addition, our increased level of indebtedness may have important consequences to us, including:

- increasing our vulnerability to adverse general economic and industry conditions;
- requiring us to dedicate a portion of our cash flows to the payment of interest and when applicable, principal, on our indebtedness and other obligations thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, execution of our business strategy, acquisitions and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in the economy, the defense industry, and the markets in which we operate;
- subjecting us to maintenance of various financial covenants and adherence to certain other affirmative and negative covenants, requiring us to seek lender consent or waiver in relation to our financial performance or other potential strategic actions in the future;
- placing us at a competitive disadvantage compared to our competitors with less indebtedness;
- exposing us to substantial interest rate risk due to the variable interest rate under the Credit Facilities, such that, if interest rates were to increase substantially during the term of the Credit Facilities, the resulting increase in our interest payment obligations could adversely affect our operating results and our ability to

service the indebtedness under the Credit Facilities; and

- making it more difficult for us to borrow additional funds in the future to fund our growth, acquisitions, working capital, capital expenditures, and other purposes.

To the extent we incur additional indebtedness, the risks described above could increase.

If we do not have sufficient funds to repay the Term Loan Facility when it becomes due in 2026, it may be necessary to refinance our debt through additional debt or equity financings. If, at the time of any such refinancing, prevailing interest rates or other factors result in higher interest rates on such refinanced debt, such increases in our interest expense could have an adverse effect on our business, results of operations and financial condition.

The Credit Agreement contains customary events of default, upon the occurrence and during the continuation of which, after any applicable grace period, the lenders would have the ability to declare the loans due and payable in whole or in part. Among other things, if we fail to make required debt payments, or if we fail to comply with financial or other covenants in the Credit Agreement, we would be in default under the terms thereof. The Credit Agreement contains customary negative covenants that include, subject to customary exclusions:

- Restrictions on additional liens on our assets.
- Restrictions on incurring additional indebtedness.
- Restrictions on new investments, including acquisitions, mergers, investments in subsidiaries that are not guarantors of the debt, and joint ventures.
- Restrictions on disposal of assets.
- Restrictions on payments of cash dividends.
- Restrictions on changing the nature of our business.
- A requirement to maintain a maximum consolidated leverage ratio and a minimum fixed charge coverage ratio.
- Restrictions on changes to our accounting policies.
- Restrictions on payments of any junior indebtedness.

To the extent we would wish to engage in any of the prohibited behaviors, we would need to obtain consent under the Credit Agreement, which may not be timely forthcoming or at all. If a default event were to occur, we may not have sufficient available cash to repay such outstanding debt obligations at the time they become due or be able to refinance such debt on acceptable terms or at all.

Any of the foregoing limitations or events could materially and adversely affect our financial condition and results of operations.

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

The majority of our research and development and manufacturing operations are located in California in regions known for seismic activity and wildfires. While we maintain insurance coverage to cover certain of risks of losses for damage or destruction to facilities and property and for interruption of our business, such insurance may not cover specific losses and the amount of our insurance coverage may not be adequate to cover all of our losses. 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, including if our losses are not adequately or timely covered by our insurance.

***We face various risks related to the COVID-19 novel coronavirus pandemic and similar public health crises, which may adversely impact our business.***

In December 2019, a novel strain of a virus named SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2), or coronavirus, which causes coronavirus disease, or COVID-19, was reported to have surfaced in Wuhan, China, and has reached multiple other regions and countries, including the United States where our primary

operations are located. The coronavirus pandemic continues to evolve, and has led to the implementation of various responses and evolving public health safety measures. Although our operations have mostly continued uninterrupted during the COVID-19 outbreak, adoption of work from home protocols, social distancing measures in the workplace, international travel restrictions, vaccine mandates and other responsive actions have required certain changes to our operations. In particular, additional surges in infection rates and resulting travel disruptions, quarantine requirements or other similar logistics restrictions, may further reduce our and our customers' capabilities to travel, domestically and internationally, which may impact our ability to perform certain contracts, develop and renew contracts, or market our products, or could otherwise disrupt portions of our business and have a material adverse effect on our results of operations.

Global health concerns, such as the coronavirus pandemic, could result in social, economic and labor instability in the countries in which we or the third parties with whom we engage operate. The extent to which COVID-19 will continue to impact our business, financial condition and results of operations and those of our third party partners will depend on future developments as to the geographic presence of COVID-19, new and potentially more contagious variants of the SARS-CoV-2 virus, rates of vaccination, government and healthcare responses to such spread including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others, which remain highly uncertain.

We cannot presently predict the scope and severity of existing and other potential business disruptions, but if we or any of the third parties with whom we engage, including suppliers and other third parties with whom we conduct business, were to experience prolonged shutdowns or other business disruptions, including a slowdown in the effectiveness of our workforce due to illness or otherwise, our ability to conduct our business in the manner presently planned could be materially and negatively impacted. The COVID-19 outbreak has caused delays in the timing of our customers' awarding of contracts to us, which has had some negative impact on our business in fiscal year 2022; and there can be no assurances that any further delays would not have a material adverse impact on our business and results of operations in the future.

The COVID-19 pandemic could also cause delays or limits in the ability of our customers to make timely payments to us. Additionally, our government customers may have more limited resources available to purchase our products due to deteriorating economic conditions or due to the diversion of resources to other budget priorities, including efforts to address the COVID-19 pandemic. The future progression of the COVID-19 outbreak and its resulting effects on our business, financial condition and results of operations are uncertain and are continuing to be assessed.

***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 the majority of our 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.

***Recession, financial and credit market disruptions may adversely affect us.***

If another global recession emerges, we may experience declines in revenues, profitability and cash flows from reduced orders, payment delays, collection difficulties, increased price pressures for our products, increased risk of excess and obsolete inventories or other factors caused by the economic problems of our customers. The COVID pandemic has increased volatility and pricing in the capital markets. If negative conditions in the global credit markets prevent our customers from having access to credit or render them insolvent, orders for our products may decrease, which would result in lower revenue. Likewise, if our suppliers face challenges in obtaining credit, in selling their products, or otherwise in operating their businesses or remaining solvent, they may become unable to offer the materials we use to manufacture our products. An economic or credit crisis could also impact our ability to raise capital when



needed. These events could adversely impact our ability to manufacture affected products and could also result in reductions in our revenue, increased price competition, and increased operating costs, which could adversely affect our business, financial condition, operational results, and cash flows.

#### **Risks Related to Our U.S. Government Contracts**

***We are presently classified as a small business defense contractor and the loss of our small business status may adversely affect our ability to compete for small business set-aside US government contracts.***

Because we have fewer than 1,500 employees, we are presently classified as a small business defense contractor under our primary North American Industry Classification Systems (“NAICS”) industry and product specific codes (336411 - Aircraft Manufacturing) which are regulated in the United States by the Small Business Administration (“SBA”). Businesses that meet the small business size standard for the relevant NAICS code are able to bid on small business set-aside contracts. While we do not presently derive a substantial portion of our business from contracts which are set-aside for small businesses, we are able to bid on small business set-aside contracts as well as contracts which are open to non-small business entities. As we continue to grow and add employees, including through acquisitions, or if NAICS codes are revised, we could cease to qualify as a small business, which could adversely impact our eligibility for special small business programs and limit our ability to partner with other business entities that seek to team with small business entities as may be required under a specific contract. If we outgrow our small business classification, we would not be eligible to serve as the prime contractor on small business set aside programs and may need to implement a small business subcontracting plan with other companies that qualify as a small business, for SBA approval. The loss of our small business classification could have a material adverse effect on our financial position and/or results of operations. Additionally, if we are no longer eligible for the small business exemption from compliance with the full range of Cost Accounting Standards (“CAS”), we would be required to demonstrate compliance with such standards upon the award of a contract subject to the full range of CAS, which will impose additional administrative costs on our business, and may significantly affect the manner in which we conduct our business with our customers and adversely affect our results of operations.

***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; changes in the government’s interpretation of such regulations, rules and approvals as have been and are applied to our contracts, proposals or business or misconduct by any of our employees could result in the imposition of fines and penalties, the loss of security clearances, a decrease in profitability, 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 audits of our incurred cost claims through fiscal year 2020 have been settled. At April 30, 2022 we had no reserve 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 (“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 that data is 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 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 Legal and Regulatory Requirements**

***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 and services, 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 and services. In some cases, explicit authorization from the relevant U.S. government authorities is needed to export our products and services. 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 and services 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. In November 2019, we entered into a consent agreement (the "Consent Agreement") with the U.S. Department of State's Directorate of Defense Trade Controls Office of Defense Trade Controls Compliance to resolve

various alleged violations of the Armed Export Control Act and the International Traffic in Arms Regulations (“ITAR”) that occurred between June 2014 and December 2016. The Consent Agreement, under which we are currently operating, provides for, among other things: (i) a civil penalty of \$1,000,000 payable in installments, \$500,000 of which was suspended on the condition that such amount be used for future remedial compliance costs over the term of the Consent Agreement and/or credited against prior compliance enhancement costs already expended by us; (ii) the appointment of an external Special Compliance Officer for a minimum of one year to oversee our compliance with the Consent Agreement and ITAR; and (iii) one external audit of our compliance with the Consent Agreement and ITAR. The \$500,000 suspension amount was satisfied by our compliance program remediation efforts during our fiscal year ended April 30, 2021. Our failure to comply with the terms of the Consent Agreement or export laws and regulations in general can subject us to additional fines, penalties and sanctions, including suspension of export privileges, which 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.

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

The regulation of small UAS and MUAS 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 and MUAS 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 and MUAS.

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 and MUAS 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 “Part 107 Rules”). The Part 107 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. Additionally, in December 2019 and January 2020, the FAA proposed rules regarding remote UAS identification and a new policy regarding the airworthiness certification of a newly created special class of UAS. It is unclear when, if ever, the FAA will create a new class of UAS and what the final rules regarding the certification of such new class of UAS will state. We cannot assure you that the Part 107 Rules, or any final rules enacted in furtherance of the FAA’s recently announced proposals, will result in the expanded use of our small UAS and MUAS 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 and MUAS 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 and MUAS by non-military customers.

***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.

***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.

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 or material settlement of such claims 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, and 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, including when negotiating settlement where appropriate in response to such claims, however, our actual losses may differ significantly from our interim 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 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 (“FTC”) and various state, local and foreign bodies and agencies. We also execute confidentiality agreements with various parties under which we are required to protect their confidential information.

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

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

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.

***Environmental laws and regulations and unforeseen costs, including in response to climate change, 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.

The increasing global focus on climate change, including greenhouse gas (“GHG”) emissions, has resulted in legislative and regulatory efforts to address the causes and impacts of climate change. New and more strict laws and regulations to reduce GHG emissions and address other aspects of climate change, including carbon taxes, cap and trade programs, GHG reduction requirements, requirements for the use of green energy, and changes in procurement requirements, may result in increased operational and compliance obligations, which could adversely affect our financial condition and results of operations. Such laws and regulations could result in increased energy costs and costs to upgrade our facilities or change our manufacturing processes. Additionally, our suppliers may also face similar increased costs, which could result in them increasing the costs of components for our products and development programs. Changes to government procurement laws, including proposed changes to the Federal Acquisition Regulations, designed to require climate risk and GHG emissions to be taken into account in the procurement process could result in increased costs to change our operations and manufacturing processes to ensure we remain competitive in the bidding process. We cannot predict the materiality of any potential additional costs associated with complying with such laws and regulations or whether we could raise prices to account for any such additional costs. Any non-compliance could negatively affect our reputation, our ability to compete in competitive bidding processes, including with the U.S. government, and our ability to sell our products and services. We cannot assure you that such existing laws or future laws addressing environmental concerns, including climate change, will not have a material adverse effect on our future earnings or results of operations.

***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 have imposed additional costs on us and on our suppliers, including costs related to determining the source of conflict minerals used in our products, which may 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.

### **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;
- media coverage regarding our products and services;
- 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.



***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 and services;
- 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 have obtained capital from the Credit Facilities noted above including the Term Loan Facility and Revolving Facility. We cannot assure you that additional financing will be available on terms favorable to us, or at all. Our current Credit Facilities contain, 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 management, whose interests may not be aligned with yours, is able to exert significant influence over all matters requiring stockholder approval.***

As of June 22, 2022, our directors, executive officers and their affiliates collectively beneficially owned 394,855 shares, or approximately 2%, 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.

***Failure to establish and maintain effective internal control over financial reporting could adversely affect our financial results.***

It is management's responsibility to establish and maintain effective internal control in order to provide reasonable assurance regarding the financial reporting soundness for external purposes. Internal control over financial reporting is not intended to impart absolute assurance that the Company can prevent or detect misstatements of its financial statement or fraud due to its inherent limitations.

As of April 30, 2022, our management determined that the Company's internal control over financial reporting was not effective due to certain identified material weaknesses. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Management identified deficiencies related to inadequate design and operation of certain controls at certain newly acquired businesses. Specifically, management did not effectively select and develop certain information technology ("IT") general controls related to access and change management controls that led to deficiencies in the design and operation of control activities, including segregation of duties. The Company also had deficiencies in the design and operation of account reconciliations at certain newly acquired businesses. These deficiencies and a lack of sufficient resources contributed to the potential for there to have been material errors related to certain newly acquired businesses in the Company's financial statements. While these deficiencies did not result in any material misstatements of the Company's consolidated financial statements, they did collectively represent a material weakness in internal control over financial reporting. Additional information about the nature of these material weaknesses and how we are remediating and addressing them is provided in Item 9A.- "Controls and Procedures."

Although the current material weaknesses identified did not result in a need to restate any prior period financial statements, if the current material weaknesses are not remediated in full, or if additional material weaknesses or significant deficiencies in the Company's internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate financial results. Further, because of ongoing changes in our operations and business condition and changes in accounting rules and regulations, even our remediation of the current material weaknesses will not remove the need to timely assess such changes and develop additional updates to our internal controls from time to time. The failure to maintain an effective system of internal control over financial reporting could limit our ability to report its financial results accurately and in a timely manner or to detect and prevent fraud, which could cause a loss of investor confidence in our reporting, depress our stock price, adversely limit our liquidity and access to the capital markets and we may be unable to maintain compliance with applicable stock exchange listing requirements and debt covenant requirements.

***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 66<sup>2</sup>/<sub>3</sub>% 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.

***Significant inflation could adversely affect our business and financial results.***

Although historically our operations have not been materially affected by inflation and we have been successful in adjusting prices to our customers to reflect changes in our material and labor costs, the rate of current inflation and resulting pressures on our costs and pricing could adversely impact our business and financial results. Inflation can adversely affect us by increasing our operating costs, including our materials, freight and labor costs, which are already under pressure due to supply chain constraints and the continuing effects of the COVID-19 pandemic. As interest rates rise to address inflation, such increases will also impact the base rates applicable in our credit arrangements and will result in borrowed funds becoming more expensive to us over time; similar financing pressures from inflation also can have a negative impact on customers’ willingness to purchase our products in the same volumes and at the same rates as previously anticipated. In a highly inflationary environment, we may be unable to raise the sales prices of our products at or above the rate of inflation, which could reduce our profit margins having a material adverse effect on our financial performance.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

All of our facilities are leased. Our corporate headquarters are located in Arlington, Virginia where we lease approximately 2,000 square feet under an agreement expiring in November 2024. We also lease a total of approximately 280,000 square feet of space in Simi Valley, California, which leases expire between 2025 and 2027, and approximately 150,000 square feet of space in Moorpark, California, which lease expires in 2023, used for administration and to design, engineer, test and manufacture UAS. We also lease other facilities in California, Alabama, Kansas, Massachusetts, Pennsylvania, Minnesota, Virginia, and Stuttgart, Germany that are used for administration, research and development, logistics, testing and manufacturing.

As of April 30, 2022, our business segments had significant operations at the following locations:

- Small UAS, TMS and HAPS: Simi Valley, CA; Moorpark, CA; Huntsville, AL; Lawrence, KS; Wilmington, MA; and Minneapolis, MN.
- MUAS: Petaluma, CA and Rohnert Park, CA.
- UGV: Stuttgart, Germany and Eerie, PA.
- Corporate: Arlington, VA, Moorpark, CA and Simi Valley, CA.

**Item 3. Legal Proceedings.**

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 Business to Webasto in June 2018. The lawsuit generally alleged several claims against us for breach of contract, indemnity, declaratory

judgment, and fraud and misrepresentation, including allegations regarding inaccuracy of certain diligence disclosures, financial disclosures, failure to provide certain consents to contract assignments and related to the previously announced recall. In order to avoid the future cost, expense, and distraction of continued litigation, we executed a written settlement agreement with Webasto effective December 16, 2021, under which we did not admit to any fault or wrongdoing and fully settled all claims in the lawsuit. Further, the settlement eliminates future warranty and indemnity claims against the company by Webasto. The lawsuit was dismissed on December 28, 2021.

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

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

**Item 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 22, 2022, the closing sales price of our common stock as reported on the NASDAQ Global Select Market, where it trades under the symbol AVAV, was \$82.39 per share. As of June 22, 2022, there were 73 holders of record of our common stock.

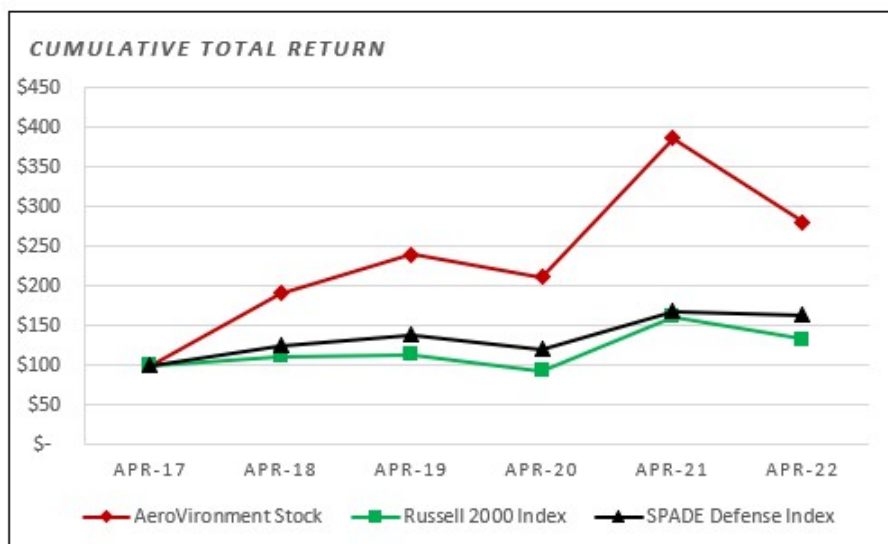
**Dividends**

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, 2017 in AeroVironment, Inc., the Russell 2000 Index and the SPADE Defense Index.

	Performance Graph Table (\$)					
	April 30, 2017	April 30, 2018	April 30, 2019	April 30, 2020	April 30, 2021	April 30, 2022
AeroVironment, Inc. Stock	100	191	240	211	386	281
Russell 2000 Index	100	111	114	94	162	133
SPADE Defense Index	100	125	138	121	169	163

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, 2022. As of April 30, 2022, approximately \$21.2 million remained authorized for future repurchases under this program.

**Item 6.**

Reserved.

**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 Part I, “Forward-Looking Statements” on page 2 and Part 1A, “Risk Factors” beginning on page 25, 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 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, deliver and support a technologically-advanced portfolio of intelligent, multi-domain robotic systems and related services for government agencies and businesses. We supply UAS, TMS, UGV and related services primarily to organizations within the U.S. DoD and to international allied governments. We derive the majority of our revenue from these business areas and we believe that the markets for these solutions offer the potential for significant long-term growth. Additionally, we believe that some of the innovative potential products, services and technologies in our research and development pipeline will emerge as new growth platforms in the future, creating additional market opportunities.

The success of 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 closely with our key customers and solving their most important challenges related to our areas of expertise. Our core technological capabilities, developed through nearly 50 years of innovation, include robotics and robotics systems autonomy; 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; 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 TMS 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, design and operation of our UAS, TMS, HAPS and UGV as well as ISR services by our MUAS. Support for our small UAS and TMS customers includes training, spare

parts, product repair, product replacement, and the customer-contracted operation of our small UAS by our personnel. Under ISR services contracts we deliver the information our MUAS produce to our customers, who use that information to support their missions. 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, MUAS, HAPS and TMS 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, depreciation of in-service ISR assets, amortization of acquired intangible assets 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 (“SG&A”), include salaries, fringe benefits, and other expenses related to selling, marketing and proposal activities, and other administrative costs and amortization of acquired intangible assets. Some SG&A expenses relate to marketing 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 research and development (“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 the gain on the sale of our equity interest in HAPSMobile, legal accruals related to our former EES Business, 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, and amortization of capital lease payments.

### **Income Tax Expense (Benefit)**

Our effective tax rates are higher than the statutory rates primarily due to R&D tax credits and excess tax benefit of equity awards.

### **Equity Method Investment Loss, Net of Tax**

Equity method investment loss, net of tax, includes equity method income or loss related to the HAPSMobile joint venture we formed in December 2017 with SoftBank and our investment in a limited partnership fund for which we have concluded we have influence for holding more than a minor interest. In March 2022, we sold our equity interest in HAPSMobile and will no longer record equity method income (loss) of HAPSMobile.

### **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 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 50% interest in the income or losses of our Turkish joint venture, Altoy, as of September 15, 2021 and 15% interest for all prior periods presented.

### **Critical Accounting Policies and Estimates**

This 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, inventory reserves for excess and obsolescence, intangible assets acquired in a business combination, goodwill, and income taxes. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

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 entitled "Organization and Significant Accounting Policies," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report. 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 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 observable standalone selling prices for similar products and services. When the standalone selling price is not directly observable, we use our 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, customization of UGV transport vehicles 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, including ISR services, is recognized over time as services are rendered. We elected the right to invoice practical expedient in which if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, such as flight hours for ISR services, the entity may recognize revenue in the amount to which the entity has a right to invoice. 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, MUAS and UGV product sales revenue is composed of revenue recognized on contracts for the delivery of small UAS, MUAS and UGV 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 contracts using the over time method are recognized on a cumulative catch-up basis in the period in which the revisions are made. During the fiscal years ended April 30, 2022, 2021 and 2020, changes in accounting estimates on contracts recognized using the over time method are presented below. Amounts representing contract change orders or claims are included in revenue if the order or claim meets the criteria of a contract or contract modification in accordance with 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, 2022, 2021 and 2020, favorable and unfavorable cumulative catch-up adjustments included in revenue were as follows (in thousands):

	Year Ended April 30,		
	2022	2021	2020
Gross favorable adjustments	\$ 1,331	\$ 1,953	\$ 2,181
Gross unfavorable adjustments	(2,857)	(2,205)	(2,019)
Net adjustments	<u>\$ (1,526)</u>	<u>\$ (252)</u>	<u>\$ 162</u>

For the year ended April 30, 2022, favorable cumulative catch up adjustments of \$1.3 million were primarily due to final cost adjustments on 19 contracts, which individually were not material. For the same period, unfavorable cumulative catch up adjustments of \$2.9 million were primarily related to higher than expected costs on 10 contracts. During the year ended April 30, 2022, 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 \$1.1 million.

For the year ended April 30, 2021, favorable cumulative catch up adjustments of \$2.0 million 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 \$2.2 million were primarily related to higher than expected costs on nine contracts. During the year ended April 30, 2021, 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 \$1.0 million.

For the year ended April 30, 2020, favorable cumulative catch-up adjustments of \$2.2 million were primarily due to final cost adjustments on 13 contracts. During the year ended April 30, 2020, we revised our estimates of the total expected costs to complete a design and development agreement. The aggregate impact of these adjustments in contract estimates on revenue related to performance obligations satisfied or partially satisfied in previous periods was an increase to revenue of approximately \$1.1 million. For the same period, unfavorable cumulative catch-up adjustments of \$2.0 million were primarily related to higher than expected costs on seven contracts. During the year ended April 30, 2020, we revised our estimates of the total expected costs to complete a TMS 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 \$1.4 million.

#### **Inventories Reserves 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 and record to cost of sales. We may be required to record additional inventory write-downs if actual market conditions are less favorable than those projected by our management.

#### **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: technology, backlog, in-process research and development, customer relationships, licenses, trademarks and tradenames, and non-compete agreements. We use valuation techniques to value these intangibles 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 of such assets are consumed.

#### **Goodwill**

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

Our evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. For the impairment test, we first assess qualitative factors, macroeconomic conditions, industry and market considerations, triggering events, cost factors, and overall financial performance, to determine whether it is necessary to perform a quantitative goodwill impairment test. Alternatively, we may bypass the qualitative assessment for some or all of its reporting units and apply the quantitative impairment test. If determined to be necessary, the quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill

impairment loss to be recognized (if any). For the quantitative impairment test we estimate the fair value by weighting the results from the income approach and the market approach. These valuation approaches consider a number of factors that include, but are not limited to, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and future profitability of its business.

### **Income Taxes**

Our income tax provision and related income tax assets and liabilities are based on actual and expected future income, U.S. and foreign statutory income tax rates, and tax regulations and planning opportunities in the various jurisdictions in which it operates. We believe that the accounting estimates related to income taxes are "critical accounting estimates" because significant judgment is required in interpreting tax regulations in the United States and in foreign jurisdictions, evaluating our worldwide uncertain tax positions, and assessing the likelihood of realizing certain tax benefits. Actual results could differ materially from those judgments, and changes in judgments could materially affect our consolidated financial statements.

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 tax 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 record a valuation allowance to reduce our deferred tax assets if, based on the weight of available evidence, we believe expected future taxable income is not likely to support the use of a deduction or credit in that jurisdiction. We evaluate the level of our valuation allowances during the interim and annually.

We record unrecognized tax benefits for U.S. federal, state, local, and foreign tax positions related primarily to tax credits claimed and tax nexus. For each reporting period, we apply a consistent methodology to measure unrecognized tax benefits and all unrecognized tax benefits are reviewed periodically and adjusted as circumstances warrant. Our measurement of our unrecognized tax benefits is based on our assessment of all relevant information, including prior audit experience, the status of audits, conclusions of tax audits, lapsing of applicable statutes of limitations, identification of new issues, and any administrative guidance or developments. We recognize unrecognized tax benefits in the first financial reporting period in which information becomes available indicating that such benefits will more likely than not (a greater than 50% likelihood) be realized.

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 we expect 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,					
	2022		2021		2020	
Revenue	\$ 445,732	100 %	\$ 394,912	100 %	\$ 367,296	100 %
Cost of sales	304,496	68 %	230,354	58 %	214,194	58 %
Gross margin	141,236	32 %	164,558	42 %	153,102	42 %
Selling, general and administrative	96,434	22 %	67,481	17 %	59,490	16 %
Research and development	54,689	12 %	53,764	14 %	46,477	13 %
(Loss) income from continuing operations	(9,887)	(2)%	43,313	11 %	47,135	13 %
Interest (expense) income, net	(5,440)	(1)%	(618)	— %	4,828	1 %
Other (expense) income, net	(10,313)	(2)%	(8,330)	(2)%	707	— %
Sale of ownership in HAPSMobile Inc. joint venture	6,497	1 %	—	— %	—	— %
(Loss) income from continuing operations before income taxes	(19,143)	(4)%	34,365	9 %	52,670	14 %
(Benefit from) provision for income taxes	(10,369)	(2)%	539	— %	5,848	2 %
Equity method investment income (loss), net of tax	4,589	1 %	(10,481)	(3)%	(5,487)	(1)%
Net income from continuing operations	(4,185)	(1)%	23,345	6 %	41,335	11 %
Loss on sale of business, net of tax	—	— %	—	— %	(265)	— %
Net income	(4,185)	(1)%	23,345	6 %	41,070	11 %
Net (income) loss attributable to noncontrolling interest	(3)	— %	(14)	— %	4	— %
Net income attributable to AeroVironment, Inc.	<u>\$ (4,188)</u>	<u>(1)%</u>	<u>\$ 23,331</u>	<u>6 %</u>	<u>\$ 41,074</u>	<u>11 %</u>

The Company operates its business as four reportable segments, small UAS, TMS, MUAS and HAPS. The small UAS segment consists of our existing small UAS product lines. The TMS segment consists of our existing tactical missile systems product lines. The MUAS segment consists of our recently acquired Arcturus business. The HAPS segment consists of our existing development of High Altitude Pseudo-Satellite systems in conjunction with SoftBank. The segment below entitled “All other” includes MacCready Works, which includes the recently acquired ISG and Telerob businesses. The following table (in thousands) sets forth our revenue, gross margin and adjusted operating income (loss) from operations generated by each reporting segment for the periods indicated. Adjusted operating income is defined as operating income before intangible amortization, amortization of purchase accounting adjustments, and acquisition related expenses.

	Year Ended April 30, 2022					
	Small UAS	TMS	MUAS	HAPS	All other	Total
Revenue	\$ 178,201	\$ 76,415	\$ 93,156	\$ 43,325	\$ 54,635	\$ 445,732
Gross margin	83,759	24,486	6,155	15,533	11,303	141,236
Income (loss) from continuing operations	28,980	(3,120)	(27,715)	8,056	(16,088)	(9,887)
Acquisition-related expenses	502	297	1,994	123	1,938	4,854
Amortization of acquired intangible assets and other purchase accounting adjustments	2,828	-	22,170	-	11,709	36,707
Adjusted income (loss) from operations	<u>\$ 32,310</u>	<u>\$ (2,823)</u>	<u>\$ (3,551)</u>	<u>\$ 8,179</u>	<u>\$ (2,441)</u>	<u>\$ 31,674</u>



	Year Ended April 30, 2021					
	Small UAS	TMS	MUAS	HAPS	All other	Total
Revenue	\$ 235,854	\$ 87,268	\$ 15,837	\$ 42,426	\$ 13,527	\$ 394,912
Gross margin	119,062	26,675	2,965	13,038	2,818	164,558
Income (loss) from continuing operations	58,194	(3,131)	(1,869)	268	(10,149)	43,313
Acquisition-related expenses	3,026	1,661	1,682	593	1,019	7,981
Amortization of acquired intangible assets and other purchase accounting adjustments	2,649	-	4,356	-	453	7,458
Adjusted income (loss) from operations	\$ 63,869	\$ (1,470)	\$ 4,169	\$ 861	\$ (8,677)	\$ 58,752

	Year Ended April 30, 2020					
	Small UAS	TMS	MUAS	HAPS	All other	Total
Revenue	\$ 225,888	\$ 63,781	\$ -	\$ 60,864	\$ 16,763	\$ 367,296
Gross margin	117,538	18,082	-	17,436	46	153,102
Income (loss) from continuing operations	64,680	(15,822)	-	9,744	(11,467)	47,135
Acquisition-related expenses	537	336	-	134	112	1,119
Amortization of acquired intangible assets and other purchase accounting adjustments	2,467	-	-	-	-	2,467
Adjusted income (loss) from operations	\$ 67,684	\$ (15,486)	\$ -	\$ 9,878	\$ (11,355)	\$ 50,721

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

	Year Ended		
	April 30, 2022	April 30, 2021	April 30, 2020
Cost of sales:			
Product sales	\$ 8,301	\$ 3,492	\$ 2,284
Contract services	10,331	959	—
Selling, general and administrative	18,075	3,007	183
Total	\$ 36,707	\$ 7,458	\$ 2,467

#### Fiscal Year Ended April 30, 2022 Compared to Fiscal Year Ended April 30, 2021

**Revenue.** Revenue for the fiscal year ended April 30, 2022 was \$445.7 million, as compared to \$394.9 million for the fiscal year ended April 30, 2021, representing an increase of \$50.8 million, or 13%. The increase in revenue was due to an increase in service revenue of \$89.0 million, partially offset by a decrease in product revenue of \$38.2 million. The increase in service revenue was primarily due to an increase in MUAS service revenue, resulting from our acquisition of Arcturus in February 2021, and an increase in customer-funded R&D largely resulting from our acquisition of ISG. The decrease in product revenue was primarily due to decreases in small UAS and TMS product revenue, partially offset by increases in UGV and MUAS product revenue, resulting from our acquisitions of Telerob and Arcturus.

**Cost of Sales.** Cost of sales for the fiscal year ended April 30, 2022 was \$304.5 million, as compared to \$230.4 million for the fiscal year ended April 30, 2021, representing an increase of \$74.1 million, or 32%. The increase in cost of sales was a result of an increase in service cost of sales of \$83.3 million, partially offset by a decrease in product costs of sales of \$9.1 million. The increase in service cost of sales was primarily due to the increase in service revenues

resulting from the acquisitions of Arcturus and ISG, and an increase in intangible amortization expense and other purchase accounting adjustments. The decrease in product costs of sales was primarily due to the decrease in product revenue, unfavorable product mix and an increase in intangible amortization expense and other purchase accounting adjustments. Cost of sales for the fiscal year ended April 30, 2022 included \$18.6 million of intangible amortization and other related non-cash purchase accounting expenses as compared to \$4.5 million for the fiscal year ended April 30, 2021. As a percentage of revenue, cost of sales increased from 58% to 68%, primarily due to an increase in the proportion of service revenue to total revenues resulting from the acquisitions of Arcturus and ISG, an increase in intangible amortization expense and other purchase accounting adjustments, and an unfavorable product mix.

**Gross Margin.** Gross margin for the fiscal year ended April 30, 2022 was \$141.2 million, as compared to \$164.6 million for the fiscal year ended April 30, 2021, representing a decrease of \$23.3 million, or 14%. The decrease in gross margin was due to a decrease in product margin of \$29.1 million, partially offset by an increase in service margin of \$5.8 million. The decrease in product margin was primarily due to the decrease in product revenue, unfavorable product mix and an increase in intangible amortization expense and other purchase accounting adjustments. The increase in service margin was primarily due to the increase in service revenue, partially offset by an increase in intangible amortization expense and other purchase accounting adjustments. As a percentage of revenue, gross margin decreased from 42% to 32%, primarily due to an increase in the proportion of service revenue to total revenues resulting from the acquisitions of Arcturus and ISG, an increase in intangible amortization expense and other purchase accounting adjustments, and an unfavorable product mix. With the acquisitions of Arcturus and ISG we expect that we will continue to experience a higher proportion of service revenue, which generally has lower gross margins than our product revenue, in future quarters as compared to our historical trends. Additionally, we expect inflationary and supply chain constraint trends to continue throughout our fiscal year 2023, which will negatively impact our gross margin.

**Selling, General and Administrative.** SG&A expense for the fiscal year ended April 30, 2022 was \$96.4 million, or 22% of revenue, compared to SG&A expense of \$67.5 million, or 17% of revenue, for the fiscal year ended April 30, 2021. The increase in SG&A expense was primarily due to an increase in headcount and related costs associated with our Arcturus, ISG and Telerob acquisitions and an increase in intangible amortization and acquisition related expenses. SG&A included \$22.9 million and \$11.0 million of intangible amortization expenses and acquisition-related expenses for the fiscal year ended April 30, 2022 and April 30, 2021, respectively.

**Research and Development.** R&D expense for the fiscal year ended April 30, 2022 was \$54.7 million, or 12% of revenue, compared to R&D expense of \$53.8 million, or 14% of revenue, for the fiscal year ended April 30, 2021. R&D expense increased by \$0.9 million, or 2%, for the fiscal year ended April 30, 2022, primarily due to an increase in development activities regarding enhanced capabilities for our products, development of new product lines and to support our recently acquired businesses.

**Interest Expense, net.** Interest expense, net for the fiscal year ended April 30, 2022 was \$5.4 million, compared to interest expense, net of \$0.6 million for the fiscal year ended April 30, 2021. The increase in interest expense was primarily due to an increase in interest expense resulting from the term debt issued concurrent with the acquisition of Arcturus.

**Other Expense, net.** Other expense, net for the fiscal year ended April 30, 2022 was \$10.3 million, as compared to other expense, net of \$8.3 million for the fiscal year ended April 30, 2021. Other expense, net for the fiscal year ended April 30, 2022 included \$10 million of expense related to the Webasto legal settlement. Other expense, net for the fiscal year ended April 30, 2021 included \$9.3 million of expense related to the Webasto legal accrual.

**Sale of ownership in HAPSMobile Inc. joint venture.** Sale of ownership in HAPSMobile Inc. joint venture for the fiscal year ended April 30, 2022 was \$6.5 million gain related to the sale of our equity interest in HAPSMobile.

**Income Taxes.** Our effective income tax rate was 54.2% for the fiscal year ended April 30, 2022, as compared to 1.6% for the fiscal year ended April 30, 2021. The increase in our effective tax rate was primarily due to the decrease in income before income taxes and an increase in certain federal income tax credits.

**Equity method investment income (loss), net of tax.** Equity method investment income, net of tax for the fiscal year ended April 30, 2022 was \$4.6 million, as compared to equity method investment loss, net of \$(10.5) million for the fiscal year ended April 30, 2021. The increase in equity method investment income, net of tax was primarily due to our proportionate share of the income from our limited partnership investment fund for the fiscal year ended April 30, 2022 and a loss of \$8.4 million for our proportionate share of the HAPSMobile joint venture's impairment of its investment in Loon LLC in the fiscal year ended April 30, 2021. With the sale of our equity interest in HAPSMobile during the fiscal year ended April 30, 2022, no future joint venture equity income or losses for HAPSMobile will be recorded.

#### **Fiscal Year Ended April 30, 2021 Compared to Fiscal Year Ended April 30, 2020**

**Revenue.** Revenue for the fiscal year ended April 30, 2021 was \$394.9 million, as compared to \$367.3 million for the fiscal year ended April 30, 2020, representing an increase of \$27.6 million, or 8%. The increase in revenue was due to an increase in product revenue of \$22.1 million and an increase in service revenue of \$5.5 million. The increase in product revenue was primarily due to an increase in product deliveries of TMS and small UAS. The decrease in service revenue was primarily due to a decrease in customer-funded R&D primarily associated with a design and development agreement, partially offset by an increase in MUAS service revenue, resulting from our acquisition of Arcturus in February 2021, and customer-funded R&D primarily associated with TMS.

**Cost of Sales.** Cost of sales for the fiscal year ended April 30, 2021 was \$230.4 million, as compared to \$214.2 million for the fiscal year ended April 30, 2020, representing an increase of \$16.2 million, or 8%. The increase in cost of sales was a result of an increase in product cost of sales of \$10.6 million and an increase in service costs of sales of \$5.6 million. The increase in product costs of sales was primarily due to an increase in product sales. The increase in service cost of sales was primarily due to the increase in service revenues resulting from the acquisitions of Arcturus in February 2021, partially offset by a decrease in service revenues for the HAPS segment. Cost of sales for fiscal 2021 included \$1.7 million and \$2.8 million of intangible amortization expense and other related non-cash purchase accounting expense as compared to \$2.4 million for the fiscal year ended April 30, 2020. As a percentage of revenue, cost of sales remained consistent at 58%.

**Gross Margin.** Gross margin for the fiscal year ended April 30, 2021 was \$164.6 million, as compared to \$153.1 million for the fiscal year ended April 30, 2020, representing an increase of \$11.5 million, or 7%. The increase in gross margin was primarily due to an increase in product margin of \$11.5 million. The increase in product gross margin was primarily due to an increase in product sales, partially offset by a decrease in service revenues and a favorable mix. As a percentage of revenue, gross margin remained consistent at 42%.

**Selling, General and Administrative.** SG&A expense for the fiscal year ended April 30, 2021 was \$67.5 million, or 17% of revenue, compared to SG&A expense of \$59.5 million, or 16% of revenue, for the fiscal year ended April 30, 2020. The increase in SG&A expense was primarily due to an increase in acquisition related expenses of \$6.5 million primarily related to the acquisition of Arcturus, ISG and Telerob and an increase in intangible amortization expense of \$2.8 million.

**Research and Development.** R&D expense for the fiscal year ended April 30, 2021 was \$53.8 million, or 14% of revenue, compared to R&D expense of \$46.5 million, or 13% of revenue, for the fiscal year ended April 30, 2020. R&D expense increased primarily due to an increase in development activities regarding enhanced capabilities for our products and development of new product lines.

**Interest (Expense) Income, net.** Interest expense, net for the fiscal year ended April 30, 2021 was \$0.6 million, compared to interest income net of \$4.8 million for the fiscal year ended April 30, 2020. The increase in interest expense is primarily due to a combination of a decrease in the average interest rates earned on our investments portfolio and a decrease in the average investment balances and an increase in interest expense of \$0.9 million resulting from the term debt issued concurrent with the acquisition of Arcturus.

**Other (Expense) Income, net.** Other expense, net for the fiscal year ended April 30, 2021 was \$8.3 million, as compared to other income, net of \$0.7 million for the fiscal year ended April 30, 2020. The increase in other expense, net was primarily due to a legal accrual related to our former EES Business.

**Income Taxes.** Our effective income tax rate was 1.6% for the fiscal year ended April 30, 2021, as compared to 11.1% for the fiscal year ended April 30, 2020. The decrease in our effective tax rate was primarily due to the decrease in income before income taxes and an increase in certain federal income tax credits.

**Equity method investment loss, net of tax.** Equity method investment loss, net of tax for the fiscal year ended April 30, 2021 was \$10.5 million, as compared to equity method investment loss, net of \$5.5 million for the fiscal year ended April 30, 2020. The increase was primarily due to a loss of \$8.4 million for our proportionate share of the HAPSMobile joint venture's impairment of its investment in Loon LLC.

**Loss on sale of business, net of tax.** Loss on sale of business, net of tax for the fiscal year ended April 30, 2021 was \$0, as compared to \$0.3 million for the fiscal year ended April 30, 2020. The loss on sale of business, net of tax related to the sale of our former EES Business during the fiscal year ended April 30, 2019. We recorded an adjustment related to a settled working capital dispute during the fiscal year ended April 30, 2020.

### **Liquidity and Capital Resources**

On February 19, 2021 in connection with the consummation of the Arcturus acquisition, we entered into a credit agreement (as amended February 4, 2022, the "Credit Agreement") for (i) a five-year \$100 million revolving credit facility, which includes a \$10 million sublimit for the issuance of standby and commercial letters of credit (the "Revolving Facility"), and (ii) a five-year amortized \$200 million term A loan (the "Term Loan Facility," and together with the Revolving Credit Facility, the "Credit Facilities"). The Term Loan Facility requires payment of 5% of the outstanding obligations in each of the first four loan years, with the remaining 80.0% payable in loan year five, consisting of three quarterly payments of 1.25% each, with the remaining outstanding principal amount of the Term Loan Facility due and payable on the final maturity date. Proceeds from the Term Loan Facility were used in part to finance a portion of the cash consideration for the Arcturus acquisition. Our ability to borrow under the Revolving Facility is reduced by outstanding letters of credit of \$4.2 million as of April 30, 2022. As of April 30, 2022, approximately \$95.8 million was available under the Revolving Facility. Borrowings under the Revolving Facility may be used for working capital and other general corporate purposes. Refer to Note 12—Debt to our financial statements for further details.

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

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



Our working capital requirements vary by contract type. On cost-plus-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.

To date, COVID-19 has not had a significant impact on our liquidity, cash flows or capital resources. However, the continued spread of COVID-19 has led to disruption and volatility in the global capital markets, which, depending on future developments, could impact our capital resources and liquidity in the future. In consideration of the impact of the ongoing COVID-19 pandemic, we continue to hold a significant portion of our investments in U.S. government and U.S. government agency securities.

During the fiscal year ended April 30, 2022, we made certain commitments outside of the ordinary course of business, including capital contribution commitments to a second limited partnership fund. Under the terms of the new limited partnership agreement, we have committed to make capital contributions to such fund totaling \$20.0 million, inclusive of the expected reinvestment of distributions from our existing limited partnership fund, of which \$20.0 million was remaining at April 30, 2022. The contributions are anticipated to be paid over the next five fiscal years. The remaining \$15 million obligation under the legal settlement with Webasto will be paid during the fiscal year ending April 30, 2023.

### Cash Flows

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

	Fiscal Year Ended April 30,		
	2022	2021	2020
	(In thousands)		
Net cash (used in) provided by operating activities	\$ (9,618)	\$ 86,532	\$ 25,097
Net cash (used in) provided by investing activities	\$ (52,288)	\$ (378,771)	\$ 59,167
Net cash (used in) provided by financing activities	\$ (16,607)	\$ 194,160	\$ (1,830)

**Cash (Used in) Provided by Operating Activities.** Net cash used in operating activities for the fiscal year ended April 30, 2022 increased by \$96.2 million to \$9.6 million, compared to net cash provided by operating activities of \$86.5 million for the fiscal year ended April 30, 2021. This increase in net cash used in operating activities was primarily due to an increase in the cash used as a result of changes in operating assets and liabilities of \$98.5 million largely resulting from increases in accounts receivable and unbilled retentions and receivables due to year over year timing differences, increases in inventory primarily due to year over year timing differences in purchases to support anticipated product deliveries, and increases in accounts payable due to year over year timing differences, and an increase in net loss of \$27.5 million, partially offset by an increase in non-cash expenses of \$29.9 million primarily due to an increase in depreciation and amortization, partially offset by gains from equity method investments.

Net cash provided by operating activities for the fiscal year ended April 30, 2021 increased by \$61.4 million to \$86.5 million, compared to net cash provided by operating activities of \$25.1 million for the fiscal year ended April 30, 2020. 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 \$66.9 million largely resulting from increases in accounts receivable and unbilled retentions and receivables due to year over year timing differences, partially offset by decreases in inventory primarily due to year over year timing differences in purchases to support anticipated product deliveries, and decreases in prepaid expenses and other assets due to year over year timing differences, and an increase in non-cash expenses of \$12.5 million primarily due to an increase in depreciation and amortization and loss from equity method investments.

**Cash (Used in) Provided by Investing Activities.** Net cash used in investing activities decreased by \$326.5 million to \$52.3 million for the fiscal year ended April 30, 2022, compared to net cash used in investing activities of \$378.8 million for the fiscal year ended April 30, 2021. The decrease in net cash used in investing activities was primarily due to the acquisitions of Arcturus and ISG, net of cash for \$385.6 million in fiscal year ended April 30, 2021,

partially offset by the acquisition of Telerob, net of cash for \$46.2 million, and a decrease in purchases of available-for-sale investments of \$101.8 million, partially offset by a decrease in redemptions of available-for-sale investments of \$110.6 million and an increase in the acquisition of property and equipment of \$11.0 million to support our existing and newly acquired businesses. During the fiscal years ended April 30, 2022 and 2021, we used cash to purchase property and equipment totaling \$22.3 million and \$11.3 million, respectively.

Net cash used in investing activities increased by \$437.9 million to \$378.7 million for the fiscal year ended April 30, 2021, compared to net cash provided by investing activities of \$59.2 million for the fiscal year ended April 30, 2020. The increase in net cash used in investing activities was primarily due to the acquisitions of Arcturus and ISG, net of cash for \$385.6 million in fiscal year ended April 30, 2021 and a decrease in redemptions of available-for-sale investments net of purchases. During the fiscal years ended April 30, 2021 and 2020, we used cash to purchase property and equipment totaling \$11.3 million and \$11.2 million, respectively.

**Cash (Used in) Provided by Financing Activities.** Net cash used in financing activities increased by \$210.8 million to \$16.6 million for the fiscal year ended April 30, 2022, compared to net cash provided by financing activities of \$194.2 million for the fiscal year ended April 30, 2021. The increase in net cash provided by financing activities was primarily due to the proceeds of long-term debt of \$200.0 million in the fiscal year ended April 30, 2021 and the principal payment of the loan in the fiscal year ended April 30, 2022 of \$10.0 million.

Net cash provided by financing activities increased by \$196.0 million to \$194.2 million for the fiscal year ended April 30, 2021, compared to net cash used in financing activities of \$1.8 million for the fiscal year ended April 30, 2020. The increase in net cash provided by financing activities was primarily due to the proceeds of long-term debt of \$200.0 million, partially offset by payment of debt issuance costs of \$3.9 million.

### Contractual Obligations

The following table describes our commitments to settle contractual obligations as of April 30, 2022:

	Payments Due By Period (2)				
	Total	Less Than 1 Year	1 to 3 Years (In thousands)	3 to 5 Years	More Than 5 Years
Operating lease obligations	\$ 31,568	\$ 6,819	\$ 13,050	\$ 6,215	\$ 5,484
Purchase obligations(1)	99,752	99,752	—	—	—
Long-term debt obligations	190,000	10,000	20,000	160,000	—
Webasto legal settlement	15,000	15,000	—	—	—
<b>Total</b>	<b>\$ 336,320</b>	<b>\$ 131,571</b>	<b>\$ 33,050</b>	<b>\$ 166,215</b>	<b>\$ 5,484</b>

(1) Consists of all cancelable and non-cancelable purchase orders as of April 30, 2022.

(2) Not included in the table above is an additional capital contribution of \$20.0 million committed under the terms of a limited partnership agreement.

### Recently Adopted Accounting Standards

Effective May 1, 2021, we adopted ASU 2019-12, *Simplifying the Accounting for Income Taxes* (Topic 740) (“ASU 2019-12”). This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, including removing the requirement to limit income tax expense (benefit) in an interim period to the full year projected amounts. We adopted ASU 2019-12 using the prospective method, applying the new guidance accounting for income taxes after adoption. The adoption of ASU 2019-12 did not have a material impact on our consolidated financial statements.

### New Accounting Standards

In October 2021, the FASB issued ASU 2021-08, *Business Combinations* (Topic 805): *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (“ASU 2021-08”). ASU 2021-08 requires an acquirer to

apply the guidance in ASC 606, *Revenue from Contracts with Customers*, to recognize and measure contract assets and contract liabilities in a business combination, rather than using fair value. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022, with early adoption permitted. ASU 2021-08 is adopted prospectively and could impact future acquisitions.

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

**Interest Rate Risk**

On February 19, 2021 in connection with the consummation of the Arcturus acquisition, we entered into the Credit Facilities. As of April 30, 2022, the current outstanding balance of the Credit Facilities is \$190 million and bears a variable interest rate. If market interest rates increase significantly, interest due on the Credit Facilities would increase. An increase or decrease in the variable interest rate of 100 basis points would result in an increase or decrease to our interest expense for the fiscal year ending April 30, 2023 of approximately \$1.9 million.

**Foreign Currency Exchange Rate Risk**

Since a significant part of our sales and expenses are denominated in U.S. dollars, we have not experienced significant foreign exchange gains or losses to date. We currently do not engage in forward contracts or other derivatives in foreign currencies to limit our exposure on non-U.S. dollar transactions. With the acquisition of Telerob, who does conduct sales denominated in Euros, we are exposed to future foreign exchange gains or losses, and we will consider methods to limit our exposure on non-U.S. dollar transactions in the future.

**Item 8. Financial Statements and Supplementary Data.**

**AeroVironment, Inc.**  
**Audited Consolidated Financial Statements**  
**Index to Consolidated Financial Statements and Supplementary Data**

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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.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AeroVironment, Inc. and subsidiaries (the "Company") as of April 30, 2022 and 2021, the related consolidated statements of (loss) income, comprehensive (loss) income, stockholders' equity, and cash flows, for each of the three years in the period ended April 30, 2022, and the related notes and the schedule listed in the Index at Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of April 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended April 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also 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, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 28, 2022, expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

### 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.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### ***Business Acquisitions – Refer to Note 1 and 21 to the financial statements***

##### *Critical Audit Matter Description*

On May 3, 2021, the Company closed its acquisition of Telerob pursuant to the terms of the Telerob Purchase Agreement for total consideration of approximately \$47.0 million, net of cash acquired, which includes the Company's estimate of contingent consideration of \$.9 million based on the achievement of certain revenue targets, awards and/or orders from the U.S. military prior to the end of a 36-month post-closing period. The Company accounted for the acquisition under the acquisition method of accounting for business combinations. Accordingly, the purchase price was allocated to the assets

acquired and liabilities assumed based on their respective fair values, resulting in technology of \$11.5 million, customer relationships of \$5.0 million, backlog of \$2.4 million and goodwill of \$20.8 million. Management estimated the fair value of the intangible assets using discounted cash flow analyses, which were based on the Company's best estimate of future revenues, earnings and cash flows after considering such factors as general market conditions, anticipated customer demand, changes in working capital, long term business plans and recent operating performance. Determining the fair value of the intangible assets acquired required management to make significant estimates and assumptions related to future revenue projections.

We identified the assumptions related to estimating the amount and timing of expected future revenues to be a critical audit matter given the inherent judgment involved in estimating these amounts. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the expected amount and timing of future revenue used to estimate the fair value of the intangible assets acquired included the following, among others:

- We tested the effectiveness of management's controls over the valuation of intangibles, including management's controls over the estimates of the amount and timing of expected future revenues.
- We assessed the reasonableness of management's forecasts of future revenues by performing inquiries of appropriate individuals outside of the accounting organization, comparing the projections to historical results, certain peer companies, third-party industry forecasts, and internal communications to management and board of directors.
- With the assistance of our fair value specialists, we compared applicable industry forecasted long-term revenue growth rates to management's projected revenues used within the valuation model.
- We evaluated management's ability to estimate future revenues by comparing actual revenues to estimates assumed in the valuation model.

***Goodwill— Refer to Note 1 and Note 7 to the financial statements***

*Critical Audit Matter Description*

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company estimates the fair value by weighting the results from the income approach and the market approach. The income approach incorporates the use of cash flow projections and a discount rate that are developed using market participant-based assumptions. The cash-flow projections are based on seven-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth. The selected discount rate considers the risk and nature of the respective reporting unit's cash flows and the rates of return market participants would require to invest their capital in its reporting units. The market approach utilizes the guideline public company and guideline transaction methods. The goodwill balance was \$334.3 million as of April 30, 2022, of which \$290.2 million relates to the MUAS Reporting Unit ("MUAS") as a result of the acquisition of Arcturus, \$20.8 million relates to the UGV Reporting Unit ("UGV") as a result of the acquisition of Telerob, and \$23.3 million relates to other historical acquisitions. The fair values of all reporting units exceeded their carrying values as of the measurement date and, therefore, no impairment was recognized. Determining the fair values of the reporting units required management to make significant estimates and assumptions related to future revenue projections.

We identified the assumptions related to estimating the amount and timing of expected future revenue used in determining the fair values of the MUAS and UGV reporting units as a critical audit matter because of the significant judgments involved in estimating these amounts. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the expected amount and timing of future revenue used to estimate the fair values of the MUAS and UGV reporting units included the following, among others:

- We tested the effectiveness of management's controls over their goodwill impairment evaluation, including those over the determination of the fair values of the MUAS and UGV reporting units, such as controls related to management's selection of forecasts of future revenues.
- We assessed the reasonableness of management's forecasts of future revenues by performing inquiries of appropriate individuals outside of the accounting organization, comparing the projections to historical results, certain peer companies, third-party industry forecasts, contractual agreements and internal communications to management and board of directors.
- With the assistance of our fair value specialists, we compared applicable industry forecasted long-term revenue growth rates to management's projected revenues used within the valuation models.
- We evaluated management's ability to estimate future revenues by comparing actual revenue to management's historical forecasts.

/s/ Deloitte & Touche LLP

Los Angeles, California  
June 28, 2022

We have served as the Company's auditor since fiscal 2020.

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

	<u>April 30,</u>	
	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 77,231	\$ 148,741
Short-term investments	24,716	31,971
Accounts receivable, net of allowance for doubtful accounts of \$592 at April 30, 2022 and \$595 at April 30, 2021	60,170	62,647
Unbilled receivables and retentions (inclusive of related party unbilled receivables of \$2,229 at April 30, 2022 and \$544 at April 30, 2021)	104,194	71,632
Inventories	90,629	71,646
Income taxes receivable	442	—
Prepaid expenses and other current assets	11,527	15,001
Total current assets	368,909	401,638
Long-term investments	15,433	12,156
Property and equipment, net	62,296	58,896
Operating lease right-of-use assets	26,769	22,902
Deferred income taxes	7,290	2,061
Intangibles, net	97,224	106,268
Goodwill	334,347	314,205
Other assets	1,932	10,440
Total assets	<u>\$ 914,200</u>	<u>\$ 928,566</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 19,244	\$ 24,841
Wages and related accruals	25,398	28,068
Customer advances	8,968	7,183
Current portion of long-term debt	10,000	10,000
Current operating lease liabilities	6,819	6,154
Income taxes payable	759	861
Other current liabilities	30,203	19,078
Total current liabilities	101,391	96,185
Long-term debt, net of current portion	177,840	187,512
Non-current operating lease liabilities	21,915	19,103
Other non-current liabilities	768	10,141
Liability for uncertain tax positions	1,450	3,518
Deferred income taxes	2,626	—
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value:		
Authorized shares—10,000,000; none issued or outstanding at April 30, 2022 and April 30, 2021	—	—
Common stock, \$0.0001 par value:		
Authorized shares—100,000,000		
Issued and outstanding shares—24,951,287 shares at April 30, 2022 and 24,777,295 shares at April 30, 2021	2	2
Additional paid-in capital	267,248	260,327
Accumulated other comprehensive (loss) income	(6,514)	343
Retained earnings	347,233	351,421
Total AeroVironment, Inc. stockholders' equity	607,969	612,093
Noncontrolling interest	241	14
Total equity	608,210	612,107
Total liabilities and stockholders' equity	<u>\$ 914,200</u>	<u>\$ 928,566</u>

See accompanying notes to consolidated financial statements.



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

	Year Ended April 30,		
	2022	2021	2020
<b>Revenue:</b>			
Product sales	\$ 240,683	\$ 278,888	\$ 256,758
Contract services (inclusive of related party revenue of \$43,325, \$42,426 and \$60,864 for the years ended April 30, 2022, 2021, and 2020, respectively)	205,049	116,024	110,538
	<u>445,732</u>	<u>394,912</u>	<u>367,296</u>
<b>Cost of sales:</b>			
Product sales	140,596	149,714	139,131
Contract services	163,900	80,640	75,063
	<u>304,496</u>	<u>230,354</u>	<u>214,194</u>
<b>Gross margin:</b>			
Product sales	100,087	129,174	117,627
Contract services	41,149	35,384	35,475
	<u>141,236</u>	<u>164,558</u>	<u>153,102</u>
Selling, general and administrative	96,434	67,481	59,490
Research and development	54,689	53,764	46,477
(Loss) income from continuing operations	(9,887)	43,313	47,135
<b>Other (loss) income:</b>			
Interest (expense) income, net	(5,440)	(618)	4,828
Other (expense) income, net	(10,313)	(8,330)	707
Sale of ownership in HAPSMobile Inc. joint venture	6,497	—	—
(Loss) income from continuing operations before income taxes	(19,143)	34,365	52,670
(Benefit from) provision for income taxes	(10,369)	539	5,848
Equity method investment income (loss), net of tax	4,589	(10,481)	(5,487)
Net (loss) income from continuing operations	(4,185)	23,345	41,335
<b>Discontinued operations:</b>			
Loss on sale of business, net of tax benefit of \$76 for the year ended April 30, 2020	—	—	(265)
Net loss from discontinued operations	—	—	(265)
Net (loss) income	(4,185)	23,345	41,070
Net (income) loss attributable to noncontrolling interest	(3)	(14)	4
Net (loss) income attributable to AeroVironment, Inc.	<u>\$ (4,188)</u>	<u>\$ 23,331</u>	<u>\$ 41,074</u>
<b>Net (loss) income per share attributable to AeroVironment, Inc.—Basic</b>			
Continuing operations	\$ (0.17)	\$ 0.97	\$ 1.74
Discontinued operations	—	—	(0.01)
Net (loss) income per share attributable to AeroVironment, Inc.—Basic	<u>\$ (0.17)</u>	<u>\$ 0.97</u>	<u>\$ 1.73</u>
<b>Net (loss) income per share attributable to AeroVironment, Inc.—Diluted</b>			
Continuing operations	\$ (0.17)	\$ 0.96	\$ 1.72
Discontinued operations	—	—	(0.01)
Net (loss) income per share attributable to AeroVironment, Inc.—Diluted	<u>\$ (0.17)</u>	<u>\$ 0.96</u>	<u>\$ 1.71</u>
<b>Weighted-average shares outstanding:</b>			
Basic	24,685,534	24,049,851	23,806,208
Diluted	24,685,534	24,362,656	24,088,167

See accompanying notes to consolidated financial statements.

**AEROVIRONMENT, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
**(In thousands)**

	<u>Year Ended April 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Net (loss) income	\$ (4,185)	\$ 23,345	\$ 41,070
Other comprehensive (loss) income:			
Unrealized (loss) gain on investments, net of deferred tax expense of \$8, \$1 and \$14 for the fiscal years ended 2021, 2020 and 2019, respectively	(43)	(60)	50
Change in foreign currency translation adjustments	(6,814)	75	276
Total comprehensive (loss) income	(11,042)	23,360	41,396
Net (income) loss attributable to noncontrolling interest	(3)	(14)	4
Comprehensive (loss) income attributable to AeroVironment, Inc.	<u>\$ (11,045)</u>	<u>\$ 23,346</u>	<u>\$ 41,400</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 Other Comprehensive (Loss) Income	Total AeroVironment, Inc. Equity	Non- Controlling Interest	Total
	Shares	Amount						
Balance at April 30, 2019	23,946,293	2	176,216	286,351	2	462,571	4	462,575
Adoption of ASU 2018-09	—	—	—	665	—	665	—	665
Net income (loss)	—	—	—	41,074	—	41,074	(4)	41,070
Unrealized gain on investments	—	—	—	—	50	50	—	50
Foreign currency translation	—	—	—	—	276	276	—	276
Stock options exercised	16,189	—	100	—	—	100	—	100
Restricted stock awards	131,991	—	—	—	—	—	—	—
Restricted stock awards forfeited	(12,541)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(18,293)	—	(1,062)	—	—	(1,062)	—	(1,062)
Stock-based compensation	—	—	6,227	—	—	6,227	—	6,227
Balance at April 30, 2020	24,063,639	2	181,481	328,090	328	509,901	—	509,901
Net income	—	—	—	23,331	—	23,331	14	23,345
Unrealized loss on investments	—	—	—	—	(60)	(60)	—	(60)
Foreign currency translation	—	—	—	—	75	75	—	75
Stock options exercised	53,500	—	1,522	—	—	1,522	—	1,522
Restricted stock awards	117,468	—	—	—	—	—	—	—
Restricted stock awards forfeited	(5,509)	—	—	—	—	—	—	—
Business acquisition	573,794	—	72,384	—	—	72,384	—	72,384
Tax withholding payment related to net share settlement of equity awards	(25,597)	—	(1,992)	—	—	(1,992)	—	(1,992)
Stock-based compensation	—	—	6,932	—	—	6,932	—	6,932
Balance at April 30, 2021	24,777,295	2	260,327	351,421	343	612,093	14	612,107
Net (loss) income	—	—	—	(4,188)	—	(4,188)	3	(4,185)
Unrealized loss on investments	—	—	—	—	(43)	(43)	—	(43)
Foreign currency translation	—	—	—	—	(6,814)	(6,814)	—	(6,814)
Stock options exercised	114,362	—	2,776	—	—	2,776	—	2,776
Restricted stock awards	104,402	—	—	—	—	—	—	—
Restricted stock awards forfeited	(32,120)	—	—	—	—	—	—	—
Tax withholding payment related to net share settlement of equity awards	(12,652)	—	(1,245)	—	—	(1,245)	—	(1,245)
Change in non-controlling interest	—	—	—	—	—	—	224	224
Stock based compensation	—	—	5,390	—	—	5,390	—	5,390
Balance at April 30, 2022	24,951,287	\$ 2	\$ 267,248	\$ 347,233	\$ (6,514)	\$ 607,969	\$ 241	\$ 608,210

See accompanying notes to consolidated financial statements.

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

	Year Ended April 30,		
	2022	2021	2020
<b>Operating activities</b>			
Net (loss) income	\$ (4,185)	\$ 23,345	\$ 41,070
Loss on sale of business, net of tax	—	—	265
Net (loss) income from continuing operations	(4,185)	23,345	41,335
Adjustments to reconcile net (loss) income from continuing operations to cash (used in) provided by operating activities:			
Depreciation and amortization	60,825	19,262	9,888
(Income) loss from equity method investments, net	(5,889)	10,481	5,487
Amortization of debt issuance costs	789	145	—
Realized gain from sale of available-for-sale investments	—	(11)	(180)
Provision for doubtful accounts	(6)	(114)	388
Other non-cash expense (income)	649	(449)	(703)
Non-cash lease expense	6,814	5,150	4,574
Loss on foreign currency transactions	233	1	1
Deferred income taxes	(7,282)	(1,694)	3,419
Stock-based compensation	5,390	6,932	6,227
Loss (gain) on disposal of property and equipment	8,277	123	(71)
Amortization of debt securities	242	309	(1,423)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	3,084	17,177	(42,869)
Unbilled receivables and retentions	(31,883)	8,381	(22,790)
Inventories	(27,160)	(5,179)	8,855
Income taxes receivable	(442)	—	821
Prepaid expenses and other assets	(4,534)	(6,104)	831
Accounts payable	(7,044)	2,565	3,127
Other liabilities	(7,496)	6,212	8,180
Net cash (used in) provided by operating activities	(9,618)	86,532	25,097
<b>Investing activities</b>			
Acquisition of property and equipment	(22,289)	(11,263)	(11,220)
Equity method investments	(6,884)	(2,675)	(14,498)
Business acquisitions, net of cash acquired	(46,150)	(385,614)	(18,641)
Proceeds from sale of ownership in equity method investment	6,497	—	—
Proceeds from loan repayment	4,345	—	—
Proceeds from sale of property and equipment	—	—	81
Redemptions of held-to-maturity investments	—	—	185,917
Purchases of held-to-maturity investments	—	—	(176,757)
Redemptions of available-for-sale investments	35,851	146,425	200,892
Purchases of available-for-sale investments	(23,882)	(125,644)	(106,607)
Other	224	—	—
Net cash (used in) provided by investing activities	(52,288)	(378,771)	59,167
<b>Financing activities</b>			
Principal payments of term loan	(10,000)	—	—
Payment of contingent consideration	—	—	(868)
Tax withholding payment related to net settlement of equity awards	(1,245)	(1,992)	(1,062)
Holdback and retention payments for business acquisition	(7,814)	(1,492)	—
Exercise of stock options	2,776	1,522	100
Payment of debt issuance costs	(293)	(3,878)	—
Proceeds from long-term debt	—	200,000	—
Other	(31)	—	—
Net cash (used in) provided by financing activities	(16,607)	194,160	(1,830)
Effects of currency translation on cash and cash equivalents	(1,319)	—	—
Net (decrease) increase in cash, cash equivalents, and restricted cash	(79,832)	(98,079)	82,434
Cash, cash equivalents and restricted cash at beginning of period	157,063	255,142	172,708
Cash, cash equivalents and restricted cash at end of period	\$ 77,231	\$ 157,063	\$ 255,142
<b>Supplemental disclosures of cash flow information</b>			
Cash paid, net during the period for:			
Income taxes	\$ 1,879	\$ 2,405	\$ 532
Interest	\$ 5,025	\$ —	\$ —
<b>Non-cash activities</b>			
Unrealized (loss) gain on investments, net of deferred tax expense of \$8, \$1 and \$14 for the fiscal years ended 2021, 2020 and 2019, respectively	\$ (43)	\$ (60)	\$ 50
Issuance of common stock for business acquisition	\$ —	\$ 72,384	\$ —
Change in foreign currency translation adjustments	\$ (6,814)	\$ 75	\$ 276
Issuances of inventory to property and equipment, ISR in-service assets	\$ 17,481	\$ 769	\$ —
Acquisitions of property and equipment included in accounts payable	\$ 1,117	\$ 756	\$ 1,425

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, delivery and support of a technologically advanced portfolio of intelligent, multi-domain robotic systems and related services for government agencies and businesses. AeroVironment, Inc. supplies unmanned aircraft systems (“UAS”), tactical missile systems (“TMS”), unmanned ground vehicles (“UGV”) and related services primarily to organizations within the U.S. Department of Defense (“DoD”) and to international allied governments.

##### Significant Accounting Policies

###### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AeroVironment, Inc. and its wholly-owned subsidiaries Arcturus UAV, Inc. (“Arcturus”), and Telerob Gesellschaft für Fernhantierungstechnik mbH (“Telerob”), as well as the Company’s Turkish joint venture, Altoy Savunma Sanayi ve Havacilik Anonim Sirketi (“Altoy”) (collectively referred to herein as the “Company”).

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 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.

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 assets, liabilities and operating results of Pulse have been included in the Company’s consolidated financial statements. In February 2021, the Company dissolved its wholly-owned subsidiary, Pulse Aerospace, LLC, the results of which were not material to the consolidated financial statements. Refer to Note 21—Business Acquisitions for further details.

On February 19, 2021, the Company closed its acquisition of Arcturus, a California corporation pursuant to a Stock Purchase Agreement (the “Arcturus Purchase Agreement”) with Arcturus and each of the shareholders and other equity interest holders of Arcturus (collectively, the “Arcturus Sellers”), to purchase 100% of the issued and outstanding equity of Arcturus (the “Arcturus Acquisition”). The assets, liabilities and operating results of Arcturus have been included in the Company’s consolidated financial statements. Refer to Note 21—Business Acquisitions for further details.

On February 23, 2021, the Company purchased certain assets of, and assumed certain liabilities of, the Intelligent Systems Group business segment (“ISG”) of Progeny Systems Corporation, a Virginia corporation (the “ISG Seller”), pursuant to the terms of an Asset Purchase Agreement (the “ISG Purchase Agreement”) of the same date by and among the Company, ISG Seller and the sole shareholder of ISG Seller (the “Beneficial Owner,” and such acquisition of ISG, the “ISG Acquisition”). The assets, liabilities and operating results of ISG have been included in the Company’s consolidated financial statements. Refer to Note 21—Business Acquisitions for further details.

On May 3, 2021, the Company closed its acquisition of Telerob pursuant to its previously announced Share Purchase Agreement (the “Telerob Purchase Agreement”) with Unmanned Systems Investments GmbH, a German limited liability company incorporated under the laws of Germany (the “Telerob Seller”), and each of the unit holders of the Seller (collectively, the “Telerob Shareholders”), to purchase 100% of the issued and outstanding shares of Telerob

Seller's wholly-owned subsidiary Telerob GmbH (the "Telerob Acquisition"). The assets, liabilities and operating results of Telerob GmbH have been included in the Company's consolidated financial statements. Refer to Note 21—Business Acquisitions 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"). In March 2022, the Company sold its 7% share of HAPSMobile to Softbank. Following the sale, Softbank owns 100% of HAPSMobile. Prior to the sale, as the Company had 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. Refer to Note 9 – Equity Method Investments for further details.

In July 2019, the Company made its initial capital contribution to a limited partnership fund focusing on highly relevant technologies and start-up companies serving defense and industrial markets. In March 2022, the Company entered into a second related limited partnership fund also focusing on highly relevant technologies and start-up companies serving defense and industrial markets. The Company accounts for investments in limited partnerships as equity method investments as the Company is deemed to have influence when it holds more than a minor interest. Refer to Note 9 – 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"). Accordingly, the Company identifies four reportable segments.

### **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, acquired intangibles, goodwill, 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.

#### **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.

#### **Restricted Cash**

The Company classifies cash accounts which are not available for general use as restricted cash. Pursuant to the terms of the Arcturus Purchase Agreement, the Company maintained escrow accounts to address final purchase price adjustments post-Arcturus Closing and to address Arcturus UAV's and/or the Sellers' indemnification obligations. The restricted funds in the escrow account were recorded in other assets on the consolidated balance sheet. During the fiscal year ended April 30, 2022, the restricted cash was released, and the Company had no restricted cash as of April 30, 2022. As of April 30, 2021 restricted cash was \$8,322,000.

#### **Investments**

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

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 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,

66%, 69% and 61% of the Company's revenue came from agencies of the U.S. government for the years ended April 30, 2022, 2021 and 2020, respectively. These agencies accounted for 65% and 64% of the accounts receivable balances at April 30, 2022 and 2021, respectively. One such agency, the U.S. Army, accounted for 21%, 34% and 32% of the Company's consolidated revenue for the years ended April 30, 2022, 2021 and 2020, 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 allied foreign governments, 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, 2022 and 2021, the retention balances were \$736,000 and \$700,000, respectively. The Company determines the allowance for doubtful accounts based on historical customer experience, age of receivable 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 expected credit losses over the life of the receivable; 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
In-service ISR assets	3 years
Furniture and fixtures	3 - 7 years
Leasehold improvements	Lesser of useful life or term of 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 with the exception of in-service ISR assets which is included in cost of sales 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.



### 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 technology, backlog, in-process research and development, customer relationships, trademarks and tradenames, and non-compete agreements. 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 estimated useful life for the Company's intangible assets are as follows:

Technology	3 - 12 years
Backlog	1 year
Licenses	3 years
Customer relationships	3 - 5 years
In-process research and development	3 years
Trademarks and tradenames	6 years
Non-compete agreements	Contractual term

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. No impairment was recorded for the fiscal years ended April 30, 2022, 2021 or 2020.

### Goodwill

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

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

When performing the income approach for each reporting unit, the Company incorporates the use of projected financial information and a discount rate that are developed using market participant based assumptions. The cash-flow projections are based on seven-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth, which are updated at

least annually and reviewed by management. The selected discount rate considers the risk and nature of the respective reporting unit's cash flows and the rates of return market participants would require to invest their capital in its reporting units.

When performing the market approach for each reporting unit, the Company utilizes the guideline public company method and the guideline transaction method. The guideline public company method incorporates revenue and earnings multiples from publicly traded companies with operations and other characteristics similar to each reporting unit. The selected multiples consider each reporting unit's relative growth, profitability, size, and risk relative to the selected publicly traded companies. The guideline transaction method incorporates implied multiples based on transactions from publicly traded companies with similar characteristics to each reporting unit.

No impairment was recorded for the fiscal years ended April 30, 2022, 2021 or 2020. The MUAS reporting unit is considered at higher risk of failing future quantitative impairment tests as the estimated fair value exceeded the carrying value by 9% for the fiscal year ended April 30, 2022.

#### **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, 2022 and 2021, the Company accrued sales commissions in other current liabilities of \$3,219,000 and \$2,716,000, 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, 2022 and 2021, the Company estimated and recorded a self-insurance liability in wages and related accruals of approximately \$1,653,000 and \$1,181,000, 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.

#### **Customer Advances**

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 customer advances 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, which accounted for 57%, 43% and 42% of revenue during its fiscal years ended April 30, 2022, 2021 and 2020, respectively, or at a point in time, 43%, 57% and 58% during its fiscal year ended April 30, 2022, 2021 and 2020, respectively. 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, customization of UGV transport vehicles 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. Contract services revenue, including ISR services, is recognized over time as services are rendered. The Company elected the right to invoice practical expedient in which if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, such as flight hours for ISR services, the entity may recognize revenue in the amount to which the entity has a right to invoice. 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, MUAS and UGV product sales revenue is composed of revenue recognized on contracts for the delivery of small UAS, MUAS and UGV 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, 2022, the Company had approximately \$210,780,000 of remaining performance obligations under contracts with its customers, which the Company also refers to as backlog. The Company currently expects to recognize approximately 94% of the remaining performance obligations as revenue in fiscal 2023 and an additional 6% in fiscal 2024.

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, 2022, 2021 or 2020. During the year ended April 30, 2022, the Company revised its estimates of the total expected costs to complete a TMS 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 \$1,124,000. During the year ended April 30, 2021, the Company revised its estimates of the total expected costs to complete a TMS 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 \$1,041,000. During the year ended April 30, 2020, the Company revised its estimates of the total expected costs to complete a TMS contract and a contract associated with a design and development agreement. 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 \$1,403,000 and an increase of approximately \$1,099,000, respectively.



### Revenue by Category

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

Revenue by segment	Year Ended April 30,		
	2022	2021	2020
Small UAS	\$ 178,201	\$ 235,854	\$ 225,888
TMS	76,415	87,268	63,781
MUAS	93,156	15,837	—
HAPS	43,325	42,426	60,864
Other	54,635	13,527	16,763
Total revenue	<u>\$ 445,732</u>	<u>\$ 394,912</u>	<u>\$ 367,296</u>

Revenue by contract type	Year Ended April 30,		
	2022	2021	2020
FFP	\$ 346,092	\$ 307,413	\$ 269,917
CPFF	93,428	86,719	94,176
T&M	6,212	780	3,203
Total revenue	<u>\$ 445,732</u>	<u>\$ 394,912</u>	<u>\$ 367,296</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.

Revenue by customer category	Year Ended April 30,		
	2022	2021	2020
U.S. government	\$ 294,941	\$ 271,273	\$ 225,341
Non-U.S. government	150,791	123,639	141,955
Total revenue	<u>\$ 445,732</u>	<u>\$ 394,912</u>	<u>\$ 367,296</u>

Revenue by geographic location	Year Ended April 30,		
	2022	2021	2020
Domestic	\$ 262,258	\$ 241,898	\$ 201,046
International	183,474	153,014	166,250
Total revenue	<u>\$ 445,732</u>	<u>\$ 394,912</u>	<u>\$ 367,296</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, 2022 or 2021 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, 2022, 2021, and 2020 that was included in contract liability balances at the beginning of each year were \$3,144,000, \$5,468,000 and \$1,670,000, respectively.

#### **Cost to Fulfill a Contract with a Customer**

The Company recognizes assets for the costs to fulfill a contract with a customer if the costs are specifically identifiable, generate or enhance resources used to satisfy future performance obligations, and are expected to be recovered in accordance with ASC 340-40 *Other Assets and Deferred Costs: Contracts with Customers*. The assets related to costs to fulfill contracts with customers are capitalized and amortized over the period the related performance obligations are satisfied. As of April 30, 2022 and 2021, the Company had \$0 and \$1,729,000 of costs to fulfill future performance obligations on contracts considered to be probable of occurrence. Costs to fulfill a contract are recorded in prepaid expenses and other current assets on the consolidated balance sheets.

#### **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, 2022, 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 shares of restricted stock 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 \$84,247,000, \$74,218,000 and \$80,934,000 for the years ended April 30, 2022, 2021 and 2020, respectively. The related cost of sales for customer-funded research and development totaled approximately \$59,054,000, \$51,395,000 and \$56,440,000 for the years ended April 30, 2022, 2021 and 2020, 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 term of the agreement was completed as of December 2020. Costs of \$21,833,000 have been reimbursed to the Company as the activities were performed, while the Company was

responsible for funding a minimum of \$11,225,000. 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 income. Reimbursements under the contract were \$3,424,000 and \$8,102,000 for the fiscal years ended April 30, 2021 and 2020, respectively.

### **Lease Accounting**

At contract inception the Company determines whether the contract is, or contains, a lease and whether the lease should be classified as an operating or a financing lease. Operating leases are recorded in operating lease right-of-use assets, current operating lease liabilities and non-current operating lease liabilities.

The Company recognizes operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses its incremental borrowing rate based on the information available at commencement date to determine the present value of future payments and the appropriate lease classification. The Company defines the initial lease term to include renewal options determined to be reasonably certain. The Company's leases have remaining lease terms of less than one year to six years, some of which may include options to extend the lease for up to 10 years, and some of which may include options to terminate the lease after two years. None of the Company's options to extend or terminate are reasonably certain of being exercised, and are therefore not included in the Company's determination of lease assets and liabilities. For operating leases, the Company recognizes lease expense for these leases on a straight-line basis over the lease term.

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

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

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

### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising expenses included in SG&A expenses were approximately \$451,000, \$675,000 and \$934,000 for the years ended April 30, 2022, 2021 and 2020, 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, 2022, 2021 and 2020, foreign currency transaction losses that are included in other (expense) income, net in the accompanying statements of income were \$242,000, \$1,000, and \$1,000, respectively.

### **(Loss) Earnings Per Share**

Basic (loss) 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 (loss) earnings per share.

The reconciliation of diluted to basic shares is as follows:

	Year Ended April 30,		
	2022	2021	2020
Continuing operations attributable to AeroVironment, Inc.	\$ (4,188,000)	\$ 23,331,000	\$ 41,339,000
Discontinued operations, net of tax	—	—	(265,000)
Net (loss) income attributable to AeroVironment, Inc.	<u>\$ (4,188,000)</u>	<u>\$ 23,331,000</u>	<u>\$ 41,074,000</u>
Denominator for basic earnings per share:			
Weighted average common shares	24,685,534	24,049,851	23,806,208
Dilutive effect of employee stock options, restricted stock and restricted stock units	—	312,805	281,959
Denominator for diluted earnings per share	<u>24,685,534</u>	<u>24,362,656</u>	<u>24,088,167</u>

During the years ended April 30, 2022, 2021 and 2020, 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. Due to the net loss for the fiscal year ended April 30, 2022, no shares reserved for issuance upon exercise of stock options or shares of unvested restricted stock were included in the computation of diluted loss per share as their inclusion would have been anti-dilutive. The number of options, restricted stock and restricted stock units which met this anti-dilutive criterion was approximately 224,000, 3,000 and 3,000 for the years ended April 30, 2022, 2021 and 2020, respectively.

#### Recently Adopted Accounting Standards

Effective May 1, 2021, the Company adopted ASU 2019-12, *Simplifying the Accounting for Income Taxes* (Topic 740). This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 including removing the requirement to limit income tax expense (benefit) in an interim period to the full year projected amounts. The Company adopted ASU 2019-12 using the prospective method, applying the new guidance accounting for income taxes after adoption. The adoption of ASU 2019-12 did not have a material impact on the Company's consolidated financial statements.

#### Recently Issued Accounting Standards

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"). ASU 2021-08 requires an acquirer to apply the guidance in ASC 606, Revenue from Contracts with Customers, to recognize and measure contract assets and contract liabilities in a business combination, rather than using fair value. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022, with early adoption permitted. ASU 2021-08 is adopted prospectively and could impact future acquisitions.

## 2. Discontinued Operations

On June 29, 2018, the Company completed the sale of substantially all of the assets and related liabilities of its EES Business to Webasto pursuant to a Purchase Agreement between Webasto and the Company. 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. During the year ended April 30, 2020, the Company and Webasto engaged an independent accounting firm to resolve a working capital dispute. In June 2020, the independent accounting firm determined the final adjustment to the working capital dispute to be \$341,000 which has been recorded net of tax as a loss of discontinued operations in the consolidated statements of income for the year ended April 30, 2020.

The Company was 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, 2022.



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. 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. On August 14, 2019, Benchmark Electronics, Inc. ("Benchmark"), the company that assembled the products subject to the recall, served a demand for arbitration to the Company and Webasto, and a third-party part supplier pursuant to its contracts with the Company and Webasto, respectively. The Company filed a responsive pleading in the Benchmark arbitration on October 29, 2019, consisting of a general denial, affirmative defenses, and a reservation of the right to file counter-claims at a later date. Webasto challenged the validity of the Benchmark arbitration by filing an action in New York Superior Court. In December 2019, Webasto and Benchmark reached a settlement of their disputed claims. Benchmark withdrew its Notice of Arbitration against Webasto and the Company, but reserved its right to pursue indemnity claims against suppliers. The recall remains a significant part of the Webasto lawsuit.

On February 22, 2019, Webasto filed a lawsuit, which was amended in April 2019, alleging several claims against the Company for breach of contract, indemnity, and bad faith, including allegations regarding inaccuracy of certain diligence disclosures and failure to provide certain consents to contract assignments, and related to a previously announced product 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. On August 16, 2019, the Company filed a counterclaim against Webasto seeking payment of the Holdback and declaratory relief regarding Webasto's cancellation of an assigned contract. Webasto again amended the complaint in May 2021 to include additional claims. On June 2, 2021, the Company filed an answer to Webasto's second amended complaint filed in May 2021.

In order to avoid the future cost, expense, and distraction of continued litigation, the Company engaged in settlement negotiations with Webasto in May 2021. While the negotiations did not result in a settlement of any of the Company's or Webasto's claims at such time, as a result of the settlement negotiations, the Company established a litigation reserve, which reflected the scope of a rejected offer intended to communicate the Company's serious and good faith intention to attempt to reach a settlement for the stated purposes. The offer did not reflect the Company's view of the merits of the claims made; however, as a result of the preparation of the good faith offer and the Company's willingness to pursue settlement for that amount, the Company recorded litigation reserve expenses in the amount of \$9,300,000 during the year ended April 30, 2021 recorded in other (expense) income on the consolidated statements of (loss) income and in other current liabilities on the consolidated balance sheet. On December 2, 2021, the Company agreed in principle, subject to formal documentation with Webasto, to settle all existing claims related to the sale of its former EES business for \$20,000,000 and Webasto keeping the Holdback. As a result of the agreement in principle to settle the litigation, the Company recorded additional litigation reserve expenses in the amount of \$10,000,000 during the three months ended October 30, 2021 in other (expense) income on the consolidated statements of operations and in other current liabilities on the consolidated balance sheet. The Company executed a written settlement agreement with Webasto effective December 16, 2021 to officially and fully settle all claims in the lawsuit. Under the terms of the written settlement agreement, the Company's payment of the settlement amount of \$20,000,000 will occur over a 24 month period from the effective date of the settlement agreement and Webasto will retain the Holdback. As of April 30, 2022, \$5,000,000 of the settlement has been paid.

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 \$0, \$38,000 and \$551,000 and has been recorded in other income, net in the consolidated statements of (loss) income for the fiscal years ended April 30, 2022, 2021 and 2020, 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 the Company's operations. Therefore, the results of operations of the EES Business are reported as discontinued operations for all periods presented. The table below presents the statements of income data for the EES Business (in thousands).

	Year Ended April 30,		
	2022	2021	2020
Net sales	\$ —	\$ —	\$ —
Cost of sales	—	—	—
Gross margin	—	—	—
Selling, general and administrative	—	—	—
Research and development	—	—	—
Other income, net	—	—	—
Loss from discontinued operations before income taxes	—	—	—
Benefit for income taxes	—	-	-
Net loss from discontinued operations	\$ —	\$ —	\$ —
Loss on sale of business, net of tax benefit of \$76 for the year ended April 30, 2020	—	—	(265)
Net loss from discontinued operations	\$ —	\$ —	\$ (265)

### 3. Investments

Investments consist of the following:

	April 30,	
	2022	2021
Short-term investments:		
Available-for-sale securities:		
Municipal securities	19,725	22,245
U.S. government securities	4,991	4,009
Corporate bonds	—	5,717
Total short-term investments	\$ 24,716	\$ 31,971
Long-term investments:		
Available-for-sale securities:		
Municipal securities	—	988
U.S. government securities	—	4,000
Total long-term available-for-sale investments	—	4,988
Equity method investments		
Investment in limited partnership fund	15,433	7,168
Total equity method investments	15,433	7,168
Total long-term investments	\$ 15,433	\$ 12,156

#### Available-For-Sale Securities

As of April 30, 2022 and 2021, the balance of available-for-sale securities consisted of state and local government municipal securities, U.S. government securities, U.S. government agency securities, and investment grade corporate bonds. Interest earned from these investments is recorded in interest (expense) income. Realized gains on sales of these investments on the basis of specific identification is recorded in interest (expense) income.

The following table is a summary of the activity related to the available-for-sale investments recorded in short-term and long-term investments as of April 30, (in thousands):

	April 30, 2022				April 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	\$ 19,756	\$ —	\$ (31)	\$ 19,725	\$ 23,227	\$ 8	\$ (2)	\$ 23,233
U.S. government securities	4,995	—	(4)	4,991	8,008	1	—	8,009
Corporate bonds	—	—	—	—	5,718	—	(1)	5,717
Total available-for-sale investments	<u>\$ 24,751</u>	<u>\$ —</u>	<u>\$ (35)</u>	<u>\$ 24,716</u>	<u>\$ 36,953</u>	<u>\$ 9</u>	<u>\$ (3)</u>	<u>\$ 36,959</u>

The amortized cost and fair value of the Company's available-for-sale securities by contractual maturity at April 30, 2022, are as follows:

	Cost	Fair Value
Due within one year	\$ 24,751	\$ 24,716
Due after one year through five years	—	—
Total	<u>\$ 24,751</u>	<u>\$ 24,716</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's financial assets measured at fair value on a recurring basis at April 30, 2022, were as follows (in thousands):

Description	Fair Value Measurement Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Available-for-sale securities	\$ —	\$ 24,716	\$ —	\$ 24,716
Contingently returnable consideration	—	—	143	143
Total	<u>\$ —</u>	<u>\$ 24,716</u>	<u>\$ 143</u>	<u>\$ 24,859</u>

The Company's financial liabilities measured at fair value on a recurring basis at April 30, 2022, were as follows (in thousands):

Description	Fair Value Measurement Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Contingent consideration	\$ —	\$ —	\$ 1,084	\$ 1,084
Total	\$ —	\$ —	\$ 1,084	\$ 1,084

The Company's financial assets measured at fair value on a recurring basis at April 30, 2021, were as follows (in thousands):

Description	Fair Value Measurement Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Available-for-sale securities	\$ —	\$ 36,959	\$ —	\$ 36,959
Contingently returnable consideration	—	—	479	479
Total	\$ —	\$ 36,959	\$ 479	\$ 37,438

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 Assets (Level 3)	Fair Value Measurements Using Significant Unobservable Liabilities (Level 3)
	Balance at May 1, 2021	\$ 479
Business acquisition	—	889
Transfers to Level 3	—	—
Total losses (realized or unrealized)		
Included in selling, general and administrative	336	195
Settlements	—	—
Balance at April 30, 2022	\$ 143	\$ 1,084
The amount of total (gains) or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at April 30, 2022	\$ —	\$ —

The fair value measurement tables above have been corrected to present the fair value of the contingently returnable consideration associated with the acquisition of ISG of \$479,000 as of April 30, 2021 and subsequent changes in fair value, which is recorded in other assets on the consolidated balance sheet. The tables previously included the fair value of the contingent consideration, rather than the returnable contingent consideration. The returnable contingent consideration represents the difference between the \$6,000,000 cash consideration paid to the sellers in escrow and the fair value of the contingent consideration of \$5,857,000 as of April 30, 2022.

Pursuant to the ISG Purchase Agreement, the sellers may receive up to a maximum of \$6,000,000 in additional cash consideration ("contingent consideration"), if certain revenue targets are achieved during the 3 years following closing. The contingent consideration was valued using a Black-Scholes option-pricing model. The analysis considered, among other items, contractual terms of the ISG Purchase Agreement, the Company's discount rate, the timing of

expected future cash flows and the probability that the revenue targets required for payment of the contingent consideration will be achieved. During the fiscal year ended April 30, 2022, the target for the first and second years were achieved, and the related consideration of \$2,000,000 for the first year was released from an escrow account that is not controlled by the Company and, therefore, not recorded on the consolidated balance sheet. The related consideration of \$2,000,000 for the second year is in an escrow account not controlled by the Company and is expected to be released during the three months ended July 30, 2022. The fair value of the contingently returnable consideration is equal to the difference between the maximum value of the contingent consideration and the fair value of the contingent consideration and is recorded in other assets on the consolidated balance sheet.

Pursuant to the Telerob Purchase Agreement, the Telerob Sellers may receive up to a maximum of €6,000,000 (approximately \$7,272,000) in additional cash consideration if specific revenue and contract award targets for Telerob are achieved during the 36 month period after closing. The contingent consideration was valued using a Black-Scholes option-pricing model. The analysis considered, among other items, contractual terms of the Telerob Purchase Agreement, the Company's discount rate, the timing of expected future cash flows and the probability that the revenue and contract award targets required for payment of the contingent consideration will be achieved. The first year earnout of €2,000,000 was not achieved. The fair value of the contingent consideration is recorded in other current liabilities on the consolidated balance sheet. See Note 21—Business Acquisitions.

## 5. Inventories, net

Inventories consist of the following (in thousands):

	April 30,	
	2022	2021
	(In thousands)	
Raw materials	\$ 42,310	\$ 23,997
Work in process	28,034	13,825
Finished goods	32,619	44,113
Inventories, gross	102,963	81,935
Reserve for inventory excess and obsolescence	(12,334)	(10,289)
Inventories, net	<u>\$ 90,629</u>	<u>\$ 71,646</u>

For the fiscal years ended April 30, 2022, 2021 and 2020, the Company recorded inventory reserve charges of \$2,271,000, \$1,178,000 and \$5,377,000, respectively. Of the \$5,377,000 inventory reserve recorded during fiscal year ended April 30, 2020, approximately \$2,600,000 related to an impairment of the remaining net book value of the Company's Quantix commercial UAS solution.



## 6. Intangibles, net

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

	April 30, 2022	April 30, 2021
Technology	\$ 56,913	\$ 46,850
Licenses	1,008	1,008
Customer relationships	72,448	68,073
Backlog	2,100	—
In-process research and development	550	550
Non-compete agreements	320	320
Trademarks and tradenames	68	68
Other	144	3
Intangibles, gross	133,551	116,872
Less accumulated amortization	(36,327)	(10,604)
Intangibles, net	<u>\$ 97,224</u>	<u>\$ 106,268</u>

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. The weighted average amortization period at April 30, 2022 and 2021 was four years and five years, respectively. Amortization expense for the years ended April 30, 2022, 2021 and 2020 was \$26,558,000, \$6,469,000 and \$2,822,000, respectively.

Technology, backlog and customer relationship intangible assets were recognized in conjunction with the Company's acquisition of Telerob on May 3, 2021. Technology and customer relationship intangible assets were recognized in conjunction with the Company's acquisition of Arcturus on February 19, 2021. Technology and customer relationship intangible assets were recognized in conjunction with the Company's acquisition of ISG on February 23, 2021. Technology, in-process research and development, customer relationships, trademarks and tradenames, and non-compete agreements were recognized in conjunction with the Company's acquisition of Pulse on June 10, 2019. Refer to Note 21 - Business Combinations for further details.

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

	Year ending April 30,
2023	\$ 27,760
2024	26,870
2025	18,156
2026	13,114
2027	2,485
	<u>\$ 88,385</u>

## 7. Goodwill

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

	Small UAS	TMS	MUAS	HAPS	All other	Total
Balance at April 30, 2021	\$ 6,340	\$ —	\$ 288,611	\$ —	\$ 19,254	\$ 314,205
Additions to goodwill	—	—	1,546	—	18,596	20,142
Balance at April 30, 2022	<u>\$ 6,340</u>	<u>\$ —</u>	<u>\$ 290,157</u>	<u>\$ —</u>	<u>\$ 37,850</u>	<u>\$ 334,347</u>

	Small UAS	TMS	MUAS	HAPS	All other	Total
Balance at April 30, 2020	\$ 6,340	\$ —	\$ —	\$ —	\$ —	\$ 6,340
Additions to goodwill	—	—	288,611	—	19,254	307,865
Balance at April 30, 2021	<u>\$ 6,340</u>	<u>\$ —</u>	<u>\$ 288,611</u>	<u>\$ —</u>	<u>\$ 19,254</u>	<u>\$ 314,205</u>

The addition during the fiscal year ended April 30, 2022 to the MUAS segment relates to measurement period adjustments for pre-acquisition tax returns. The addition to All other goodwill is attributable to the Telerob acquisition, which was recorded in Euros and translated to dollars at each reporting date. The addition during the fiscal year ended April 30, 2021 to the MUAS segment is attributable to the Arcturus Acquisition, and the addition to All other is attributable to the ISG acquisition. The goodwill balance at April 30, 2020 is attributable to the acquisition of Pulse. Refer to Note 21—Business Acquisitions for further details.

## 8. Property and Equipment, net

Property and equipment, net consist of the following:

	April 30,	
	2022	2021
	(In thousands)	
In-service ISR assets	\$ 48,496	\$ 36,047
Leasehold improvements	20,842	18,703
Machinery and equipment	64,759	53,943
Furniture and fixtures	4,239	3,698
Computer equipment and software	41,476	36,618
Construction in process	4,618	2,689
Property and equipment, gross	184,430	151,698
Less accumulated depreciation and amortization	(122,134)	(92,802)
Property and equipment, net	<u>\$ 62,296</u>	<u>\$ 58,896</u>

Depreciation expense for the years ended April 30, 2022, 2021 and 2020 was \$30,493,000, \$12,793,000 and \$7,066,000, respectively. During the fiscal year ended April 30, 2022, the Company recorded losses on the disposal of in-service ISR assets which included the write-off of \$1,378,000 of non-cash purchase accounting fair value adjustments.

## 9. Investments in Companies Accounted for Using the Equity Method

In December 2017, the Company and SoftBank formed a joint venture, HAPSMobile, which is a Japanese corporation. Concurrent with the formation of HAPSMobile, the Company executed a Design and Development Agreement (the “DDA”) with HAPSMobile. In connection with the formation of the joint venture on December 27, 2017, the Company initially purchased shares of HAPSMobile representing a 5% ownership interest in exchange for an investment of 210,000,000 yen (\$1,860,000). The Company subsequently purchased additional shares of HAPSMobile in order to maintain a 5% ownership stake in the joint venture. The first such purchase occurred on April 17, 2018, at which time the Company invested 150,000,000 yen (\$1,407,000) for the purchase of additional shares of HAPSMobile. On January 29, 2019, the Company invested an additional 209,500,000 yen (\$1,926,000) 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 yen (\$4,569,000) of additional shares of HAPSMobile to maintain its 10% ownership stake. The Company’s ownership percentage was subsequently diluted from 10% to approximately 5%. On December 4, 2019, the Company purchased 540,050,000 yen (\$4,982,000) of additional shares of HAPSMobile to increase its ownership stake to approximately 7%. In March 2022, the Company sold its 7% equity interest in HAPSMobile to SoftBank, for 808,008,000 yen (\$6,497,000) and a gain was recorded in sale of ownership in HAPSMobile Inc. joint venture. Following the sale, SoftBank owns 100% of HAPSMobile. As of April 30, 2022, the Company had no ownership stake in HAPSMobile.

On May 29, 2021, the Company entered into an amendment to the DDA with HAPSMobile. The parties agreed to the amendment in anticipation of the Company and SoftBank entering into a Master Design and Development Agreement (“MDDA”) with each other to continue the design and development of the Solar High Altitude Pseudo-Satellite (“Solar HAPS”) aircraft developed under the DDA.

On May 29, 2021, the Company and SoftBank entered into a MDDA to continue the development of Solar HAPS. Pursuant to the MDDA, which has a five-year term, SoftBank will issue orders to the Company for the Company to perform design and development services and produce deliverables as specified in the applicable order(s). Upon the execution of the MDDA, SoftBank issued to the Company, and the Company accepted, the first order under the MDDA which has a maximum value of approximately \$51,200,000. Concurrent with the execution of the MDDA, each of SoftBank and the Company agreed to lend HAPSMobile loans which are convertible into shares of HAPSMobile under certain conditions, and to cooperate with each other to explore restructuring and financing options for HAPSMobile to continue the development of Solar HAPS. The Company committed to lend 500,000,000 yen. On June 7, 2021 the Company funded 130,000,000 yen (\$1,195,000) of the loan agreement. On August 13, 2021, the Company made the second payment of the loan agreement in the amount of 180,000,000 yen (\$1,638,000). On October 29, 2021, the Company made the final payment under the loan agreement in the amount of 190,000,000 yen (\$1,674,000). On March 1, 2022, HAPSMobile repaid the Company the loan in full plus accrued interest in the amount of 503,832,000 yen (\$4,345,000). The repayment resulted in equity method income during the fiscal year ended April 30, 2022 up to the extent of the previously recognized equity method losses associate with the loan.

Prior to the sale of the equity interest, the Company had the ability to exercise significant influence over the operating and financial policies of HAPSMobile pursuant to the applicable Joint Venture Agreement and related organizational documents, and therefore, the Company’s investment was accounted for as an equity method investment. At April 30, 2022, 2021 and 2020, the Company recorded its ownership percentage of the net loss of HAPSMobile, or \$0, \$10,530,000 and \$4,982,000, respectively, in equity method investment loss, net of tax in the consolidated statements of income. During the fiscal year ended April 30, 2021, the Company recorded its proportion of a loss for HAPSMobile’s impairment of its investment in Loon LLC in the amount of \$8,363,000. HAPSMobile initially made its investment in Loon LLC in April 2019. The impairment recorded by HAPSMobile is included in realized and unrealized losses on investments in the summarized financial information shown below. At April 30, 2022 and 2021, the carrying value of the investment in HAPSMobile of \$0 was recorded in other assets, long-term.

#### **Investment in Limited Partnership Fund**

In July 2019, the Company made its initial capital contributions totaling \$4,948,000 to a limited partnership fund focusing on highly relevant technologies and start-up companies serving defense and industrial markets. The Company made additional contributions of \$2,377,000 and \$2,675,000 during the fiscal years ended April 30, 2022 and 2021, respectively. Under the terms of the limited partnership agreement, there are no further contribution commitments to the fund as of April 30, 2022. The Company accounts for investments in limited partnerships as equity method investments as the Company is deemed to have influence when it holds more than a minor interest. At April 30, 2022, 2021 and 2020, the Company recorded its ownership percentage of the net gain (loss) of the limited partnership, or \$5,889,000 \$49,000 and \$(394,000), respectively, in equity method investment income (loss), net of deferred taxes of \$1,300,000, \$11 and \$111,000, respectively, in the consolidated statements of income. At April 30, 2022 and 2021, the carrying value of the investment in the limited partnership of \$15,433,000 and \$7,168,000, respectively, was recorded in available-for-sale long-term investments.

In March 2022, the Company entered into a limited partnership agreement with a second limited partnership fund also focusing on highly relevant technologies and start-up companies serving defense and industrial markets. Under the terms of the limited partnership agreement, the Company is committed to contributions totaling \$20,000,000 over an expected five year period. In May 2022, the Company made its initial capital contribution to the second fund of \$2,774,000. The Company accounts for investments in limited partnerships as equity method investments as the Company is deemed to have influence when it holds more than a minor interest.

Summarized financial information of the equity method investments, including HAPSMobile for the period of fiscal year 2022 prior to the sale of equity interest, are as follows:

	April 30,	
	2022	2021
	(In thousands)	
Current assets	\$ 3,243	\$ 9,106
Noncurrent assets	140,178	65,717
Current liabilities	\$ 683	\$ 76,492

	Year Ended April 30,		
	2022	2021	2020
	(In thousands)		
Revenues	\$ 187	\$ 159	\$ 25
Gross loss	(13,113)	(1,241)	(1,331)
Realized and unrealized losses on investments	63,314	(131,971)	(7,028)
Net loss	\$ 40,349	\$ (190,454)	\$ (85,818)

#### 10. Warranty Reserves

Warranty reserve activity is summarized as follows:

	April 30,	
	2022	2021
	(In thousands)	
Beginning balance	\$ 2,341	\$ 2,015
Balance acquired from acquisition	256	—
Warranty expense	1,089	1,650
Warranty costs settled	(1,496)	(1,324)
Ending balance	\$ 2,190	\$ 2,341

#### 11. Employee Savings Plan

The Company has an employee 401(k) savings plan covering all eligible employees. The Company expensed approximately \$6,842,000, \$5,764,000 and \$4,744,000 in contributions to the plan for the years ended April 30, 2022, 2021 and 2020, respectively.

#### 12. Debt

In connection with the consummation of the Arcturus Acquisition on February 19, 2021, the Company, as borrower, and Arcturus, as guarantor, entered into a Credit Agreement with certain lenders, letter of credit issuers, Bank of America, N.A., as the administrative agent and the swingline lender, and BofA Securities, Inc., JPMorgan Chase Bank, N.A., and U.S. Bank National Association, as joint lead arrangers and joint bookrunners (the "Credit Agreement").

The Credit Agreement and its associated Security and Pledge Agreement set forth the terms and conditions for (i) a five-year \$100 million revolving credit facility, which includes a \$10 million sublimit for the issuance of standby and commercial letters of credit (the "Revolving Facility"), and (ii) a five-year amortized \$200 million term A loan (the "Term Loan Facility", and together with the Revolving Facility, the "Credit Facilities"). Certain existing letters of credit issued by JPMorgan Chase Bank were reserved for under the Revolving Facility at closing and remain outstanding under the terms thereof. Upon execution of the Credit Agreement, the Company drew the full principal of the Term Loan Facility for use in the acquisition of Arcturus. The Term Loan Facility requires payment of 5% of the outstanding obligations in each of the first four loan years, with the remaining 80% payable in loan year five, consisting of three

quarterly payments of 1.25% each, with the remaining outstanding principal amount of the Term Loan Facility due and payable on the final maturity date. Proceeds from the Term Loan Facility were used in part to finance a portion of the cash consideration for the Arcturus Acquisition. Borrowings under the Revolving Facility may be used for working capital and other general corporate purposes.

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

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

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

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

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

The First Amendment to Credit Agreement also implemented certain secured overnight financing rate (SOFR) interest rate mechanics and interest rate reference benchmark replacement provisions in order to effectuate the transition from LIBOR as a reference interest rate. Following the First Amendment to Credit Agreement, the Company has a choice of interest rates between (a) Term SOFR (with a 0% floor) plus the Applicable Margin; or (b) Base Rate (defined as the highest of (a) the Federal Funds Rate plus one-half percent (0.50%), (b) the Bank of America prime rate, and (c) the one (1) month SOFR plus one percent (1.00%)) plus the Applicable Margin. The Applicable Margin is based upon the Consolidated Leverage Ratio (as defined in the First Amendment to Credit Agreement) and whether the Company elects SOFR (ranging from 1.50 - 2.50%) or Base Rate (ranging from 0.50 - 1.50%). The Company may choose interest periods of one, three or six months with respect to Term SOFR and all such rates will include a 0.10% SOFR adjustment. The Company also remains responsible for certain commitment fees from 0.20-0.35% depending on the Consolidated Leverage Ratio, and administrative agent expenses incurred in relation to the Credit Facilities. In the event of a default,



an additional 2% default interest rate in addition to the applicable rate if specified or the Base Rate plus Applicable Margin if an applicable rate is not specified. As of April 30, 2022, the Company is in compliance with all amended covenants.

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

	<u>Year Ended</u> <u>April 30,</u> <u>2022</u>	<u>Year Ended</u> <u>April 30,</u> <u>2021</u>
	(In thousands)	(In thousands)
Term loans	\$ 190,000	\$ 200,000
Revolving credit facility	—	—
Total debt	190,000	200,000
Less current portion	10,000	10,000
Total long-term debt, less current portion	180,000	190,000
Less unamortized debt issuance costs - term loans	2,160	2,488
Total long-term debt, net of unamortized debt issuance costs - term loans	\$ 177,840	\$ 187,512
Unamortized debt issuance costs - revolving credit facility	\$ 1,076	\$ 1,244
Current period interest rate	2.6%	2.2%

Future long-term debt principal payments at April 30, 2022 were as follows:

	(In thousands)
2023	\$ 10,000
2024	10,000
2025	10,000
2026	160,000
2027	—
	<u>\$ 190,000</u>

### 13. Leases

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

The Company recognizes operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses its incremental borrowing rate based on the information available at commencement date to determine the present value of future payments and the appropriate lease classification. The Company defines the initial lease term to include renewal options determined to be reasonably certain. The Company's leases have remaining lease terms of less than one year to eight years, some of which may include options to extend the lease for up to 10 years, and some of which may include options to terminate the lease after two years. If the Company determines it is reasonably certain of exercising an option to extend or terminate, the option is included in the Company's determination of lease assets and liabilities. For operating leases, the Company recognizes lease expense for these leases on a straight-line basis over the lease term.

Many of the Company's real estate lease agreements contain incentives for tenant improvements, rent holidays, or rent escalation clauses. For tenant improvement incentives, if the incentive is determined to be a leasehold improvement owned by the lessee, the Company generally records incentive as a reduction to fixed lease payments thereby reducing rent expense. For rent holidays and rent escalation clauses during the lease term, the Company records rental expense on a straight-line basis over the term of the lease. For these lease incentives, the Company uses the date of

initial possession as the commencement date, which is generally when the Company is given the right of access to the space and begins to make improvements in preparation for intended use.

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

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

The components of lease costs recorded in cost of sales for product sales and contract services and SG&A expense were as follows (in thousands):

	<u>Year Ended</u> <u>April 30,</u> <u>2022</u>	<u>Year Ended</u> <u>April 30,</u> <u>2021</u>
Operating lease cost	\$ 6,814	\$ 5,150
Short term lease cost	840	602
Variable lease cost	653	23
Sublease income	(176)	(91)
Total lease costs, net	<u>\$ 8,131</u>	<u>\$ 5,684</u>

Supplemental lease information was as follows:

	<u>Year Ended</u> <u>April 30,</u> <u>2022</u>	<u>Year Ended</u> <u>April 30,</u> <u>2021</u>
	<u>(In thousands)</u>	<u>(In thousands)</u>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 6,925	\$ 5,070
Right-of-use assets obtained in exchange for new lease liabilities	\$ 10,238	\$ 18,729
Weighted average remaining lease term	62 months	71 months
Weighted average discount rate	3.4%	3.6%

Maturities of operating lease liabilities as of April 30, 2022 were as follows (in thousands):

2022	\$ 6,819
2023	6,980
2024	6,070
2025	3,675
2026	2,540
Thereafter	5,484
Total lease payments	<u>31,568</u>
Less: imputed interest	(2,834)
Total present value of operating lease liabilities	<u>\$ 28,734</u>

#### 14. Stock-Based Compensation

For the years ended April 30, 2022, 2021 and 2020, the Company recorded stock-based compensation expense of approximately \$5,390,000, \$6,932,000 and \$6,227,000, respectively.

On September 24, 2021, the stockholders of the Company approved the 2021 Equity Incentive Plan (“2021 Plan”) effective September 24, 2021, for officers, directors, key employees and consultants. Under the 2021 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. The sum of any cash compensation, or other compensation, and the value of awards granted to a non-employee director as compensation for services as a non-employee director during any fiscal year may not exceed \$500,000, which amount is increased to \$700,000 in the fiscal year of a non-employee director's initial year of service as a non-employee director. 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.

On January 14, 2007, the stockholders of the Company approved the 2006 Equity Incentive Plan ("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 ("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 Restated 2006 Plan expired in July 2021.

The Company had an equity incentive plan ("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. No additional awards may be made under the 2002 Plan.

The Company had a 1992 nonqualified stock option plan ("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.

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, 2022, 2021 and 2020, 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, 2019	337,026	25.25	—	—	14,302	0.59
Options granted	—	—	—	—	—	—
Options exercised	(3,000)	31.15	—	—	(13,189)	0.59
Options canceled	—	—	—	—	—	—
Outstanding at April 30, 2020	334,026	25.19	—	—	1,113	0.59
Options granted	—	—	—	—	—	—
Options exercised	(53,500)	28.45	—	—	(1,113)	0.59
Options canceled	—	—	—	—	—	—
Outstanding at April 30, 2021	280,526	24.57	—	—	—	—
Options granted	—	—	—	—	—	—
Options exercised	(114,362)	24.28	—	—	—	—
Options canceled	—	—	—	—	—	—
Outstanding at April 30, 2022	166,164	24.78	—	—	—	—
Options exercisable at April 30, 2022	166,164	\$ 24.78	—	\$ —	—	\$ —

The total intrinsic value of all options exercised during the years ended April 30, 2022, 2021 and 2020 was approximately \$4,785,000, \$4,828,000, and \$833,000, respectively. The intrinsic value of all options outstanding at April 30, 2022 and 2021 was \$9,229,000 and \$24,068,000, respectively. The intrinsic value of all exercisable options at April 30, 2022 and 2021 was \$9,229,000 and \$24,068,000, respectively.

The Company had zero non-vested stock options as of April 30, 2022 and the year then ended.

As of April 30, 2022, there was approximately \$10,583,000 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 2.1 years.

No options were granted during the fiscal years ended April 30, 2022, 2021 and 2020. The total fair value of shares vesting during the years ended April 30, 2022, 2021 and 2020 was \$5,901,000, \$5,312,000 and \$4,900,000, respectively.

Proceeds from all option exercises under all stock option plans for the years ended April 30, 2022, 2021 and 2020 were approximately \$2,776,000, \$1,522,000 and \$100,000, respectively. The tax benefit realized from stock-based compensation was \$0 during the years ended April 30, 2022, 2021 and 2020, respectively.

The following tabulation summarizes certain information concerning outstanding and exercisable options at April 30, 2022:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	As of April 30, 2022	Weighted Average Remaining Contractual Life In Years	Weighted Average Exercise Price	As of April 30, 2022	Weighted Average Exercise Price	
\$ 18.07 - 18.32	30,000	0.98	\$ 18.07	30,000	\$ 18.07	
18.33 - 22.64	20,000	0.98	18.57	20,000	18.57	
22.65 - 26.99	50,000	3.15	26.70	50,000	26.70	
27.00 - 29.27	50,000	1.56	27.27	50,000	27.27	
29.28 - 31.27	16,164	2.26	31.27	16,164	31.27	
\$ 18.07 - 31.27	166,164	1.93	\$ 24.78	166,164	\$ 24.78	

The remaining weighted average contractual life of exercisable options at April 30, 2022 was 1.93 years.

Information related to the Company's restricted stock awards at April 30, 2022 and for the year then ended is as follows:

	2021 Plan		Restated 2006 Plan	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested stock at April 30, 2021	—	\$ —	180,028	\$ 83.02
Stock granted	47,026	75.66	57,376	66.10
Stock vested	—	—	(94,389)	62.52
Stock canceled	(1,950)	74.27	(30,170)	89.58
Unvested stock at April 30, 2022	45,076	\$ 75.71	112,845	\$ 89.80

Information related to the Company's restricted stock units at April 30, 2022 and for the year then ended is as follows:

	Restated 2006 Plan	
	Shares	Weighted Average Grant Date Fair Value
Unvested stock at April 30, 2021	—	\$ —
Stock granted	4,395	97.96
Stock vested	—	—
Stock canceled	—	—
Unvested stock at April 30, 2022	4,395	\$ 97.69

## 15. Long-Term Incentive Awards

During the three months ended July 31, 2021, the Company granted awards under its amended and restated 2006 Equity Incentive Plan (the "Restated 2006 Plan") to key employees ("Fiscal 2022 LTIP"). Awards under the Fiscal 2022 LTIP consist of: (i) time-based restricted stock awards and time-based restricted stock units, which vest in equal tranches in July 2022, July 2023 and July 2024, and (ii) performance-based restricted stock units ("PRSU's"), which vest based on the Company's achievement of revenue and operating income targets for the three-year period ending April 30, 2024. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSU's, at which levels the PRSU's would vest at 100% for each such metric. Threshold achievement levels for which the



PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 250% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company's achievement of the established revenue and 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, 2022, the Company recorded \$752,000 of compensation expense related to the Fiscal 2022 LTIP. At April 30, 2022, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2022 LTIP is \$10,473,000.

During the three months ended August 1, 2020, the Company granted awards under its amended and restated 2006 Equity Incentive Plan (the "Restated 2006 Plan") to key employees ("Fiscal 2021 LTIP"). Awards under the Fiscal 2021 LTIP consist of: (i) time-based restricted stock awards, which vest in equal tranches in July 2021, July 2022 and July 2023, and (ii) 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, 2023. At the award date, target achievement levels for each of the financial performance metrics were established for the PRSUs, at which levels the PRSUs would vest at 100% for each such metric. Threshold achievement levels for which the PRSUs would vest at 50% for each such metric and maximum achievement levels for which such awards would vest at 250% for each such metric were also established. The actual payout for the PRSUs at the end of the performance period will be calculated based upon the Company's achievement of the established revenue and 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, 2022, the Company recorded a reversal of \$(634,000) compensation expense related to the Fiscal 2021 LTIP. During the fiscal year ended April 30, 2021, the Company recorded \$1,072,000 of compensation expense related to the Fiscal 2021 LTIP. At April 30, 2022, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2021 LTIP is \$6,021,000.

During the three months ended July 27, 2019, the Company granted awards under its amended and restated 2006 Equity Incentive Plan (the "Restated 2006 Plan") to key employees ("Fiscal 2020 LTIP"). Awards under the Fiscal 2020 LTIP consist of: (i) time-based restricted stock awards, which vest in equal tranches in July 2020, July 2021 and July 2022, 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, 2022. 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, 2022, the Company recorded a reversal of \$(701,000) compensation expense related to the Fiscal 2020 LTIP. During the fiscal years ended April 30, 2021 and 2020, the Company recorded \$620,000 and \$649,000 of compensation expense related to the Fiscal 2020 LTIP, respectively. At April 30, 2022, the maximum compensation expense that may be recorded for the performance-based portion of the Fiscal 2020 LTIP is \$3,335,000.

During the three months ended July 28, 2018, the Company granted awards under 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) PRSUs which vest based on the Company's achievement of revenue and operating income targets for the three-year period ending April 30, 2021. During the three months ended July 31, 2021, the Company issued a total of 12,101 fully-vested shares of common stock to settle the PRSUs in the Fiscal 2019 LTIP. No compensation expense was recorded during fiscal year ended April 30, 2022 for the Fiscal 2019 LTIP. During the fiscal years ended April 30, 2021 and 2020, the Company recorded \$368,000, and \$386,000 of compensation expense related to the Fiscal 2019 LTIP, respectively.

During the three months ended July 29, 2017, the Company granted awards under the Restated 2006 Plan to key employees ("Fiscal 2018 LTIP"). Awards under the Fiscal 2018 LTIP consist of: (i) time-based restricted stock awards which vest in equal tranches in July 2018, July 2019 and July 2020, and (ii) PRSUs which vest based on the Company's achievement of revenue and operating income targets for the three-year period ending April 30, 2020. During the three months ended August 1, 2020, the Company issued a total of 16,228 fully-vested shares of common stock to settle the

PRSUs in the Fiscal 2018 LTIP. No compensation expense was recorded during fiscal years ended April 30, 2022 or 2021 for the Fiscal 2018 LTIP. During the fiscal years ended April 30, 2020, the Company recorded \$193,000 of compensation expense related to the Fiscal 2018 LTIP

At April 30, 2022 and 2021, the Company recorded cumulative stock-based compensation expense from these long-term incentive awards of \$4,594,000 and \$5,177,000, 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.

## 16. Income Taxes

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

	Year Ended April 30,		
	2022	2021	2020
Domestic	\$ (10,187)	\$ 34,274	\$ 52,730
Foreign	(8,956)	91	(60)
Income from continuing operations before income taxes	(19,143)	34,365	52,670
Equity method investment loss	5,889	(10,481)	(5,487)
Total income from continuing operations before income taxes	\$ (13,254)	\$ 23,884	\$ 47,183

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 is as follows:

	Year Ended April 30,		
	2022	2021	2020
U.S. federal statutory income tax rate	21.0 %	21.0 %	21.0 %
Foreign rate differential	4.9	—	—
State and local income taxes, net of federal benefit	40.8	(1.4)	(2.1)
R&D and other tax credits	23.0	(11.5)	(6.8)
Valuation allowance	(37.4)	3.2	3.4
Return to provision adjustments	(0.9)	(0.3)	0.1
Permanent items	(3.3)	3.6	0.7
Foreign derived intangible income	—	(7.6)	(3.9)
Excess benefit of equity awards	5.2	(5.7)	(1.5)
Other	0.9	0.3	0.2
Effective income tax rate	<u>54.2 %</u>	<u>1.6 %</u>	<u>11.1 %</u>

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

	Year Ended April 30,		
	2022	2021	2020
Current:			
Federal	\$ (3,025)	\$ 3,094	\$ 3,005
State	165	448	390
Foreign	279	—	—
	<u>(2,581)</u>	<u>3,542</u>	<u>3,395</u>
Deferred:			
Federal	(5,764)	(3,247)	2,063
State	483	244	421
Foreign	(2,507)	—	(31)
	<u>(7,788)</u>	<u>(3,003)</u>	<u>2,453</u>
Total income tax expense	<u>\$ (10,369)</u>	<u>\$ 539</u>	<u>\$ 5,848</u>

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

	April 30,	
	2022	2021
<b>Deferred income tax assets:</b>		
Accrued expenses	\$ 3,399	\$ 4,422
Stock based compensation	1,892	2,492
Allowances, reserves, and other	4,455	1,482
Outside basis difference	89	4,617
Unrealized loss on securities	3,229	110
Net operating loss and credit carry-forwards	41,931	33,155
Intangibles basis	—	—
Lease liability	6,303	5,645
<b>Total deferred income tax assets</b>	<b>61,298</b>	<b>51,923</b>
<b>Deferred income tax liabilities:</b>		
Fixed asset basis	(10,413)	(10,286)
Right-of-use asset	(5,878)	(5,119)
Intangibles basis	(15,503)	(17,004)
<b>Total deferred income tax liabilities</b>	<b>(31,794)</b>	<b>(32,409)</b>
Valuation allowance	(24,840)	(17,453)
<b>Net deferred tax assets</b>	<b>\$ 4,664</b>	<b>\$ 2,061</b>

At April 30, 2022 and 2021 the Company recorded a valuation allowance of \$24,840,000 and \$17,453,000, respectively, primarily against state R&D credits as the Company is currently generating more tax credits than it will utilize in future years and against capital loss carryforward. The valuation allowance increased by \$7,387,000 and \$3,304,000 for April 30, 2022 and April 30, 2021, respectively.

At April 30, 2022 the Company had state credit carryforwards of \$31,379,000 that do not expire and federal tax credit carryforwards of \$5,875,000 that begin to expire in 2041.

At April 30, 2022, the Company had federal, state and foreign net operating loss carryforwards of approximately \$88,863,000, \$93,485,000 and \$64,000, respectively. The federal and \$47,000 of the state net operating losses carry forward indefinitely. \$93,438,000 of state net operating losses will begin expiring in fiscal year 2032, and the foreign loss carryforward will begin expiring in fiscal year 2023. Utilization of federal and state net operating loss carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by Section 382 of the Internal Revenue Code, as amended and similar state provisions.

At April 30, 2022 and 2021, the Company had approximately \$17,806,000 and \$17,556,000, respectively, of unrecognized tax benefits of which \$4,969,000 would impact the Company's rate and \$9,956,000 would result in an increase in valuation allowance. The Company estimates that \$3,263,000 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, 2022 and 2021 (in thousands):

	April 30,	
	2022	2021
Balance as of May 1	\$ 17,556	\$ 14,347
Increases related to prior year tax positions	415	1,305
Decreases related to prior year tax positions	(239)	(116)
Increases related to current year tax positions	1,398	2,074
Decreases related to lapsing of statute of limitations	(1,324)	(54)
Balance as of April 30	<u>\$ 17,806</u>	<u>\$ 17,556</u>

The Company records interest and penalties on uncertain tax positions to income tax expense. As of April 30, 2022 and 2021, the Company had accrued approximately \$302,000 and \$23,000, respectively, of interest and penalties related to uncertain tax positions. The Company is currently under audit by various state jurisdictions. The 2018 to 2021 tax years remain open to examination by the IRS for federal income taxes. The tax years 2010 to 2012 and 2018 to 2021 remain open for major state taxing jurisdictions.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, a \$2 trillion relief package comprising a combination of tax provisions and other stimulus measures. The CARES Act broadly provides entities tax payment relief and significant business incentives and makes certain technical corrections to the 2017 Tax Cuts and Jobs Act, or the Tax Act. The tax relief measures for entities include a five-year net operating loss carry back, increases interest expense deduction limits, acceleration of alternative minimum tax credit refunds, payroll tax relief, and a technical correction to allow accelerated deductions for qualified improvement property. The Act also provides other non-income tax benefits, including federal funding for a range of stabilization measures and emergency funding to assist those impacted by the COVID-19 pandemic. Similar legislation is being enacted in other jurisdictions in which the Company operates. ASC Topic 740, *Income Taxes*, requires the effect of changes in tax rates and laws on deferred tax balances to be recognized in the period in which new legislation is enacted. The enactment of the CARES Act and similar legislation in other jurisdictions in which the Company operates was not material to the Company's income tax benefit for the year ended April 30, 2022.

#### 17. Accumulated Other Comprehensive Income

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

	Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income
Total accumulated other comprehensive income balance as of April 30, 2021	\$ (10)	\$ 353	\$ 343
Unrealized losses, net of \$8 of taxes	(43)	—	(43)
Changes in foreign currency translation adjustments	—	(6,471)	(6,471)
Amounts reclassified to other (expense) income, net	—	(343)	(343)
Total accumulated other comprehensive income balance as of April 30, 2022	<u>\$ (53)</u>	<u>\$ (6,461)</u>	<u>\$ (6,514)</u>

#### 18. Changes in Accounting Estimates

During the year ended April 30, 2022, the Company revised its estimates of the achievement of the performance metrics of the Company's long term incentive plans, which resulted in a cumulative adjustment to reduce previously recognized compensation expense of \$1,602,000. During the years ended April 30, 2022, 2021 and 2020, the Company revised its estimates at completion of various 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. During the year ended April 30, 2022,



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 to revenue of approximately \$1,124,000. During the year ended April 30, 2021, 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 to revenue of approximately \$1,041,000. During the year ended April 30, 2020, the Company revised its estimates of the total expected costs to complete a TMS contract and a contract associated with a design and development agreement. 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 \$1,403,000 and an increase of approximately \$1,099,000, respectively.

## **19. Related Party Transactions**

Pursuant to a consulting agreement, the Company paid a board member approximately \$36,000, \$29,000 and \$59,000 for fiscal years ended April 30, 2022, 2021 and 2020, respectively, for consulting services independent of his board service.

Under the DDA and related efforts with HAPSMobile, the Company designed and built prototype solar powered high altitude aircraft and ground control stations for HAPSMobile and conducted low altitude and high altitude flight tests of the prototype aircraft on a best efforts basis, up to a maximum net value of \$185,202,000. The Company will continue the development of Solar HAPS with SoftBank under the MDDA. Upon the execution of the MDDA, SoftBank issued the first order under the MDDA, which has a maximum value of approximately \$51,200,000.

The Company recorded revenue under both the MDDA and DDA and preliminary design agreements between the Company and SoftBank of \$43,325,000, \$42,426,000 and \$60,864,000 for the fiscal years ended April 30, 2022, 2021 and 2020, respectively. At April 30, 2022 and 2021, the Company had unbilled related party receivables from HAPSMobile of \$2,229,000 and \$544,000 recorded in unbilled receivables and retentions on the consolidated balance sheet, respectively. As of April 30, 2022, the Company had no ownership stake in HAPSMobile and SoftBank and HAPSMobile are no longer considered related parties. Refer to Note 9 – Equity Method Investments for further details.

## **20. Commitments and Contingencies**

### **Commitments**

The Company's operations are conducted in leased facilities. Refer to Note 13—Leases for additional information.

### **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. During the fiscal year ended April 30, 2022 the Company entered into a settlement agreement with Webasto to settle all claims. Refer to Note 2—Discontinued Operations for further details.

At April 30, 2022 and 2021, the Company had outstanding letters of credit totaling \$5,968,000 and \$5,029,000, 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, 2020, the Company settled rates for its incurred cost claims with the DCAA for fiscal year 2015 for an amount not significant. At April 30, 2022 and 2021, the Company had no reserve for open incurred cost claim audits.

## **21. Business Acquisitions**

### **Telerob Acquisition**

On May 3, 2021, the Company closed its acquisition of Telerob pursuant to the terms of the Telerob Purchase Agreement. Telerob develops, manufactures, sells, and services remote-controlled unmanned ground robots and transport vehicles for civil and defense applications.

Pursuant to the Telerob Purchase Agreement at closing, the Company paid €37,455,000 (approximately \$45,400,000) in cash to the Telerob Seller (subject to certain purchase price adjustments as set forth in the Telerob Purchase Agreement), less (a) €3,000,000 (approximately \$3,636,000) to be held in escrow for breaches of the Telerob Seller's fundamental warranties or any other of Telerob Seller's warranties to the extent not covered by a representation and warranty insurance policy (the "RWI Policy") obtained by the Company in support of certain indemnifications provided by the Telerob Seller; (b) transaction-related fees and costs incurred by the Telerob Seller, including change in control payments triggered by the transaction; and (c) 50% of the cost of obtaining the RWI Policy. In addition, at closing the Company paid off approximately €7,811,000 (approximately \$9,468,000), of certain indebtedness of Telerob, which amount was paid in combination to the Telerob Seller and the lender under an agreement between Telerob GmbH and the lender providing for a reduced payoff amount. This indebtedness was offset by cash on hand at Telerob at closing. The escrow amount is to be released to the Telerob Seller, less any amounts paid or reserved, 30 months following the closing date.

In addition to the consideration paid at closing, the Telerob Seller may receive €2,000,000 (approximately \$2,424,000) in additional cash consideration if specific revenue targets for Telerob are achieved during the 12 month period after closing beginning on the first day of the calendar month following the closing (the "First Earnout Year") and an additional €2,000,000 (approximately \$2,424,000) in cash consideration if specific revenue targets for Telerob are achieved in the 12 month period following the First Earnout Year. The Telerob Seller may also receive up to €2,000,000 (approximately \$2,424,000) in additional cash consideration if specific awards and/or orders from the U.S. military are achieved prior to the end of a 36-month post-closing period.

The Company accounted for the acquisition under the acquisition method of accounting for business combinations. During the fiscal year ended April 30, 2022, the Company finalized its determination of the fair value of the assets and liabilities assumed as of the acquisition date, which is summarized in the following table (in thousands):

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	<u>May 3,</u> <u>2021</u>
Fair value of assets acquired:	
Accounts receivable	\$ 1,045
Unbilled receivable	829
Inventories, net	15,074
Prepaid and other current assets	314
Property and equipment, net	1,571
Operating lease assets	1,508
Other assets	494
Technology	11,500
Backlog	2,400
Customer relationships	5,000
Other intangible assets	102
Goodwill	20,800
Total assets acquired	<u>\$ 60,637</u>
Fair value of liabilities assumed:	
Accounts payable	\$ 1,136
Wages and related accruals	560
Customer advances	1,243
Current operating lease liabilities	361
Other current liabilities	3,310
Non-current operating lease liabilities	1,147
Other non-current liabilities	224
Deferred income taxes	5,617
Total liabilities assumed	<u>13,598</u>
Total identifiable net assets	<u>\$ 47,039</u>
Fair value of consideration:	
Cash consideration, net of cash acquired	\$ 46,150
Contingent consideration	889
Total	<u>\$ 47,039</u>

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

The goodwill is attributable to the synergies the Company expects to achieve through leveraging the acquired technology to its existing customers, the workforce of Telerob and expected future customers in the UGV market. For tax purposes the acquisition was treated as a stock purchase and the goodwill is not deductible.

### Supplemental Pro Forma Information (unaudited)

Telerob revenue and loss from operations for the year ended April 30, 2022 since acquisition on May 3, 2021 was \$29,177,000 and \$12,115,000, respectively. The following unaudited pro forma summary presents consolidated information of the Company as if the business acquisition had occurred on May 1, 2020 (in thousands):

	Year Ended	
	April 30, 2022	April 30, 2021
Revenue	\$ 445,732	\$ 428,353
Net (loss) income attributable to AeroVironment, Inc.	\$ 2,334	\$ 17,345

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

These pro forma amounts have been calculated by applying the Company's accounting policies, assuming transaction costs had been incurred during the three months ended August 1, 2020, reflecting the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied from May 1, 2020 with the consequential tax effects and including the results of Telerob prior to acquisition.

The Company incurred approximately \$1,186,000 of acquisition-related expenses for the fiscal year ended April 30, 2022. These expenses are included in selling, general and administrative on the Company's consolidated statement of operations.

The unaudited pro forma supplemental information is based on estimates and assumptions, which the Company believes are reasonable and are not necessarily indicative of the results that have been realized had the acquisition been consolidated in the tables above as of May 1, 2020, nor are they indicative of results of operations that may occur in the future.

### Arcturus Acquisition

On February 19, 2021, the Company closed its acquisition of Arcturus pursuant to the terms of the Arcturus Purchase Agreement. Arcturus, headquartered in Petaluma, California, designs, engineers, tools, and manufactures unmanned aerial and aircraft systems including airborne platforms, payloads and payload integration, ground control systems, and ground support equipment and other items and services related generally to unmanned aircraft systems.

Pursuant to the Arcturus Purchase Agreement at the closing of the Arcturus Acquisition, the Company paid approximately \$422,602,000, net of cash acquired (subject to certain customary adjustments and escrow arrangements set forth in the Arcturus Purchase Agreement), financed with a combination of approximately \$150,218,000 of cash-on-hand, \$200,000,000 of financing pursuant to the Term Loan Facility and the issuance of approximately \$72,384,000 of unregistered, restricted shares of common stock. As specified in the Arcturus Purchase agreement, the number of shares issued was determined based on a value of \$50,000,000 and a calculated average price as of the last business day prior to execution of the Arcturus Purchase Agreement.

The final cash consideration is subject to certain customary adjustments, including for net working capital, cash, debt and unpaid transaction expenses (including change in control related payments triggered by the transaction) of Arcturus at the Arcturus closing, less \$6,500,000 to be held in escrow to address final purchase price adjustments post-Arcturus closing, if any (the "Adjustment Escrow"), and \$1,822,500 to be held in escrow to address Arcturus's and/or the Sellers' indemnification obligations (the "Indemnification Escrow"). During the fiscal year ended April 30, 2022, the Adjustment Escrow of \$6,500,000, less \$509,000 of post-closing adjustments, and Indemnification Escrow of \$1,822,500 was released to the Arcturus Sellers. To further address potential breaches of Arcturus's and the Sellers' representations and warranties beyond the application of the Indemnification Escrow, the Company also obtained representation and warranty insurance policies providing \$40,000,000 in coverage, subject to customary terms, exclusions and retention amounts.

The Company accounted for the acquisition under the acquisition method of accounting for business combinations. During the fiscal year ended April 30, 2022, the Company finalized its determination of the fair value of the assets and liabilities assumed as of the acquisition date, which is summarized in the following table (in thousands):

	<b>February 19, 2021</b>
<b>Fair value of assets acquired:</b>	
Accounts receivable	\$ 6,050
Unbilled receivable	4,176
Inventories, net	21,701
Prepaid and other current assets	2,709
Property and equipment, net	38,739
Operating lease assets	11,429
Other assets	136
Technology	20,500
Customer relationships	62,700
Goodwill	290,006
<b>Total assets acquired</b>	<b>\$ 458,146</b>
<b>Fair value of liabilities assumed:</b>	
Accounts payable	\$ 3,085
Wages and related accruals	1,698
Customer advances	1,818
Other current liabilities	9,562
Operating lease liabilities	12,297
Other non-current liabilities	1,190
Deferred income taxes, net	5,869
<b>Total liabilities assumed</b>	<b>35,519</b>
<b>Total identifiable net assets</b>	<b>\$ 422,627</b>
<b>Fair value of consideration transferred:</b>	
Cash consideration, net of cash acquired	\$ 350,243
Equity consideration	72,384
<b>Total consideration</b>	<b>\$ 422,627</b>

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

The goodwill is attributable to the synergies the Company expects to achieve through leveraging the acquired technology to its existing customers, the workforce of Arcturus and expected future customers in the MUAS market. For tax purposes the acquisition was treated as a stock purchase and the goodwill is not deductible.



### Supplemental Pro Forma Information (unaudited)

Arcturus revenue and loss from operations for the year ended April 30, 2021 since acquisition on February 19, 2021 was \$15,837,000 and \$1,869,000, respectively. The following unaudited pro forma summary presents consolidated information of the Company as if the business acquisition had occurred on May 1, 2019 (in thousands):

	Year Ended	
	April 30, 2021	April 30, 2020
Revenue	\$ 478,579	\$ 454,769
Net income attributable to AeroVironment, Inc.	\$ 27,572	\$ 31,264

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

These pro forma amounts have been calculated by applying the Company's accounting policies, assuming transaction costs had been incurred during the three months ended July 27, 2019, reflecting the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied from May 1, 2019 with the consequential tax effects, and including the results of Arcturus prior to acquisition.

The Company incurred approximately \$6,015,000 acquisition-related expenses for the year ended April 30, 2021. These expenses are included in selling, general and administrative expense on the Company's consolidated statement of operations.

The unaudited pro forma supplemental information is based on estimates and assumptions, which the Company believes are reasonable and are not necessarily indicative of the results that have been realized had the acquisition been consolidated in the tables above as of May 1, 2019, nor are they indicative of results of operations that may occur in the future.

### ISG Acquisition

On February 23, 2021, the Company purchased certain assets of, and assumed certain liabilities of, ISG pursuant to the terms of the ISG Purchase Agreement. ISG is engaged in development of artificial intelligence-enabled computer vision, machine learning and perceptive autonomy technologies and provides related services to United States government customers.

In connection with the ISG Acquisition, the Company (i) paid a base purchase price of \$29,700,000 in cash at closing and (ii) may pay additional cash consideration of up to \$6,000,000, which is held in escrow account not controlled by the Company, based on the achievement of certain revenue targets by ISG during the 3 years following closing, in each case, subject to the terms and conditions of the ISG Purchase Agreement, including certain customary adjustments. During the fiscal year ended April 30, 2022, the target for the first year was achieved and the related consideration of \$2,000,000 was released from an escrow account that is not controlled by the Company and, therefore, not recorded on the consolidated balance sheet.

As a condition to closing pursuant to the ISG Purchase Agreement, the Company and the ISG Seller entered into certain ancillary agreements, including a transition services agreement through February 2023 and two subleases pursuant to which the ISG Seller will provide the Company certain services and facilities space to accommodate the transition of ISG to the Company.

The parties to the ISG Purchase Agreement have made representations, warranties, and covenants that are customary for a transaction of this type, including, among other things, restrictions on the ISG Seller and the Beneficial Owner from engaging in certain competitive activities, as well as mutual indemnification obligations between the Company and the ISG Seller. To supplement certain indemnifications provided by the ISG Seller, the Company obtained a representation and warranty insurance policy.

The Company accounted for the acquisition under the acquisition method of accounting for business combinations. During the fiscal year ended April 30, 2022, the Company finalized its determination of the fair value of the assets and liabilities assumed as of the acquisition date, which is summarized in the following table (in thousands):

	<u>February 23,</u> <u>2021</u>
Fair value of assets acquired:	
Technology	\$ 11,400
Customer relationships	4,500
Other assets	217
Goodwill	19,254
Total identifiable net assets	<u>\$ 35,371</u>
Fair value of consideration transferred:	
Cash	\$ 29,700
Holdback	150
Contingent consideration	5,521
Total consideration	<u>\$ 35,371</u>

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

The goodwill is attributable to the synergies the Company expects to achieve through leveraging the acquired technology to its existing customers. For tax purposes the acquisition was treated as an asset purchase and the goodwill is deductible ratably over a period of fifteen years.

#### **Supplemental Pro Forma Information (unaudited)**

ISG revenue for the year ended April 30, 2021 since acquisition on February 23, 2021 was \$1,724,000. Other than the aforementioned revenue and intangible asset amortization expense of \$474,000 for the year ended April 30, 2021 since the acquisition on February 23, 2021, the ISG financial results were not significant. The following unaudited pro forma summary presents consolidated information of the Company as if the business acquisition had occurred on May 1, 2019 (in thousands):

	<u>Year Ended</u>	
	<u>April 30,</u> <u>2021</u>	<u>April 30,</u> <u>2020</u>
Revenue	\$ 406,444	\$ 379,627
Net income attributable to AeroVironment, Inc.	\$ 23,787	\$ 39,025

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

These pro forma amounts have been calculated by applying the Company's accounting policies, assuming transaction costs had been incurred during the three months ended July 27, 2019, reflecting the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied from May 1, 2019 with the consequential tax effects, and including the results of ISG prior to acquisition.

The Company incurred approximately \$954,000 acquisition-related expenses for the year ended April 30, 2021. These expenses are included in selling, general and administrative expenses on the Company's consolidated statement of operations.

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, 2019, nor are they indicative of results of operations that may occur in the future.

### **Pulse Acquisition**

On June 10, 2019, the Company purchased 100% of the issued and outstanding member units of Pulse pursuant to the terms of the Pulse Purchase Agreement. The Company's acquisition of Pulse's helicopter UAS 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, 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 as of the closing date. The Company financed the acquisition entirely from available cash on hand. During fiscal year ended April 30, 2021, the Company paid a total of \$1,492,000 in holdback and retention payments.

In addition to the consideration paid at closing, the acquisition of Pulse included contingent consideration arrangements that required additional consideration to be paid by the Company to the sellers of Pulse if two specified research and development milestones were achieved by December 10, 2021 and the continued employment of specified employees. Amounts were payable upon the achievement of the milestones. The range of the undiscounted amounts the Company could pay under each of the contingent consideration agreements was zero or \$2,500,000 (\$5,000,000 in total if both milestones are achieved and specific key employees continued employment). The fair value of the contingent consideration recognized on the acquisition date of \$1,703,000 was estimated by applying the income approach. That measure was based on significant Level 3 inputs not observable in the market. Key assumptions include (1) a discount rate of 4.5% and (2) the probability that each of the milestones would be achieved.

During the year ended April 30, 2020, one of the research and development milestones was achieved, and the requirements for the payout of remaining contingent consideration were concluded to not have been met. As a result, the Company recorded a gain of \$832,000 which was recorded in selling, general, and administrative expense in the consolidated statements of income. On February 26, 2020, \$2,500,000 of contingent consideration was paid to the sellers for the achieved milestone.

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The Company accounted for the acquisition under the acquisition method of accounting for business combinations. During the fiscal year ended April 30, 2020, the Company finalized its determination of the fair value of the assets and liabilities assumed as of the acquisition date, which is summarized in the following table (in thousands):

	June 10, 2019
Technology	\$ 14,950
Goodwill	6,340
In-process R&D	550
Inventory	334
Non-compete agreements	320
Other assets, net of liabilities assumed	(614)
Total net identified assets acquired	<u>\$ 21,880</u>
Fair value of consideration:	
Cash	\$ 18,677
Holdback	1,250
Retention	250
Contingent consideration	1,703
Total	<u>\$ 21,880</u>

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

The goodwill is attributable to the synergies the Company expects to achieve through leveraging the acquired technology to its existing customers, the workforce of Pulse and expected future customers in the helicopter UAS market. For tax purposes the acquisition was treated as an asset purchase and the goodwill is deductible ratably over a period of fifteen years.

#### Supplemental Pro Forma Information (unaudited)

Pulse revenue for the year ended April 30, 2020 since acquisition on June 10, 2019 was \$6,607,000. Other than the aforementioned revenue and intangible asset amortization expense of \$2,461,000 for the year ended April 30, 2020 since the acquisition on June 10, 2019, the Pulse financial results were not significant. The following unaudited pro forma summary presents consolidated information of the Company as if the business acquisition had occurred on May 1, 2018 (in thousands):

	Year Ended	
	April 30, 2020	April 30, 2019
Revenue	\$ 367,523	\$ 316,878
Net income attributable to AeroVironment, Inc.	\$ 41,481	\$ 43,204

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

These pro forma amounts have been calculated by applying the Company's accounting policies, assuming transaction costs had been incurred during the three months ended July 28, 2018, reflecting the additional amortization

that would have been charged assuming the fair value adjustments to intangible assets had been applied from May 1, 2018 with the consequential tax effects, and including the results of Pulse prior to acquisition.

The Company did not incur significant acquisition-related expenses for the year ended April 30, 2020. These expenses are included in selling, general and administrative, research and development, and product cost of sales on the Company's consolidated statement of operations.

The unaudited pro forma supplemental information is based on estimates and assumptions, which the Company believes are reasonable and are not necessarily indicative of the results that have been realized had the acquisition been consolidated in the tables above as of May 1, 2018, nor are they indicative of results of operations that may occur in the future.

## 22. Pension

As part of the Telerob acquisition, the Company acquired a small foreign-based defined benefit pension plan. The Rheinmetall-Zusatzversorgung ("RZV") service plan covers three former employees based on individual contracts issued to the employees. No other employees are eligible to participate. The Company has reinsurance policies were taken out for participating former employees, which were pledged to the employees. The measurement date for the Company's pension plan was April 30, 2022.

The table below includes the projected benefit obligation and fair value of plan assets as of April 30, 2022. The net projected benefit obligation (in thousands) is recorded in other assets on the consolidated balance sheet.

Projected benefit obligation	\$ (3,322)
Fair value of plan assets	3,395
Funded status of the plan	<u>\$ 73</u>

### Change in projected benefit obligation (in thousands):

Pension benefit obligation balance as of May 3, 2021	\$ (4,126)
Interest cost	(39)
Actuarial gain	179
Benefits paid	176
Foreign currency exchange rate changes	488
Pension benefit obligation balance as of April 30, 2022	<u>\$ (3,322)</u>

### Change in plan assets (in thousands):

Fair value of plan assets as of May 3, 2021	\$ 3,951
Expected return on plan assets	108
Benefits paid	(176)
Foreign currency exchange rate changes	(488)
Fair value of plan assets as of April 30, 2022	<u>\$ 3,395</u>



The projected benefit obligation includes assumptions of a discount rate of 1.7% and pension increase for in-payment benefits of 1.5% for April 30, 2022. The accumulated benefit obligation is approximately equal to the projected benefit obligation. The plan assets consist of reinsurance policies for each of the three pension commitments. The reinsurance policies are fixed-income investments considered a level 2 fair value hierarchy based on observable inputs of the policy. The Company does not expect to make any contributions to the Plan in the fiscal year ending April 30, 2023. The Company assumed expected return on plan assets of 2.9% for April 30, 2022.

Expected benefits payments as of April 30, 2022 (in thousands):

2023	\$	161
2024		164
2025		165
2026		165
2027		166
2028-2032		828
Total expected benefit payments	\$	<u>1,649</u>

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

	<u>Year Ended</u>
	<u>April 30,</u>
	<u>2022</u>
	<u>(In thousands)</u>
Expected return on plan assets	\$ 108
Interest cost	(39)
Actuarial gain	179
Net periodic benefit cost	\$ 248

### 23. Segments

The Company's reportable segments are as follows:

**Small Unmanned Aircraft Systems** —The Small UAS segment focuses primarily on products 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 as well as related support services including training, spare parts, product repair, product replacement, and the customer contracted operation.

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

**Medium Unmanned Aircraft Systems**—The MUAS segment, which originates with the acquisition of Arcturus, focuses on designs, engineers, tools, and manufactures unmanned aerial and aircraft systems including airborne

platforms, payloads and payload integration, ground control systems, and ground support equipment and other items and services related generally to unmanned aircraft systems including ISR services.

High Altitude Pseudo-Satellite Unmanned Aircraft Systems (“HAPS”)—The HAPS segment consists of the Company’s existing development of High Altitude Pseudo-Satellite systems in conjunction with SoftBank.

All other—All other segments include MacCready Works and the recently acquired ISG and Telerob businesses.

The accounting policies of the segments are the same as those described in Note 1—Organization and Significant Accounting Policies. The operating segments do not make sales to each other. The following table (in thousands) sets forth segment revenue, gross margin, operating (loss) income and adjusted operating (loss) income from operations for the periods indicated. Adjusted operating (loss) income is defined as operating (loss) income before intangible amortization, amortization of purchase accounting adjustment related to increasing the carrying value of certain assets to fair value, and acquisition related expenses.

	Year Ended April 30, 2022					Total
	Small UAS	TMS	MUAS	HAPS	All other	
Revenue	\$ 178,201	\$ 76,415	\$ 93,156	\$ 43,325	\$ 54,635	\$ 445,732
Gross margin	83,759	24,486	6,155	15,533	11,303	141,236
Income (loss) from continuing operations	28,980	(3,120)	(27,715)	8,056	(16,088)	(9,887)
Acquisition-related expenses	502	297	1,994	123	1,938	4,854
Amortization of acquired intangible assets and other purchase accounting adjustments	2,828	-	22,170	-	11,709	36,707
Adjusted income (loss) from operations	\$ 32,310	\$ (2,823)	\$ (3,551)	\$ 8,179	\$ (2,441)	\$ 31,674

	Year Ended April 30, 2021					Total
	Small UAS	TMS	MUAS	HAPS	All other	
Revenue	\$ 235,854	\$ 87,268	\$ 15,837	\$ 42,426	\$ 13,527	\$ 394,912
Gross margin	119,062	26,675	2,965	13,038	2,818	164,558
Income (loss) from continuing operations	58,194	(3,131)	(1,869)	268	(10,149)	43,313
Acquisition-related expenses	3,026	1,661	1,682	593	1,019	7,981
Amortization of acquired intangible assets and other purchase accounting adjustments	2,649	-	4,356	-	453	7,458
Adjusted income (loss) from operations	\$ 63,869	\$ (1,470)	\$ 4,169	\$ 861	\$ (8,677)	\$ 58,752

	Year Ended April 30, 2020					
	Small UAS	TMS	MUAS	HAPS	All other	Total
Revenue	\$ 225,888	\$ 63,781	\$ -	\$ 60,864	\$ 16,763	\$ 367,296
Gross margin	117,538	18,082	-	17,436	46	153,102
Income (loss) from continuing operations	64,680	(15,822)	-	9,744	(11,467)	47,135
Acquisition-related expenses	537	336	-	134	112	1,119
Amortization of acquired intangible assets and other purchase accounting adjustments	2,467	-	-	-	-	2,467
Adjusted income (loss) from operations	\$ 67,684	\$ (15,486)	\$ -	\$ 9,878	\$ (11,355)	\$ 50,721

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

	April 30, 2022						
	Small UAS	TMS	MUAS	HAPS	All other	Corporate	Total
Identifiable assets	\$ 110,286	\$ 91,862	\$ 388,058	\$ 8,148	\$ 86,617	\$ 229,229	\$ 914,200

	April 30, 2021						
	Small UAS	TMS	MUAS	HAPS	All other	Corporate	Total
Identifiable assets	\$ 115,156	\$ 72,073	\$ 400,901	\$ 598	\$ 37,677	\$ 302,161	\$ 928,566

#### 24. Geographic Information

Sales to non-U.S. customers, including U.S. government foreign military sales in which an end user is a foreign government, accounted for 41%, 39% and 45% of revenue for each of the fiscal years ended April 30, 2022, 2021 and 2020, respectively. With the acquisition of Arcturus and Telerob, the Company deploys in-service assets internationally, which as of April 30, 2022 was \$48,496,000 and \$1,601,000, respectively. As of April 30, 2021, the Company deployed in-service assets internationally for Arcturus of \$36,047,000.

**SUPPLEMENTARY DATA**

**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**

Description	Balance at Beginning of Period	Balance Acquired from Acquisition	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:						
2020	\$ 1,041	\$ —	\$ 219	\$ —	\$ (70)	\$ 1,190
2021	\$ 1,190	\$ —	\$ 82	\$ —	\$ (677)	\$ 595
2022	\$ 595	\$ 5	\$ 52	\$ —	\$ (60)	\$ 592
Warranty reserve for the year ended April 30:						
2020	\$ 1,704	\$ —	\$ 2,069	\$ —	\$ (1,758)	\$ 2,015
2021	\$ 2,015	\$ —	\$ 1,650	\$ —	\$ (1,324)	\$ 2,341
2022	\$ 2,341	\$ 256	\$ 1,089	\$ —	\$ (1,496)	\$ 2,190
Reserve for inventory excess and obsolescence for the year ended April 30:						
2020	\$ 7,824	\$ —	\$ 5,377	\$ —	\$ (2,969)	\$ 10,232
2021	\$ 10,232	\$ 1,415	\$ 1,178	\$ —	\$ (2,536)	\$ 10,289
2022	\$ 10,289	\$ 1,561	\$ 2,271	\$ —	\$ (1,787)	\$ 12,334
Reserve for self-insured medical claims for the year ended April 30:						
2020	\$ 944	\$ —	\$ 13,031	\$ —	\$ (13,222)	\$ 753
2021	\$ 753	\$ —	\$ 11,329	\$ —	\$ (10,789)	\$ 1,293
2022	\$ 1,293	\$ —	\$ 14,724	\$ —	\$ (14,364)	\$ 1,653

**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 Rules 13a-15(e) and 15d-15(e) 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 not effective due to the material weaknesses in internal control over financial reporting described below.

**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. In addition, 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 have assessed our internal control over financial reporting as of April 30, 2022, 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 its internal control over financial reporting was not effective as of April 30, 2022, due to the material weaknesses as described below.



A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses, related to certain newly acquired businesses, have been identified:

Management identified deficiencies related to inadequate design and operation of certain controls at certain newly acquired businesses. Specifically, management did not effectively select and develop certain information technology ("IT") general controls related to access, computer operations and change management controls that led to deficiencies in the design and operation of control activities, including segregation of duties at certain newly acquired businesses. The Company also had deficiencies in the design and operation of account reconciliations at certain newly acquired businesses.

The material weaknesses within certain IT systems at certain newly acquired businesses had a pervasive impact to various business activity level processes and accounts, including but not limited to financial reporting, inventory and cost of sales, fixed assets and depreciation. The material weaknesses could also impact the effectiveness of IT-dependent controls, such as automated controls that address the risk of a material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports. These deficiencies and a lack of sufficient resources contributed to the potential for there to have been material errors in the Company's financial statements and therefore resulted in the following additional material weaknesses:

- Control Environment – control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) establishing structures with the appropriate segregation of duties in the pursuit of objectives and (ii) demonstrating a commitment to attract, develop, and retain competent individuals in alignment with objectives;
- Risk Assessment – control deficiencies constituting material weaknesses, relating to identifying and analyzing risks to achieve their objectives;
- Control Activities – control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) selecting and developing general control activities over technology to support the achievement of objectives, and (ii) selecting and developing control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels;
- Information and Communication – control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) obtaining, generating, and using relevant quality information used in business process and related control activities, and (ii) internally communicating information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control;
- Monitoring – control deficiencies constituting material weaknesses relating to monitoring activities to ascertain whether the components of internal control are present and functioning.

While these deficiencies did not result in any material misstatements of the Company's consolidated financial statements, they did, however, collectively represent material weaknesses in internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of April 30, 2022 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

#### **Remediation of Material Weakness**

As of the date of this report, management has implemented measures it believes will remediate the identified deficiencies for one of the newly acquired businesses as certain IT systems at certain newly acquired businesses related to inventory and cost of sales was transitioned to the Corporate ERP system in late May 2022. Regarding the material weakness identified in the other acquisition, management's remediation efforts are ongoing, and management has

committed to a remediation plan to address the deficiencies and enhance the internal control environment. The remediation plan includes, but is not limited to:

- rationalizing access privileges for all system users and documenting the assignment of access privileges and the rationale for allowing access for each authorized user to address segregation of duties;
- implementing controls that require the periodic re-evaluation of user access privileges, including administrative access;
- enhancing system monitoring controls to confirm the adequacy of program change management controls; and
- training of personnel on the design and operation of our internal controls over financial reporting, as well as the hiring of additional resources with experience with COSO.

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

#### **Changes in Internal Control over Financial Reporting**

Except for the identification of the material weaknesses described above, 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(f) or 15d-15(f) that occurred during the quarter ended April 30, 2022 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 shareholders and the Board of Directors of AeroVironment, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of AeroVironment, Inc. and subsidiaries (the “Company”) as of April 30, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of April 30, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended April 30, 2022, of the Company and our report dated June 28, 2022, expressed an unqualified opinion on those financial statements.

### 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.

### Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will

not be prevented or detected on a timely basis. The following material weaknesses, related to certain newly acquired businesses, have been identified and included in management's assessment:

The Company identified deficiencies related to inadequate design and operation of certain controls at certain newly acquired businesses. Specifically, the Company did not effectively select and develop certain information technology ("IT") general controls related to access, computer operations and change management controls that led to deficiencies in the design and operation of control activities, including segregation of duties at certain newly acquired businesses. The Company also had deficiencies in the design and operation of account reconciliations at certain newly acquired businesses.

The material weaknesses within certain IT systems at certain newly acquired businesses had a pervasive impact to various business activity level processes and accounts, including but not limited to financial reporting, inventory and cost of sales, fixed assets and depreciation. The material weaknesses could also impact the effectiveness of IT-dependent controls, such as automated controls that address the risk of a material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports. These deficiencies and a lack of sufficient resources contributed to the potential for there to have been material errors in the Company's consolidated financial statements and therefore resulted in the following additional material weaknesses:

- Control Environment – control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) establishing structures with the appropriate segregation of duties in the pursuit of objectives and (ii) demonstrating a commitment to attract, develop, and retain competent individuals in alignment with objectives;
- Risk Assessment – control deficiencies constituting material weaknesses, relating to identifying and analyzing risks to achieve their objectives;
- Control Activities – control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) selecting and developing general control activities over technology to support the achievement of objectives, and (ii) selecting and developing control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels;
- Information and Communication – control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) obtaining, generating, and using relevant quality information used in business process and related control activities, and (ii) internally communicating information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control;
- Monitoring – control deficiencies constituting material weaknesses relating to monitoring activities to ascertain whether the components of internal control are present and functioning.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended April 30, 2022, of the Company, and this report does not affect our report on such financial statements.

/s/ Deloitte & Touche LLP

Los Angeles, California  
June 28, 2022

## 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 2022 Annual Meeting of Stockholders, which will be filed no later than 120 days after April 30, 2022, and that information is incorporated by reference herein.

#### **Codes of Ethics**

We have adopted a Code of Business Conduct and Ethics (“Code of Conduct”). The Code of Conduct is posted on our website, <http://investor.avinc.com/corporate-governance>. 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 2022 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 2022 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 2022 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 2022 Annual Meeting of Stockholders, and that information is incorporated by reference herein.

### **Item 14. Principal Accounting Fees and Services.**

Our independent public accounting firm is Deloitte & Touche LLP, Los Angeles, California, PCAOB Auditor ID 34. The information required by this Item 14 of Form 10-K will be included in the definitive proxy statement for our 2022 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, 2022 and 2021
- Consolidated Statements of (Loss) Income for the Years Ended April 30, 2022, 2021 and 2020
- Consolidated Statements of Comprehensive (Loss) Income for the Years Ended April 30, 2022, 2021 and 2020
- Consolidated Statements of Stockholders' Equity for the Years Ended April 30, 2022, 2021 and 2020
- Consolidated Statements of Cash Flows for the Years Ended April 30, 2022, 2021 and 2020
- 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

<b>Exhibit Number</b>	<b>Exhibit</b>
3.1(1)	<a href="#">Amended and Restated Certificate of Incorporation of AeroVironment, Inc.</a>
3.3 (2)	<a href="#">Third Amended and Restated Bylaws of AeroVironment, Inc., amended as of February 25, 2022</a>
4.1(3)	<a href="#">Form of AeroVironment, Inc.'s Common Stock Certificate</a>
4.2(4)	<a href="#">Description of Registrant's Securities</a>
10.1#(5)	<a href="#">Form of Director and Executive Officer Indemnification Agreement</a>
10.2#(3)	<a href="#">AeroVironment, Inc. 2006 Equity Incentive Plan</a>
10.3#(6)	<a href="#">AeroVironment, Inc. 2006 Equity Incentive Plan, as amended and restated effective September 29, 2011</a>
10.4#(7)	<a href="#">AeroVironment, Inc. 2006 Equity Incentive Plan, as amended and restated effective September 30, 2016</a>
10.5#(3)	<a href="#">Form of Stock Option Agreement pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan</a>
10.6#(3)	<a href="#">Form of Performance Based Bonus Award pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan</a>

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<b>Exhibit Number</b>	<b>Exhibit</b>
10.7#(8)	<a href="#">Form of Long-Term Compensation Award Grant Notice and Long-Term Compensation Award Agreement pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan</a>
10.8#(9)	<a href="#">Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (Severance Plan Participants) pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan</a>
10.9#(9)	<a href="#">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</a>
10.10#(9)	<a href="#">Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (Non-Management Directors) pursuant to the AeroVironment, Inc. 2006 Equity Incentive Plan</a>
10.11#(9)	<a href="#">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</a>
10.12#(10)	<a href="#">AeroVironment, Inc. 2021 Equity Incentive Plan</a>
10.13#(10)	<a href="#">Form of Stock Option Grant Notice and Stock Option Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan</a>
10.14#(10)	<a href="#">Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan (Severance Plan Participants)</a>
10.15#(10)	<a href="#">Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan (Non-Severance Plan Participants)</a>
10.16#(10)	<a href="#">Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan (Non-Employee Directors)</a>
10.17#(10)	<a href="#">Form of Performance Restricted Stock Award Grant Notice and Performance Restricted Stock Award Agreement pursuant to the AeroVironment, Inc. 2021 Equity Incentive Plan</a>
10.18	<a href="#">Lease, dated March 11, 2022, between AeroVironment, Inc. and BCORE Defender CA1W01, LLC, for the property located at 85 Moreland Road, Simi Valley, California</a>
10.19(11)	<a href="#">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</a>
10.20(12)	<a href="#">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</a>
10.21(4)	<a href="#">Second Amendment to Lease Agreement dated as of May 13, 2020, by and between the Company and Hillside III LLC for the property located at 900 Enchanted Way, Simi Valley, CA 93065</a>
10.22(11)	<a href="#">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</a>
10.23(12)	<a href="#">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</a>
10.24(13)	<a href="#">Second Amendment to Lease Agreement (994 Innovators Way, Simi Valley, CA 93065) dated as of June 1, 2021, by and between the Company and Hillside Associates II, LLC, and related agreements</a>
10.25(12)	<a href="#">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</a>
10.26(13)	<a href="#">First Amendment to Lease Agreement (996 Innovators Way, Simi Valley, CA 93065) dated as of June 1, 2021, by and between the Company and Hillside Associates II, LLC, and related agreements</a>
10.27(14)	<a href="#">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</a>
10.28(15)	<a href="#">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</a>
10.29#(3)	<a href="#">Retiree Medical Plan</a>
10.30(16)	<a href="#">Form of Director Letter Agreement by and between AeroVironment, Inc. and certain non-employee director</a>

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<u>Exhibit Number</u>	<u>Exhibit</u>
10.31(14)	<a href="#">Asset Purchase Agreement by and between Webasto Charging Systems, Inc. and AeroVironment, Inc. dated as of June 1, 2018</a>
10.32(15)	<a href="#">Side Letter Agreement by and between Webasto Charging Systems, Inc. and AeroVironment, Inc. dated as of June 29, 2018</a>
10.33#(17)	<a href="#">AeroVironment, Inc. Executive Severance Plan and Summary Description, effective January 1, 2019</a>
10.34#(18)	<a href="#">Special Consulting Agreement by and between AeroVironment, Inc. and Kirk Flittie dated as of July 13, 2019</a>
10.35*(19)	<a href="#">Stock Purchase Agreement, dated January 11, 2021, by and among AeroVironment, Inc., Arcturus UAV, Inc., and the shareholders and other equity interest holders of Arcturus UAV, Inc.</a>
10.36(13)	<a href="#">Loan commitment letter, dated January 11, 2021, by and among AeroVironment, Inc., Bank of America, N.A., BofA Securities, Inc., JPMorgan Chase Bank, N.A., and U.S. Bank National Association.</a>
10.37*(13)	<a href="#">Credit Agreement, dated February 19, 2021, by and among AeroVironment, Inc., certain lenders, letter of credit issuers, Bank of America, N.A., as the administrative agent and the swingline lender, and BofA Securities, Inc., JPMorgan Chase Bank, N.A., and U.S. Bank National Association, as joint lead arrangers and joint bookrunners</a>
10.38†(13)	<a href="#">Security and Pledge Agreement, dated February 19, 2021, by and among AeroVironment, Inc., certain obligors, and Bank of America, N.A., as the administrative agent</a>
10.39(20)	<a href="#">First Amendment to Credit Agreement and Waiver, dated February 4, 2022, by and among AeroVironment, Inc., certain lenders, letter of credit issuers, Bank of America, N.A., as the administrative agent and the swingline lender, and BofA Securities, Inc., JPMorgan Chase Bank, N.A., and U.S. Bank National Association</a>
10.40‡*(21)	<a href="#">Share Purchase Agreement, dated December 3, 2020, by and between AeroVironment, Inc., Unmanned Systems Investments GmbH, and each of the unit holders of Unmanned Systems Investments GmbH</a>
21.1	<a href="#">Subsidiaries of AeroVironment, Inc.</a>
23.1	<a href="#">Consent of Deloitte &amp; Touche LLP, independent registered public accounting firm</a>
24.1	<a href="#">Power of Attorney (incorporated by reference to the signature page of this Annual Report)</a>
31.1	<a href="#">Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934</a>
31.2	<a href="#">Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934</a>
32.1	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File formatted as Inline XBRL and contained in Exhibit 101

- 
- (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 Current Report on Form 8-K filed March 3, 2022 (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 June 24, 2020 (File No. 001-33261).

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- (5) 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).
- (6) Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed on October 5, 2011 (File No. 001-33261).
- (7) 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).
- (8) 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).
- (9) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed June 26, 2019 (File No. 001-33261).
- (10) Incorporated by reference herein to the exhibits to the Company's Registration Statement on Form S-8 filed October 13, 2021 (File No. 333-260227).
- (11) 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).
- (12) 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).
- (13) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed June 29, 2021 (File No. 001-33261).
- (14) 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).
- (15) 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).
- (16) 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).

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.

- (17) 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).

(18) Incorporated by reference herein to the exhibits to the Company's Current Report on Form 8-K/A filed October 22, 2019 (File No. 001-33261).

(19) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed June 29, 2021 (File No. 001-33261).

The representations and warranties contained in the Stock 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 Stock Purchase Agreement. Moreover, the representations and warranties were made only as of the date of execution of the Stock Purchase Agreement and information concerning the subject matter of the representations and warranties may change after the date of the Stock Purchase Agreement. Only parties to the Stock Purchase Agreement have a right to enforce the agreement. Accordingly, security holders should not rely on the representations and warranties in the Stock 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.

(20) Incorporated by reference herein to the exhibits to the Company's Quarterly Report on Form 10-Q filed March 4, 2022 (File No. 001-33261).

(21) Incorporated by reference herein to the exhibits to the Company's Annual Report on Form 10-K filed June 29, 2021 (File No. 001-33261).

The representations and warranties contained in the Share 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 Share Purchase Agreement. Moreover, the representations and warranties were made only as of the date of execution of the Share Purchase Agreement and information concerning the subject matter of the representations and warranties may change after the date of the Stock Purchase Agreement. Only parties to the Share Purchase Agreement have a right to enforce the agreement. Accordingly, security holders should not rely on the representations and warranties in the Share 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.

‡ Pursuant to Items 601(b)(2) and/or 601(b)(10) 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.

\* Schedules (or similar attachments) to this Exhibit have been omitted in accordance with Items 601(a)(5) and/or 601(b)(2) of Regulation S-K. The Registrant agrees to furnish supplementary a copy of all omitted schedules to the Securities and Exchange Commission on a confidential basis upon request.

(c) Financial Statement Schedules and Separate Financial Statements of Subsidiaries Not Consolidated and Fifty Percent or Less Owned Persons

HAPSMobile was deemed a significant equity investee under Rule 3-09 of Regulation S-X for the fiscal year ended April 30, 2021. As such, financial statements of HAPSMobile are required to be filed by amendment to this Annual Report on Form 10-K, within six months of HAPSMobile's fiscal year end. Accordingly,



HAPSMobile financial statements for its fiscal year ended March 31, 2021 will be filed via an amendment to this Annual Report on Form 10-K on or before September 30, 2021.



**LEASE**

This Lease (this “**Lease**”) is made and entered into as of March 11th, 2022, by and between BCORE DEFENDER CA1W03, LLC, a Delaware limited liability company (“**Landlord**”), and AEROVIRONMENT, INC., a Delaware corporation (“**Tenant**”).

1. **BASIC TERMS AND DEFINITIONS.**

- (a) **Definitions:** The capitalized terms below have the corresponding definitions. In addition, other capitalized terms used in this Lease have the meanings set forth in **Exhibit A**.
- (b) **“Premises”:** the approximately 105,083 rentable square feet leased to Tenant under this Lease, as shown and described in **Exhibit B**.
- (c) **“Building”:** the building where the Premises are located consisting of approximately 105,083 rentable square feet, with an address of: 85 Moreland Road, Simi Valley, California 93065.
- (d) **“Project”:** Consisting of the Premises, the Land, the Common Areas, the Building and any other improvements on or appurtenances to the Land.
- (e) **“Lease Commencement Date”:** July 1, 2022
- (f) **“Lease Expiration Date”:** June 30, 2025 or such earlier date as this Lease terminates in accordance with its terms.
- (g) **“Estimated Expenses”:** initially \$\_\_\_\_\_ per month for the first complete month, as further described in this Lease.
- (h) **“Tenant’s Share”:** 100%
- (i) **“Permitted Use”:** For manufacturing, warehousing and distribution of aerospace material, with ancillary office uses.
- (j) **“Security Deposit”:** none.
- (k) **“Notice Addresses”:**

**Landlord:**

BCORE Defender CA1W03, LLC  
 c/o Link Logistics Real Estate  
 Management LLC  
 90 Park Avenue 32<sup>nd</sup> Floor  
 New York, New York 10016  
 Attention: General Counsel  
 Email: legal@linklogistics.com

and

**Tenant:**

AeroVironment, Inc.  
 85 Moreland Road, Simi Valley  
 California 93065  
 Attention: \_\_\_\_\_

With a copy, with respect to billing purposes, to:

Email: \_\_\_\_\_



BCORE Defender CA1W03, LLC  
c/o Link Logistics Real Estate  
Management LLC  
602 West Office Center Drive, Suite 200  
Fort Washington, Pennsylvania 19034  
Attention: Lease Administration  
Email: leaseadministration@linklogistics.com

With a copy, with respect to certificates of insurance,  
to TenantCOI@linklogistics.com

2. **LEASED PREMISES.** Landlord, in consideration of the payment of Rent and the performance by Tenant of all other terms, covenants and conditions of this Lease (subject to notice and cure provisions set forth herein, if applicable), leases to Tenant the Premises. Tenant acknowledges that it is currently in possession of the Premises. Tenant accepts the Premises, and the Building “AS-IS”, without any representation or warranty of any kind, express or implied, by Landlord, other than as expressly set forth in this Lease. Landlord and Tenant stipulate and agree to the rentable square footages set forth in the “Basic Terms and Definitions” Section, without regard to actual measurements. Notwithstanding the foregoing, in the case of a change to the Project, Landlord may in its sole discretion measure the rentable square footages of the Premises, the Building or the Project (based on the appropriate BOMA [Building Owners and Managers Association] standard, as set forth at [https://www.boma.org/BOMA/BOMA-Standards/BOMA\\_Floor\\_Measurement\\_Standards/BOMA\\_Floor\\_Measurement\\_Standards.aspx](https://www.boma.org/BOMA/BOMA-Standards/BOMA_Floor_Measurement_Standards/BOMA_Floor_Measurement_Standards.aspx)) and update Tenant’s Share and/or the square footage of the Premises for all purposes under this Lease by delivery of written notice to Tenant.

3. **USE.** Tenant agrees to use the Premises for the Permitted Use, and for no other use or purpose. Tenant must comply with the Rules and Regulations, a copy of which is attached as **Exhibit C**. Tenant will, at its sole cost, comply with, and cause Tenant’s Parties to comply with, all Applicable Laws pertaining to the Premises or Tenant’s use or occupancy of the Premises, and obtain any permits, approvals, or licenses required for such use and occupancy. Tenant shall not use the Premises in any manner that would cause the Premises or the Project to be considered a “place of public accommodation” under the ADA. If an Alteration to the Premises or the Project becomes required under any Applicable Law, or requested in a citation issued by a governmental authority, as a result of (i) Tenant’s particular use of the Premises (as opposed to warehouse and distribution with ancillary office uses in general), or (ii) any Alterations performed by or at the request of Tenant, then Tenant shall upon Landlord’s demand make such required Alteration at Tenant’s sole cost or pay Landlord the cost incurred by Landlord for the Alteration.

4. **LEASE TERM.** Tenant acknowledges that it is currently in occupancy of the Premises pursuant to that certain Standard Industrial/Commercial Single-Tenant Lease - Net dated February 12, 2007 by and between OMP INDUSTRIAL MORELAND, LLC, a Delaware limited liability company, as predecessor-in-interest to Landlord, and Tenant (the “**Existing Lease Agreement**”), as amended by that certain First Amendment to Lease dated October 10, 2011 and that certain Second Amendment to Lease dated June 2, 2017, both Amendments being between Simi Valley NCR, a California limited liability company, as lessor, and Tenant, as lessee (the Existing Lease Agreement, as amended, the “**Existing Lease**”). Effective as of the Lease Commencement Date of this Lease, the Existing Lease shall terminate. Tenant’s occupancy of the Premises prior to the Lease Commencement Date shall be governed solely by the Existing Lease, except that Tenant shall not be entitled to exercise any options contained in the Existing Lease or to receive any allowances or leasehold improvement work described therein which has not been provided or performed by Landlord as of the date hereof. Upon the expiration of the Existing Lease, Landlord and Tenant shall have no further obligations thereunder except for those obligations which expressly survive the termination

thereof; provided, however, Tenant shall remain liable for all additional rent and other sums payable under the Existing Lease up to and including the termination date of the Existing Lease even though billings for such may occur subsequent to the termination date. Any default by Tenant under the Existing Lease shall be deemed a default under this Lease.

5. **RENT.** Commencing on July 1, 2022, Tenant must pay Landlord in advance, on the first day of each calendar month, the monthly Base Rent (set forth in Section 6 below), without notice, demand, abatement, offset or deduction. Base Rent and Estimated Expenses shall be appropriately prorated by Landlord on a per diem basis for any partial month during the Term. Any other Additional Rent shall be due and payable by Tenant on or before 10 days after billing by Landlord. Attached hereto as **Exhibit D** are instructions for all payments by Tenant to Landlord, which may be updated from time to time by written notice delivered by Landlord to Tenant. Tenant’s payment obligations under this Lease are absolute and unconditional and independent covenants from Landlord’s covenants under this Lease. If Tenant is delinquent in the payment of any Rent for more than 5 business days, Tenant shall pay to Landlord a late charge equal to 5% of such delinquent sum and interest on the late fee and unpaid Rent from the date such amount was due until paid in full at the Applicable Interest Rate. Said late charge shall be in addition to any other rights and remedies available to Landlord under this Lease, at law, or in equity, and shall not be construed as a penalty. Tenant shall also pay Landlord any cost incurred by Landlord in connection with a check presented by Tenant that is declined due to insufficient funds.

6. **BASE RENT.** Base Rent is as follows:

<b>Period</b>	<b>Monthly Base Rent</b>
7/1/22 – 6/30/23	\$99,828.85
7/1/23 – 6/30/24	\$103,322.86
7/1/24 – 6/30/25	\$106,939.16

Notwithstanding the foregoing, Base Rent is abated during the period from July 1, 2022 through July 31, 2022 (the “Abatement Period”), after which Tenant must pay Base Rent as set forth above. Tenant nonetheless owes Additional Rent during the Abatement Period, and Landlord can charge its management fee as though Base Rent were not abated. In the case of an Event of Default uncured by Tenant, Base Rent abated pursuant to this Section shall immediately become due and payable in full.

7. **SECURITY DEPOSIT.** [Intentionally Deleted].

8. **UTILITIES.** Tenant shall timely pay the cost (including related taxes and charges) of all utility services (including without limitation water, gas, propane, diesel, electricity, sewer, waste, telecommunications and data) used on or provided to the Premises or Project. Tenant shall obtain utility services for the Premises in Tenant’s own name and timely pay for the costs therefor directly to the respective utility provider. Tenant may select its own telecommunications or data service and will pay the cost therefor, and Landlord will not be responsible for providing any such service connections to the Building. Landlord shall not be responsible or liable for any interruption in utilities or services, or for any injury to property caused thereby, nor shall such interruption affect the continuation or validity of this Lease, constitute an eviction, give rise to an abatement or relieve Tenant from full performance of Tenant’s obligations under this Lease. Notwithstanding the foregoing, if any interruption or discontinuance of utilities is caused by the gross negligence or willful misconduct of Landlord or its employees, or by any person acting for Landlord or on its behalf, and if such interruption or discontinuance continues beyond 3 consecutive business days and materially and adversely affects Tenant’s ability to conduct its business in the Premises, and on account of such interruption or discontinuance, Tenant ceases doing business in the Premises (or a material portion thereof), Rent shall abate thereafter (as to the Premises or as to such material



portion thereof, as the case may be) and for the duration of such interruption or discontinuance. Landlord acknowledges that, under the Existing Lease, Tenant is currently already contracting with companies providing such utilities or services to the Project, Building or the Premises, and agrees that such companies may continue to provide such services under this Lease. Upon written request no more often than once a quarter, Tenant shall provide to Landlord reasonable utility consumption data and other related information (or, at Landlord's option, execute and deliver to Landlord an instrument enabling Landlord to obtain the same from the applicable provider). Tenant shall cooperate with Landlord to conduct ASHRAE (American Society of Heating, Refrigerating and Air Conditioning Engineers) energy audits of the Building and Project.

9. **EXPENSES.** On the Lease Commencement Date and the first day of each calendar month thereafter during the Term (including during the period from July 1, 2022 through July 31, 2022), Tenant shall pay to Landlord an amount equal to 1/12 of the annual cost, as reasonably estimated by Landlord, of Tenant's Share of Operating Expenses (as defined in Exhibit A hereto) ("**Estimated Expenses**"). Estimated Expenses shall be appropriately prorated by Landlord on a per diem basis for any partial month during the Term. If the Building and/or the Project is less than fully occupied during any calendar year, then the variable components of Operating Expenses as determined by Landlord shall be calculated as if the Building and/or the Project had been fully occupied for the full calendar year.

a. **ESTIMATED EXPENSES NOTICE.** Landlord can from time to time provide Tenant with written notice (an "**Estimated Expenses Notice**") of the monthly Estimated Expenses due and payable by Tenant with respect to the period covered by the notice. (The initial monthly Estimated Expenses is set forth in the "Basic Terms and Definitions" Section above.) The Estimated Expense amounts set forth in an Estimated Expenses Notice shall be based upon Landlord's estimate of Operating Expenses to be incurred with respect to the period covered by the notice. Landlord may invoice Tenant separately from time to time for any extraordinary or unanticipated Estimated Expenses.

b. **EXPENSE RECONCILIATION.** Promptly after the end of each calendar year during the Term and the Lease Expiration Date, and at any other time in Landlord's discretion, Landlord shall make an accounting of actual Operating Expenses for the preceding calendar year and provide Tenant with a written statement of Tenant's Share of such Operating Expenses (a "**Reconciliation Statement**"). Within 30 days after delivery of a Reconciliation Statement to Tenant, Tenant shall pay to Landlord the amount by which actual Operating Expenses exceeded Estimated Expenses paid during the covered period (and if the actual expenses were less than Estimated Expenses paid, Landlord shall at its option either credit Tenant's account or reimburse Tenant for any overpayment by Tenant). In the case of any expenses the actual amount of which is not known at time of delivery of a Reconciliation Statement, Landlord may rely on its estimates of such expenses to generate the Reconciliation Statement and perform another accounting once actual amounts are known and deliver an additional Reconciliation Statement. If requested by Tenant within 15 days of the delivery of a Reconciliation Statement, Landlord shall provide or make available the supporting data upon which Landlord based the Reconciliation Statement. If Tenant does not object by written notice to Landlord within 30 days of delivery of a Reconciliation Statement, Tenant shall be deemed to have waived the right to contest the Reconciliation Statement. Landlord's and Tenant's obligations to pay any overpayment or deficiency due the other pursuant to this Section shall survive the Lease Expiration Date.

c. **TENANT'S EXPENSES.** Prior to delinquency, Tenant shall pay (and, upon request, provide Landlord with evidence of payment of) all Taxes (as defined in **Exhibit A**) and all other taxes and assessments, together with any interest, charges, fees and penalties in connection therewith, levied upon or arising from (a) Tenant's Property, (b) the conduct of Tenant's business, or (c) Tenant's leasehold estate. Tenant shall pay all such Taxes and other amounts directly to the applicable taxing authority, or if such amounts are billed to or paid by Landlord, then Tenant shall pay such amounts to Landlord within thirty (30) days after receipt of Landlord's invoice therefor.

10. **INDEMNITY AND WAIVER OF CLAIMS.**

a. **INDEMNITY.** Tenant shall indemnify, protect, defend (by counsel acceptable to Landlord) and hold harmless Landlord and the Indemnitees from and against Losses, which may be imposed upon, incurred or suffered by or asserted against Landlord or any of the Indemnitees at any time prior to, during or after the Term arising out of or in connection with Tenant's occupancy or use of the Premises, any acts or omissions of Tenant or any Tenant Party, or the conduct of Tenant's business, or otherwise in, upon or about the Premises, except to the extent caused by the gross negligence or willful misconduct of Landlord or of the Indemnitees. The obligations of Tenant under this Section shall survive the Lease Expiration Date.

b. **WAIVER OF CLAIMS.** Except to the extent any loss, illness, injury, or damage is caused by the gross negligence or willful misconduct of Landlord or Indemnitees, Tenant, as a material part of the consideration to Landlord, hereby assumes all loss due to business interruption and all risk of illness or injury to persons in, upon or about the Premises and/or the Project arising from any cause and all risk of damage to property including, but not limited to, Tenant's Property and all Tenant's Parties and all Alterations, and Tenant hereby expressly releases Landlord and the Indemnitees and waives all claims in respect thereof against Landlord and the Indemnitees.

11. **INSURANCE.**

a. **LANDLORD.** Landlord shall maintain insurance policies insuring the Project against fire and extended coverage (including, if Landlord elects, "special cause of loss form" coverage, earthquake/volcanic action, flood and/or surface water insurance) for the full replacement cost of the Building (including coverage of any Alteration made by Landlord, but excluding coverage of Tenant's Property and any Alterations made by Tenant or a Tenant Party), with deductibles in the form and endorsements of such coverage as selected by Landlord. Landlord can obtain its insurance through a blanket policy or captive insurance program. Landlord may also in its discretion obtain other coverage for the Project.

b. **TENANT.** Tenant shall, at Tenant's sole expense, obtain and keep in force at all times the following insurance in the following coverage amounts, which coverage amounts Landlord may reasonably increase from time to time upon reasonable advance written notice to Tenant in the event Tenant's operations change or Landlord otherwise reasonably determines that such coverage amounts are inadequate under the circumstances:

i. **Commercial General Liability Insurance (Occurrence Form).** Commercial General Liability Insurance ("**CGL Policy**") covering claims of bodily injury, personal injury and property damage arising out of Tenant's operations and contractual liabilities, including coverage formerly known as broad form, on an occurrence basis, with primary limits of at least \$1,000,000 each occurrence and \$2,000,000.00 annual aggregate;

ii. **Automobile Liability Insurance.** Business automobile liability insurance having a combined single limit of not less than \$1,000,000.00 per occurrence and including owned, hired or non-owned automobiles;

iii. **Workers' Compensation and Employer's Liability Insurance.** Workers' compensation insurance having limits not less than those required by applicable state and federal statute,

and covering all persons employed by Tenant, including volunteers, in the conduct of its operations on the Premises, together with employer's liability insurance coverage in the amount of at least \$1,000,000.00;

iv. **Property Insurance.** "All risk" or "special cause of loss form" property insurance including coverage for vandalism, malicious mischief, sprinkler leakage and, if applicable, boiler and machinery comprehensive form, on a replacement cost basis, insuring (a) all Tenant's Property, and (b) all Alterations made by Tenant or a Tenant Party, in each case, in an amount equal to the then applicable full replacement cost thereof. In the event property of Tenant's invitees or customers are kept in the Premises or Project, Tenant shall maintain warehouse's legal liability or bailee customers insurance for the full value of the property of such invitees or customers as determined by the warehouse contract between Tenant and its customer;

v. **Business Interruption.** Loss of income and extra expense insurance in amounts as will reimburse Tenant for direct or indirect loss of earnings for a period of not less than 12 months, attributable to all perils included in the "all risk" or "special cause of loss form" property insurance policy required above or attributable to prevention of access to the Premises as a result of such perils; and

vi. **Umbrella/Excess Insurance.** An umbrella liability policy or excess liability policy having a limit of not less than \$5,000,000.00, which policy shall be in "following form" and shall provide that if the underlying aggregate is exhausted, the excess coverage will drop down as primary insurance. Such umbrella liability policy or excess liability policy shall include coverage for additional insureds.

**VII. General.** Tenant's insurance company shall be authorized to do business in the state in which the Premises is located and be rated at least "A VIII" (or higher if required by a Mortgagee) as determined by A.M. Best Company. Tenant shall deliver to Landlord certificates of insurance for all insurance required to be maintained by Tenant in the form of ACORD 28 and ACORD 25-S (or in a form acceptable to Landlord in its reasonable discretion), on or before the Lease Commencement Date or any earlier date on which Tenant or any Tenant Party accesses the Premises and, at least 10 days prior to the expiration of any required coverage. Landlord, Landlord's Mortgagee, if any, and any other party designated by Landlord, as their interests may appear, shall be named as additional insureds ("**Additional Insureds**") under Insurance Services Office endorsement CG 20 10 04 13 or equivalent under all of the policies required in this "Insurance" Section, which (a) endorsement shall be included with Tenant's certificates of insurance, and (b) policies shall provide for severability of interest and shall be primary as respects the Additional Insureds, and any insurance maintained by the Additional Insureds shall be excess and non-contributing. The limits and types of insurance maintained by Tenant shall not limit Tenant's liability under this Lease. Tenant shall notify Landlord within 24 hours after the occurrence of any accidents or incidents in the Premises or the Project which could give rise to a claim under any of the insurance policies required under this "Insurance" Section. Tenant shall not be permitted to satisfy any of its insurance obligations set forth in this Lease with deductible amounts, or through any self-insurance or self-insured retention, in excess of \$25,000.00, without Landlord's consent, subject to such additional conditions as Landlord may impose, in Landlord's sole discretion.

c. **MUTUAL WAIVER OF SUBROGATION.** Each party waives, and shall cause its insurance carrier to waive, any right of recovery against the other for any loss of or damage to property which loss or damage is (or, if the insurance required hereunder had been carried, would have been) covered under the terms of any policy of property insurance, to the extent such releases or waivers are permitted under applicable law; provided, however, such waiver by Landlord shall not be effective with respect to Tenant's liability described in the "Environmental Matters" Section below. The failure of a party to insure

its property shall not void this waiver. For purposes of this subsection, (but subject to the terms of the Tenant's Obligations subsection below), any deductible with respect to a party's insurance shall be deemed covered by, and recoverable by such party under, valid and collectible policies of insurance.

12. **REPAIRS AND MAINTENANCE.**

a. **Tenant Obligations.** Except as otherwise expressly provided in the "Landlord Obligations" Section below, Tenant, at Tenant's sole cost and expense, shall Maintain the Premises, Building and Project in good, clean and safe condition, including, without limitation, the following:

(a) the Systems serving the Premises (including, without limitation, exterior lighting and supplemental life safety systems relating to Tenant's use of the Premises, specialty sprinkler systems and fire suppression systems);

(b) all fixtures and equipment in the Premises, Building and Project (including, without limitation, the floor/concrete slab, subfloors and floor coverings, all interior and exterior doors and windows, all dock equipment (including dock doors, levelers, bumpers, dock shelters, ramps and dock lights) and all telephone, telecommunications, data and other communication lines and equipment);

(c) any fencing exclusively serving the Premises;

(d) all utility lines, hook ups and connections;

(e) the roof membrane and the non-structural portions of the Building exterior walls (including, without limitation, exterior façade painting and caulk repair) and roof (including, without limitation, insulation, flashings and membrane); and

(f) exterior landscaping, sidewalks, parking areas loading areas and driveways. In addition to the foregoing, Tenant, at its sole cost, shall be responsible for the following: security; interior pest control; interior window cleaning; janitorial; trash and recyclables collection services (including dumpsters); elevators; office/warehouse lighting (including all bulbs and ballasts); and ceiling tiles. Tenant Maintenance work shall be subject to the applicable provisions of the "Alterations; Liens" Section of this Lease below.

At its discretion, Tenant shall either utilize its existing internal maintenance staff, or alternatively, at Tenant's sole cost, enter into a regularly scheduled preventive maintenance/service contract ("**Service Contract**") with a maintenance contractor reasonably acceptable to Landlord for servicing (a) HVAC System in compliance with **Exhibit E** attached hereto, and (b) all dock equipment exclusively serving the Premises. If Tenant contracts with a maintenance contractor, Tenant shall deliver full and complete copies of the Service Contract (and any other service contracts entered into by Tenant) to Landlord at the commencement of each Lease Year and upon demand from Landlord. All Maintenance by Tenant shall utilize materials and equipment that meet or exceed the quality originally used in constructing the Building and Premises. In the event Tenant fails, in the reasonable judgment of Landlord, to Maintain the Premises, Building or Project to Landlord's reasonable satisfaction, which failure continues at the end of 15 days following delivery of notice by Landlord to Tenant describing such failure, or in the case of an emergency immediately without prior notice, Landlord shall have the right to enter the Premises and perform such Maintenance at Tenant's sole cost and expense (including a sum for overhead to Landlord equal to 10% of the costs of maintenance, repairs or refurbishing). Tenant shall maintain written records of Maintenance and deliver copies thereof to Landlord upon request. Notwithstanding anything contained in this Lease to the contrary, Tenant shall be solely responsible for all costs and expenses incurred by Landlord for any Alterations, or other Maintenance made necessary because of the acts or omissions of Tenant or any Tenant Party (including, without limitation, Tenant Alterations and/or Tenant Maintenance work, Tenant's special or particular use of the Premises and Tenant voiding a warranty that would otherwise have covered a cost), in each case, to the extent not covered by applicable insurance proceeds paid to Landlord (Tenant being responsible for Landlord's commercially reasonable deductible notwithstanding the waiver of claims set forth in the "Mutual Waiver of Subrogation" subsection above).

b. **Landlord Obligations.** Landlord shall only be required to maintain the structure of the Building (including the structural portions of the roof (excluding the roof membrane)), at Landlord's sole expense, without reimbursement from Tenant, unless the necessity for repairs to the same are necessitated due to the acts or omissions of Tenant or a Tenant Party (in which event Tenant shall be responsible for the cost of the same). Notwithstanding the foregoing, Landlord shall not be required to make any repairs resulting from fire or other casualty or a Taking, except as provided in "Damage and Destruction" and "Condemnation" Sections below. Tenant shall immediately notify Landlord in writing if Tenant becomes aware of (a) any areas of water intrusion or mold in or about the Premises, or (b) any condition that is Landlord's responsibility to Maintain.

13. **ALTERATIONS; LIENS.**

a. **Alterations.** Tenant, at its sole cost, may install necessary trade fixtures, equipment and furniture in the Premises (it being agreed that such installation shall not be deemed an Alteration), provided that the installation and removal of them will not affect any structural portion of the Project, any System or any other equipment or facilities serving the Project or any occupant. Except for any Alterations or Tenant Maintenance work that, in either instance, (a) does not exceed \$10,000.00 in the aggregate, (b) is not visible from the exterior of the Premises, (c) does not affect any System or any structural components of the Project, and (d) does not require penetrations into, or work within, the floor, ceiling or walls, Tenant shall not construct, nor allow to be constructed, any Alterations or Tenant Maintenance work in the Premises or on the Project without obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld. With respect to any Alterations or Tenant Maintenance work made by or on behalf of Tenant (whether or not it requires Landlord's consent): (a) not less than 10 days prior to commencing any Alteration or Tenant Maintenance work, Tenant shall deliver to Landlord the plans, specifications and necessary permits for the Alteration or Tenant Maintenance work, together with certificates evidencing that Tenant's contractors and subcontractors have insurance coverage to Landlord's reasonable satisfaction; (b) Tenant shall obtain Landlord's prior written approval of any contractor or subcontractor; (c) the Alteration or Tenant Maintenance work shall be constructed with new materials, in a good and workmanlike manner, and in compliance with all Applicable Laws and the plans and specifications delivered to and approved by Landlord; (d) the Alteration or Tenant Maintenance work shall be completed promptly after the commencement thereof and performed in accordance with Landlord's reasonable requirements relating to sustainability and energy efficiency; (e) Tenant shall pay Landlord all reasonable costs and expenses in connection with Landlord's review of Tenant's plans and specifications, and of any supervision or inspection of the construction Landlord deems necessary; and (f) upon Landlord's request Tenant shall, prior to commencing any Alteration or Tenant Maintenance work, provide Landlord reasonable security against liens arising out of such construction. Upon completion, Tenant shall furnish Landlord with (i) "as-built" plans (in CAD format, if requested by Landlord) for Alterations, completion affidavits and full and final waivers of lien, and (ii) the warranties from Tenant's contractor(s), which shall be for the benefit of Landlord as well as Tenant. Any Alteration by Tenant shall be the property of Tenant until the Lease Expiration Date; at that time Tenant, at its sole cost, shall remove any Alteration(s) and repair all damage caused by the installation or removal thereof and will restore the Premises or the Project to the condition existing prior to Tenant's Alteration; provided, however, at the Lease Expiration Date, and at Landlord's sole option, without payment by Landlord, Landlord may require Tenant to leave any Alteration(s) at the Premises, in which event they shall become the property of Landlord.

b. **Liens.** Tenant, at its sole cost, shall promptly pay and discharge all claims for labor performed, supplies furnished and services rendered at the request of Tenant and shall keep the Premises free of all mechanics' and materialmen's liens. Tenant, at its sole cost, shall remove any such lien within 15 days after notice from Landlord. If Tenant fails to do so, an Event of Default by Tenant shall have occurred, and Landlord may bond, insure over or pay the amount necessary to cause such removal, whether



or not such lien is valid, and charge the Tenant such amount, together with reasonable attorneys' fees and expenses, in addition to all other remedies Landlord has under this Lease, at law or in equity.

14. **LANDLORD'S RIGHT OF ENTRY.** Landlord reserves the right to enter the Premises upon reasonable notice to Tenant (including by telephone or email) and without notice in case of an emergency, and to undertake the following: (i) to inspect, monitor, investigate, test or Maintain the Premises and/or the Project; (ii) to verify Tenant is complying with its obligations hereunder; (iii) to perform Landlord's obligations hereunder; (iv) to make permitted, or inspect Tenant's, Alterations; (v) to install, use, Maintain, alter or relocate any pipes, ducts, conduits, wires, equipment and other facilities at the Project; (vi) to install, Maintain and operate conduit cabling within the utility and/or conduit ducts and risers at the Project; or (vii) to show the Premises for the purpose of sale, insurance or financing, and, during the last 12 months of the Term (or following any Event of Default), leasing the Premises to another tenant. If reasonably necessary, Landlord may temporarily close all or a portion of the Premises to perform repairs, alterations and additions. However, except in emergencies, Landlord will not close the Premises if the work can reasonably be completed on weekends and after normal business hours. Landlord will make reasonable efforts not to inconvenience Tenant in exercising such rights. The entry and authority granted to Landlord under this Section shall not constitute a constructive eviction or entitle Tenant to an abatement or reduction of Rent.

Landlord acknowledges that, consistent with Tenant's Permitted Use under this Lease, Tenant is required to comply with the export control laws and regulations of the United States Department of Commerce, the United States Department of State, and other United States government agencies relating to the export of (i.e., the sharing of or access to) commercial or military technology, including but not limited to the U.S. Arms Export Control Act, as amended, the International Traffic in Arms Regulations (ITAR), the Export Administration Regulations (EAR), the Export Administration Act, as amended, the Foreign Assets Control Regulations (collectively, "Export Control Laws"). These Export Control Laws require Tenant to obtain information concerning the citizenship or immigrant status of all persons who enter or otherwise seek access to the Project if such entry involves access to areas containing "Technical Data" as defined by applicable law. Landlord acknowledges and agrees to furnish such information for all of Landlord's employees, representatives, or agents before such individuals enter or otherwise access the Project, and that, except in the event of an emergency, Tenant may deny entry or access to the Project by such persons if such information is not furnished. Landlord further acknowledges and agrees that if any of its employees, representative, or agents are "Foreign Persons" as defined by applicable law, that Tenant may deny entry or access to the Project by such persons, consist with the Export Control Laws. If Tenant denies entry to Landlord or Landlord's employees, representatives, or agents, then in no event shall Landlord have any liability or otherwise be in default with respect to Landlord's inability to perform, or delay in the performance of, Landlord's obligations resulting therefrom.

15. **ENVIRONMENTAL MATTERS.** Tenant shall not cause nor permit, nor allow any of Tenant's Parties to cause or permit, any Hazardous Materials to be brought upon, stored, manufactured, generated, blended, handled, recycled, treated, disposed or used on, in, under or about the Premises or the Project, except for routine office and janitorial supplies in usual and customary quantities stored, used and disposed of in accordance with all applicable Environmental Laws. Tenant shall not install, operate or maintain any above or below grade tank, sump, pit, pond, lagoon or other storage or treatment vessel or device at the Project without Landlord's prior written consent which may be withheld in Landlord's sole discretion. Tenant shall neither create nor suffer to exist, nor permit any Tenant Party to create or suffer to exist, any lien, security interest or other charge or encumbrance of any kind with respect to the Project, including without limitation, any lien imposed pursuant to Section 107(f) of the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. Section 9607(1)) or any similar state statute. As defined in Environmental Laws, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the

“owner” of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom. Tenant and Tenant’s Parties shall immediately notify Landlord and the respective property manager in writing of the violation of any Environmental Law or presence or suspected presence of any Hazardous Materials (other than office and janitorial supplies as permitted above) in, on, under or about the Premises or the improvements or the soil or groundwater thereunder. Landlord shall have the right to enter upon and inspect the Premises and to conduct tests, monitoring and investigations. Within 10 days following receipt by Tenant of a written request therefor from Landlord (which request shall not be made more often than annually), Tenant shall disclose to Landlord in writing the names and amounts of all Hazardous Materials, or any combination thereof, which were stored, generated, used or disposed of on, in, under or about the Premises for the 12-month period prior to and after each such request, or which Tenant intends to store, generate, use or dispose of on, in, under or about the Premises. Similarly, within 10 days of written request from Landlord, Tenant will complete a certification as to its compliance with this Section. Landlord may conduct environmental testing, including “Phase I”, around the Lease Expiration Date and treat as an Operating Expense. Tenant shall indemnify, protect, defend (by counsel acceptable to Landlord) and hold harmless the Indemnitees from and against any and all Losses of or in connection with (a) Tenant and/or any Tenant Party’s breach of this Section, or (b) the presence of Hazardous Materials on, in, under or about the Premises, the Land, the Project or other property as a result (directly or indirectly) of Tenant’s and/or any Tenant Party’s activities, or failure to act, in connection with the Premises, the Project or this Lease. This indemnity shall include, without limitation, any Losses arising from or in connection with (i) the effects of any contamination or injury to person, property or the environment created or suffered by Tenant or a Tenant Party, (ii) the cost of any required or necessary repair, cleanup or detoxification, and the preparation and implementation of any closure, monitoring or other required plans, whether such action is required or necessary prior to or following the termination of this Lease, (iii) interest, penalties and damages arising from claims brought by or on behalf of employees of Tenant (with respect to which Tenant waives any right to raise as a defense against Landlord any immunity to which it may be entitled under any industrial or worker’s compensation laws), and (iv) fees, costs or expenses incurred for the services of attorneys, consultants, contractors, experts, laboratories, and all other costs incurred in connection with the investigation, monitoring or remediation of such Hazardous Materials or violation of such Environmental Laws. Landlord shall have the right to direct any and all remediation activities, all of which shall be performed at Tenant’s sole cost. Neither the written consent by Landlord to the presence of Hazardous Materials on, in, under or about the Premises, nor the strict compliance by Tenant with all Environmental Laws, shall excuse Tenant from Tenant’s obligation of indemnification pursuant hereto. Tenant’s obligations pursuant to the foregoing indemnity shall survive the Lease Expiration Date.

16. **DAMAGE AND DESTRUCTION.** If at any time during the Term all or a portion of the Premises are damaged by a fire or other casualty, then Tenant shall promptly notify Landlord. Within 60 days after Landlord becomes aware of such damage, Landlord shall inform Tenant of the amount of time Landlord reasonably estimates to restore the Premises (including the restoration of any Alteration made by Landlord), except for modifications required by Applicable Laws, and excluding the repair, restoration or replacement of the fixtures, equipment, or Alterations made by Tenant or a Tenant Party. If the restoration time is estimated to exceed 9 months from the issuance of all required permits, then either Tenant (unless the damage was caused by Tenant’s negligence or intentional act) or Landlord may elect to terminate this Lease effective as of the date of fire or other casualty by giving notice to the other within 15 days after Landlord’s notice, and Tenant shall promptly remove any salvageable personal property it seeks to retain from the Premises if Landlord deems the Premises safe for entry. In addition, Landlord shall have the right to terminate this Lease, if the loss is not covered by insurance, within 30 days of receiving notice of this fact. If this Lease is not, or cannot be, terminated in accordance with the foregoing, then, subject to receipt of sufficient insurance proceeds and delays due to Force Majeure, Landlord shall commence to restore the Premises (including any Alterations made by Landlord) to substantially the same condition that existed immediately prior to the fire or other casualty, except for modifications required by Applicable Laws, and

excluding the repair, restoration or replacement of the fixtures, equipment, or Alterations made by Tenant or a Tenant Party. Notwithstanding the foregoing, each of Tenant (unless the damage was caused by Tenant's negligence or intentional act) and Landlord may terminate this Lease if the Premises are damaged by a fire or other casualty during the last year of the Term and Landlord reasonably estimates that it will take more than 3 months to repair such damage. Rent shall be abated from the time of a fire or other casualty until Landlord's repair and restoration obligations are completed by the percentage equal to the area of the Premises that is untenantable, if any, divided by the total area of the Premises. Such abatement shall be the sole remedy of Tenant, and except as provided in this Section, Tenant waives any right to terminate this Lease by reason of damage or casualty loss. Landlord shall not be liable for any inconvenience to Tenant, or injury to Tenant's business resulting in any way from a fire or other casualty or the repair thereof. Tenant shall not interfere with or delay, and instead cooperate with Landlord, in Landlord's completion of Landlord's repair and restoration obligations. Tenant agrees that the terms of this Section shall govern any damage or destruction and shall accordingly supersede any contrary statute or rule of law.

17. **CONDEMNATION.** If all of the Premises is Taken, then this Lease shall terminate. If any part of the Premises is Taken and (i) Landlord determines the Taking would materially interfere with or impair its ownership or operation of the Project, (ii) Landlord determines the portion not Taken is insufficient in Landlord's discretion for the reasonable operation of Tenant's business, or (iii) in Landlord's opinion it would be impractical or the condemnation proceeds insufficient to restore the remainder, then, in each case, upon written notice by Landlord, this Lease shall terminate. In the event this Lease is terminated in accordance with either of the foregoing sentences, then this Lease shall terminate as of the date the condemning authority takes possession and Rent shall be apportioned as of said date. If this Lease is not terminated after a Taking, then, subject to any delays due to Force Majeure, Landlord shall restore the Premises (including any Alterations made by Landlord) to a condition as near as reasonably possible to the condition prior to the Taking (except for modifications required by Applicable Laws, and excluding the repair, restoration or replacement of the fixtures, equipment, or Alterations made by Tenant or a Tenant Party), and the Rent payable hereunder during the unexpired Term shall be reduced to reflect the Taking as reasonably determined by Landlord. In the event of any such Taking, Landlord shall be entitled to receive the entire price or award from any such Taking without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award. Tenant shall have the right, to the extent the same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for compensation for moving expenses and damage to Tenant's trade fixtures, if a separate award for such items can be made to Tenant. Tenant agrees that the terms of this Section shall govern any Taking and shall accordingly supersede any contrary statute or rule of law.

18. **DEFAULT.**

a. **Event of Default.** The occurrence of any of the following events shall, at Landlord's option, constitute an "Event of Default":

i. Tenant fails to pay in full any and all Rent when due and, if written notice to the Tenant of such failure is required under this Lease, the failure continues for a period of 3 days after written notice to Tenant.

ii. Tenant or any guarantor of Tenant's obligations hereunder (a) makes a general assignment for the benefit of creditors, (b) commences any Proceeding for Debt Relief, (c) becomes the subject of any Proceeding for Debt Relief that is not dismissed within 60 days of its filing or entry, or (d) dies or suffers a legal disability (if Tenant or Guarantor is an individual) or is dissolved or fails to maintain its legal existence (if Tenant or Guarantor is a corporation, partnership or other entity).

iii. Tenant enters into or permits any Transfer in violation of the “Assignment and Subletting” Section below.

iv. Tenant fails to maintain insurance as required by the “Insurance” Section above.

v. Tenant fails to observe or comply with any provision of this Lease and, if written notice to the Tenant of such failure is required under this Lease, the failure continues for a period of 10 days after written notice to Tenant (extended to 30 days if the default cannot reasonably be cured within such 10 days, and Tenant has begun to cure the default).

b. **Landlord’s Remedies.** Upon any Event of Default, Landlord shall have the right to pursue any of the following remedies, without notice or demand, in addition to any other remedies available to Landlord under this Lease, at law or in equity, all of which shall be cumulative and nonexclusive:

i. Landlord may terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may enter and take possession of the Premises and remove Tenant and any other person occupying the Premises or any part thereof, without being liable for prosecution or any claim of damages therefor; and Landlord may recover from Tenant the following: (a) all accrued and unpaid Rent accrued through the date of termination; (ii) the cost to Landlord, not yet amortized through the date of termination in accordance with generally accepted accounting principles, of the Alterations paid for and installed by Landlord pursuant to this Lease; (iii) the Costs of Reletting; (iv) the positive difference, if any, of the present value of the Rent, less the present value of the then fair market rental value for the Premises, for the remainder of the Term had this Lease not been terminated, such present value computed in each case using a discount rate of 9% per annum; (v) any damages in addition thereto, including reasonable attorneys’ fees, court costs, and collection services, and costs to remove and store Tenant’s Property, which Landlord sustains by reason of the breach of any of the terms, conditions and covenants of this Lease; and (vi) such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by law.

ii. Landlord may enter the Premises without terminating this Lease, and in its discretion remove any property from the Premises, and relet the Premises or any part thereof for the account of Tenant, upon such terms as Landlord in Landlord’s sole discretion shall determine. Landlord shall not be required to accept any tenant offered by Tenant or to observe any instructions given by Tenant relative to such reletting. In connection with such reletting, Landlord may make repairs, alterations, and additions to the Premises to the extent deemed reasonably necessary by Landlord, and Tenant shall upon demand pay the cost thereof. Landlord may collect the rents from any such reletting and apply the same first to the payment of the repairs, alterations, additions, expenses of re-entry, attorney’s fees, court costs, collection services, and leasing commissions and second to the payment of Rent to be paid by Tenant, and any excess or residue shall operate only as an offsetting credit against the amount of Rent as the same thereafter becomes due and payable hereunder. No such re-entry or repossession, repairs, alterations and additions or reletting shall be construed as an eviction or ouster of Tenant or as an election by Landlord to terminate this Lease unless written notice thereof is delivered by Landlord to Tenant, nor shall the same operate to release the Tenant in whole or in part from any of the Tenant’s obligations hereunder. Landlord may at any time sue and recover judgment for any damages remaining after the application of proceeds from any such reletting. In the event of reletting without termination of this Lease, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.

iii. Landlord may, without any obligation to do so, cure the default on behalf of Tenant, in which case Landlord may enter the Premises without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage or

interruption of Tenant's business resulting therefrom. Tenant agrees to pay Landlord an amount equal to 110% of any expenses that Landlord may incur in curing the default, including without limitation, attorney's fees, together with interest thereon at the Applicable Interest Rate from the date of expenditure.

c. **Notice.** Notice periods provided for in this Lease shall run concurrently with any statutory notice periods, and any notice given hereunder may be given simultaneously with or incorporated into a statutory notice. Notwithstanding any provision to the contrary in this Lease, (a) Landlord shall not be required to give Tenant any notice or opportunity to cure any specific monetary or non-monetary default that occurs more than twice in any consecutive 12-month period, and thereafter Landlord may declare an Event of Default without affording Tenant any notice or cure rights provided under this Lease, and (b) Landlord shall not be required to give any notice or cure period as described in the "Events of Default" subsection above for a breach of the "Memorandum of Lease" subsection or any other covenant by Tenant that has a separate notice and/or cure period (e.g., Tenant's failure to provide an estoppel on 10 days' notice as described in the "Estoppel; Financials" subsection below shall be an Event of Default without the requirement to provide additional notice), or in an emergency.

d. **General.** Tenant waives, for itself and all those claiming by, through or under Tenant, by order or judgment of any court or any legal process or writ, this Lease and Tenant's right of occupancy of the Premises after any termination. Exercise by Landlord of any right or remedy shall not be deemed to be an acceptance of surrender of the Premises, a termination of this Lease by Landlord or a release of Tenant from any of its obligations hereunder. No waiver by either Party of any breach by the other Party shall be a waiver of any subsequent breach, nor shall any forbearance by either Party to seek a remedy for any breach by the other Party be a waiver of any rights or remedies with respect to any breach. Efforts by a Party to mitigate the damages caused by the other Party's default shall not constitute a waiver of the mitigating Party's right to recover damages hereunder. Unless expressly stated otherwise in this Lease, no right or remedy conferred upon either Party is intended to be exclusive of any other right or remedy provided herein or at law or in equity, and each right or remedy shall be cumulative and nonexclusive and in addition to every other right or remedy given herein or at law or in equity. No payment by Tenant or acceptance by Landlord of a lesser amount than the total amount due Landlord under this Lease shall be deemed to be a waiver of Landlord's right to recover the balance due, which is expressly reserved, nor shall any endorsement or statement on any check or payment be deemed an accord and satisfaction. Landlord shall not be liable, nor shall Tenant's obligations hereunder be diminished, because of Landlord's failure to relet the Premises or collect rent due in respect of such reletting. If either party commences an action against the other party arising out of or in connection with this Lease, then the prevailing party shall be entitled to have and recover from the other party reasonably incurred attorneys' fees, costs of suit, investigation expenses and discovery and other litigation costs, including costs of appeal. LANDLORD AND TENANT WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON OR RELATED TO THE SUBJECT MATTER OF THIS LEASE.

e. **Mitigation.** In the event of a default under this Lease, Landlord and Tenant shall each use commercially reasonable efforts to mitigate any damages resulting from a default of the other party under this Lease.

i. Landlord's obligation to mitigate damages after a default by Tenant shall be satisfied in full if Landlord undertakes to lease the Premises to another tenant (a "**Substitute Tenant**") in accordance with the following criteria:

1. Landlord shall have no obligation to solicit or entertain negotiations with any other prospective tenant for the Premises until Landlord obtains full and complete possession of the Premises including, without limitation, the

final and unappealable legal right to relet the Premises free of any claim of Tenant.

2. Landlord shall not be obligated to offer the Premises to a Substitute Tenant when other premises in the Building or other buildings owned by Landlord or an affiliate of Landlord suitable for that prospective tenant's use are (or soon will be) available.
  3. Landlord shall not be obligated to lease the Premises to a Substitute Tenant for a rental less than the current fair market rental then prevailing for similar space, nor shall Landlord be obligated to enter into a new lease under other terms and conditions that are unacceptable to Landlord under Landlord's then current leasing policies for comparable space.
  4. Landlord shall not be obligated to enter into a lease with any proposed tenant whose use would: (a) disrupt the tenant mix or balance of the Building; (b) violate any restriction, covenant, or requirement contained in the lease of another tenant of the Building; (c) adversely affect the reputation of the Building; or (d) be incompatible with the operation of the Building.
  5. Landlord shall not be obligated to enter into a lease with any proposed Substitute Tenant (a "**Substitute Lease**") which does not have, in Landlord's reasonable opinion, sufficient financial resources or operating experience to operate the Premises in a first-class manner.
  6. Landlord shall not be required to expend any amount of money to alter, remodel, or otherwise make the Premises suitable for use by a proposed Substitute Tenant unless: (a) Tenant pays any such sum to Landlord in advance of Landlord's execution of a Substitute Lease with such Substitute Tenant (which payment shall not be in lieu of any damages or other sums to which Landlord may be entitled as a result of Tenant's default under this Lease); or (b) Landlord, in Landlord's sole and absolute discretion, determines that any such expenditure is financially justified in connection with entering into any such Substitute Lease.
- ii. Upon compliance with the above criteria regarding the releasing of the Premises after a default by Tenant, Landlord shall be deemed to have fully satisfied Landlord's obligation to mitigate damages under this Lease and under any law or judicial ruling in effect on the date of this Lease or at the time of Tenant's default, and Tenant waives and releases, to the fullest extent legally permissible, any right to assert in any action by Landlord to enforce the terms of this Lease, any defense, counterclaim, or rights of setoff or recoupment respecting the mitigation of damages by Landlord, unless and to the extent Landlord maliciously or in bad faith fails to act in accordance with the requirements of this Section.
- iii. Tenant's right to seek damages from Landlord as a result of a default by Landlord under this Lease shall be conditioned on Tenant taking all actions reasonably required, under the circumstances, to minimize any loss or damage to Tenant's



property or business, or to any of Tenant's Parties, or other third parties that may be caused by any such default of Landlord.

19. **ASSIGNMENT AND SUBLETTING.**

Except as provided below with respect to Landlord's recapture rights, Tenant shall not enter into nor permit any Transfer, whether voluntarily or involuntarily or by operation of law, without Landlord's prior written approval in a consent agreement or other writing, which approval shall not be unreasonably withheld. Without limitation, Tenant agrees that Landlord's consent shall not be considered unreasonably withheld if (a) the proposed transferee is an existing tenant or affiliate of an existing tenant of Landlord or any of its affiliates, or Landlord or its affiliates are in discussions with such proposed transferee for space that is comparable or otherwise meets the business needs of proposed transferee, (b) the business, business reputation or creditworthiness of the proposed transferee or business use is unacceptable to Landlord in its sole discretion, (c) Landlord or an affiliate of Landlord has comparable space available for lease by the proposed transferee, (d) the proposed transferee is any entity or person that would be deemed a "related party tenant" of Landlord or any entity controlling, controlled by, or under common control with, Landlord, or (e) Tenant is in default under this Lease. Notwithstanding the foregoing, Landlord's consent shall not be required in the event of any Transfer by Tenant to any of its Affiliates, provided the Affiliate has a tangible net worth at least equal to that of Tenant as of the date of this Lease, and Tenant and the transferee otherwise comply with the terms and conditions of this Section. If Tenant desires to undertake a Transfer, then Tenant shall deliver to Landlord (a) written notice at least 15 days prior thereto, which includes current financial statements of the proposed transferee certified by an officer of the transferee, complete copies of the proposed Transfer documents and any other information Landlord reasonably requests, and (b) on or before the effective date of the Transfer, an assumption agreement or sublease, as applicable, reasonably acceptable to Landlord (executed by Tenant and the transferee), together with a certificate of insurance evidencing the transferee's compliance with the insurance requirements of Tenant hereunder. Whether or not a Transfer is consummated or approval is granted, Tenant shall pay Landlord (i) an administrative fee in the amount of \$2,500.00, and (ii) reasonable attorneys' and financial consultant's fees incurred in the review of such proposed Transfer. This Lease may not be assigned by operation of law. A consent to one Transfer shall not be deemed to be a consent to any subsequent Transfer. In no event shall any Transfer relieve Tenant from any obligation under this Lease. Landlord's acceptance of Rent from any person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any Transfer. Any Transfer not in conformity with this Section shall be void at the option of Landlord. Tenant shall not collaterally assign, mortgage, pledge, hypothecate or otherwise encumber this Lease or any of Tenant's rights hereunder.

In the event of (a) an assignment of this Lease to a party other than Tenant's Affiliate, or (b) subletting of more than 20% of the rentable square footage of the Premises for more than 50% of the remaining Term (excluding unexercised options), Landlord shall have the right to recapture the entire Premises or the portion of the Premises that Tenant is proposing to sublease. If Landlord exercises its right to recapture, then this Lease shall automatically be amended (or terminated if the entire Premises is being assigned or sublet) to delete the applicable portion of the Premises effective on the proposed effective date of the Transfer, although Landlord may require Tenant to execute a reasonable amendment or other document reflecting such reduction or termination. If Tenant receives rent or other consideration for any such Transfer in excess of the Rent, or in the case of a sublease of a portion of the Premises, in excess of such Rent that is fairly allocable to such portion, after appropriate adjustments to assure that all other payments required hereunder are appropriately taken into account, then Tenant shall pay Landlord 75% of the amount by which such payment of rent or other consideration exceeds the Rent required hereunder, after Tenant's recovery of its actual and reasonable attorney's fees, brokerage commissions and improvement allowances or improvement costs incurred directly in connection with such assignment or subletting, determined on a

straight-line basis. Tenant shall continue to be liable as a principal and not as a guarantor or surety to the same extent as though no assignment had been made.

Notwithstanding anything to the contrary contained in this Lease, if either Tenant or any other person having a right to Use the Premises shall enter into any lease, sublease, license, concession or other agreement for Use of all or any portion of the Premises (i) with any entity or person that would be deemed a "related party tenant" of Landlord or any entity controlling, controlled by, or under common control with, Landlord, or (ii) which provides for rental or other payment for such Use based, in whole or in part, on the net income or profits derived by any person that leases, possesses, uses, or occupies all or any portion of the Premises (other than an amount based on a fixed percentage or percentages of receipts or sales), then any such purported lease, sublease, license, concession or other agreement shall be null and void and ineffective as a Transfer of any right or interest in the Use of all or any part of the Premises.

20. **ESTOPPEL, FINANCIALS; SUBORDINATION, ATTORNMENT.**

a. **Estoppel; Financials.** Tenant shall, within 10 days after receipt of written notice from Landlord from time to time: (a) execute and deliver to Landlord a commercially reasonable estoppel certificate to those parties as are reasonably requested by Landlord (including a Mortgagee or prospective purchaser) (it being agreed that, without limitation, such estoppel certificate may include a certification as to the status of this Lease, the existence of any Events of Default (to the best of Tenant's knowledge) and the amount of Rent that is due and payable); and (b) provide to Landlord, any existing or prospective Mortgagee and/or any prospective purchaser reasonably requested Financials. Any statements in an estoppel certificate relating to Landlord's obligations under the Lease shall apply only to such obligations that have accrued prior to the date of such estoppel certificate.

b. **Subordination; Attornment.** This Lease shall unconditionally be and at all times remain subject and subordinate to any Mortgage now or in the future affecting the Premises, all without the necessity of Tenant executing further instruments to effect such subordination. This clause shall be self-operative, but Tenant shall execute and deliver to Landlord, within 10 days after Landlord's request, any further instruments confirming the subordination of this Lease and any further instruments of attornment that a Mortgagee may reasonably request, including an SNDA in the form reasonably required by the applicable Mortgagee. Notwithstanding anything to the contrary contained in this Section, the holder of any such Mortgage may at any time subordinate its Mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such Mortgage without regard to their respective dates of execution, delivery or recording and in the event such Mortgagee shall have the same rights with respect to this Lease as though this Lease has been executed prior to the execution, delivery and recording of such Mortgage. No Mortgagee shall: (a) be obligated to cure any default of Landlord; (b) be bound by (i) any payment of Base Rent for more than 1 month in advance, (ii) the obligation for any broker commission(s), or (iii) any amendment or modification of this Lease made without the express written consent of such Mortgagee; and (c) be liable for, nor subject to, (i) any offsets or defenses which Tenant may have by reason of any act or omission of Landlord under this Lease, or (ii) for the return of any sums which Tenant may have paid to Landlord under this Lease as and for security deposits, advance rentals or otherwise, except to the extent that such sums are actually delivered by Landlord to Mortgagee. The provisions of the "Damage and Destruction" and "Condemnation" Sections above notwithstanding, Landlord's obligation to restore the Premises after a casualty or condemnation shall be subject to the consent and prior rights of any Mortgagee. If any Mortgagee refuses to allow Landlord to restore the Premises for any reason and such Mortgagee's refusal prevents Landlord from fulfilling its obligations under the "Damage and Destruction" and "Condemnation" Sections above, then Tenant shall have as its sole remedy with respect to such failure by Landlord to fulfill these obligations the right to terminate this Lease. Tenant agrees to give any Mortgagee a written copy of any notice of default served upon the Landlord by Tenant

concurrently with delivery to Landlord, provided that, prior to such notice, Tenant has been notified in writing of the address of such Mortgagee.

21. **LIMITATION OF LIABILITY.** NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LEASE, THE LIABILITY OF LANDLORD (AND OF ANY SUCCESSOR LANDLORD) SHALL BE LIMITED TO THE INTEREST OF LANDLORD IN THE BUILDING. TENANT SHALL LOOK SOLELY TO LANDLORD'S PREVIOUSLY DEFINED INTEREST IN THE BUILDING FOR THE RECOVERY OF ANY JUDGMENT OR AWARD AGAINST LANDLORD OR ANY LANDLORD INDEMNITEES. NEITHER LANDLORD NOR ANY LANDLORD INDEMNITEES SHALL BE PERSONALLY LIABLE FOR ANY JUDGMENT OR DEFICIENCY, AND IN NO EVENT SHALL LANDLORD OR ANY LANDLORD INDEMNITEES OR MORTGAGEES BE LIABLE TO TENANT FOR LOST PROFIT, DAMAGE TO OR LOSS OF BUSINESS OR ANY FORM OF PUNITIVE, SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGE. LANDLORD SHALL NOT BE LIABLE FOR ANY BREACH UNLESS TENANT PROVIDES NOTICE SPECIFYING THE BREACH AND LANDLORD FAILS TO CURE THE BREACH WITHIN A REASONABLE PERIOD OF TIME AFTER DELIVERY OF THE NOTICE. WHENEVER LANDLORD TRANSFERS ITS INTEREST, LANDLORD SHALL BE AUTOMATICALLY RELEASED FROM FURTHER PERFORMANCE UNDER THIS LEASE AND FROM ALL FURTHER LIABILITIES AND EXPENSES HEREUNDER AND THE TRANSFEREE OF LANDLORD'S INTEREST SHALL ASSUME ALL LIABILITIES AND OBLIGATIONS OF LANDLORD HEREUNDER ARISING FROM THE DATE OF SUCH TRANSFER.

22. **INTENTIONALLY OMITTED.**

23. **HOLDING OVER.** If Tenant remains in possession of all or any part of the Premises after the Lease Expiration Date, then such holding over shall be a tenancy at sufferance, for the entire Premises, subject to the terms and conditions of this Lease, except that Tenant shall pay monthly installments of Rent (determined on a per month basis without reduction for partial months during the holdover) equal to 150% of the monthly installment of Rent in effect immediately prior to such holding over. This Section shall not be construed as Landlord's permission for Tenant to holdover. Acceptance of Rent by Landlord following expiration or termination shall not constitute an extension of the Term or prevent Landlord from immediate recovery of possession of the Premises by summary proceedings or otherwise. Notwithstanding any provision in this Lease to the contrary, any holdover by Tenant, unless first consented to by Landlord, shall constitute an Event of Default on the part of Tenant under this Lease entitling Landlord to exercise, without obligation to provide Tenant any notice or cure period, all of the remedies available to Landlord in the case of an Event of Default by Tenant. If Tenant remains in possession of all or any part of the Premises after the Lease Expiration Date, then Tenant shall indemnify and hold Landlord harmless from and against all Losses (including, without limitation, consequential damages) resulting from or arising out of Tenant's failure to surrender the Premises, including, but not limited to, any amounts required to be paid to any tenant or prospective tenant who was to have occupied the Premises after the Lease Expiration Date and any related reasonable attorneys' fees and brokerage commissions incurred.

24. **NOTICES.** Unless otherwise specifically set forth in this Lease, all notices shall be in writing and delivered by hand or sent by registered, express, or certified mail, with return receipt requested or with delivery confirmation requested from the U.S. postal service, or sent by overnight or same day courier service to the party's respective Notice Address(es) set forth above; provided notices sent by Landlord regarding general property operational matters may be sent via e-mail to the e-mail address provided by Tenant to Landlord for such purpose; provided further, notices may be sent by Landlord to Tenant pursuant to the Tenant Portal as described in **Exhibit D**. In addition, if the Building is closed (whether due to emergency, governmental order or any other reason), then any notice address at the Building shall not be deemed a required notice address during such closure, and, unless Tenant has provided an alternative valid notice address to Landlord for use during such closure, any notices sent during such closure may be sent

via e-mail or in any other practical manner reasonably designed to ensure receipt by the intended recipient. Each notice shall be deemed to have been received on the earlier to occur of actual delivery or the date on which delivery is refused, or, if Tenant has vacated the Premises or any other Notice Address of Tenant without providing a new Notice Address, 3 days after notice is deposited in the U.S. mail or with a courier service in the manner described above. Either party may, at any time, change its Notice Address (other than to a post office box address) by giving the other party written notice of the new address.

25. **SURRENDER.** On the Lease Expiration Date, Tenant, at its sole cost, shall return possession of the Premises to Landlord in accordance with Tenant's obligations under this Lease, and otherwise in the condition described on **Exhibit F** attached hereto, ordinary wear and tear and damage by fire or casualty excepted. Conditions existing as a result of (i) Tenant's failure to Maintain the Premises or the Project, as required by this Lease, (ii) Tenant's failure to abide by the terms of this Lease or its default, or (iii) the presence of Hazardous Materials on, in, under or about the Premises, the Project or other property as a result (directly or indirectly) of Tenant's and/or any Tenant Party's activities, or failure to act, in connection with the Premises or the Project, shall not be deemed "ordinary wear and tear." On or before the Lease Expiration Date, Tenant, at its sole cost, shall remove Tenant's Property from the Project and repair all damage resulting from such removal and restore the Project to good order and condition, subject to the "Alterations; Liens" Section above. If Tenant fails to remove any of Tenant's Property as required hereunder, then Landlord may deem all or any part of Tenant's Property to be abandoned and, at Landlord's option, title to Tenant's Property shall vest in Landlord, and/or Landlord may at Tenant's expense remove and/or dispose of any Tenant's Property in any manner Landlord deems appropriate. If Tenant does not return possession of the Premises to Landlord in the condition required under this Lease, Tenant shall pay Landlord all resulting damages Landlord may suffer.

26. **STATE LAW.** Attached hereto as **Exhibit G** are modifications to this Lease given the laws of the state where the Premises are located. To the extent of any inconsistency between the terms set forth in **Exhibit G** and the remainder of this Lease, the terms set forth in **Exhibit G** govern.

27. **OTHER.**

- a. **Entire Agreement.** This Lease sets forth the entire agreement between Landlord and Tenant concerning the Premises; and there are no agreements either oral or written other than as set forth herein. This Lease may be modified only by a written agreement signed by an authorized representative of each of Landlord and Tenant.
- b. **Time of Essence.** Time is of the essence with respect to Tenant's obligations and Landlord's obligations under this Lease; provided that, if any date herein set forth for the performance of any monetary obligations by Landlord or Tenant, or for the delivery of any instrument or notice, should be on a Saturday, Sunday or Legal Holiday, the compliance with such monetary obligations or delivery will be deemed acceptable on the next business day following such Saturday, Sunday or Legal Holiday.
- c. **Severability.** If any provision of this Lease or the application of any such provision shall be held by a court of competent jurisdiction to be invalid, void or unenforceable to any extent, then the remaining provisions of this Lease and the application thereof shall remain in full force and effect and shall not be affected, impaired or invalidated. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant hereby expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of the Rent or other amounts owing hereunder against Landlord.

- d. **Law.** This Lease, and all claims or causes of action (whether in contract, tort or statute) that may be based upon, arise out of or relate to this Lease, or the negotiation, execution or performance of this Lease, shall be governed by, and enforced in accordance with, the internal laws of the state where the Premises are located.
- e. **Successors and Assigns.** This Lease shall be binding upon and inure to the benefit of the successors and assigns of Landlord and, subject to compliance with the terms of the “Assignment and Subletting” Section above, Tenant.
- f. **Memorandum of Lease.** Tenant shall not record this Lease, a short form memorandum hereof or any other document against Landlord’s title to the Project and/or Premises.
- g. **Agency, Partnership or Joint Venture.** Nothing contained herein nor any acts of the parties hereto shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal and agent or of partnership or of joint venture by the parties hereto or any other relationship beside landlord and tenant.
- h. **Merger.** The voluntary or other surrender of this Lease by Tenant or a mutual cancellation thereof or a termination by Landlord shall not work a merger and shall, at the option of Landlord, terminate all or any existing sub-tenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such sub-tenancies.
- i. **Headings.** Section headings have been inserted solely as a matter of convenience and are not intended to define or limit the scope of any of the provisions contained therein.
- j. **Signs.** Tenant shall not place any signs at the Project without the prior consent of Landlord, other than signs that are located wholly within the interior of the Premises and not visible from the exterior of the Premises. Tenant shall Maintain all signs installed by Tenant in good condition. Tenant shall remove its signs on or prior to the Lease Expiration Date, shall repair any resulting damage, and shall restore the Project to its condition existing prior to the installation of Tenant’s signs. Landlord hereby consents to the existing signage on the Project pursuant to the Existing Lease.
- k. **Brokers.** Tenant agrees that it has dealt with no brokers in connection with this Lease, except Jones Lang LaSalle (as “**Landlord’s Broker**”), and CBRE Inc. (as “**Tenant’s Broker**”). Landlord agrees to pay any commission due by Landlord to Landlord’s Broker and Tenant’s Broker pursuant to separate agreements. Tenant agrees to indemnify and hold Landlord harmless from any and all claims for commissions or fees in connection with the Premises and this Lease from any other real estate brokers or agents with whom Tenant may have dealt.
- l. **Joint and Several.** If Tenant consists of more than one person, then the obligation of all such persons shall be joint and several. In such event, requests or demands from any one person or entity comprising Tenant shall be deemed to have been made by all such persons or entities, and notices to any one person or entity shall be deemed to have been given to all persons and entities.
- m. **OFAC.** Tenant hereby represents, warrants and certifies that: (a) neither it nor its officers, directors, or controlling owners is acting, directly or indirectly, for or on behalf of any person, group, entity, or nation named by any Executive Order, the United States

Department of Justice, or the United States Treasury Department as a terrorist, “Specifically Designated National or Blocked Person,” or other banned or blocked person, entity, nation, or transaction pursuant to any law, order, rule or regulation that is enforced or administered by the Office of Foreign Assets Control (“SDN”); (b) neither it nor its officers, directors or controlling owners is engaged in this transaction, directly or indirectly on behalf of, or instigating or facilitating this transaction, directly or indirectly on behalf of, any such person, group, entity, or nation; and (c) neither it nor its officers, directors or controlling owners is in violation of Presidential Executive Order 13224, the USA PATRIOT Act, (Public Law 107-56), the Bank Secrecy Act, the Money Laundering Control Act or any regulations promulgated pursuant thereto. If the foregoing representations are untrue at any time during the Term, then an Event of Default will be deemed to have occurred, without the necessity of notice to Tenant. The provisions of this subsection shall survive the Lease Expiration Date.

- n. **Roof Use by Landlord.** Landlord reserves the right to use the surface of the roof in any manner which does not materially interfere with Tenant’s use of the Premises including, but not limited to, installation of telecommunication equipment, solar equipment, fuel cells, battery storage, distributed technologies or any other uses. Landlord acknowledges and agrees that its right of access to the roof is subject to the restrictions set forth in Section 14 of this Lease.
- o. **Renewable Energy.** Tenant agrees to cooperate with Landlord in the event that Landlord desires to provide a source of renewable energy to serve the Premises or the Project, such as solar or wind power. Without limiting the foregoing, Tenant shall, upon request, (i) provide Landlord with its actual and estimated future energy consumption needs, (ii) if the Premises is separately metered, enter into a reasonable power purchase agreement with Landlord or the generator of the renewable energy source, provided that Tenant shall not be obligated to pay more than it pays the utility company, (iii) in connection with any such renewable energy source, enter into a reasonable net meter arrangement with the utility company providing service to the Premises, and (iv) permit Landlord and/or the installation company reasonable access to the Premises to permit connection of the renewable energy system and net meter to the electrical facilities serving the Premises. Upon installation of any renewable energy system, Tenant shall be obligated to purchase the energy generated by such system, not to exceed Tenant’s actual energy usage.
- p. **Force Majeure.** If either party to this Lease is prevented from performing any obligation under this Lease by a Force Majeure, such obligation shall be excused during (and any time period for the performance of such obligation shall be extended by) the period during which the Force Majeure continues; provided, however, that this Section shall not (a) permit Tenant to hold over in the Premises after the Lease Expiration Date, or (b) excuse (or extend any time period for the performance of) (i) any obligation to pay Rent, otherwise remit money or deliver credit enhancement, (ii) any obligation under the “Indemnity and Waiver of Claims” and “Insurance” Sections, or (iii) any of Tenant’s obligations whose breach would interfere with another occupant’s use, occupancy or enjoyment of its Premises or the Project.
- q. **Counterparts.** This Lease may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. The signature of a party transmitted electronically (e.g., e-signature) or by facsimile, email of a pdf copy, DocuSign or other similar technology application shall constitute and have the same force and effect as the original signature of the party.



Following execution, a pdf (or similar image file format) of this Lease (whether signed electronically or in ink) shall be deemed the equivalent of the delivery of the original, and any party delivering such a counterpart shall in all events deliver to the other party an original signature promptly upon request.

- r. **Unrelated Business Income.** If Landlord becomes aware that any part of the payments by Tenant to Landlord under this Lease may be characterized as (i) unrelated business income, or (ii) not “rents from real property,” in each case, under the United States Internal Revenue Code and related regulations, then Tenant shall enter into any amendment proposed by Landlord to change such characterizations, provided the amendment does not require Tenant to make more payments or accept fewer services from Landlord than under this Lease.
  
- s. **Waiver of Redemption of Tenant.** Tenant hereby waives, for Tenant and for all those claiming by, under or through Tenant, all rights now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant’s right of occupancy of the Premises or Project after any termination of this Lease.
  
- t. **Rights Reserved by Landlord.** Landlord excepts and reserves exclusively to itself any and all rights not specifically granted to Tenant under this Lease. Landlord reserves the right to make changes to the Project and the Building as Landlord deems appropriate, including, without limitation, the right to grant easements, rights of way, utility raceways and make dedications; to grant lease, license or use rights to third parties; to utilize the foregoing easements or licenses at the Project; to dedicate for public use portions of the Project; to improve the energy efficiency or sustainability of the Building or the Project; and to change the name of the Building or the Project.
  
- u. **Sustainability Contact.** Landlord’s sustainability contact for the Project can be reached at [sustainability@linklogistics.com](mailto:sustainability@linklogistics.com).
  
- v. **Exhibits:** The following exhibits are incorporated into and made a part of this Lease:
  - Exhibit A (Definitions)
  - Exhibit B (Plan Showing Premises)
  - Exhibit C (Rules and Regulations)
  - Exhibit D (Landlord Payment Instructions; Tenant Portal Instructions)
  - Exhibit E (Minimum Service Contract Requirements)
  - Exhibit F (Move Out Conditions)
  - Exhibit G (State Law Addendum)

[Signature Page Follows]

Landlord and Tenant have executed this Lease as of the day and year first above written.

LANDLORD:

BCORE Defender CA1W03, LLC  
a Delaware limited liability company

By:  /s/ Joseph Finnigan  
Name:  Joseph Finnigan  
Title:  Authorized Signatory

TENANT:

AEROVIRONMENT, INC.  
a Delaware corporation

By:  /s/ Kevin McDonnell  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**DEFINITIONS**

The following terms are defined in the body of the Lease:

“Additional Insureds”  
“Broker(s)”  
“Building”  
“CGL Policy”  
“Estimated Expenses”  
“Estimated Expense Notice”  
“Event of Default”  
“Existing Lease”  
“Existing Lease Agreement”  
“Landlord”  
“Lease”  
“Lease Commencement Date”  
“Lease Expiration Date”  
“Notice Addresses”  
“Permitted Use”  
“Premises”  
“Project”  
“Reconciliation Statement”  
“Security Deposit”  
“Service Contract”  
“SDN”  
“Substitute Lease”  
“Substitute Tenant”  
“Tenant”  
“Tenant’s Share”

The following terms have the meanings below:

“**ADA**” means the Americans with Disabilities Act of 1990, 42 USC 12111 et seq., as the same may be amended from time to time.

“**Additional Rent**” means all sums other than Base Rent which Tenant is obligated to pay under this Lease, including without limitation Estimated Expenses, Taxes and Operating Expenses.

“**Affiliate**” means (i) any entity controlling, controlled by, or under common control of, Tenant, (ii) any successor, directly or indirectly, to Tenant by merger, consolidation or reorganization, and (iii) any purchaser of all or substantially all of the assets, directly or indirectly, of Tenant as a going concern.

“**Alteration**” means any addition, alteration or improvement to the Premises or the Project made by Tenant or any Tenant Party, whether prior to or after the date of this Lease.

“**Applicable Interest Rate**” means interest, charged and compounded daily, at the rate of the lesser of (i) 0.0005% per day or (ii) the maximum rate permitted by Applicable Laws.

**“Applicable Laws”** mean all applicable laws, statutes, codes, ordinances, orders, zoning, rules, regulations, conditions of approval and requirements of all federal, state, county, municipal and governmental authorities and all administrative or judicial orders or decrees and all permits, licenses, approvals and other entitlements issued by governmental entities, and rules of common law, relating to or affecting the Project, the Premises or the Land or the use or operation thereof, whether now existing or hereafter enacted, including, without limitation, the ADA, Environmental Laws and CC&Rs.

**“Base Rent”** means the amounts set forth in the “Base Rent” Section of this Lease, charged monthly on or before the Lease Commencement Date and thereafter on the first day of each calendar month.

**“CC&Rs”** means any covenants, conditions and restrictions encumbering the Land and/or the Project or any supplement thereto recorded in any official or public records with respect to the Project or any portion thereof.

**“Costs of Reletting”** means the costs incurred by Landlord to relet the Premises or a portion thereof, including brokers’ commissions, advertising, and repairs, alterations, improvements and concessions to obtain a new tenant.

**“Environmental Laws”** means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions on, in, under, or about the Premises or the environment, including without limitation, the following: the federal Comprehensive Environmental Response, Compensation and Liability Act; the federal Resource Conservation and Recovery Act, the federal Clean Air Act; the federal Water Pollution Control Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder.

**“Financials”** means financial information certified by an officer of Tenant as being true and correct, including, but not limited to, (i) credit reports, (ii) tax returns, (iii) current, accurate, audited financial statements for Tenant and Tenant’s business, and (iv) unaudited financial statements (which shall at least include a balance sheet, an income statement and a statement of cash flow) for Tenant and Tenant’s business for each of the 3 years prior to the current financial statement year prepared under generally accepted accounting principles consistently applied.

**“Force Majeure”** means any strike, act of God, war, terrorist act, shortage of labor or materials, governmental action or orders, civil commotion, epidemic, pandemic, public health emergency or other cause beyond a party’s reasonable control.

**“Hazardous Materials”** means any substance, material, waste, pollutant, or contaminant listed or defined as hazardous, toxic or dangerous under any Environmental Laws, including asbestos, asbestos containing materials, polychlorinated, per- and polyfluoroalkyl substances, and petroleum, including crude oil or any fraction thereof, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas) and explosives, flammables, or radioactive substances of any kind.

**“HVAC System”** means all heating ventilation, and air conditioning systems and equipment inside or exclusively serving the Premises.

**“Indemnitees”** means Landlord’s affiliated entities, and each of Landlord’s and Landlord’s affiliated entities’ respective trustees, members, managers, principals, beneficiaries, partners, directors, officers, employees, shareholders, Mortgagees, agents, contractors, representatives, successors and assigns.

**“Land”** means the parcel(s) of land on which the Building and other adjacent improvements and appurtenances owned by Landlord are located or situated.

**“Lease Year”** means the period from the Lease Commencement Date through the succeeding 12 full calendar months (provided, however, that, if the Lease Commencement Date does not occur on the first day of a calendar month, then the first Lease Year shall include the partial calendar month in which the Lease Commencement Date occurs and the succeeding 12 full calendar months) and each successive 12-month period thereafter during the Term.

**“Legal Holiday”** means any federal holiday or holiday recognized by the state in which the Premises are located.

**“Losses”** means any and all claims, judgments, causes of action, damages, obligations, penalties, fines, taxes, costs, liens, liabilities, losses, charges and expenses, including without limitation all attorneys’ fees and other professional fees.

**“Maintain”** or **“Maintenance”** means to provide such maintenance, repair and, to the extent necessary and appropriate, replacement, as may be needed to keep the subject property in good condition and repair.

**“Mortgage”** means all ground leases, master leases and all mortgages and deeds of trust or other lien or encumbrance which now or hereafter affect the Premises, the Building or the Project or Landlord’s interest therein (including any modifications, renewals or extensions thereof and all amendments thereto).

**“Mortgagee”** means the party having the benefit of a Mortgage.

**“notice”** means any and all notices, requests, demands, approvals and consents.

**“Operating Expenses”** means the total costs and expenses incurred, or sums paid, by Landlord for insurance maintained by Landlord as described in the “Insurance” Section of this Lease, including, without limitation, Landlord’s cost of any deductible or self-insurance retention.

**“Proceeding for Debt Relief”** means, with respect to Tenant or any guarantor of Tenant’s obligations hereunder, a case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property.

**“Rent”** means Base Rent and all Additional Rent payable under this Lease.

**“Rules and Regulations”** means the rules and regulations of the Project as reasonably established by Landlord from time to time.

**“SNDA”** means a subordination, non-disturbance and attornment agreement.

**“Systems”** means any electrical, mechanical, plumbing, heating, ventilating, air conditioning, sprinkler, life safety or security systems serving the Building or Project.

**“Taken”** or **“Taking”** means acquisition by a public authority under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof.

“**Taxes**” means (a) all taxes, assessments, supplementary taxes, possessory interest taxes, levies, fees, exactions and other governmental charges, together with any interest, charges, and fees in connection therewith, which are assessed, levied, charged, conferred or imposed by any public authority upon the Premises, the Building, or the Project, or any other improvements, fixtures, equipment or other property located at or on the Premises, the Building, or the Project, any excise, use, margin, transaction, sales or privilege taxes, assessments, levies or charges and other taxes assessed or imposed upon the rents payable to Landlord under this Lease (excluding net income taxes imposed on Landlord unless such net income taxes are in substitution for any Taxes payable hereunder), including but not limited to, gross receipts taxes, assessments for special improvement districts and building improvement districts, governmental charges, fees and assessments for police, fire, traffic mitigation or other governmental service of purported benefit to the Premises, Building, or the Project, taxes and assessments levied in substitution or supplementation in whole or in part of any such taxes and assessments and the share of the Premises, Building and the Project of any real estate taxes and assessments under any reciprocal easement agreement, common area agreement or similar agreement as to the Premises, Building and the portion of the Project allocable to the Building, (b) all personal property taxes for property that is owned by Landlord and used in connection with the operation, maintenance and repair of the Premises, Building or the Project, and (c) all costs and fees incurred in connection with seeking reductions in any tax liabilities described in (a) and (b), including, without limitation, any costs incurred by Landlord for compliance, review and appeal of tax liabilities.

“**Tenant Party**” or “**Tenant’s Parties**” means Tenant’s and Tenant’s affiliates’ employees, agents, customers, visitors, representatives, invitees, licensees, contractors, assignees or subtenants.

“**Tenant Portal**” means the online tenant portal described in **Exhibit D**, through which Landlord can deliver notices and communicate with Tenant, and Tenant can fulfill certain of its obligations under this Lease.

“**Tenant’s Property**” means all fixtures, furniture, equipment (including any racking and/or telecommunications, data and/or security equipment), merchandise, inventory, and all other personal property and other contents contained within the Premises whether installed in, or brought upon, the Premises by Tenant, a Tenant Party or Tenant’s assignees, subtenants or occupants.

“**Term**” means the period commencing on the Lease Commencement Date and ending on the Lease Expiration Date.

“**Transfer**” means (i) any assignment, transfer, pledge or other encumbrance of all or a portion of Tenant’s interest in this Lease, or (ii) any sublease, license or concession of all or a portion of Tenant’s interest in the Premises. If the entity(ies) which directly or indirectly controls the voting shares/rights of Tenant (other than through the ownership of voting securities listed on a recognized securities exchange) changes at any time, such change of ownership or control shall constitute a Transfer.

“**Use**” means having a right to possess, use, or occupy the Premises.



**EXHIBIT B**

**PREMISES**

The Premises occupy the space between the walls, and floor and ceiling, of the Building, as depicted below.



[remainder of page left blank]

## EXHIBIT C

### RULES AND REGULATIONS

Capitalized terms used but not defined herein shall have the meanings given in Tenant's Lease.

1. Tenant will use the Premises in a careful, safe and proper manner and will not commit waste, overload the floor or structure or otherwise damage the Premises or Building. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would disturb, unreasonably interfere with, or endanger Landlord, Landlord's performance of its obligations under the Lease or other leases with other tenants, or other tenants in the Building or Project. Tenant shall occupy the Premises in compliance with all Applicable Laws for the Premises or Project.
2. Tenant shall not impair in any way the fire safety system and shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord, any governmental agency or any insurance company insuring the Project, including without limitation the insurer's fire protection impairment procedures.
3. Skylights, windows, doors and transoms shall not be covered or obstructed by Tenant, and Tenant shall not install any window covering which would affect the exterior appearance of the Building; provided, however, Landlord hereby consents to any existing coverings under the Existing Lease.
4. No antenna, aerial, discs, dishes or other such device shall be erected on the roof or exterior walls of the Premises, or on the grounds, without the written consent of the Landlord in each instance. Any device so installed without such written consent shall be subject to removal by Tenant, at Tenant's sole cost and expense, without notice at any time. Tenant, at its sole cost and expense, shall repair any damage resulting from such removal and shall restore the Project to good order and condition. Notwithstanding the foregoing, Landlord hereby consents to the existing antennas on the roof of the Premises under the Existing Lease.
5. No loud speakers, televisions, phonographs, radios or other devices shall be used in a manner so as to be heard or seen outside of the Premises without the prior written consent of the Landlord.
6. The outside areas immediately adjoining the Premises shall be kept clean and free from dirt and rubbish by the Tenant, including Tenant inventory, to the satisfaction of Landlord, and Tenant shall not place or permit any obstruction or materials in such areas or permit any work to be performed outside the Premises.
7. No open storage or auctions shall be permitted in the Project.
8. All garbage and refuse shall be placed in containers placed at the location designated for refuse collection, in the manner specified by Landlord. If Landlord consents to Tenant placing other containers, storage devices, construction dumpsters or similar vessels in the Project, Tenant must place plywood or other protective material under such items to protect the pavement or asphalt.
9. Tenant shall not disturb, solicit, or canvass any occupant of the Building and shall cooperate to prevent same.
10. Landlord shall have the right to designate the Project or Building (including the Premises) as a non-smoking building.

11. Unless otherwise directed by Landlord, Tenant shall have the right to park in common with other tenants of the Project in those areas designated by Landlord for non-reserved parking. Tenant shall comply with all parking regulations promulgated by Landlord from time to time for the orderly use of the vehicle parking area. Tenant agrees not to overburden the parking facilities and agrees to cooperate with Landlord and other tenants in the use of parking facilities. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties. The parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles, SUVs or pick-up trucks ("**Permitted Size Vehicles**"). Landlord hereby consents to the existing unpowered "pull behind" trailers at the Premises. No vehicle or equipment shall remain upon the Project longer than 72 hours. Parked vehicles shall not be used for vending or any other business or other activity while parked in the parking areas. Tenant may store overnight in the normal course of its business one operative tractor/trailer or truck for each dock high loading position exclusive to the Premises, if any, provided this overnight storage does not interfere with other tenant's use of the Building or Project. Vehicles other than Permitted Size Vehicles shall otherwise be parked and loaded or unloaded as directed by Landlord. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Landlord for such activities. If Tenant permits or allows any of the prohibited activities described in this Section, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord. No vehicle or equipment of any kind shall be dismantled or repaired or serviced at the Project. All vehicles entering or parking in the parking areas shall do so at owner's sole risk and Landlord assumes no responsibility for any damage, destruction, vandalism or theft.
12. Except as otherwise provided in the Lease, Tenant shall not use or keep on the Project or Premises (i) any matter having an offensive odor or which may negatively affect the indoor air quality of the Building, or (ii) any form of hemp or marijuana or ingredient thereof (e.g., THC or CBD) or any product containing same; nor shall any animals other than handicap assistance dogs in the company of their handlers be brought into or kept in or about the Project.
13. Tenant assumes all responsibility for protecting the Premises from theft and vandalism; provided, however, Tenant shall not install additional locks upon any door of the Premises or permit any duplicate keys to be made, or retain any keys upon the Lease Expiration Date.
14. Tenant shall cause all Tenant Parties to comply with these Rules and Regulations.
15. Landlord shall not be responsible or liable to Tenant for the non-performance of any other tenant or occupant of the Building or Project of the Rules and Regulations or for any interference or disturbance of Tenant by any other tenant or occupant.
16. Landlord reserves the right to make such amendments to these Rules and Regulations from time to time that are not inconsistent with the Lease.

**EXHIBIT D**

**PAYMENT INSTRUCTIONS AND TENANT PORTAL**

Tenant must before, or promptly after, the Lease Commencement Date register with the Tenant Portal as indicated below. Tenant hereby consents to receive any written or other notice under this Lease through the Tenant Portal.

Tenant agrees to make any payments required under this Lease by one of the following methodologies:

1. Through the Tenant Portal, as described below.
2. By wire.
3. By check.
4. By ACH.

Landlord will provide Yardi enrollment instructions, address for payment of Rent by check, and wire instructions for payment of Rent by wire in a separate “welcome package” or other communication.

**EXHIBIT E**

**MINIMUM SERVICE CONTRACT REQUIREMENTS**

**Service Contract.** The Service Contract for the HVAC System required under the Lease must become effective within 30 days of Tenant's occupancy of the Premises, and service visits must be performed on at least a quarterly basis unless otherwise agreed in writing by Landlord. The maintenance contract must include the following services:

1. Adjust belt tension;
2. Lubricate all moving parts, as necessary;
3. Inspect and adjust all temperature and safety controls;
4. Check refrigeration system for leaks and operation;
5. Check refrigeration system for moisture;
6. Inspect compressor oil level and crank case heaters;
7. Check head pressure, suction pressure and oil pressure;
8. Inspect air filters and replace when necessary;
9. Check space conditions;
10. Check condensate drains and drain pans and clean, if necessary;
11. Inspect and adjust all valves;
12. Check and adjust dampers; and
13. Run machine through complete cycle.

## EXHIBIT F

### MOVE OUT CONDITIONS

Notwithstanding anything to the contrary in this Lease, Tenant is obligated to check and address prior to move-out of the Premises the following items. The following list is designed to assist Tenant in the move-out procedures but is not intended to be all inclusive.

1. All lighting is to be placed into good working order, including, without limitation, replacement of bulbs, ballasts and lenses consistent with existing lighting, as needed.
2. All truck doors, dock levelers and pedestrian doors, are to be serviced and placed in good operating order. This includes the necessary replacement of any dented truck door panels and adjustment of door tension to insure proper operation. All door panels which are replaced are to be painted to match the Building standard.
3. All columns in the Premises are to be inspected for damage and Tenant shall be responsible for repairs to such structural columns resulting from damage caused by or attributable to Tenant and/or Tenant's Parties.
4. HVAC Systems, including without limitation, warehouse heaters, industrial fans, exhaust and ventilation systems, air rotation units, and infrared tube heaters (if applicable), are to be placed in good working order, including the necessary replacement of any parts to return the HVAC System to a well-maintained condition. Upon move-out, Landlord will have an exit inspection performed by a certified mechanical contractor to determine the condition of the HVAC System.
5. All holes in the sheetrock walls of the Premises are to be repaired/painted prior to move-out, and all striping and markings on floor (including the warehouse floor) are to be removed in their entirety in a manner so as not to detrimentally affect the slab, which such removal methods and/or processes shall be subject to Landlord's prior approval thereof.
6. The carpets and tiles are to be in a clean condition and not have any holes or chips in them. Landlord will accept reasonable wear and tear on these items provided they appear to be in a maintained condition.
7. The Premises is to be returned in a clean condition, including the cleaning of the offices, coffee bar, restroom areas, windows and other portions of the Premises.
8. The warehouse area of the Premises is to be in broom clean condition, free of debris and cobwebs, with all inventory and racking removed. There are to be no protrusion of anchors or bolts from the warehouse floor. All bolts, anchors or other devices used to attach or affix Tenant's trade fixtures are to be removed, subject to Landlord's prior written approval. If machinery/equipment is removed, the electrical lines are to be properly terminated at the nearest junction box.
9. All exterior windows with cracks or breakage are to be replaced, and all damaged window mullions are to be repaired or replaced, as necessary.
10. Tenant shall provide to Landlord the keys and passcodes for all locks on the Premises, including front doors, rear doors, and interior doors.
11. Except as otherwise agreed to in writing, it is expressly agreed that any and all telephonic, coaxial, ethernet, or other data, computer, word-processing, facsimile, cabling, or electronic wiring installed by



Tenant in, on or about the Premises, including all lines above the office ceiling (collectively, “**Wiring**”) is to be removed in its entirety, at Tenant’s sole cost and expense. Tenant shall be responsible for any and all damages to the Premises caused by such removal.

12. All electrical systems are to be left in a safe condition that conforms to Applicable Laws. Bare wires and dangerous installations are to be corrected prior to move-out.

13. All plumbing fixtures are to be in good working order, including the water heater. Faucets and toilets are to be leak-free. Any sump pumps in the truck well shall be free of debris and operational.

14. All dock bumpers must be left in place and well secured.

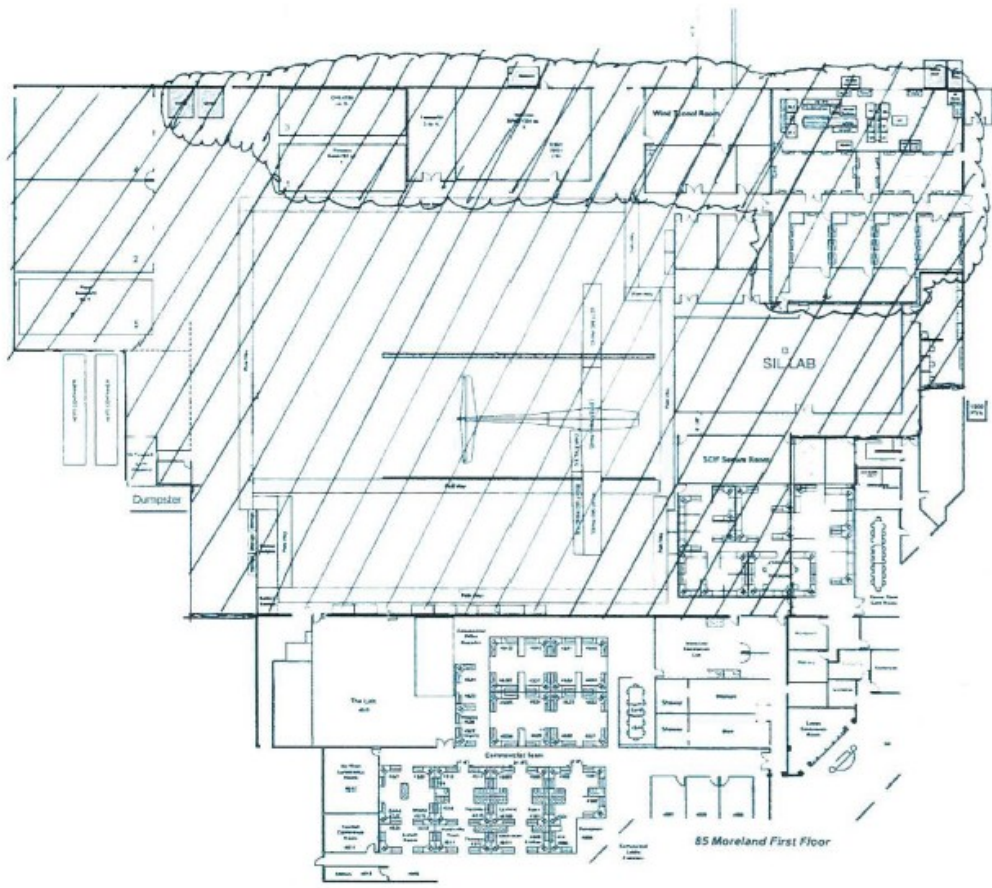
15. All Tenant exterior and interior signs shall be removed and at a minimum, the wall surface shall be restored and painted to match the existing color, it being expressly understood that Tenant shall be responsible for any and all damages to the Premises, the Building or the Project caused by such signage removal.

16. All waste containers placed in or about the Premises or the Project by Tenant (including in the dock areas of the Premises) shall be removed and the areas related thereto returned in a clean and sanitary condition, free of debris.

17. Any and all roof penetrations shall be resealed in a watertight condition.

18. The hatched area on the space plan on the following page indicates areas of the Premises that Tenant shall restore back to a condition that would provide open warehouse (floor to roof) upon expiration or termination of the Lease. Any area that is not directly under the mezzanine area, excluding restrooms, stairwells, and utility rooms, will be subject to removal by Tenant at Tenant’s expense. Said work shall include, but not be limited to, removing interior rooms, walls, ceilings, equipment, interior structures, capping fire sprinklers and electrical to the closest point to the roof of the building and/or to a remaining side wall/nearest junction box. HVAC ducting shall be removed back to the roof. The mezzanine office area of approximately 22,000 square feet shall be excluded from this removal requirement.

[see space plan on following page]



**EXHIBIT G**

**STATE LAW ADDENDUM**

**CALIFORNIA CIVIL CODE SECTION 1938 STATEMENT** Pursuant to California Civil Code Section 1938, Landlord states that to the best of its knowledge as of the date of execution of this Lease, the property being leased pursuant hereto has not undergone an inspection by a Certified Access Specialist (CASp). Landlord makes no representations, express or implied, as to the compliance of the Premises or the building in which the Premises are located with applicable construction related accessibility standards. As required by California Civil Code Section 1938(e), Tenant is hereby notified that:

“A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.”

Nothing contained herein requires Landlord to perform any improvements that are not expressly required pursuant to the terms of this Lease.

**Subsidiaries of AeroVironment, Inc.**

<b>Name</b>	<b>Jurisdiction of Organization</b>
Altoy Savunma Sanayi ve Havacilik Anonim Sirketi*	Turkey
Arcturus UAV, Inc.	California
Telerob Gesellschaft für Fernhantierungstechnik mbH	Germany
Telerob USA, Inc.	Delaware

\* AeroVironment, Inc. has an 50% ownership interest

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-140237, 333-178349 and 333-260227 on Form S-8 of our reports dated June 28, 2022, relating to the consolidated financial statements and schedule of AeroVironment, Inc. and the effectiveness of AeroVironment, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended April 30, 2022.

/s/ Deloitte & Touche  
Los Angeles, California  
June 28, 2022

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**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 28, 2022

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

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**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, Kevin P. McDonnell, 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 28, 2022

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

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**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, 2022 (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 28, 2022

/s/ WAHID NAWABI

Wahid Nawabi  
President, Chief Executive Officer and Chairman

Date: June 28, 2022

/s/ KEVIN P. MCDONNELL

Kevin P. McDonnell  
Senior Vice President and Chief Financial Officer

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## FORWARD-LOOKING STATEMENTS

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Certain statements in this presentation may constitute “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words such as “believe,” “anticipate,” “expect,” “estimate,” “intend,” “project,” “plan,” or words or phrases with similar meaning. Forward-looking statements are based on current expectations, forecasts and assumptions that involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control, that may cause our business, strategy or actual results to differ materially from the forward-looking statements. Factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to, the impact of our recent acquisitions of Arcturus UAV, Inc., Telerob GmbH and the Intelligent Systems Group of Progeny Systems Corp. and our ability to successfully integrate them into our operations; the risk that disruptions will occur from the transactions that will harm our business; any disruptions or threatened disruptions to our relationships with our distributors, suppliers, customers and employees, including shortages in components for our products; the ability to timely and sufficiently integrate international operations into our ongoing business and compliance programs; reliance on sales to the U.S. government and related to our development of HAPS UAS; availability of U.S. government funding for defense procurement and R&D programs; changes in the timing and/or amount of government spending; our ability to perform under existing contracts and obtain new contracts; risks related to our international business, including compliance with export control laws; potential need for changes in our long-term strategy in response to future developments; the extensive regulatory requirements governing our contracts with the U.S. government and international customers; the consequences to our financial position, business and reputation that could result from failing to comply with such regulatory requirements; unexpected technical and marketing difficulties inherent in major research and product development efforts; the impact of potential security and cyber threats or the risk of unauthorized access to our, our customers’ and/or our suppliers’ information and systems; changes in the supply and/or demand and/or prices for our products and services; increased competition; uncertainty in the customer adoption rate of commercial use unmanned aircraft systems; failure to remain a market innovator, to create new market opportunities or to expand into new markets; unexpected changes in significant operating expenses, including components and raw materials; failure to develop new products or integrate new technology into current products; unfavorable results in legal proceedings; our ability to respond and adapt to unexpected legal, regulatory and government budgetary changes, including those resulting from the ongoing COVID-19 pandemic, such as supply chain disruptions, vaccine mandates, the threat of future variants and potential governmentally-mandated shutdowns, quarantine policies, travel restrictions and social distancing, curtailment of trade, diversion of government resources to non-defense priorities, and other business restrictions affecting our ability to manufacture and sell our products and provide our services; our ability to comply with the covenants in our loan documents; our ability to attract and retain skilled employees; the impact of inflation; and general economic and business conditions in the United States and elsewhere in the world; and the failure to establish and maintain effective internal control over financial reporting. For a further list and description of such risks and uncertainties, see the reports we file with the Securities and Exchange Commission. We do not intend, and undertake no obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise.

